

## 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."



### India-Middle East-Europe Economic Corridor (IMEC)

- **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 6<sup>th</sup> largest intermediate goods exporter in Quarter 4 of 2022.

#### INDIA WAS THE WORLD'S 6TH LARGEST INTERMEDIATE GOODS IMPORTER IN Q4, 2022

Rank	Country	Value	Share
1	China	376	23.4%
2	US	261	16.2%
3	Germany	147	9.1%
4	Hong Kong	97	6.0%
5	India	81	5.0%
6	Japan	75	4.7%
7	Mexico	74	4.6%
8	Rep. of Korea	72	4.5%
9	Netherlands	72	4.5%
10	France	67	4.2%
11	UK	65	4.0%
12	Italy	63	3.9%
13	Singapore	56	3.5%
14	Canada	52	3.2%
15	Taiwan	52	3.2%

Source: WTO (2022 and 2023) Value in \$ bn

### 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 6<sup>th</sup> 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

1. [IE| India's Supply Chain Opportunity](#)
2. [Business Standard| Resilient Supply Chain](#)

