

India's New Supply Chain Strategy and its Implications for Ongoing Supply Chain Diversification in Asia

Dr. Rajiv Kumar

Institute of Indian Studies, Hankuk University of Foreign Studies

The supply chain landscape in Asia is changing significantly after the COVID-19 pandemic. Major liberal powers in the region, such as the US, Japan, South Korea, and Australia, are reconsidering their reliance on China for critical products, as they view it as unsafe and unreliable. They are now diversifying their supply chain to enhance their economic security. India, an emerging economic powerhouse in Asia, is also redesigning its supply chain strategy to improve its economic security in the post-COVID era. This article aims to answer questions about the factors shaping India's new supply chain strategy, its main characteristics, and its impact on ongoing supply chain diversification in the region. It will first identify the factors influencing India's domestic and international economic strategy, which are essential to explain the origins of the new supply chain strategy. Then, it will explain the two key elements of the new supply chain strategy: fostering self-reliant supply chains and building trusted value chains. Finally, it will discuss the implications of India's new approach on Asia's regional supply chain in the future.

Factors Influencing India's New Supply Chain Strategy

India has implemented a new supply chain strategy that is influenced by two major factors: the economic impact of COVID-19 and geopolitical considerations related to China. First, let's delve into India's changing economic strategy. In 1991, the country abandoned its inward-looking self-reliant approach to development, which was inspired by socialism. This decision was driven by a combination of domestic financial crisis and international pressure from the West's structural adjustment program. India's economic liberalization policy aimed to reduce the state's involvement in development and promote private sector growth and international trade. However, although this policy has led to increased private sector activity in the economy, it has also resulted in some negative consequences. For example, there has been a significant

increase in India's trade deficit during the three decades of economic liberalization (1990s-2020s). Additionally, India has become heavily reliant on foreign countries, particularly China, for various products.

India has been concerned about its growing trade deficit and reliance on foreign countries for its economy for a long time. However, the COVID-19 pandemic has highlighted vulnerabilities in the supply chain in various sectors. For instance, India was unable to effectively manage the pandemic due to its heavy reliance on China for pharmaceutical industries, as well as the severe global disruptions of essential medical equipment. The interruption of imported intermediate goods also impacted India's production and manufacturing, particularly the auto sector, which contributes over 7% to India's GDP. The shortage of intermediate goods imported from China caused a severe contraction. India's dependence on China for solar modules also affected its solar industry and its goal of realizing a green growth strategy. The Indian electronics industry was also severely impacted by supply disruption as China shut down many factories that supply products to the Indian electronic industry. As a result, policymakers in India believe they must focus on creating a stable supply chain that is not too reliant on China.¹ This thinking has influenced the emergence of India's new supply chain strategy.

Geopolitical factors also played a significant role in reconsidering India's supply chain strategy. Recent political and security developments caused India to reassess its relationship with its largest trading partner, China. Since the Indo-China war in 1962, India has maintained minimal relations with China. However, in the post-Cold War era, India sought to improve economic ties with China due to Chinese leadership's emphasis on the peaceful development program and integration with the liberal economic order. This led to China becoming India's largest trading partner, resulting in India's excessive dependence on China for critical products. Although policymakers did not see economic dependence as a threat until recently, perceptions changed significantly as China adopted an aggressive posture toward India. The 2020 India-China military clash, which resulted in 20 Indian soldiers' deaths, dramatically changed India's perception of China from an economic partner to an economic threat.² Consequently, India

¹ <https://www.livemint.com/news/world/global-supply-chains-are-becoming-more-and-more-unpredictable-goyal-11650094314576.html>

² Rajiv Kumar. (2023). "New Threat Perceptions, Domestic Political Changes and India's Shifting

developed a new supply chain strategy that focused on fostering self-reliant supply chains and building trusted value chains.

Fostering Self-reliant Supply Chain

One of the most remarkable changes in India's economic strategy in recent years is its "self-reliant" strategy. When India's right-wing party, Bhartiya Janta Party, formed a majoritarian government in 2014 under the leadership of Prime Minister Narendra Modi, it launched a highly ambitious "Made in India" initiative to transform India into a manufacturing hub. However, the initial phase of the "Made in India" plan did not emphasize the self-reliant economic system. Instead, its primary aim was to attract Foreign Direct Investment in India. But, as discussed above, the COVID-related supply chain disruption, combined with China-related new geopolitical development, led to adding new elements to the Modi government's developmental strategy. And that new element was the "fostering self-reliant supply chain" strategy. Under this strategy, India introduced an East Asian Developmental State-type growth strategy by launching Production Linked Incentive (PLI) policy. Under PLI policy, India's introduce industrial policy, similar to East Asia developmental model by identifying few key strategic sectors to be promoted and extended subsidies to private sectors. These strategic sectors include pharmaceuticals, automobile and auto components, electronics and IT hardware, telecom, solar modules, metals and mining, textiles and apparel, white goods, drones, and advanced chemistry cell batteries. Many of these industries were badly affected due to the COVID-induced supply chain disruption.

At the same time, Trade protectionism has been growing in India as part of its self-reliance mission. However, it's worth noting that there are significant differences between the current mission under the Modi administration and India's previous self-reliance efforts during the Cold War. The previous mission relied on Import Substitution Industrialization (ISI) and had a negative view of foreign direct investment. The new mission is more welcoming to foreign companies, particularly those from like-minded countries such as the US, South Korea, and Japan. The ultimate goal of the new mission is to make India a major exporter and integrate

with the global economy, as emphasized by Prime Minister Modi and his ministers at international forums. India's policy documents also clearly outline these objectives.³

Building Trusted Value Chain

India's new supply chain strategy includes the development of a "Trusted Value Chain," which prioritizes trust, liberal values, security, and sustainability over commercial logic like efficiency. This approach has been implemented on both bilateral and multilateral levels, with India seeking to build strong supply chain ties with the United States and other like-minded countries. In January 2023, India and the US established a trade group to enhance resiliency and sustainability in their trade relationship.⁴ During Prime Minister Modi's visit to the US in June 2023, the two countries further strengthened their bilateral ties, particularly in critical technology like semiconductors.⁵ Additionally, India has increased engagement with Japan on supply chain issues through the "Program for the Supply Chain Resilience in the Indo-Pacific Region," which involves six different projects.⁶ New Delhi has also enhanced its geographical scope for securing supply chain resilience. To illustrate, in February 2023, it forged a strategic partnership with the Europe Union by setting up a new Trade and Technology Council (TTC). This new TTC aimed to build India-EU strategic engagement on supply chain regarding trade and technology.⁷

India is taking steps to diversify its supply chain strategy on the multilateral front too. In April 2021, New Delhi launched the Supply Chain Reliance Initiative (SCRI) with Japan and Australia to decrease their reliance on the China-centric regional supply chain. The main objective of the SCRI is to improve supply chain resilience in the Indo-Pacific region.⁸ India

³ <https://www.pib.gov.in/PressReleasePage.aspx?PRID=1671912>

⁴ <https://pib.gov.in/PressReleasePage.aspx?PRID=1890613>

⁵ <https://www.whitehouse.gov/briefing-room/statements-releases/2023/06/22/fact-sheet-republic-of-india-official-state-visit-to-the-united-states/>

⁶ https://www.in.emb-japan.go.jp/itpr_en/11_000001_00618.html

⁷ https://ec.europa.eu/commission/presscorner/detail/en/ip_23_596

⁸ <https://pib.gov.in/PressReleaselframePage.aspx?PRID=1714362>

also joined the US-led Supply Chain Ministerial Forum (SCMF) in 2022 to increase friend-shoring by moving the production of essential supplies to like-minded democratic countries. India is also actively engaging in multilateral efforts to build supply chain resilience in the Indo-Pacific QUAD grouping, consisting of India, the US, Japan, and Australia. For instance, 2023's QUAD leaders' summit initiated the Quad Investors Network (QUIN). The major objective of the QUIN is to convene a public-private Quad Clean Energy Supply Chain Conference to enhance public-private partnership cooperation and promote investment in vertical clean energy supply chains. Additionally, India is participating in the newly launched 14 country Indo-Pacific Economic Framework for Prosperity (IPEF) to make supply chains more resilient and integrated. India hopes to achieve several supply chain benefits, including a potential shift of production centers from China to India, boosting domestic manufacturing capacities, and advancing the self-reliant Indian mission, including PLI schemes.⁹

Implications for Ongoing Supply Chain Diversification in Asia

The new supply chain strategy of India has significant implications for supply chain diversification in Asia. With the US-China trade war escalating, it is becoming clear that the regional supply chain in Asia will be divided into two camps: the US-led supply chain system and the China-led supply chain system. India's new supply chain strategy is leaning towards the US-led supply chain system as it strengthens its economic partnerships with the US and like-minded countries. This shift in India's approach will have a profound impact on the supply chain in Asia. As India aligns itself with the US and its key allies, it will give the US-led supply chain system more economic power over the China-led supply chain system. India is expected to become one of the largest economies in the world soon due to its growing productive population and rapid urbanization, which will undoubtedly strengthen the US-led liberal supply chain.

India's shift towards the US-led supply chain will have an effect on foreign multinational corporations' presence and production in India. This presents opportunities for countries' MNCs with friendly relations with India. As a result, India could become a new

⁹ <https://pib.gov.in/PressReleaselframePage.aspx?PRID=1929184>

production hub. Many MNCs from liberal countries, such as the US and Japan, are opting for India as an alternative to China and are moving their investments from China to India. The overall impact of India's new supply chain strategy will bring significant changes to the ongoing supply chain diversification in Asia.