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Can India wrestle supply chains away from China?

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As some Western companies look to pull their supply chains out of China, India is designing incentives to lure global businesses to its shores. Image credit: Shutterstock

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In April, investor and founder of Mobius Capital Partners, Mark Mobius, told CNBC's "Street Signs Europe" that global companies will move their supply chains further away from China post-COVID-19.

"A lot of buyers and a lot of the people depending on the supply chain in China are now having second thoughts and are beginning to diversify their supply chain as much as possible to be closer to home," he said.

Considering that various Asia-Pacific countries are rebuilding and reimagining their supply chains, Mr. Mobius' assessment isn't too far-fetched.

According to the latest [EY Capital Confidence Barometer report](#), 67 percent of Asia-Pacific executives are undertaking measures to transform their supply chains, compared to 52 percent of respondents across the rest of the globe.

Meanwhile, the [World Economic Forum](#) and Ernst & Young highlight that 55 percent plan to change their management of workforce (compared to 39 percent globally), 47 percent plan to improve their speed of automation (compared to 36 percent globally), and 39 percent plan to undergo digital transformations (compared to 31 percent globally).

India has already started a powerful lobbying campaign to try and benefit from the backlash against its neighbor, China.

In fact, *The Economic Times'* [ET Retail](#) reports that India is designing a set of incentives for luring global businesses away from China.

With the Make in India national program, Prime Minister Narendra Modi hopes to boost direct foreign investment.

So far, the incentives India has offered to electronics manufacturers, which are eligible for a payment of 4 to 6 percent of their incremental sales over the next five years, seem to work. And around two dozen companies have

pledged \$1.5 billion in investments for setting up smartphone factories in the country, says *The Economic Times*.

But electronics manufacturers are not the only businesses India has aggressively targeted. *Bloomberg* highlights that Indian officials reached out to more than 1,000 companies in the U.S. via overseas missions, offering incentives to businesses that were thinking about pulling out of China. Textile and leather companies have also been approached.

But despite India's genuine interest in **replacing China as the world's factory**, the country is not ready to become **the next global manufacturing powerhouse**.

As one of the world's **most protectionist countries**, India has created a regulatory environment that poses challenges to international businesses. **Trade** barriers, import restrictions, logistical inefficiencies, high tariffs, and increased customs duties still hamper foreign direct investment (FDI).

On top of that, India does not seem anywhere close to overcoming its past infrastructure challenges.

"There are opportunities for **India** to try to gain a place in **global** supply chains, but this will require serious investments in infrastructure and governance," said Paul Staniland, an associate professor at the University of Chicago, to *Bloomberg*.

And there is also the technology race.

While China is a global leader in scientific and technological innovation and plays catch up to the US in regards to research and development (R&D), India has fallen way behind in the knowledge economy.

Additionally, the nation's growing technology sectors are still very dependent on China.

According to a report by foreign policy think tank Gateway House, Chinese tech investors have put an estimated \$4 billion into Indian startups.

Over the five years ending March 2020, 18 of India's 30 unicorns have received direct funding from **Chinese companies**.

There are serious reasons to believe that India will continue to fall behind China for the foreseeable future. And without further economic liberalization, the country could fall behind other Asian nations, as well.

But India's growing pains do not necessarily mean success for **Beijing**. China still faces competition from other Asian peers.

Nevertheless, even if we envision a future where global supply chains are not as dependent on China as they are today, a complete decoupling isn't viable.

In fact, mega-projects such as the **Belt and Road Initiative** (BRI) and the **Digital Silk Road** will bring the emerging markets closer to China, connecting the world more closely while also pushing the international systems toward a dual superpower system.

All roads no longer lead to Rome, but rather, China. We might as well get used to it.

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