

INDIA AND RESILIENT SUPPLY CHAINS IN THE INDO-PACIFIC

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* The views and analysis expressed in this Outcome Paper are those of the authors exclusively, based on the conversation exchanged by the various participants in the III Spain-India Dialogue. This Outcome Paper does not reflect any opinion or endorsement by the Spain-India Council Foundation. Translation from Original in Spanish (Carolina de Argumosa Díaz-Lladó).

THE TRANSFORMATION OF GLOBAL SUPPLY CHAINS

The emergence of new risks

In recent years, **the risk matrix for businesses has undergone significant changes**. Today, there are first-order threats that were not even among companies' top priorities in the past. Among these threats, geopolitical risks have a decisive impact on the global economic, trade, and business fabric. **Geopolitical risks are precisely one of the most challenging threats for companies to manage** due to its exogenous nature —subject to external factors— and often unpredictable, with widespread effects due to global economic interconnectivity. The Ukraine War or the rivalry between the United States and China for global hegemony are two current examples of geopolitical risks for companies that have an immediate effect on supply chain operations. **Other emerging threats for businesses in recent years include pandemic risks and climate change**, whose frequency and intensity are exponentially increasing and have become a significant threat affecting countries in the Indo-Pacific. These challenges now have a profound impact on international business strategies and the restructuring of supply chains in the Indo-Pacific and around the world.

Resilience over efficiency

The disruptions caused by these threats in global trade have questioned the reliability and viability of the current model of global supply chains. As a result, two simultaneous global trends are emerging. On one hand, **de-risking**, a strategy aimed at reducing economic dependency and geopolitical risk with minimal impact on trade and investment through supplier and trading partner diversification. As a consequence, a "**reglobalization**" is taking shape, involving the relocation of production to countries close to major logistics hubs —*nearshoring*— or to friendly nations —*friendshoring*— to protect against potential disruptions in supply chains, leading to the fragmentation of international trade. These trends aim at **developing resilient and flexible supply chains**, not focusing solely on cost-saving and efficiency, as it has been until now, but also on risk reduction —transitioning from a "*Just in time*" model to a "*Just in case*" model¹—.

¹ Refer to the Outcome Paper prepared by the Spanish-India Observatory on the occasion of the presentation of the 2023 Programme "Visit of Professor Raja Mojan to Spain: India's Vision on the Indo-Pacific". Available at: http://www.spain-india.org/files/documentos/Outcome_Paper-Ingles.pdf

Technological and digital revolution

To achieve supply chain resilience and reduce their environmental impact, the **incorporation of technology will be a key competitive factor** for companies in the coming years. Specifically, the integration of Artificial Intelligence (AI) will mark a turning point in relation to the Internet of Things (IoT), data collection, and advanced analytics for demand forecasting and inventory management. In the **digital domain**, the development of *blockchain* technology will be essential in areas such as customs transit, while intelligent automation and robotization in *e-commerce* will revolutionize distribution, delivery, and warehouse management. One of the greatest challenges in the process of transforming supply chains will be to advance in the fields of innovation and sustainability through digitalization, with the objective of **achieving resilient and decarbonized supply chains**.

INDIA AND THE EU, PURSUING GEOPOLITICAL AND GEOECONOMIC RELEVANCE

Building a European strategic autonomy

Both the Indian *Atmanirbhar Bharat* vision as well as the open strategic autonomy of the EU aims to achieve greater global influence. In the upcoming multipolar order, **India and the EU seek to become specific poles**, avoiding being drawn into Sino-American rivalry. While the United States remains a strategic ally for the EU, significant discrepancies have emerged in recent years, particularly in areas such as trade —e.g., with the new *Inflation Reduction Act* (IRA) of the United States—. At the same time, there is a growing conviction that their networks of coalitions in the region cannot be solely centred on the United States. On the other hand, the European Union maintains **an ambivalent relationship with China**: it recognizes China as an important partner in areas such as climate change and reducing over-indebtedness in many developing countries. Considering China's economic and commercial weight, representing 20% of global GDP and 15% of international trade, the economic-business reality demands a measured decoupling from China; however, the Asian giant remains a "systemic rival" of the EU, leading Europe to adopt a *de-risking* strategy. In the context of US-China competition, the EU could **strengthen ties with other countries that do not wish to follow a binary logic**, as is the case with India. Considering that historically Delhi has pursued a foreign policy based on strategic autonomy, the partnership between the European Union and India offers an opportunity to cooperate towards overcoming bipolarity and jointly transitioning towards a multipolar order.

The EU as a geopolitical actor

Becoming an effective geopolitical actor and gaining recognition as such from India and Indo-Pacific partners requires **consistency and continuity in the EU's engagement in the region**, both collectively and bilaterally by member states. Despite not having a strong presence in this geographic space, participating in the maritime governance of the Indo-Pacific will be crucial for Europe's future in the region. Nevertheless, it is important to note that **the world is not only becoming more multipolar but also more transactional**, a circumstance that should be considered in the EU's strategic autonomy, striking a balance between principles and interests. While the EU should not forsake its alliances and values, seeking **greater pragmatism in its relations with Indo-Pacific countries**, including India, would be beneficial in enhancing its global influence. To be a geopolitical player, the EU should be present and engaged in areas that are priorities for its Indo-Pacific partners, promoting capacity-building programmes. Global Gateway represents the EU's recognition of the importance of its constructive engagement worldwide and the need to achieve geopolitical relevance as a primary objective.

India's geoeconomic rise

Currently, China holds the position of the largest economic and manufacturing power in the Indo-Pacific. However, the **growth model of the Chinese economy is gradually reaching its limits**. Apart from economic convergence, Beijing is facing other challenges, such as an aging population, rising production costs, and diminishing returns on foreign investment. Geopolitical and geoeconomic trends, combined with unfavourable projections for China, are compelling companies to **reorganize their production in neighbouring or like-minded countries**. India's geostrategic position, positive economic growth trends, demographic dividend – with half of the world's population under the age of 18 residing in India – low urbanization rates, easy access to corporate financing, respect for the rules-based international order, and a skilled workforce, all make **India one of the primary contenders to offer an alternative to China** as the main production hub and lead the relocation of production chains in the Indo-Pacific and globally.

RESILIENT SUPPLY CHAINS IN THE EU-INDIA COOPERATION

A trade partnership in a volatile geopolitical context

Both India and the European Union **heavily rely on international trade**. Europe's external trade dependency stands at 43%, while in India, it is 46%. Consequently, the EU and India face the common challenge of navigating this period of geopolitical tension between China and the United States to avoid potential disruptions in global trade. **There is significant room for improvement in bilateral trade**, considering that the European Union is India's third-largest trading partner, while India ranks only tenth for the EU. Despite representing 7% of global GDP, India's trade accounts for a mere 2% of the EU's total trade. A **bilateral trade agreement would present a tremendous opportunity to strengthen their economic and commercial ties** and establish a joint labour framework that facilitates the access of skilled Indian workers to an aging European labour market. Moreover, a trade agreement could overcome the fragmentation of international trade rules by creating a framework of protection and stability, offering security and transparency during a time of geopolitical turbulence.

The contribution of European companies and financing to India's leadership

In recent years, **India has made tremendous efforts to improve the ease of doing business, aiming to attract foreign investment**. However, both European investment in India and Indian investment in Europe remain relatively low, considering the significance of both economies on a global scale. Therefore, in addition to a bilateral trade agreement, **finalizing an EU-India investment protection agreement** would be valuable, offering Indian and European companies a framework of legal certainty to boost bilateral investment. European companies have been instrumental in creating job opportunities across the world, expanding the labour market and productivity in those countries where they operate. Moreover, **the financing model of Global Gateway could serve as a tool for India** to achieve its own energy transition objectives through the implementation of renewable energy or sustainable infrastructure projects. Regarding the latter, the development of infrastructure, including ports, roads, airports, etc., is one of the major challenges India faces in achieving resilient supply chains. In this regard, European investment can effectively contribute to India's rise as a productive and commercial centre in the Indo-Pacific region.

Creating standards in digitalization and sustainability

Cooperation between the European Union and India in the digital domain also has great potential. One area where **important bilateral opportunities exist is data governance**. Digital services offer European companies great business opportunities, but it is essential that these are supported by a coherent and compatible data protection regulatory framework between India and the EU. The creation of the **EU-India Trade and Technology Council**, which held its first ministerial meeting in May 2023, aims precisely to lay the foundations for deeper and more strategic technological cooperation between the two countries. On the other hand, the EU and India prioritize the protection of the environment, which is one of the main challenges Delhi will face in the coming years. There is an opportunity to **build a new framework of sustainability standards** aimed at protecting the environment, combating climate change, and improving working conditions in the face of these threats.

SPANISH PARTICIPATION IN THE DEVELOPMENT OF THE SUPPLY CHAINS IN THE INDO-PACIFIC REGION

Dependence on China

In 2022, China became Spain's main supplier for the first time in history, surpassing Germany. From 2002 to 2022, the share of imports from China in total Spanish imports has increased from 3% to 11%, which is evidence of an upward trend. **Spain is strategically dependent on China on three critical goods**: firstly, pharmaceutical components for medicines —antibiotics, vitamin B and C, hormones and calcium—. Secondly, electronic components —lighting projectors for cell phones and computers, radiofrequency sensors for maritime security and aviation, and permanent magnets for wind turbines—. Spain also depends on China on raw materials such as yttrium, classified as a rare earth —used in catalysts, electronics, lasers, metallurgy and phosphors—; magnesium —used for lithium cells in robotics and other technologies such as drones, as well as for smelting in the automotive industry—, and manganese —for fuel cells in electric batteries for automobiles—. Furthermore, **China has an 85 % production capacity for electric battery components, while it has become one of the world's largest producers and the main exporter of semiconductors**, an equally essential component for the automotive industry. Being Spain one of the world's largest automobile producers, it will be necessary to look for alternative supply chains that reduce the risks associated to potential disruptions. **CIE Automotive** is one of the pioneer Spanish companies that has bet on

participating in the manufacturing chain in India —it now has up to 25 manufacturing facilities in the country, more than in any other country in the world—.

India as an alternative

Spain, therefore, in line with the European Union, should also promote the **diversification of suppliers to reduce the risks associated with eventualities in the international scenario**. In this context, **India presents a great opportunity for Spanish companies**. Delhi, following its "multi-alignment" policy, is seeking to diversify its network of coalitions and Europe has become an important partner in its rise as a global power. Companies such as **Airbus Defence & Space**, which works with local partners —including Tata—, are helping to strengthen India's strategic sectors such as defence. In addition, India will have to look for a development model that is committed to the green and digital transitions, so **Spanish renewable energy and infrastructure technology** have a great opportunity to participate in the Indian value chain. In terms of **bilateral trade**, there is a great opportunity for growth: in 2022, Spain-India trade —about 7.5 billion euros— was eight times lower than trade with China —about 58 billion euros—. The recent creation of a department dedicated to logistics and supply chains is a recognition by **ICEX Spain Trade and Investment** to the current process of "reglobalization", in which India will play a central role.

Importance of governmental and institutional support

For certain changes in trends to take place, however, beyond the business dimension itself, **institutional determination and political** will be equally important. The success of Spanish companies in India, and the possible relocation of their production centres in that market, therefore, could benefit from institutional support, as well as on a solid bilateral governmental exchange. On the other hand, the opportunities and challenges of the Indian market for SMEs should be emphasized, while at the same time **encouraging the presence of large companies in India, promoting a dragging effect**. 90% of the Spanish business fabric is made up of SMEs, and their internationalization capacity is vulnerable to diverse risk factors, so both the **Spanish and European institutions could adopt measures to support SMEs** in this task. In short, it will be important to bet on India, a country that offers Spain a great opportunity in an increasingly fragmented and competitive world. **Port of Barcelona**, which has chosen India as the destination for its Business Mission 2023, is one of those key public actors that is promoting the exchanges with the subcontinent.