



Policy Brief

Global Supply Chains and Trade Facilitation: *Identifying the Contours of an Indian Approach*

DR AMITENDU PALIT | MARCH 2023

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About the Project

This policy brief is part of The Asia Foundation's project 'Think Tank Engagement on Indo-Pacific Issues' supported by the US Embassy, New Delhi. The project's goal is to unpack opportunities for India to expand its integration into global value chains through policy research and discourse, thereby strengthening India's ability to emerge as a key economic player in the Indo-Pacific region and improving the regional balance of power. The Asia Foundation in collaboration with the Confederation of Indian Industries (CII) convened key stakeholders to discuss, analyse, and formulate policy recommendations about India's greater economic integration. This policy brief is part of knowledge products to explore opportunities under three critical areas to improve India's GVC integration: Trade Facilitation, Intellectual Property Rights, and Gender Mainstreaming.

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Introduction

The congruence between trade facilitation and greater resilience of supply chains has never been as clear. The COVID-19 pandemic's disruptive impact on supply chains drove home the necessity of safeguarding supply chains as global and national priorities and elevated the significance of trade facilitation.

Trade facilitation discussions over the last decade have been shaped entirely by the motivation to reduce cost of doing business across borders through procedural simplifications¹. On-border requirements for movements of goods, comprising lengthy documentation-heavy procedures resulting in delays and high concomitant costs for exporters and importers, have been obstructive and slowed the speed at which goods could leave and enter borders.

Global efforts, including efforts from India, to streamline trade procedures through the adoption of the multilateral Trade Facilitation Agreement (TFA)² of the WTO since 2017 have led to gradual reforms in border procedures across the world and brought down the cost of movements in goods. However, those reforms did not prevent widespread disruptions in global supply chains during the COVID-19 pandemic.

Supply Chain Disruptions and Trade Facilitation

The COVID-19 pandemic produced supply chain disruptions markedly different from those witnessed earlier. The pandemic-induced disturbances in sourcing and smooth functioning of supply chains were far more than those witnessed due to natural calamities like the Fukushima earthquake and Thai floods (2011) and Hurricane Katrina (2012); or political turbulences like the widespread pro-democracy protests witnessed in the Middle East and North Africa, popularly referred to as Arab Spring (2010-2013). Disruptions from these disturbances were episodic and limited, while those brought on by the pandemic were different.

From the time production shut down in Wuhan, China in 2020, cracks in major supply chains due to recurrent outbreaks of the pandemic in Southeast Asia and East Asia have disrupted global production. Supplies of industrial raw materials, intermediates, and final products were interrupted with production halting at various points in time in Malaysia, Vietnam, Thailand, Taiwan, and Korea in 2021, and then again in mainland China in 2022.

¹ The policymaker's perspective on trade facilitation involves streamlining and simplifying technical and legal procedures applying to cross-border movements of goods. OECD <https://www.oecd.org/trade/topics/trade-facilitation/#:~:text=When%20policymakers%20talk%20about%20%E2%80%9Ctrade,country%20to%20be%20traded%20internationally.>

² The TFA has currently been ratified by 156 out of 164 WTO members. <https://www.tfafacility.org/notifications-ratifications/ratifications-list>

The periodic stoppages have led to major chip shortages for automobile and electronic supply chains. The disturbances are further exacerbated by the war in Ukraine that has severely damaged global energy and food supply chains.

For India and most developing economies of the world, supply chain disruptions exposed new economic vulnerabilities. Sharp reductions in stocks of critical goods and problems in procuring them led to fears of economic and social catastrophes from periodic disruptions in supply chains. The concerns were broad-based extending to possible shortages in supplies of various chemical, mechanical, electronic, energy, and food products and their impacts on the overall economy and local populations.

India's high import dependence on China for several critical items, such as drug intermediates and PPE kits, raised concerns over their supply during the early months of COVID-19 outbreak in China, with stocks held by local producers and healthcare agencies beginning to run low. Even before actual production stoppages in China, logistic disruptions affected several imports. Containers experienced long delays in unloading upon arrival due to difficulties in obtaining customs clearance documents from ports of origin. The disruptions in supply chains produced by COVID-19 and the problems experienced by domestic industry made India realize the urgency of reorganizing supply chains for reducing sourcing dependency and aligning trade facilitation efforts accordingly.

Beyond Cost: The Value of Resilience and Flexibility in Supply Chains

From a trade facilitation perspective, the concerns over breakdowns in supply chains necessitated new thinking. Trade facilitation can no longer be visualized as being limited to reductions in cost of moving goods across borders. All reforms aiming at such streamlining of border procedures must now also be accompanied by enhancing the resilience of supply chains. Indeed, the post-COVID-19 circumstances reiterate that cost-saving efforts intending to simplify procedures cannot be mutually exclusive to those being ushered in to protect supply chains. Both sets of measures need to proceed in tandem.

The understanding has brought new challenges for national policymakers, institutions, and businesses. The challenges are particularly significant for developing economies like India. These economies now encounter the challenge of reshaping their approach to trade facilitation in a world where supply chains are rapidly restructuring.

Geopolitical Considerations

The challenge for trade facilitation has increased manifold due to supply chain reorganizations produced by the shifting geopolitical considerations.

Reshoring (i.e., bringing back offshore production), near-shoring (locating production closer home), and friend-shoring (relocating production among politically friendly countries) are variously impacting supply chains as businesses reconsider where to produce and what suppliers they should select to de-risk operations and enhance resiliency. This reorganization, precipitated by the geopolitical turmoil witnessed during COVID-19 due to strained ties between global major powers, underlines anxieties over strategically important supply chains (e.g., semiconductors, pharmaceuticals, large batteries) and the 'power' that some countries have to disrupt critical supply chains.

Countries with near-monopoly status as sourcing locations have significant disruptive capacities, even if they

supply relatively low value-added inputs. The supplies can be interrupted not just due to production closures, such as during the COVID-19 pandemic, but also from deliberate government actions like trade restrictions.

The ability of some countries to 'weaponize' their command over supply chains to extract strategic advantage, such as by China has over critical minerals, has led to urgent responses. Countries have begun organizing themselves into friend-shoring blocs to re-host supply chains. Such friend-shoring intends to minimize the risks of disruption from possible acts of weaponization³.

Major Indo-Pacific economies like Australia, India, and Japan have been working on diversifying sourcing to enhance resilience. These efforts are proceeding alongside friend-shoring strategic supply chains across sectors, including semi-conductors, automobiles, pharmaceuticals, and telecom. Country coalitions like the Supply Chain Resilience Initiative and the Indo-Pacific Economic Framework for Prosperity (IPEF) are significant in this respect.

Facilitation should be Long-term and Nimble

The experience of the last three years indicates:

- Supply chain disruptions can be lasting with significant consequences.
- Disruptions can be caused by various factors including political decisions by countries that have the power to destabilize supply chains.
- Supply chains need to be alert and agile to respond to unforeseen circumstances.

One of the prerequisites for agility of supply chains is their ability to be backed by strong information gathering and crisis predictive capacities. Businesses can reshuffle production plans around predictable occasions that could otherwise be disruptive, such as pre-announced military drills by countries carried out over specified air and maritime spaces. These maneuvers, if unannounced, can have major consequences for supply chains by throwing schedules haywire⁴.

In a geo-politically fragile world, supply chains must be prepared to respond to unforeseen developments arising from political conflicts and territorial friction. Such preparedness, aimed at making the chains bounce back as fast as possible from unanticipated setbacks, would determine chain resiliency. Much of this resiliency, in turn, would depend on enabling trade facilitation.

A few aspects of trade facilitation have emerged as increasingly critical for large economies such as India with deep trade and investment links with the rest of the world. These are critical for ensuring continuing relevance of national enterprises in global supply chains by contributing to the process of safeguarding the chains. The facilitations include:

- Strengthening trade logistics
- Advancing digitalization of processes and functions
- Building strong information systems for responding to crises
- Enhancing chain transparency

As mentioned earlier, achieving the above requires expanding the future vision of trade facilitation beyond moving specific goods to the services that facilitate that movement of goods in cross-border trade. As an example, digitalization efforts must advance beyond efforts to digitalize border procedures and protocols and extend to aligning of national data systems, standards, and payment functions.

³ For a discussion on how supply chains can be weaponized by some countries for strategic advantages, see <https://foreignpolicy.com/2020/03/04/blindsided-on-the-supply-side/>

⁴ China's snap military drills in South China Sea following the US House of Representatives Nancy Pelosi's visit to Taiwan in August 2022 threw supply chains off gear. <https://edition.cnn.com/2022/08/04/economy/china-military-drills-taiwan-global-trade-intl-hnk/index.html>

A “Trade Facilitation Agreement-plus” Strategy

India must undertake a long-term purposeful trade facilitation strategy for deeper integration in global supply chains. The following section highlights some important considerations for this effort:

1. Trade Facilitation Agreement

The first is supporting ongoing work on the Trade Facilitation Agreement (TFA). Staying committed to the objectives and goals of the WTO’s TFA is important and non-negotiable. Reforms for streamlining procedures must continue. Cutting red-tape and reducing on-border regulatory cholesterol for expediting movement of goods is necessary for all levels of different supply chains. Persisting with efforts to cut documentation requirements at the border for entry and exit of goods, as well as reducing overall number of on-border clearances, can bring sustained benefits. Staying purposefully committed to the goals of the TFA should result in decline of border costs and greater global competitiveness of Indian businesses.

India’s success has been notable in this regard with costs of border compliance of both exports and imports having declined significantly after its ratification of the TFA and the coming into force of the agreement from 2017. Digitalization of documentation and reduction in number of necessary documents have sharply slashed compliance costs. More, however, needs to be done. India appears committed to the goal of transforming the cross-border clearance eco-system through the National Trade Facilitation Action Plan (2020-2023) by adopting transparent, digital, and seamless clearance procedures supported by a strong domestic logistics infrastructure. Inland connectivity between ports and the hinterland must improve, as should operational functioning of coastal ports, for facilitating faster release of cargo and its passage within the country.

2. Using Private Sector Intelligence

The second essential perspective in a supply chain focused trade facilitation strategy is looking beyond the TFA for pursuing measures that would enable Indian businesses to effectively contribute to enhancing chain resiliencies. While staying committed to the TFA, the goal of entrenching deeper in rapidly evolving global supply chains requires widening the strategic focus of trade facilitation to issues impacting resiliency of supply chains. In this regard, trade facilitation, as explained earlier, must become more tuned to the imperative of connecting to new priorities other than cost-saving procedural simplifications.

Upheavals experienced by global supply chains during the last couple of years have transformed them into national strategic priorities. Economic efficiency is no longer the sole driver of supply chains. Geopolitical impulses are impacting global production and its organization in unprecedented ways. This requires trade facilitation to focus on goals that are not limited to achieving efficiency by cutting border costs, but also on preparing host countries, like India, to pursue national strategic interests. A large part of the latter, ostensibly, would relate to safeguarding chains by diversifying critical product and input sourcing and making supply chains as nimble as possible for being amenable to brisk reshoring, near-shoring, or friend-shoring, as business value propositions beyond to lowest-cost considerations.

3. Realistic Policy and Regulatory Engagement

How can trade facilitation contribute to greater nimbleness and crisis-preparedness of supply chains? For doing so, facilitation must extend to reforms in a policy and regulatory space much wider than that of border procedures. It must engage and deliver on domestic regulatory and institutional capacities for making Indian businesses capable of staying firmly integrated with global supply chains, particularly when the latter undergo radical resilience-enhancing restructurings. This is where, as alluded earlier, the understanding and orientation of trade facilitation needs to stretch beyond goods to the services supporting cross-border trade facilitation. For example: aligning with global regulations on sharing critical business intelligence among various actors in supply chains will enable local firms to stay abreast of disruptive developments and rebound faster from setbacks.

Digitalisation has successfully reduced procedural compliances at India's land and sea borders. Efforts must be made to ensure that similar gains are realised by digitalising an exhaustive range of domestic logistic operations. Furthermore, trade facilitation must also engage with global and regional policy and institutional efforts to transform cross-border payment systems to digital modes and accelerate the advance of inter-country e-commerce. Such an approach to trade facilitation would enable Indian businesses to remain operationally connected to their foreign counterparts (i.e., vendors, clients, suppliers) in all supply chains, at a time when all-round digital transformation of business processes and services is a global and national priority.

India's trade facilitation efforts aiming to embed its businesses deeper in global supply chains must therefore be guided by a vision that is more overarching and realistic. An approach confined to the TFA would be found wanting in current global circumstances. Integrating with fast restructuring global supply chains would require on-border trade facilitation to connect meaningfully to behind-border regulatory changes. Both sets of policy reforms must speak to each other to maximize national competitiveness and exploit the benefits offered by reorganizing supply chains; new rules for running supply chains; and the emerging global trade frameworks and world economic order.

Finally, it is critical to comprehend that a major chunk of rules for managing supply chains of the future would be driven by country coalitions, mini-laterals, and free trade agreements. It is imperative therefore for India's trade facilitation strategy to engage closely with these new rule-setting blocs.

Engaging with Rule-making Coalitions

India is engaging with various multi-country initiatives on regulation and management of global supply chains. The most notable ones in this regard are the Indo-Pacific Economic Framework for Prosperity (IPEF) and the Supply Chain Resilience Initiative (SCRI).

Announced by the US President Joe Biden on 23 May 2022 at the Quad Leaders' meeting in Tokyo, the IPEF comprises seven economies of Southeast Asia (Singapore, Malaysia, Indonesia, Philippines, Thailand, Vietnam, and Brunei), the Quad group of countries (the US, India, Japan, Australia), as well as Korea, New Zealand, and Fiji⁵. The SCRI comprising India, Japan, and Australia⁶ is one of the earliest initiatives between three major Indo-Pacific countries in safeguarding regional supply chains through coordination in learning on best practices.

Both initiatives reflect heightened global urgency among the world's major economies for safeguarding supply chains and their willingness to collaborate in this regard. The initiatives are also notable for their specific emphasis on protecting supply chains vital from national security perspectives, such as pharmaceuticals, semiconductors, critical minerals, energy, and telecommunications. Both initiatives combine economic imperatives for safeguarding critical supply chains along with the geopolitical impetus for doing so.

From an Indian vantage point, working with supply chain focused country coalitions is essential for creating a TFA plus approach to trade facilitation. These coalitions are the mini-lateral and regional spaces for rulemaking outside of the WTO. Engaging in rulemaking in these spaces will enable India to pursue an effective TFA plus strategy focused on supply chains by complementing its ongoing work in TFA with that outside of it. With major global critical supply chain operations, such as in semiconductors' and smartphones, shifting to India in distinct

⁵ Fact Sheet: In Asia, President Biden and a dozen other Indo-Pacific partners launch the Indo-Pacific Economic Framework for Prosperity, the White House, 23 May 2022. <https://www.whitehouse.gov/briefing-room/statements-releases/2022/05/23/fact-sheet-in-asia-president-biden-and-a-dozen-indo-pacific-partners-launch-the-indo-pacific-economic-framework-for-prosperity/>

⁶ Australia-India-Japan Trade Minister' Joint Statement on Launch of Supply Chain Resilience Initiative, 27 April 2021, Press Information Bureau, Government of India, <https://pib.gov.in/PressReleaseDetail.aspx?PRID=1714362>.

⁷ Taiwanese chipmaker Foxconn is collaborating with the Indian mining business Vedanta for establishing a \$19.5 billion chip making facility in India's Western state of Gujarat. 'Foxconn and Vedanta to build \$19 billion India chip factory', BBC News, 14 September 2022 <https://www.bbc.com/news/62873520> Apple has announced production of the iPhone14 from India in a significant decision to re-shore the iPhone supply chain from China. Apple begins making the iPhone14 in India, marking a big shift in its manufacturing strategy', CNBC, 26 September 2022. <https://www.cnbc.com/2022/09/26/apple-starts-manufacturing-the-iphone-14-in-india.html>

demonstrations of re-shoring/friend-shoring, India is well poised to usher in the next generation of trade facilitation reforms in line with its positioning in these supply chains.

India is featured in supply chain rule-making country coalitions with overlapping membership. India, Australia, and Japan – members of the SCRI – are part of the IPEF and comprise the Quad, along with the United States. All Quad members, along with Indonesia and Korea are in the IPEF as well. The overlaps underscore the strong possibility of individual coalitions learning from each other and complementing each other. India's prospects for hosting secure and strong supply chains and embedding local businesses in them through concomitant trade facilitation will greatly enhance if it can constructively engage and contribute in supply chain and trade facilitation rule-making discussions in these groups.

The rulemaking on supply chains could be most exhaustive in the IPEF context. Supply chains are one of the four pillars of the framework, in addition to trade, clean economy and fair economy⁵. The future direction of regional trade facilitation would also be impacted decisively by the direction laid out in the IPEF.

It's worth noting, however, that while India has signed on to the negotiating agenda of supply chains within the IPEF, India has declined on participating in IPEF's trade discussion pillar, which includes aspects of trade facilitation. Thus, engaging in supply chain issues on the IPEF may be where India will be best positioned to positively influence trade facilitation for the region in that framework. India's potential role in supply chain discussions at the IPEF and potential to work towards supply chain focused trade facilitation insights and progress from that engagement and others in the rule-making coalition space can make India a pioneer in 21st century trade standard-setting.

Looking Ahead

Countries and businesses are bracing to encounter more shocks in global supply chains in the days ahead. A fragile global geo-political landscape, combined with rapid environmental degradation and high manifestation of extreme weather disturbances, pose enormous challenges for safeguarding supply chains. The challenges are particularly severe for a large developing country like India that is trying hard to position itself as a hub of global supply chains. While severe, however, the challenges are not insurmountable. A forward-looking supply-chain focused trade facilitation strategy consistent with India's global strategic ambitions and scale of engagement should see it achieving its goal of integrating deep in currently restructuring supply chains. The pace and quality of the integration will be determined by India's ability to combine on-border procedural simplifications with domestic trade-impacting regulatory reforms and contributing meaningfully to multilateral and regional rule-making efforts.

⁵ 'United States and Indo-Pacific Economic Framework Partners Announce Negotiation Objectives', US Embassy in Singapore, 12 September 2022. <https://sg.usembassy.gov/united-states-and-indo-pacific-economic-framework-partners-announce-negotiation-objectives/#:~:text=At%20the%20conclusion%20of%20the,Clean%20Economy%3B%20and%20Fair%20Economy>.

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