

# **Title- Emerging Economic Architecture in the Indo-Pacific: Building Supply Chain Resilience**

Submitted by – OORJA TAPAN, Research Intern at Research and Information System- for Developing Countries (PhD Research Scholar at CIPOD, Jawaharlal Nehru University)

Supervisor- DR. PANKAJ VASHISHT

## **Introduction**

The Asia-Pacific region; or the more popularly used concept of “Indo-Pacific” has gained political, strategic and economic heft in the 21<sup>st</sup> century. The complex interplay of interstate relationships with the shift of power from the west to the east; the rise of China, India and others; has altered the global power dynamics, thus making the “Pivot to Asia” outlook necessary. Also, with the increase in China’s assertive and expansionist foreign and economic policy intent clear; the search of the major players for a balance of power has accelerated too; thereby making the region of “Indo-Pacific” even more crucial. India, having a central position in the Indian Ocean Region (IOR), needs a coherent Indo-Pacific strategy to navigate the competitive and contested region. This is pivotal to maximise its economic opportunity and maintain its maritime security.

According to Miles (2013) the conventional usage of the term ‘Indo-Pacific’ by the US has permitted it to preserve its geographic inclusiveness in the region in line with its ‘Pivot to Asia’ strategy – a solid realist outlook in itself. For the Indian subcontinent “with the not-so-peaceful rise of China” as an Asian superpower and ensuing threats to land and economic security, and the India-Pakistan conflict lingering in status quo, the idea of the Indo-Pacific has been a natural evolution of regional politics in the past decade. Thus, there has been an American [as well as a global] acknowledgement about Pacific and Indian Oceans creating an inter-linked geopolitical space, not only because it is imperative to “global commerce but also because they affect stratagems” (Saran, 2012).

In the context of geo-spatiality, the Indo-Pacific is, in general, acknowledged as an “interconnected space between the Indian Ocean and the Pacific Ocean” (Das, 2019). India’s definition of the Indo-Pacific region extends from the western coast of North America to the eastern shores of Africa. India’s imagination of the Indo-Pacific is an adjunct of its advances in the east through the Look East Policy, now the Act East Policy. The Indo-Pacific is emerging as a new zone of significance, driven by the common interests of several powers, each with their own distinct set of ambitions based on geopolitics and geoeconomics. Strategic competition over the incoming decades will be dominated by maritime and blue economy. Especially during the pandemic, nations are seeking to go beyond unipolar or bipolar dynamics (US and China) of uncertainty and supply chain risks. (Bhaskar, 2019).

Prime Minister Narendra Modi articulated India’s Indo-Pacific conception as the SAGAR doctrine — ‘Security and Growth for All in the Region’, an aspiration that hinges on warranting prosperity for all stakeholder nations, governed by rules with freedom of navigation.<sup>1</sup> In 2019, at the East Asia Summit in Bangkok, India proclaimed the Indo-Pacific

---

<sup>1</sup> [Ministry of External Affairs](#), Government of India, 2018.

Oceans' Initiative (IPOI) to support a rules-based regional architecture centred on seven pillars — maritime security; maritime resources ; maritime ecology; disaster risk reduction and management; capacity building and resource sharing; science, technology and academic cooperation; trade, connectivity and maritime transport.

Although India has stressed on building concrete strategic cum security partnerships in the Indo-Pacific, deliberations on the economic potential of the region remain, comparatively, neglected. Nonetheless, India's tactical priority for ensuring peace, security and prosperity in the region (as espoused through IPOI) is unified with its aims of building infrastructure and connectivity for a vibrant 'blue economy', crucial to the nation's higher growth trajectory and post-COVID-19 economic recovery. India has collaborated with likeminded countries in the region having common goals and shared values — from the Pacific Islands to the archipelagos of the western Indian Ocean and off the eastern coast of Africa; to arrangements like the Quadrilateral Security Dialogue (QUAD) with the US, Australia and Japan, the Supply Chain Resilience Initiative (SCRI) with Japan and Australia as partakers, and the India-France-Australia, the India-Indonesia-Australia, and India-Japan-US trilateral networks<sup>2</sup>. These are all robust illustrations of cooperation, which will be solidified in the post-pandemic world.

The US-China trade war, the eruption of the COVID-19 pandemic, and a collapse of the multilateral system have proven to be compelling obligations for an assessment and reconfiguration of global supply chains. The repositioning of global value chains that initiated with the US-China trade war is further aided by the pandemic, which exposed the severe susceptibilities in production networks of essential commodities (Mathur, 2021). Today there is global consensus that nations have to enterprise their foreign trade policy in a manner that addresses weaknesses, manages disruptions, and diminishes concentration. Precisely, companies are trying to diversify their production base from China to other stable nations. Southeast Asian states including Vietnam, Indonesia are attracting many American and Japanese companies for diversification.

India has an inimitable opportunity to leverage these developments to attract global value chains, especially by exploring partnerships with strategically aligned nations such as the members of the QUAD. India's Look East policy encourages economic and strategic relations with Southeast Asian countries to strengthen its importance as a regional power. With strong macroeconomic fundamentals, demographic dividend, highly-skilled English-speaking workforce, ease of doing business, cheap labour costs, enormous resource access, and an expanding market of 1.3 billion people, India has a select chance to be the favourable investment destination across the globe. 'Aatmanirbhar Bharat' delineating economy, infrastructure, system, demography, and demand is an endeavour to become self-sufficient, especially in terms of supply chain resilience. Production-Linked Incentive (PLI) scheme attempts to strengthen domestic production and invite foreign direct investments. The Indo-Pacific region provides an exclusive opportunity for India to maximise its economic resilience and become an 'economic pivot'.

## **Geoeconomic relevance and potential of the Indo-Pacific Region**

---

<sup>2</sup> <https://www.orfonline.org/expert-speak/india-developing-economic-ties-indo-pacific/>

The Indo-Pacific covers a diverse region that comprises of “South Asia, Southeast Asia and the littoral countries of the Indian Ocean” (Bhaskar, 2021). Indo-Pacific is a multipolar region contributing more than half of world GDP and population. The vast Indo-Pacific region consists of at least 38 countries, is home to more than 64 percent of the world’s population, shares 44 percent of the world surface area, and accounts for 62 percent of the global GDP with more than 50 percent of global trade traversing through its waters<sup>3</sup>.

The Economist Intelligence Unit (2015) elucidated that blue economy is tantamount to “greening of the ocean economy; a shift from the old, “brown” business-as-usual development model where oceans are perceived as a means of free resource extraction and waste dumping.” Fisheries, offshore oil and gas and deep-sea mining constitute a large part of India’s Blue Economy. It is essential for India to tap into the massive potential of the ocean-based resources, which could propel the nation’s economic growth.

The progress of Blue Economy (BE) can provision as a growth catalyst in achieving the vision to become a \$10 trillion economy by 2032<sup>4</sup>. Majority of the country’s oil and gas is imported through sea routes, a necessity that is anticipated to escalate exponentially by the year 2025. Of the 2.3 million square kilometres available to India in the EEZ, 1.5 million has been explored across both the Arabian Sea and Bay of Bengal. “As per the Indian Ocean Rim Association (IORA) charter, although the region is not yet a hub of Global Value Chains (GVC) oriented trade and investment – the kind that drove the East Asian industrial success in the past four decades – trade in parts and components is rising”.<sup>5</sup>

The Prime Minister’s enunciation of the concept of SAGAR (‘Security and Growth for All in the Region’), an all-encompassing Indo-Pacific, and the Indo-Pacific Oceans’ Initiative (IPOI) have combined the security and development dimensions. Assistance for an appropriate framework for the progress of Blue Economy was also pronounced; built around India’s own Sagarmala Programme, an ambitious \$120-billion initiative to upgrade the country’s coastal and maritime infrastructure, bearing in mind the developmental and security aspects of the Blue Economy like connectivity, port-linked industrialisation, port modernization and coastal community development (Bhatia, 2021).

The Indian Ocean (IO) is home to major choke points and sea-lanes which are critical to global trade, linking major centres of the international economy in the North Atlantic and Asia-Pacific — 90,000 commercial shipping vessels form the backbone of international goods trade; and about 40 percent of the world’s oil supply travels through strategic choke points of the Indian Ocean, also being a crucial source of mineral and fishing resources (Bhaskar, 2021). PM Modi also mentioned the significance of the ocean economy by equating it to the blue *chakra* (wheel) in India’s national flag.

The Indian Ocean economy is projected to account for approximately 20 percent of global GDP by 2025<sup>6</sup>. India’s share in the increasing Indian Ocean economy will be determined

---

<sup>3</sup> Prabir De, “[Navigating the Indo-Pacific Cooperation](#),” *Economic Times*, 11 March 2019.

<sup>4</sup> <https://raisinahouse.org/blue-economy>

<sup>5</sup> <https://iit.adelaide.edu.au/system/files/media/documents/2020-06/building-trade-integration-analysis-1.3.pdf> - Report Prepared by Institute for International Trade and The University of Adelaide for the Department of Foreign Affairs and Trade; Australia. Figures released by them.

<sup>6</sup> World Economic Forum, *The Global Competitiveness Report 2020*, World Economic Forum, 2020; Doing Business,

by its lowered barriers to trade and investment, strengthened regional economic governance, improved port quality and logistics and ability to balance geopolitical tensions. With virtually half the world's population expected to be residing in the Indian Ocean Rim (IOR) countries by 2050, the region is making a geopolitical swing from its identity as the 'Ocean of the South' to the 'Ocean of the Centre', and further to the 'Ocean of the Future' as its core position in terms of global industry, labour, trade, environment and security.<sup>7</sup>

“ASEAN Centrality” of India’s Indo-Pacific vision can consolidate deeper ties between India and the East Asian economies at bilateral and minilateral levels, irrespective of its non-engagement on multilateral platforms like the Regional Comprehensive Economic Partnership (RCEP) or Asia-Pacific Economic Cooperation (APEC) forum (Singh, 2021). India and the ASEAN region constitute one-fourth of the global population and their combined GDP has been estimated at over US\$ 3.8 trillion.<sup>8</sup> India needs to consider playing a proactive leadership role in minilateral organisations like the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) and the Mekong–Ganga Cooperation, both of which involve ASEAN member states.

Most of the Indo-Pacific studies talk about maritime strategic, foreign policy and geopolitical aspects of the region. David (2012), for instance, explores the political and maritime strategic discourse of the Indo-Pacific concept and attempted to enumerate the maritime challenges that are being faced by the USA in the Pacific Ocean. and by India in the Indian Ocean. Mohan (2017) discusses the relevance of the Indo-Pacific alliance briefly, whilst Singh (2017) explores the maritime security under the Indo-Pacific context. Most of the literature has argued that the Indo-Pacific cooperation is simply an emerging idea, which is yet to take a formal shape of regional cooperation bloc despite the existence of arrangements like Indian Ocean Rim Association (IORA), Indian Ocean Commission, QUAD, SCRI etc.

The benefits of trade, tariff reduction and investment models in the Indo-Pacific are lesser analysed and studied; also due to lack of consensus amongst states on the cumulative definition of Indo-Pacific and thus; research on statistical models analysing the aspects of “blue growth” remain limited. This can be partly attributed to the fact that both the conception of Indo-Pacific and associated elements of blue economy are still evolving by the national governments. Environmentalists, trade analysts and policy-makers along with the private sector have to come together to practice and propel balanced, sustainable blue growth activities. Moreover, Indo-Pacific being nascent concepts; thereby require more in-depth and comprehensive analysis to get rid of overlapping and confusing terminologies, multiple interpretations and thus bring in demarcated, distinct concepts to research in the area more coherently.

The contribution of Indian Ocean Region (IOR) to global GDP has considerably risen from the past century; “yet only three IOR countries—i.e., Australia, Singapore and United Arab Emirates—are counted among the top 20 nations with highest per capita Gross National Income”.<sup>9</sup> If the nations especially those in the Indo-Pacific, look at the oceans as “shared development spaces”; “marine economy” or “coastal economy” or “blue economy”

---

<sup>7</sup> Timothy Doyle and Graham Seal, “Indian Ocean futures: new partnerships, new alliances and academic diplomacy,” *Journal of the Indian Ocean Region*, 2015, 2-7.

<sup>8</sup> [Ministry of External Affairs](#), Government of India

<sup>9</sup> [The World Bank, World Development Indicators \(WDI\)](#).

etc. are at a nascent stage. The rising rivalry among the IOR countries over marine resources for their progress accounts for the need for enhanced regional cooperation that allows them to harness blue economy's potential in a more sustainable manner.

The conception of 'blue economy' was first pronounced by Gunter Pauli in 2010 and later deliberated at the United Nations Conference on Sustainable Development, Rio + 20 in 2012 (Roy,2019). Since its conceptualisation, many IORA states have been advocating for greater cooperation and sound governance of BE. Bangladesh, for its part, in 2014 became the first country to host a major conference focused emphasising a Bay of Bengal partnership for Blue Economy. Subsequently, BE gained prominence in India's strategic vision with Prime Minister Narendra Modi's SAGAR Doctrine stating it as a tool for India's development, focussing on the protection of shared marine spaces. The Maritime Silk Road Initiative (MSRI), which is one part of China's overall Belt and Road Initiative, will also have a strong impact on future Indian Ocean (IO) shipping and transportation.

A majority of the world's oil and gas products, major oil producers in the northwest corner of the Indian Ocean, natural chokepoints such as the Strait of Malacca and the Strait of Hormuz witnessing huge density of shipping traffic and thereby, drastic rise in piracy near the Horn of Africa (especially, Somalia) have led to various combat operations from the US, India, and the EU with other IO countries like Seychelles and Bahrain contributing their national ports for their operation. Naturally, ports play a dominant role in shipping and transportation infrastructure; however, there is regional disparity in the port infrastructure of the Indo-Pacific region, for instance, a majority of cargo in the Indian Ocean passes through just three ports – Singapore, UAE, and Port Kelang in Malaysia.

Investment in upgrading and expanding ports will remain a major issue to maintain the substructure necessary for shipping and transportation; herein comes India's SAGARMALA scheme for building maritime infrastructure. Underdevelopment of "blue assets" can result in limitations in communications, logistics, and supply chains, causing trade friction and restricted trade integration. Moreover, there is steadily growing competition between China and India for regional dominance. While this competition has caused both nations to invest in transportation infrastructure projects, it also leads to some regional fragmentation and limitation of multinational collaboration.

While inaugurating the Sagarmala Programme in 2015. PM Modi iterated that, "Investing in the maritime sector is not only investing in one's own future, but on the future of the planet and that of the coming generations."<sup>10</sup> He presented a restructured view on the Blue Economy in January 2021 at the launch of the Kochi-Mangaluru gas pipeline for the nation and observed, "Blue Economy is going to be an important source of 'Atmanirbhar Bharat'". Self-reliance and interdependence within the IORA can elevate this single lane of regional cooperation and conservation to higher degrees of multisectoral collaboration.

In addition to energy reserves, there is potential in BE for deep-sea mining in the Indian Ocean. Oceanic crust is a potential source of metals such as copper, nickel, cobalt, and manganese; hereby India also recently announced a Deep Ocean Mission for search of

---

<sup>10</sup> Prime Minister Modi, 'Release of National Perspective Plan, Sagarmala Programme', Inauguration of Maritime India Summit 2016, 14 April 2016. <https://www.narendramodi.in/pm-modi-at-the-inauguration-of-maritime-india-summit-2016-in-mumbai-440341>.

polymetallic nodules etc. However, there are many technical challenges that hinder deep seabed mining like complex, expensive infrastructure, and commercial-scale mining operations are not yet widespread. Illegal, unregulated, and unreported (IUU) fishing, overfishing etc. are all presenting mounting challenges against proliferation of BE initiatives with most environmental groups crusading against many potential sectors of BE.

While there have been some attempts at multinational collaboration (like the Indian Ocean Tuna Commission), establishing Marine Protected Areas (MPAs), etc., limited government capabilities, relatively new, less researched industry approaches like aquaculture etc. and competing interests can make sustainable “blue growth” difficult. Ecotourism has been welcomed as a way to fund conservation research, protect fragile ecosystems and sponsor development of poor countries. Subsequently, many IO SIDS such as Maldives and Mauritius have hailed Ecotourism as part of their economic growth strategy; but ecotourism too is increasingly proving to be unsustainable with rising marine pollution, overstretched and stressed marine assets and habitats etc and calls have been made for promoting “sustainable tourism”; albeit with confusion in interpreting various terms.

This does not mean that there have not been any success stories vis-à-vis blue assets and supply chains in the Indo-Pacific. Small island developing states (SIDS) in the Indian Ocean have shown ability in sustainably using ocean resources while engendering economic growth, jobs and social inclusion, and restoring ocean ecosystems. The Seychelles, for instance, has hurred a pioneering sovereign blue bond and secured the first-ever climate adaptation debt restructuring.<sup>11</sup> Mauritius, too, has unveiled a blueprint to consolidate the tourism, seaports, and fishing sectors while building up aquaculture, marine biotechnology, and renewable energy.<sup>12</sup> Yet, for the vast majority of Indian Ocean and Pacific states, ‘Blue Economy’ and Supply Chain resilience remain an unfulfilled aspiration and has untapped potential ; thereby requiring urgent and comprehensive government attention apart from maritime security domain.

## **Dependence on China in Global Supply Chains (GSCs) and Moving towards a “China plus” Approach in the Indo-Pacific Economic Arrangement**

Supply chains are composite networks spanning across multiple countries. Beijing has long utilised the benefits of having a competitive advantage in the effective management of GSCs, being a manufacturing superpower. China’s comprehensive hold over GSCs is quite obvious; from products like high-end electronics to modern hardware. Chinese suppliers were largely accountable for the world’s 1,000 largest corporations, which faced a supply cut-off during the pandemic (Patchett, 2020). The pandemic acted as a critically disrupting event, giving fodder to provider diversification and logistical enlargement as well as localisation and extended utilisation of high-end innovation for enhanced estimates (Panda, 2021).

“China Plus One” strategy aims at branching out in the GSCs by building additional manufacturing sites outside China. “China Plus One” is fundamentally a business strategy being endorsed by administrations across the world, urging their corporations to avoid

---

<sup>11</sup> [“Blue Economy Innovations by SIDS Can Advance Climate Action and Survival”](#), *SDG Knowledge Hub*, April 21, 2021.

<sup>12</sup> *ibid*

investing only in China by diversifying their undertakings into other nations<sup>13</sup>. Rather than an anti-China rhetoric, it seeks to build stability in investments to guarantee sustainability and shield national interests looking for a diversified business environment.

Japan was one of the first major economies that offered ‘China- exit’ subsidies to its companies to transfer production out of China into neighbouring Southeast Asian states amidst the pandemic<sup>14</sup>. Correspondingly, the Supply Chain Resilience Initiative (SCRI) by the India–Japan–Australia trilateral, which seeks to de-risk supply chains and create workable GSC sustainability, has marked a shift in strategy towards cooperative bids at employing a “China Plus One” outlook<sup>15</sup>. Yet, because of the complexity of the intersecting GSCs, quick and sudden regionalisation of supply chains is implausible. Simultaneously, while GSCs are unquestionably undergoing a transformation post-pandemic, a full decoupling from China remains “unrealistic” (Panda, 2021)—as Beijing itself remarked post the launch of the SCRI.

Consequently, diversification and the creation of new and workable supply chains has instead gained currency as a dominant attention amongst the Indo-Pacific states (predominantly the US) and in Europe. Prominently, irrespective of the level of diversification, the larger focus is to develop the GSC network to topographically adjacent nations, especially to those in Southeast and South Asia<sup>16</sup>. Here, the “China Plus One” strategy is emerging as the supervisory model, with endeavours like the SCRI providing enormous scope for its execution. As China-centric value chains are proving to be no longer economically or strategically viable, a narrative equating supply chain diversification with national security has been highlighted by China’s “wolf warrior” diplomacy. For example, China barred imports from nations (a major example being Australia) that questioned its role in the pandemic outbreak. Such coercive strategy marked a shift from Beijing’s previous diplomacies of promoting trade as an incentive, with the purpose of translating its economic power into political influence<sup>17</sup>.

With China’s diminishing economic position, India has an opportunity to make a strong pivot towards the GSCs of telecom, electronics and technology, auto, cellular, tech, pharmaceutical ingredients and textiles to expand foreign investments and economic growth. As a stand-alone venture, neither SCRI nor “China Plus One” can succeed fully, for both require a collective economic security outlook (Panda, 2021). For the SCRI to fructify, it is imperative that the SCRI is coupled with national and regional ventures. Continuing Indo-Pacific economic integration anyway demands building greater physical infrastructure and connectivity between South and Southeast Asia, reinforced by stronger private sector participation, which entails extensive funds (US\$ 8 billion currently, against the overall need

---

<sup>13</sup> Ananth Krishnan, [“China Wary as India, Australia, Japan Push Supply Chain Resilience”](#), *The Hindu*, 28 April 2021; and Jagannath Panda, [“What Will an Indo-Pacific Supply Chain Resilience Initiative Mean for China?”](#), RUSI Newsbrief, *Royal United Services Institute Europe*, 40 (8), 25 September 2020.

<sup>14</sup> Katsuji Nakazawa, [“China up Close: Xi Fears Japan-led Manufacturing Exodus from China”](#), *Nikkei Asia*, 16 April 2020. [“Japan Reveals 87 Projects Eligible for ‘China Exit’ Subsidies”](#), *Nikkei Asia*, 17 July 2020; and [“Japan to Pay at least \\$ 536 Million for Companies to Leave China”](#), *Mint*, 19 July 2020.

<sup>15</sup> [“Australia-India-Japan Trade Ministers’ Joint Statement on Launch of Supply Chain Resilience Initiative”](#), *Press Information Bureau*, Government of India, 27 April 2021.

<sup>16</sup> Jagannath Panda, [“Decoupling and Diversification: China, The Belt and Road, and the Supply Chain Resilience Initiative”](#), *Asia Global Online*, 2 June 2021.

<sup>17</sup> *Ibid.*

for US\$ 73 billion) (Sundaraman,2017). This could also offer the right stimulus to complete the pending India-Myanmar-Thailand Trilateral Highway and the Kaladan Multi-Modal Transit Transport. ASEAN and India can also upgrade the ASEAN-India free trade agreement to endorse sustainable and inclusive growth.

India's growing ties with Australia, with the elevation of the relations to a Comprehensive Strategic Partnership along with the release of India's economic strategy for Australia and vice versa, provide impetus to a dependable partnership in the Indo-Pacific. India established a new vertical in its foreign ministry in 2020, with the Oceania territorial division and Australia at its centre as well as including ASEAN and the Indo-Pacific divisions.<sup>18</sup> India and Australia tactically anchor the Indo-Pacific in the northwest and southeast<sup>19</sup>. The Australia and India free trade deal (Comprehensive Economic Cooperation Agreement) has been in progress since 2011 which needs to reach a settlement as soon as possible.

The revitalization of the QUAD and SCRI grouping were propelled by shifts in the regional order in the Indo-Pacific. Australia and Japan are members of Comprehensive and Progressive Agreement for the Trans-Pacific Partnership, RCEP, Organisation for Economic Cooperation and Development and APEC. India must find common points of collaboration with each nation and deal with the economic dependence on China independently - "India's trade exposure to China is at 11 percent of two-way trade, Japan's is twice as high and Australia's a massive 30 percent"<sup>20</sup>. All partner states have shared outlook in sectors like infrastructure and critical minerals.

Concurrently, Japanese companies as aforementioned, have been progressively moving away from China over the past decade and looking at Vietnam, India, Bangladesh and Thailand as probable sites with low labour and foreign exchange costs. Generally, Japan's production in the ASEAN region has crossed over US\$ 139 billion in the past ten years.<sup>21</sup> Japan's drive to actively promote the SCRI supports its own national policy to move out of China's manufacturing grip. Japan's long-held tradition of "seikei bunri" (separate politics and economics) has directed its balancing of economic and political ties with China (Panda, 2021). However, amidst China's expansionist actions in the East China Sea combined with rising collaboration amongst QUAD states, Tokyo's national security calculus has become more apprehensive of its economic partnership with China.

Furthermore, US companies were already diversifying in the backwash of the US-China trade war, as firms abridged purchases from China and commenced buying more from the rest of the world, particularly Taiwan, Malaysia, India, South Korea and Vietnam, where a production trail already existed.<sup>22</sup> In contrast, the degree of diversification in the EU is

---

<sup>18</sup> Natasha Jha Bhaskar, "[India's Australia Economic Strategy: A big push to bilateral trade.](#)" *Business Today*, 27 December 2020.

<sup>19</sup> <https://www.orfonline.org/expert-speak/can-india-australia-anchor-coalition-middle-powers-indo-pacific-67246/>

<sup>20</sup> Jeffrey Wilson, "[Investing in the economic architecture of the Indo-Pacific.](#)" *Indo-Pacific Insight Series*, Volume 8 (August 2017), Perth USAsia Centre.

<sup>21</sup> Yuko Takeo and Michelle Jamrisko, "[Japan Push to Cut China Reliance May Be Boost for Southeast Asia](#)", *Bloomberg Quint*, 7 August 2020.

<sup>22</sup> Jennelyn Tanchua and David Tesher, "[Global Trade at a Crossroads: As Tensions Escalate, US Companies Try to Diversify Supply Chains Away from China](#)", *S&P Global*, 24 June 2019.

noticeably less. China's fast renewal of manufacturing activities made it fit again for supplying industrial items and retail produce to Europe before the continent could look elsewhere (Panda,2021). Still, there are signs of diversification in products like glassware, ceramic-ware, footwear and clothing with an increment in supply from India and other European nations.<sup>23</sup>

Simultaneously, for India, there exists an obviously massive prospect to emerge as a front-runner in the "China Plus One" diversification drift. Though not as much as Southeast Asia, India has seen modest benefits from the trade diversification in machinery and consumer goods (such as toys and furniture) amid the US–China trade war. Indian government has initiated a wide range of projects across various sectors to boost manufacturing in the country, with "Make + Assemble in India", "Digital India" and "Aatmanirbhar Bharat". Still, rivalry from Southeast Asian states like Vietnam and India's relatively low ease-of-doing-business are challenges New Delhi must tackle first. Also, India's rather inward-focused financial policies along with an average rise in India's import duties over the last few years create hurdles in gaining an edge over its contestants.<sup>24</sup> Moreover, India's absence from the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) are seen as major drawbacks by many experts, in the long term.

## **Emerging Economic Architecture in the Indo-Pacific**

The "China Plus One" strategy finds in SCRI a democratic, rules-based and transparent partner, spearheaded by three of the most central Indo-Pacific powers. Recent initiatives like Japan's Expanded Partnership for Quality Infrastructure (EPQI); India's *Sagarmala* (to enhance the logistics sector), *Bharatmala* (for roads and highways), and the Indo-Pacific Oceans Initiative (IPOI) for maritime security and stability; the US' Blue Dot Network and Free and Open Indo-Pacific (FOIP) strategy; and Australia's Pacific Step-up to aid Pacific-island countries mark the beginning of fructification of the Indo-Pacific architecture. The SCRI members could mark synergy between a "China Plus One" implementation regionally and multilaterally with EU's "Asia connectivity" strategy and the Master Plan on ASEAN Connectivity (MPAC) 2025 as likely areas for collaboration. The eventual goal for all actors involved will remain the redirection of GSCs away from China.

The Indo-Pacific Economic Framework (IPEF), launched in Tokyo on 23 May 2022, is now being plugged by the US as a mechanism to counter China's regional economic impact. The four policy pillars of the initiative include digital trade, building of resilient supply chains, implementation of clean energy commitments and fulfilment of transparent and fair terms of trade with effective taxation and removal of corruption<sup>25</sup>. Stressing on the existing China-led cooperative mechanisms like RCEP and Belt and Road Initiative (BRI), Chinese experts have expressed that China is better integrated with the region than the US<sup>26</sup>. For example, many

---

<sup>23</sup> Ganyi Zhang, ["The Development of the 'China+1' Concept in the US and the EU"](#), *Upply*, 4 November 2020.

<sup>24</sup> Shweta Punj, ["India's High Import Duties are Killing MSMEs"](#), *India Today*, 25 March 2021.

<sup>25</sup> ["Fact Sheet: In Asia, President Biden and a Dozen Indo-Pacific Partners Launch the Indo-Pacific Economic Framework for Prosperity"](#), *The White House*, 23 May 2022.

<sup>26</sup> ["Biden's Asian Trip will Launch the 'Indo-Pacific Economic Framework' Japan and South Korea's Attitude Attracts Attention"](#), *China News Network*, 19 May 2022; **Liu Xin and**

South East Asian industries are at the mercy of China for raw materials which are then administered for export to the US or the EU. Besides trade with RCEP countries, China's trade with ASEAN bloc averaged to US\$ 212 billion in the first quarter of 2022 (Banerjee, 2022). China has been calling out the IPEF as an "economic NATO"<sup>27</sup> with the Chinese Foreign Minister Wang Yi, in a press briefing on 22 May, claiming that China has emerged as the principal trading partner of most countries in the region and those trying to isolate China will eventually isolate themselves<sup>28</sup>.

With IPEF, the economic architecture seeks to focus on seven aspects in the Indo-Pacific region- trade facilitation, particularly for Small and Medium Enterprises (SMEs); standards for a digital economy; supply-chain resilience; decarbonization and clean energy; infrastructure; workers' standards; and, other areas of shared interest<sup>29</sup>. The IPEF presents an opportunity for the United States to pursue its supply chain interests with Indo-Pacific partners that already play a critical role in its value chains and manufacturing ecosystem. IPEF participants, including India, should commit to coordination on mapping and information sharing on critical supply chains, starting with a clear definition of what is "critical." They should start with adopting an approach similar to the one agreed to in the inaugural U.S.-EU Trade and Technology Council meeting<sup>30</sup>, which has resulted in the bilateral launch of information gathering and sharing platforms.

To hedge against future geopolitical stresses, framework participants should commit to cooperation on sharing information on supply chain stress testing and early-warning systems for shortages and bottlenecks through formal government-to-government channels. Advanced-country IPEF participants should similarly seek to invest in infrastructure that supports sustainable supply chains not only regionally but also globally. These nations should also agree to provide technical assistance to less-developed partners in the region. IPEF participants should develop common standards for transparent, trusted, and sustainable supply chains.

For lead firms, cost of supply chain relocations from China, to more inefficient locations, would need to be compensated. Covid-19 has emphasized dependencies of several countries on China in strategic industries like semiconductors, medical supplies, automobiles, chemicals, metals, textiles and machineries. In 2023, Japan and India will serve as chairs of the Group of Seven (G-7) and Group of 20 economies (G-20), respectively. Both countries seek to take the lead in the supply-chain debate. Indo-Pacific countries also need to note China's importance not just as a sourcing and assembling hub, but also as major market for final demand. Post-Covid-19, supply chains would aim to become shorter and locate closer to final demand markets and China's global significance as a final demand destination would feature

---

**Xie Jun, "Biden to Peddle New Economic Framework in Asia as 'Geopolitical Tool' to Counter China", *Global Times*, 19 May 2022.**

<sup>27</sup> "[IPEF is 'Economic NATO', Claims China in Counter to Quad](#)", *Deccan Herald*, 24 May 2022.>

<sup>28</sup> "[US 'Indo-Pacific Strategy' Bound to Fail: Chinese FM](#)", *Xinhua*, 23 May 2022.

<sup>29</sup> Matthew P Goodman and William Alan Reinsch, "Filling in the Indo-Pacific Economic Framework", Center for Strategic and International Studies, <https://www.csis.org/analysis/filling-indo-pacific-economic-framework>

<sup>30</sup> [FACT SHEET: U.S.-EU Establish Common Principles to Update the Rules for the 21st Century Economy at Inaugural Trade and Technology Council Meeting - The White House](#)

in all business decisions. Not many markets, be in Asia, Europe or elsewhere, would be able to absorb products as much as China, in the months subsequent the recovery from Covid-19.

The chore of productive reorganisation of supply chains within the Indo-Pacific might become easier if Indo-Pacific countries, particularly India, Australia, Japan and South Korea, agree on a few essential rules of the game. These comprise of investment-facilitating decisions like a multi-country substitute commercial arbitration framework; common tax rules, chiefly on digital tax; and a set of inducements that industries would be eligible for if they reposition supply chains and transpose them within the common group of countries<sup>31</sup>. Although their combined populations, technological levels and reserves of energy and minerals are analogous to China's, the Quad countries still need to depend on supplies from China, especially for the production and refining of rare earth minerals (China: 57.57 per cent; United States: 15.63 per cent; Myanmar: 12.34 per cent; Australia: 6.99 per cent; Madagascar: 3.29 per cent; and India: 1.23 per cent)<sup>32</sup>. Besides, many companies in the Quad countries operate in China because of its proximity to a large market and the quality of labour. China is the largest trading partner of Japan and Australia, and the largest importer for India and the United States.

It is almost impossible to decouple China from those countries' economic structures. Thus, it is noteworthy for supply chain resilience for the Quad countries to define the strategic items that need to be decoupled from China, while maintaining normal trade in other items. The other key query is whether they are compatible with the principle of free trade and WTO principles. Reshaping supply chains requires government intervention in free trade with subsidies and regulations in the name of security. The WTO rules allow only very specific cases to be security exemptions. If improving supply chain resilience is seen as state aid or trade manipulation, the Quad countries may face legal challenges with WTO dispute settlement procedures.

In the Indo-Pacific context, India is confined to the "Indo," or the Indian Ocean Region (IOR) and here also, it is being pressured by Chinese inroads in the region - like heavy investments in Sri Lanka (Hambantota Port, Colombo Port City), Pakistan (CPEC), strong relations with Myanmar's military plus China Myanmar Economic Corridor and Nepal and Bangladesh too joining BRI, its "string of pearls strategy" in the IOR; Chinese "creditor imperialism and debt trap diplomacy" creating new security issues. Thus, India needs to revive its positioning in the region as a reassuring and reliable partner and not a "scary one like China". For many economic sectors, India seems a logical place to look for an alternative supply chain. It is the world's largest provider of software outsourcing and solutions by total production value and its pharmaceutical sector is the third-largest in the world. It ranks first in production of generic medicines and vaccines, second in telecommunications and the smartphone market, fourth in automotive and auto components, and sixth in chemicals.

But substantial challenges stand in the way. Mainly, supply chains in India currently rely excessively on other countries, including China along with economic and political risks, as well as hidden costs. These issues could be resolved by establishing better designed and well-planned industrial clusters and supply chain models. India is competitive in manufacturing

---

<sup>31</sup><https://www.financialexpress.com/opinion/indo-pacific-supply-chains-a-feasible-idea/1993860/>

<sup>32</sup> Statista, "Distribution of Rare Earths Production Worldwide as of 2020, by Country," 2022, <https://www.statista.com/statistics/270277/mining-of-rare-earths-by-country/>.

labour costs. Whether India can be a regional manufacturing hub for automobile and auto parts remains to be witnessed. Similarly, although India's pharmacy sector is the third largest in the world, about 70% of its active pharmaceutical ingredients – including 90% for antibiotics – have to be imported from China. According to the report by Arthur D. Little and Confederation of Indian Industry (CII) in 2020, India's supply chains suffer from enormous indirect logistics costs related to transportation (40% of hidden costs), warehousing (26%), inventory (24%) and order processing/administration (10%). Lack of good-quality infrastructure and national- or regional-level truck fleets or services drive up hidden costs in transportation<sup>33</sup>.

Government-planned industry and supply chain clusters would effectually address these risks. Experience shows that in the general and ICT manufacturing sectors of China and Taiwan, planned clustering of manufacturing bases – cultivated by preferential tax and regulatory policies – have helped engender competition, innovation, and augmented international capital and technology transfers. There is a specified desire to develop initiatives like Quad to consist of other like-minded countries (possibly Indonesia, Vietnam and France), and to put more stress on the economic component. Preeminence in logistics and maritime operations in the Indo-Pacific will conclude with collective security and a balance of power<sup>34</sup>.

Policymakers must comprehend that investors respond to diverse kinds of incentives. For example, cash rewards for extra production through Production Linked Incentives (PLI) have led 16 ICT manufacturers in the iPhone supply chains to relocate to India. But many firms distress this four-year program might change or be phased out with a change of government. If India really wants to become a manufacturing hub as declared in concept of *Atmanirbhar India* (self-reliant India) – which is more aligned with GSCs – incentive programs have to be cojoined with the long-term sustainability in mind.

Endorsing industrial clustering and technology in supply chains while considering the domestic legal and political amenability of member states (which can be especially a trial for India) can be on the agenda of future resilient supply chain initiative interactions. Members of SCRI also can deliberate improving policy flexibility and trade facilitation in the framework of QUAD. Finally, having played key roles in the relocation of smartphone and ICT components supply chain to India, the Taiwanese firms – along with its government, industries and experts – should not be left out of SCRI and IPEF activities. The Global Cooperation and Training Framework (GCTF), formed by the US, Japan and Taiwan, could be a model; it has aided a multiuse platform that has partnered with Indo-Pacific countries like Australia and South Pacific Island nations<sup>35</sup>.

India has a golden shot to embark on global supply chains. India needs to make brave changes in its supply chain ecosystem to be the major performer. For this, integrating technology with physical networks is a precondition. Embracing geo-tagging, auto-capture, and big data will empower cooperation, forecasting, and traceability across chains. Building rationale infrastructure is the crux of development while benchmarking the logistics models.

---

<sup>33</sup> [https://www.gatewayhouse.in/wp-content/uploads/2022/01/GHPaper\\_2022\\_India-in-the-Indo-Pacific\\_Pursuing-Prosperity-and-Security.pdf](https://www.gatewayhouse.in/wp-content/uploads/2022/01/GHPaper_2022_India-in-the-Indo-Pacific_Pursuing-Prosperity-and-Security.pdf)

<sup>34</sup> <https://thekootneeti.in/2021/09/07/how-current-events-in-afghanistan-provide-india-an-opportunity-to-focus-on-its-maritime-power/>

<sup>35</sup> <https://www.gatewayhouse.in/india-in-the-resilient-supply-chain-initiative/>

Shifting from an experience-based system to an analytical-based risk management system is imperative<sup>36</sup>.

## Conclusion

The concepts of Blue Economy, Supply Chain Resilience and “China Plus One” hold specific significance to the Indo-Pacific since the region is defined by “maritime regionalism”, in quest of similar geopolitical aims. There are multifarious bilateral and multilateral mechanisms that today hold together the Indo-pacific littoral countries. However, these are limited in focus and have also failed to embrace all relevant stakeholders. The IORA, for instance, with 21 member states and multiple global defence and economic powers, is the most wide-ranging arrangement that encircles the entire region under one forum.

The Quad countries can aid the advancement of the economic architecture in the Indo-Pacific by helping to develop an ecosystem, leading the way forward with enterprises like Indo-Pacific Economic Framework and Supply Chain Resilience Initiative. The intensifying contestation and provocations, led by China, underscores the necessity for India to identify a pragmatic and strategic role for itself in the Indo-Pacific- majorly in the economic domain.

For India to capture the global market, it must focus on boosting technologies and digitalisation, supporting labour, strengthening infrastructure and utilities, environmental laws, taxation and business reforms. India can use its development experience and futuristic technology to secure stability and prosperity; from energy and environment, to trade, security, technology and a vibrant diaspora.

.....

## REFERENCES

- 4th Meeting of the Council of Ministers of the Indian Ocean Rim Association, Perth Communiqué, October 9, 2014.
- Banerjee, M. (2022). “China’s Response to Indo-Pacific Economic Framework, IDSA
- Bhatia, R. (2018). Prioritise Business in the Blue Economy. [Online] Available at: <https://www.gatewayhouse.in/business-blue-economy/>
- Buzan, B., O. Wæver, et al. (1998). Security: A new frame work for Analysis. Boulder, CO, Lynne Rienner Publishers.; Doty, P., A. Carnesale, et al. (1976). “Foreword.” International Security 1(1).
- “Confluence of the Two Seas”, Speech by H.E. Mr. Shinzo Abe, Prime Minister of Japan at the Parliament of the Republic of India, August 22, 2007, Ministry of Foreign Affairs (MOFA) of Japan website, at <http://www.mofa.go.jp/region/asia-paci/pm0708/speech-2.html>

---

<sup>36</sup> <https://theguardian.com/how-india-can-become-a-global-hub-for-manufacturing-resilient-supply-chains/>

- David S (2012) The “Indo-Pacific”—new regional formulations and new maritime frameworks for US-India strategic convergence. *Asia-PacRev* 19(2):85–109. <https://doi.org/10.1080/13439006.2012.738115>
- *Foundation*, May 29, 2018.
- Gateway House Report, Session on Blue Economy, 2018 [https://www.gatewayhouse.in/wpcontent/uploads/2018/07/GOID\\_REPORT\\_2018\\_FINAL\\_FOR\\_WEB.pdf](https://www.gatewayhouse.in/wpcontent/uploads/2018/07/GOID_REPORT_2018_FINAL_FOR_WEB.pdf)
- Ghosh, N, “Deciphering the colours of India’s economic growth“, *Observer Research Foundation*, September 11, 2020.
- Gunter A. Pauli, “The blue economy: 10 years, 100 innovations, 100 million jobs,” Paradigm publications, 2010.
- <https://www.kas.de/documents/264392/264441/Blue+Economy+Business+Report.pdf/5af8d625-3c8f-6cac-21c4-087512aa6944?version=1.0&t=1578649257985>
- India to launch deep ocean mission, *The Hindu*, June 16, 2021.
- Jagannath Panda, “**The Structural Limits of the Supply Chain Resilience Initiative**”, *Pacific Forum*, 8 July 2021.
- Keesing, J. and Irvine, T. (2005). Coastal biodiversity in the Indian Ocean: The known, the unknown and the unknowable. *Indian Journal of Marine Sciences*, 34 (1)
- Khurana, Gurpreet S., (2007) ‘Security of Sea Lines: Prospects for India-Japan Cooperation’, *Strategic Analysis*, Volume 31, No. 1, p.139 – 153
- Kleven, A. (2015). Is China’s Maritime Silk Road a Military Strategy. *The Diplomat*, 8.
- Liu Xin and Xie Jun, “Biden to Peddle New Economic Framework in Asia as ‘Geopolitical Tool’ to Counter China”, *Global Times*, 19 May 2022.
- Lyndon E. Llewellyn, Susan English, and Sharon Barnwell, “A roadmap to a sustainable Indian Ocean blue economy,” *Journal of the Indian Ocean Region* 12, no. 1 (2016): 52-66.
- Meg R Keen, et al, “Towards defining the Blue Economy: Practical lessons from Pacific Ocean governance”, *Marine Policy* 88 (2018).
- Miles, Donna. ‘Locklear Calls for Indo-Asia-Pacific Cooperation’, US Department of Defence News, 8 Feb 2013, at <http://www.defense.gov/news/newsarticle.aspx?id=119243>
- Mishra, V. (2013), “India and the Rise of the Indo-Pacific”, *THE DIPLOMAT*
- Mohan RC (2017) Donald Trump’s ‘Indo-Pacific’ and America’s–India Conundrum, ISAS insights No. 476, Institute of South Asian Studies, National University of Singapore
- Mohan RC (2017) Donald Trump’s ‘Indo-Pacific’ and America’s–India Conundrum, ISAS insights No. 476, Institute of South Asian Studies, National University of Singapore
- Ocean-based Blue Economy: An Insight into the SAGAR as the Last Growth Frontier, Hamant Maini and Lipi Budhraj, Niti Aayog, 2018 <http://niti.gov.in/content/ocean-based-blue-economy-insightsagar-last-growth-frontier>
- Panda, J. (2021). “China Plus One”: Supply Chain Resilience Initiative and Beijing in Indo-Pacific- Institute for Defence Studies and Analysis (IDSA), Issue Brief-26 July, 2021

- Pascal, C. (2021), “Indo-pacific-strategies-perceptions-and-partnerships”, <https://www.chathamhouse.org/2021/03/indo-pacific-strategies-perceptions-and-partnerships>
- Prospects of Blue Economy in the Indian Ocean, Prof. S.K. Mohanty, 2015 [http://www.ris.org.in/sites/default/files/Final\\_Blue\\_Economy\\_Report\\_2015-Website.pdf](http://www.ris.org.in/sites/default/files/Final_Blue_Economy_Report_2015-Website.pdf)
- Rahman, M.M., Kim, C. & De, P. Indo-Pacific cooperation: what do trade simulations indicate?. *Economic Structures* 9, 45 (2020). <https://doi.org/10.1186/s40008-020-00222-4>
- Republic of Seychelles’ Blue Economy - Pathway to Prosperity Summit. (2018). Session 3: Investing in Seychelles’ climate smart Blue Economy. [Online] Available at: <http://tourism.gov.sc/wpcontent/uploads/2016/07/Resilient-Economies-Session3-Seychelles.pdf>
- Saman Kelegama, “Can Open Regionalism Work in the Indian Ocean Rim Association for Regional Co-operation?,” *ASEAN Economic Bulletin*, 1998: 153-167
- Shanuik, N (2019), “Conceptions of Security in The Regional Economic Cooperation Paradigm: The Curious Case of The Indo-Pacific”, <https://jgu-dev.s3.ap-south-1.amazonaws.com/nayantara-shanuik.pdf>
- Sharma, R. (2017). India’s Deep-Sea Mining Campaign – An Overview. *Journal of Indian Ocean Rim Studies*, 1(1), pp138-145.
- Siddiqui, H, (2019),” India’s concept of Indo-Pacific is inclusive and across oceans”, [https://www.mea.gov.in/articles-in-indian-media.htm?dtl/32015/Indias\\_concept\\_of\\_IndoPacific\\_is\\_inclusive\\_and\\_across\\_oceans](https://www.mea.gov.in/articles-in-indian-media.htm?dtl/32015/Indias_concept_of_IndoPacific_is_inclusive_and_across_oceans)
- Singh A (2017) A ‘rules-based’ maritime order in the Indo-Pacific: aligning the building blocks, *Regional Outlook paper no 57*, Griffith Asia Institute, Griffith University
- Singh, A, “Blue Economy in the Indo-Pacific: Navigating Between Growth and Conservation,” ORF Issue Brief No. 482, July 2021, Observer Research Foundation.
- United Nations Decade of Ocean Science for Sustainable Development (2021-2030), *United Nations Educational, Scientific and Cultural Organization*.
- Upadhyay, Shreya (2014). “The Indo-Pacific and the Indo-US Relations: Geopolitics of Cooperation”. *IPCS Issue Brief #256*. <http://www.ipcs.org/issue-brief/china/the-indo-pacificnbsp-amp-the-indo-us-relations-geopolitics-of-256.html>
- V.N.Attri and N.Bohler-Muller, *The Blue Economy Handbook of the Indian Ocean Region* (Pretoria: Africa Institute of South Africa Press, 2018).
- Yifan Xu, “IPEF Viewed as Effort to Box In China”, *China Daily*, 27 May 2022.

