

Students' ECONOMIC FORUM

A monthly publication from South Indian Bank

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The Great Supply Chain Realignment

India's opportunity in a de-risking world



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The Great Supply Chain Realignment

India's opportunity in a de-risking world

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"The real issue is of de-risking the global economy. We need more reliable and more resilient supply chains. We need more manufacturing hubs. The world cannot be that China-centric."

Dr. S Jaishankar

The 'SIB Students' Economic Forum' is designed to kindle interest in the minds of the younger generation. We highlight one theme in every monthly publication. Topic of discussion for this month is **The Great Supply Chain Realignment**.

For the better part of three decades, the global economy operated on a simple, unspoken mantra: make it in China. This hyper-efficient, low-cost



model, built on the principles of globalization and lean manufacturing, powered world trade and put affordable goods into the hands of billions. But a series of seismic shocks - a geopolitical trade war, a once-in-a-century pandemic, and ongoing regional conflicts - have converged to create an era of *polycrisis*. This convergence of crises has exposed the profound fragility of a system optimized for a world that no longer exists. We have entered a new epoch of economic statecraft where resilience is prized over pure efficiency.

This shift is triggering The Great Supply Chain Realignment, a historic and potentially permanent reshuffling of global manufacturing

and trade routes. Corporations and countries are actively seeking to de-risk their operations, moving away from a single point of dependency. For India, a nation with immense demographic potential and growing geopolitical influence, this is not a crisis to be weathered; it is the single greatest economic opportunity of our generation to finally claim its place as a global industrial powerhouse.

The Fragile Chain: From "Just-in-Time" to "Just-in-Case"

The old model of global manufacturing was built on the principle of "Just-in-Time" (JIT). Pioneered by Japanese automakers like Toyota, JIT is a production strategy where companies minimize inventory and its associated warehousing costs. They rely on a smooth, predictable, and uninterrupted flow of parts from



suppliers arriving precisely when they are needed for assembly. For decades, China became the undisputed hub of this system, the "world's factory," offering an unparalleled combination of scale, infrastructure, a disciplined workforce, and low costs. This model drove down consumer prices and increased corporate profits, becoming the backbone of globalization.

However, the last few years have revealed the hidden risks of this hyper-optimized dependency. A system designed for maximum efficiency is, by its nature, brittle.

The US-China Trade War:

Beginning around 2018, escalating tariffs and trade restrictions acted as a direct tax on supply chains routed through China.



It forced corporations to re-evaluate their costs and exposed them to the whims of geopolitical tensions, introducing the concept of "weaponized supply chains" into boardroom discussions.

The COVID-19 Pandemic:

The pandemic was the ultimate stress test. The lockdown of a single city like Shanghai or a port like Ningbo-Zhoushan could halt the production of

critical components, leading to a global domino effect. The starkest example was the semiconductor shortage, where disruptions in chip production in Asia led to auto manufacturing lines in Europe and America grinding to a halt, demonstrating the profound interconnectedness and vulnerability of the JIT model.

Geopolitical Instability:

More recent events, such as the disruption to shipping in the Red Sea, have reinforced the lesson. Suddenly, the cost and time to ship goods between Asia and Europe skyrocketed, forcing a re-evaluation of established trade routes. These events proved that efficiency gains could be wiped out overnight by geopolitical shocks.

In response, the new mantra for global boardrooms is "Just-in-Case." This new paradigm represents a strategic pivot from minimizing cost to minimizing risk.

It involves building redundancy and resilience through strategies like holding larger "buffer" inventories, multi-sourcing critical components from different countries, and regionalizing supply chains to bring production closer to end markets.

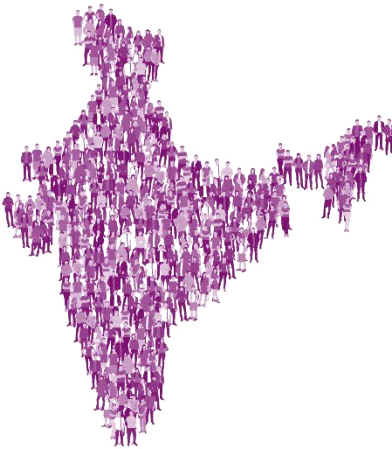


This shift signifies a willingness to accept slightly higher costs in exchange for a more secure and predictable supply of goods. It is within this global search for security and diversification that the "China Plus One" strategy was born.

India's Pitch: The Premier "Plus One" Contender

As companies actively search for their "Plus One," India has emerged as one of the most credible and attractive alternatives. Its pitch is built on a compelling set of strengths that align perfectly with the needs of the de-risking world.

The Key Pull Factors:



Demographic Dividend:

This is India's most profound advantage. With a median age of around 29, compared to China's 39, India possesses the world's largest and youngest workforce. This is not just a pool of labor but an

aspirational, increasingly skilled, and digitally native population ready to power manufacturing for decades to come, offering a long-term solution to the demographic decline facing many other manufacturing nations.

A Massive Domestic Market:

Unlike smaller export-oriented economies like Vietnam, India offers a "dual engine" model. It is not just an export base; it is one of the world's largest and fastest-growing consumer markets, with a burgeoning middle class. This allows global corporations to de-risk their production and their sales, producing in India for both the Indian market and for the world. This "Make in India for the World"

strategy provides a natural hedge against global economic downturns.

Democratic Stability & Geopolitical Alignment:

As the world's largest democracy, India offers a stable, transparent, and rules-based governance system. In an era of increasing geopolitical polarization, India's strengthening strategic partnerships with Western economies through frameworks like the Quad (India, US, Japan, Australia) make it a key partner in the strategy of friend-shoring - the realignment of supply chains to politically and ideologically aligned nations.

Improving Infrastructure:

Through ambitious initiatives like the Gati Shakti National Master Plan,

India is making massive, integrated investments in its infrastructure. The development of Dedicated Freight Corridors, the rapid expansion of national highways, and the modernization of ports are systematically reducing logistics costs and improving efficiency, directly addressing a long-standing weakness.

Policy in Action: The Production Linked Incentive (PLI) Schemes

Arguably the most critical component of India's strategy is the Production Linked Incentive (PLI) scheme. Launched in 2020, this is not a traditional subsidy for setting up a factory. Instead, it is a sophisticated, output-oriented policy designed to reward scale, growth, and competitiveness.

How PLI Works:

The government provides a financial incentive to companies, calculated as a percentage of their incremental sales of goods manufactured in India over a base year.

This clever design is its masterstroke. It avoids subsidizing inefficient or stagnant companies. Instead, it directly rewards new investment and increased production, compelling companies to scale up their Indian operations to qualify for the benefits.

It is a policy designed not just to attract investment, but to build globally competitive champions.

The Success Story:

Electronics and the Apple Ecosystem
The most spectacular success of the PLI scheme has been in mobile phone manufacturing. Attracted by the incentives and the vast Indian market, Apple Inc. has significantly ramped up its iPhone production in



India through its contract manufacturers like Foxconn, Pegatron, and Wistron (now part of the Tata Group).

The results are striking: India-made iPhones are now not only sold domestically but are exported to markets across the globe. In FY2024, Apple exported over \$10 billion worth of iPhones from India, a clear signal that the country is becoming a viable global hub for complex electronics manufacturing. Crucially, this is now fostering a deeper ecosystem, with companies like Tata Electronics beginning to manufacture sophisticated components like iPhone enclosures, marking a move up the value chain from simple assembly. The PLI has been extended to 14 key sectors - including pharmaceuticals, automotive components, solar modules, and textiles - aiming to

replicate this success and build domestic manufacturing capabilities across the board.

The Hurdles on the Path: A Clear-Eyed Reality Check

While the opportunity is immense and the policy direction is clear, India's path to becoming a global manufacturing powerhouse is not without significant challenges.

Infrastructure Gaps & Logistics

Costs: While headline investments are impressive, logistics costs in India still account for around 13-14% of GDP, compared to 7-8% in more developed manufacturing economies. Last-mile connectivity, port turnaround times, and reliable power supply remain inconsistent and need relentless focus.



Ease of Doing Business: The State-Level Challenge: Despite significant jumps in global rankings, the reality on the ground can be complex. India's federal structure means that navigating land acquisition, environmental clearances, and labor laws often involves dealing with varying regulations and

bureaucratic processes at the state level.

The Critical Skills Gap: While India has a large workforce, there is a pressing need to bridge the gap between academic education and the practical skills required for Industry 4.0. Advanced manufacturing requires expertise in robotics, IoT, precision engineering, and quality control, necessitating a massive push in vocational training and industry-academia partnerships.

Stiff Competition: India is not operating in a vacuum. Vietnam has leveraged numerous Free Trade Agreements (FTAs) to become a powerhouse in electronics and apparel. Mexico is benefiting immensely from the "near-shoring" trend, using its preferential access to the massive US market via the USMCA trade pact. Nations like Indonesia, Thailand, and Malaysia are also making aggressive plays with their own sets of incentives and advantages.

The world is witnessing a once-in-a-generation realignment of global trade and manufacturing.

The forces driving this change - geopolitics, technology, and a new focus on resilience - are structural and long-term. For India, this is a golden opportunity to convert its long-discussed potential into tangible economic power.

The initial successes, particularly in electronics, prove that a

combination of proactive policy and global tailwinds can yield spectacular results.



However, the window of opportunity will not remain open forever. Sustained, relentless focus on bridging infrastructure gaps, simplifying regulations at every

level, and investing in the skills of its young population will be the deciding factors. The goal is no longer just to attract investment, but to build deep, resilient, and cutting-edge industrial ecosystems.

India must transition from being a "potential" alternative to a "default" choice in the new global supply chain map. If it can seize this moment with urgency and precision, it will not only secure its own economic trajectory for the 21st century but also play a critical role in building a more stable, resilient, and diversified global economy.

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[McKinsey Global Institute. \(2020\).](#)

Risk, resilience, and rebalancing in global value chains.

A foundational report analyzing the vulnerabilities in global supply chains and the economic logic behind the shift towards diversification and resilience, providing the broader global context.



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