India's Supply Chain Opportunity

Why in News?

The announcement at the G20 Leaders' Summit on the landmark India-Middle East-Europe Economic Corridor (IMEC) has the potential to make India an Asian hub in global supply chains.

To know about the key outcomes of the G20 Summit, click here

What is IMEC?

- **IMEC** – It is a *network of transport corridors* that aims to foster connectivity and economic integration between *South Asia, Arabian Gulf and Europe.*
- It is a part of the *Partnership for Global Infrastructure Investment (PGII).*
- **MoU Countries -** India, the US, Saudi Arabia, the European Union, the UAE, France, Germany and Italy.
- **Route -** IMEC will consist of 2 distinct corridors
  - The **Eastern corridor** linking India to the Arabian Gulf,
  - The **Northern corridor** linking the Arabian Gulf to Europe.
- The corridor will include a rail link as well as an electricity cable, a hydrogen pipeline and a high-speed data cable.
- The project is also called as "*a green and digital bridge across continents and civilizations."*

- **Significance -** It is being positioned as a *modern-day Spice Route,* and alternative to China's Belt and Road Initiative.
- The corridor also extends India's reach to North Africa and North America.
- It is expected to reduce the time and cost of transporting Indian goods to Europe by 40% and 30%, respectively, and vice versa.
- It complements the existing maritime and rail-road transport routes, such as the Suez Canal, North South Transport Corridor, and China's Silk Routes.

Supply chains refer to the geographical location of stages of production (such as design, production, assembly, marketing, and service activities) in a cost-effective manner.

Status of global supply chains

- *China and Hong Kong* together represent *20%* of world exports of intermediate

goods.
- However, even before the Covid-19 pandemic, Western firms had begun to reduce their reliance on China.
- Some production stages in Chinese supply chains, particularly the labour-intensive ones, were moving to lower-cost locations.
- *India* was the world's *6th largest* intermediate goods exporter in Quarter 4 of 2022.

Why are global supply chains moving from China?

- Rising wages in China
- Supply chain bottlenecks within China
- Investor concerns about tighter regulation of foreign firms
- China's trade war with the US
- Profitability of relocating production away from China

India, Japan and Australia has launched the Supply Chain Resilience Initiative (SCRI) in 2021 *to attain strong, sustainable, balanced and inclusive growth in the Indo-pacific region.*

Why is India being considered an attractive supply chain hub?

- **Cheap wages with more labours –** India surpassed China as most populous country in 2023 and also peaks in demographic dividend.
- **Fiscal incentives -** *Production Linked Scheme (PLI)* was launched to provide incentives on incremental sales from products manufactured in domestic units.
- **Improved logistics-** *PM Gati Shakti*, a national master plan synchronises connectivity infrastructure projects across modes of transport.
- *National Logistics Policy 2022* was launched to achieve quick last mile delivery and end transport related challenges.
- *Promoting Multimodal Logistics Park* by laying foundation stone for country's first at Jogighopa in Assam.
- **High-end Technology in India-** India has ramped-up manufacturing of iPhones in the country.
- Foxconn Technology Group is developing a chip-making fabrication plant in Gujarat.
- **Investment promotion-** India's attractiveness to foreign investors is also linked to geopolitical and economic factors.
- **Improvement in trade -** The World Trade Organisation (WTO) lists *India as the 6th largest importer of intermediate goods in last quarter of 2022*.
- India could in the future, double its current 1.5% share of world exports of intermediate goods.
- **Sectoral advantage**
  - **Manufacturing sector-** Automotives, pharmaceuticals and electronics assembly

    - **Service sector**- Information and communications technology, back-office work, financial and professional services, and transport and logistics.

- **Improved bilateral ties-** The *UAE-India Comprehensive Economic Partnership Agreement* entered into force in May 2022.
- An *Australia-India free trade agreement (FTA), talks* are ongoing to conclude the full FTA by the end of 2023.
- Negotiations for a *UK-India and EU-India FTA* are in process.

What must India do going forward?

- **Encourage investments -** Facilitate investment at a high level, with competitive fiscal incentives.
- Promote export-oriented foreign direct investment (FDI) to participate in supply chains through trade liberalisation
- **Promote Ease of Doing Business -** Reduce business hassles through digitalisation of tax, customs, and business administration, and high-quality free trade deals is essential.
- Creation of modern special economic zones as public-private partnerships.
- **Strategize businesses -** Small and mid-sized enterprises should work as industrial suppliers and subcontractors to large exporters.
- Conglomerates can cross-subsidise investments and other costs among business units.
- **Improve quality standards-** Invest in domestic technological capabilities to achieve international standards of price, quality, and delivery.
- **Need of policy reforms-** Improving coordination between the central and state governments is need of the hour.

References

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