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Proposal of Supply Chain Resilience Initiative

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Why in News

With **Covid-19** and **trade tensions between China and the United States** are threatening supply chains, Japan has mooted the **Supply Chain Resilience Initiative (SCRI)** as a **trilateral approach** to trade, with India and Australia as the key-partners.

Key Points

- **Supply Chain Resilience:**

- In the context of international trade, supply chain resilience is an approach that helps a country to ensure that it has **diversified its supply risk across a clutch of supplying nations instead of being dependent on just one** or a few.
- **Importance:** In unanticipated events -whether natural, such as volcanic eruptions, **tsunamis, earthquakes** or even a pandemic; or manmade, such as an armed conflict in a region — that disrupt supplies from a particular country or even intentional halts to trade, could adversely impact economic activity in the destination country.

- **Supply Chain Resilience Initiative (SCRI):**

- The initiative aims to **reduce the dependency on a single nation (at present China)**.
SCRI is a direct response to individual companies and economies concerned about Chinese political behaviour and the disruption that could lead to the supply chain.
- The initiative, first proposed by **Japan** with India and Australia as partners, potentially see other Asian and Pacific Rim nations later.

- **Objective:**
 - To attract foreign direct investment to turn the Indo-Pacific into an “economic powerhouse”.
 - To build a mutually complementary relationship among partner countries.
 - To work out a plan to build on the existential supply chain network. Japan and India, for example, have an India-Japan competitiveness partnership dealing with locating the Japanese companies in India.
- **Reasons for the Initiative:**
 - **Covid-19 Realization:** With spread of Covid-19 globally, it has been realized that dependence over a single nation is not good for both global economy and national economies:
 - Assembly lines are heavily dependent on supplies from one country.
 - The impact on importing nations could be crippling if the source stops production for involuntary reasons, or even as a conscious measure of economic coercion.
 - **USA-China Trade Tensions:** The tensions began when the United States and China both applied tariff sanctions on each other.
 - **India as an Emerging Supply Hub:** The businesses have started seeing **India as a “hub for supply chains”**.
- **Chinese Import to India:**
 - As per the Confederation of Indian Industry, China’s share of imports into India in 2018 (considering the top 20 items supplied by China) stood at **14.5%**.
 - Chinese supplies dominate segments of the Indian economy. Sectors that have been impacted by supply chain issues arising out of the pandemic include **pharmaceuticals, automotive parts, electronics, shipping, chemicals and textiles**.
 - In areas such as **Active Pharmaceutical Ingredients** for medicines such as paracetamol, India is fully dependent on China.
 - **In electronics**, China accounts for 45% of India’s imports.

- **Indo-Japan Trade Relationship:**

- **Japan is the fourth-largest investor in India** with cumulative foreign direct investments touching **USD 33.5 billion** in the 2000-2020 period accounting for 7.2% of inflows in that period, according to quasi government agency India Invest.
- **Imports** from Japan into India more than **doubled** over 12 years to **USD 12.8 billion** in FY19.
- **Exports** from India to Japan stood at **USD 4.9 billion for FY19**.
- Also, India is carrying forward the sentiments of self-reliance focussing on less dependence on China which is one of the reasons behind SCRI.
- Japan has included India under the SCRI initiative despite India having pulled out of the Regional Comprehensive Economic Partnership.
- Further, India and Japan are a part of **QUAD** (also includes the USA and Australia) and **malabar** (naval) exercise (also includes the USA).

Suggestions for India

India needs to enhance **self-reliance against China**, so that it could build resilience into the economy's supply networks. **Economic measures** are of real value in this regard.

- **Ease of Doing Business:** While India appears an attractive option for potential investors both as a market and as a manufacturing base, it needs to accelerate progress in ease of doing business and in skill building.
- **Tax incentives:** These will help in attracting investments from China and other attractive locations like Vietnam and the Philippines.
- **Boost Domestic Manufacturing:** India's strategy should be to boost manufacturing competitiveness and increase its share in world trade.
 - **Infrastructure Boost:** In this pursuit, there is a need to create an infrastructure that raises the competitiveness of India's exports.
 - **Removing Structural Bottlenecks:** There is a need to push through long-pending legislation that aims to address the structural bottlenecks (in **4Ls: Land, Labour, Law, Liquidity**) that continue to plague and hinder domestic competitiveness.
- **Leveraging Service Sector:** In spite of banning Chinese imports, India should tackle trade by trade.

India can lobby for a more liberalized service sector (India's comparative advantage) in China.

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