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**DAILY EDITORIAL
ANALYSIS**

TOPIC

**INDIA'S OPPORTUNITY IN GLOBAL
SUPPLY CHAIN RESET**

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INDIA'S OPPORTUNITY IN GLOBAL SUPPLY CHAIN RESET

Context

- Recent global shocks like Russia-Ukraine war and Middle East tensions have exposed **structural vulnerabilities in global supply chains** that were designed around **efficiency and cost minimisation**.
- **Resilience is now as important as efficiency**, as production is concentrated in low-cost regions, especially East Asia.

What are Global Supply Chains?

- Global Supply Chains refer to **international networks of production, distribution, and trade**, where:
 - ♦ Different stages of production occur across countries;
 - ♦ Countries specialise based on **comparative advantage**;
 - ♦ Enabled by globalisation, trade liberalisation, and technology;
- These are also called **Global Value Chains (GVCs)**, having key characteristics:
 - ♦ **Fragmentation of production** (multi-country production)
 - ♦ **Just-in-Time (JIT) systems** (minimal inventory)
 - ♦ **Hyper-specialisation** (region-specific dominance)
 - ♦ **Interdependence** (tight linkages across economies)
 - These features increase efficiency but reduce shock absorption capacity.
- Global supply chains are undergoing a fundamental shift:
 - ♦ **Geopolitical conflicts** disrupted energy, commodities, and logistics;
 - ♦ **Trade weaponisation** (sanctions, export controls) increased uncertainty;
 - ♦ **COVID-19** exposed overdependence on single geographies;
- The **geopolitical risks and concentrated supply chains amplify systemic fragility**, forcing firms to diversify sourcing networks and reduce dependency.
- The IMF warns that **trade fragmentation could reduce global GDP by ~7%**, highlighting the economic cost of a divided global system.

Geopolitical Fragmentation and Its Implications

- Globalisation is not ending, but it is **fragmenting into regional and strategic blocs**:
 - ♦ Disruptions in critical chokepoints (e.g., Strait of Hormuz, Red Sea)
 - ♦ Rise of **'friend-shoring' and 'near-shoring'**
 - ♦ Increasing role of **national security in trade policy**
- Supply chains are increasingly seen as **strategic assets rather than purely commercial systems**.

India as a Supply Chain Alternative

- **Large Domestic Market**: Enables economies of scale before exports; acts as a demand anchor for global firms.
- **Demographic Dividend**: Young workforce compared to ageing East Asian economies.
- **Political Stability and Institutional Framework**: India's democratic system ensures policy predictability, and lower geopolitical risk relative to competing hubs.
- **Strategic Autonomy**: Ability to engage with multiple geopolitical blocs, and enhances attractiveness in a fragmented world.
 - ♦ India's **geopolitical neutrality and market size are key factors driving supply chain relocation**.

India's Efforts Strengthening Supply Chains

- **Role of the PLI Scheme**: The **Production Linked Incentive (PLI)** scheme has been a major catalyst, covering **14 sectors** (electronics, pharma, solar, auto, etc.), and links incentives to incremental production.
 - ♦ PLI has **improved India's competitiveness and attracted global investment**, though long-term integration into GVCs remains a work in progress.

- **Trade Agreements and Export Push:** India's evolving FTA strategy strengthens its position. It includes agreements with the **UAE, Australia, UK, EU (ongoing)**, and negotiations with **the USA**.
 - ♦ It benefits preferential market access, and boosts exports (electronics, textiles, engineering goods).
 - ♦ India is reducing costs and improving efficiency, combined with logistics reforms (e.g., **PM Gati Shakti, National Logistics Policy**).
- **Supply Chain Resilience Initiative (SCRI):** It is a **trilateral partnership** launched by **India, Japan, and Australia** to reduce reliance on single-source suppliers and enhance economic stability in the **Indo-Pacific region**.
 - ♦ It focuses on diversifying sourcing, utilizing digital technology, and sharing best practices to combat disruptions.

Case Study: India's Electronics Manufacturing

- **India's transformation in electronics** i.e. increasing the mobile manufacturing units, and exports of smartphones reflect that the global firms are diversifying beyond China, and India integrating into **global value chains (GVCs)**.
 - ♦ India is transitioning from a **back-office economy to a manufacturing hub**.

Challenges in Scaling the Opportunity

- **Infrastructure Gaps:** Need for efficient ports, logistics corridors, and clusters
- **Labour and Regulatory Issues:** Labour-intensive sectors need reforms and clarity
- **Skill Development:** Required for advanced manufacturing and Industry 4.0.
- **Ecosystem Development:** Supply chains depend on **networks, not standalone factories**.
 - ♦ **Resilient supply chains require integrated ecosystems and infrastructure investments**, not just policy incentives.

Conclusion

- The world is witnessing a **structural reconfiguration of global trade and production networks**. India has a historic opportunity to emerge as a **global manufacturing hub**, as supply chains shift from efficiency to resilience.
- However, success will depend on faster infrastructure development, deeper trade integration, and stronger industrial ecosystems.
- India could become a **central node in the next phase of globalisation**, if executed effectively.

Source: BL

Daily Mains Practice Question

- [Q] Examine India's potential to emerge as a global manufacturing hub in ongoing global supply chain reset. What structural reforms are required to fully realise this opportunity?

