



Supply Chain Resilience Initiative and its impact on India

Context:

- With COVID-19 and trade tensions between China & USA threatening supply chains or actually causing bottlenecks, Japan has mooted the Supply Chain Resilience Initiative (SCRI) as a **trilateral**



approach to trade, with **India and Australia** as the other two partners.

What does supply chain resilience mean?

- When assembly lines are heavily dependent on supplies from one country, the impact on importing nations could be crippling if that source stops production intentionally (economic sanction) or unintentionally (natural disaster).
- **Example:** Japan imported \$169 billion worth from China, accounting for 24% of its total imports. Japan's imports from China fell by half in February 2020 that impacted Japan's economic activity.
- 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.

What is Objective of the Supply Chain Resilience Initiative (SCRI)?

- The two-fold objective of the Japanese proposal is to attract foreign direct investment to turn the Indo-Pacific into an economic powerhouse and to build a mutually complementary relationship among partner countries.
- Under the proposal, the aim is to work out a plan to build on the existing bilateral supply chain networks.

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- India and Japan already have an Indo-Japan Industrial Competitiveness Partnership that deals with locating Japanese firms in India.
- After an understanding emerges among India, Japan and Australia, the initiative could also be thrown open for the ASEAN countries.

Where does Australia stand?

- China has been Australia's largest trading partner and accounts for 32.6% of Australia's exports, with iron ore, coal and gas dominating the products shipped.
- But relations including trade ties between Australia & China have been deteriorating for a while now.
- China banned beef imports from four Australian firms in May 2020, and levied import tariffs on Australian barley.
- In June 2020, China's education Ministry warned its students aspiring to study or already studying in Australia, of 'rising racism' in that country.
- Australia, Japan and India are already part of another informal grouping, the Quadrilateral Security Dialogue, or the Quad, which includes the U.S.

What does India stand to gain, or lose?

- It is significant that Japan has taken the initiative to include India despite India having pulled out of the RCEP that Japan helped stitch together
- Following the border tension between India and China, partners such as Japan have sensed that India may be ready for dialogue on alternative supply chains.
- But an internal push to suddenly cut links with China would be impractical.
- 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.
- 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.

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Way forward:

- SCRI initiative is at the strategy stage and has some way to go before participants can realise trade benefits.
- Over time, if India enhances self-reliance or works with exporting nations other than China, it could build resilience into the economy's supply networks.
- Also, India needs to accelerate progress in ease of doing business and in skill building.