



# DEFENCE AND DIPLOMACY

IN PURSUIT OF NATIONAL SECURITY

VOL. 12 NO. 3

ISSN 2347 - 3703

APRIL-JUNE 2023

- The Indo-Pacific: A Concept Yet to Mature  
*Sanu Kainikara*
- Iran's Security Structure: Lessons for India  
*Prateek Prashar*
- The Iranian Nuclear Dilemma: Energy Goals and Proliferation Concerns  
*Sarabjit Kaur*
- Shanghai Cooperation Organization in Evolving Geopolitics of Central Asian Region: Implications for India  
*Anadi*
- A Unique Indian Jointness Model: A Perspective  
*Rajesh Isser*
- Emerging Technologies: Induction Challenges for Warfare  
*Dinesh Kumar Pandey*
- The Impact of SOCMINT on Counterterrorism  
*Priyadarshini Baruah*
- Friendshoring Supply Chain: Emerging Minilateralism?  
*Neha Mishra*

# FRIENDSHORING SUPPLY CHAIN: EMERGING MINILATERALISM?

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The post-World War II establishment of multilateral frameworks facilitated international cooperation and the improvement of global governance. However, institutional inertia, vested interests, and decision-making challenges have hampered the ability of these multilateral forums to take collective action. Minilaterals, as a result, are regarded as an alternative method for establishing alliances and coalitions “of the willing” to address regional and international issues. The concept of minilateralism has coexisted alongside bilateralism and multilateralism in international relations since 1945, notably by countries like the United States employing “disguised” minilateralism to negotiate the post-war multilateral institutions. In fact, the General Agreement on Tariffs and Trade (GATT) traces its origins to bilateral or minilateral negotiations between major trading powers that were eventually “multilateralised” by the inclusion of additional nations.<sup>1</sup>

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1. Aarshi Tirkey, “Minilateralism: Weighing the Prospects for Cooperation and Governance”, ORF Issue Brief no. 489, September 2021, at <https://www.orfonline.org/research/minilateralism-weighing-prospects-cooperation-governance/>. Accessed on March 25, 2023.

Over the past several years, minilateral initiatives in the areas of trade, security, finance, and climate change have been increasing consistently. Supply chain seems to be establishing as a new area of minilateral arrangements among countries in the past decade, as a result of continuous disruption caused by factors like transport bottlenecks, anti-competitive practices, and geopolitical complications. The recent report published by the Council of Economic Advisers in 2022 explained how the supply chains are becoming “efficient but fragile at the same time, being susceptible to failure in the event of a pandemic, war, or natural disaster.” Many supply chains have become complex and fragile as a result of outsourcing, offshoring, and insufficient resilience investment.<sup>2</sup> These trends have resulted in multiple resilience strategies among countries, thus shaping new minilateral initiatives. It started significantly in 2018 with rising labour costs in emerging economies, including China, and growing geopolitical uncertainty due to US-China trade rivalry, which forced a reassessment of global business models—such as multinational corporations announcing plans to relocate their manufacturing operations to alternative options, for instance, Vietnam and Mexico.<sup>3</sup> Because the global economy is getting more complicated, multinational companies are taking multiple steps, out of which Friendshoring is taking a significant shape.

This article seeks to argue that how the rise of friendshoring for supply chain resilience will be an emerging priority of minilateralism, and what implications it can bring for India. The first section discusses the supply chain crisis and the commodities facing the risk. The second section explains the concept of friendshoring and how it works in the form of rear-shoring and near-shoring as well. The third section analyses the examples of emerging friendshoring arrangements for supply chain resilience in minilaterals. The fourth section discusses the implications the supply chain friendshoring can bring for India.

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2. Darrell M. West, “Six ways to improve global supply chains”, Brookings, July 12, 2022, at <https://www.brookings.edu/research/six-ways-to-improve-global-supply-chains/>. Accessed on March 23, 2023
  3. “Building Resilient Global Supply Chains: The Geopolitics of the Indo-Pacific Region”, Centre for Strategic & International Studies, February 19, 2021, at <https://www.csis.org/analysis/building-resilient-global-supply-chains-geopolitics-indo-pacific-region>. Accessed on August 25, 2022.

## SUPPLY CHAIN CRISIS

The 'Supply Risk' concept in GVC began to take shape in the late 1930s and gained more salience after the oil and cobalt crises in the 1970s. The GVC grew and began to involve not only finished goods but also components and sub-assemblies, which were important not only for the manufacturing industries but also for energy, food production, R&D activities, and others. This resulted in more trading of intermediate goods across borders, particularly parts and components, which led to a shift from 'trade in goods' to 'trade in value added'.<sup>4</sup> In the supply chain, there is still a hub-and-spoke asymmetry, which means that the economies of factories (which make raw materials) depend on the economies of headquarters (which make finished materials). For instance, the US as a headquarters economy has little dependence on imports from Canada and Mexico, while Mexico and Canada as factory economies have strong dependence on the US. The global supply chain is about a lot more than just trade. It includes things like: (a) international investment in production facilities and technology; (b) infrastructure services like telecoms, the internet, air cargo, and others that help spread production and services; and (c) the flow of information and knowledge across borders. This is called the 'Trade-Investment-Services-International Production' nexus. In order to participate and compete in the global supply chain, nations or emerging economies required a deep industrial base, which is defined as the 'Join-instead-of-Build development paradigm' strategy.<sup>5</sup>

In the recent decades, this supply risk has now extended to the non-energy minerals, often called critical minerals. It is worth noting that the definition of a mineral as critical varies from country to country based on their access to the minerals. For instance, the US National Research Council (2008) considered a mineral critical "if it performs an essential function for which no substitution exists." While the European Commission gave a relative definition of criticality, it depends on how the supply shortage of a particular mineral impacts their economy.<sup>6</sup>

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4. Eva Barteková and René Kemp, "National strategies for securing a stable supply of rare earths in different world regions", *Resource Policy*, 2016, vol. 49: 153-64, at <http://dx.doi.org/10.1016/j.resourpol.2016.05.003>. Accessed on July 10, 2022.

5. Ibid.

6. Ibid.

Recent events such as the Russia-Ukraine conflict, the escalating US-China trade dispute, tensions over Iran's nuclear programme, and the expansion of an international sanction web have reminded the world of the geopolitical costs of national sovereignty interdependence. The growing likelihood of "black swan" or disruption events due to factors like resource scarcity, dread of flow disruption, embargoes, geopolitical conflicts, trade wars, and the recent pandemic crisis, supply chain resilience is a growing concern.<sup>7</sup> This has increased the significance of resilience as a supply chain priority across all geographies. The United States, Canada, Japan, Australia, and India, among others, are the primary countries working on supply chain resilience. This has been their economic security and a key instrument for addressing the difficulties of US-China strategic competition in the Indo-Pacific.<sup>8</sup>

The 1973 OPEC oil crisis was the catalyst for the transformation of strategic resources into political influence, and since then, resource-rich nations have done so increasingly. This proved the statement by Joseph Nye and Robert Keohane that "states can use economic power or statecraft as an alternative to coercive mechanisms of military force in political bargaining." However, it is important to note that resource abundance can become a resource burden if strategic planning fails. For instance, Persian Gulf monarchies caused the world's first oil shock, the 1973 Oil Crisis, by unilaterally increasing oil prices. However, the global movement towards alternatives backfired on Gulf countries and negatively impacted their economies.<sup>9</sup> It is also referred to as economic resource nationalism, which entails "rebalancing or shifting commodity

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7. Dan Gamota, "Black Swans, Butterflies and Supply Chains: Predicting the Unpredictable", Forbes Technology Council, June 25, 2021, at <https://www.forbes.com/sites/forbestechcouncil/2021/06/25/black-swans-butterflies-and-supply-chains-predicting-the-unpredictable/?sh=4dedeb89186a>. Accessed on April 4, 2023.

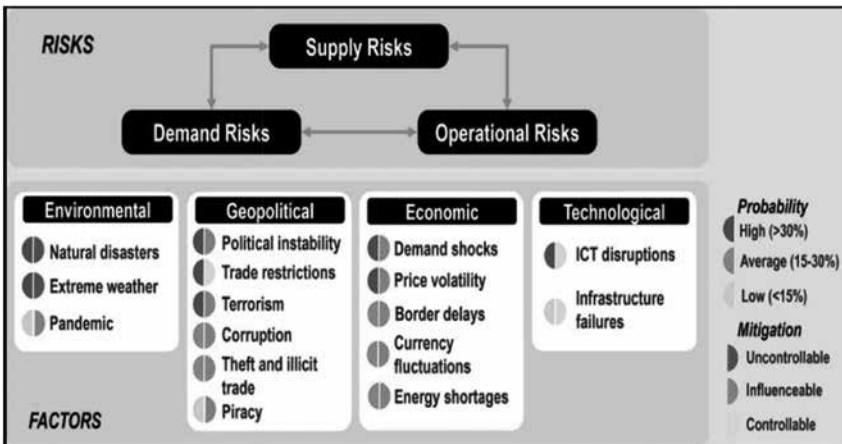
8. Stephen Nagy, "Supply Chain Resilience in the Indo-Pacific: Building Mutual Beneficial Dependency", Canadian Global Affairs Institute, February 2022, at [https://www.cgai.ca/supply\\_chain\\_resilience\\_in\\_the\\_indo\\_pacific\\_building\\_mutual\\_beneficial\\_dependency](https://www.cgai.ca/supply_chain_resilience_in_the_indo_pacific_building_mutual_beneficial_dependency). Accessed on August 25, 2022.

9. Joseph Nye and Robert Keohane, *Power and Interdependence: World Politics in Transition* (Boston: Little Brown, 1977).

revenues from international to domestic hands,” a prevalent trend in the energy industry.<sup>10</sup>

Multiple industries are transitioning to segmented “supply networks” in response to changes in international trade policy and global tax reforms; massive disruptions from the COVID-19 pandemic; the war in Ukraine; rising China-US tensions; shipping delays; and environmental, social, and governance (ESG) pressures. In other words, environmental, geopolitical, economic, and technological factors continue to interact with risks and disruptions in the supply chain, which also affect disruptions in demand and operational aspects (Fig 1). This has led to a focus on four essential areas: supply security, energy transition, talent development, and enhanced adaptability to sustain resilience.<sup>11</sup>

**Fig 1: Risk Factors in Supply Chain**



Source: Adapted from Manuj, I. and J.T. Mentzer, (2008), “Global Supply Chain Risk Management Strategies”, *International Journal of Physical Distribution & Logistics Management*, Vol. 38, No. 3, pp. 192-223. World Economic Forum (2012) New Models for Addressing Supply Chain and Transport Risk.

10. Kristin Vekasi, “Politics, markets, and rare commodities: Responses to Chinese rare earth policy”, *Japanese Journal of Political Science*, vol. 20 (1), 2018, pp. 1-19, at [https://www.researchgate.net/publication/327652453\\_Politics\\_Markets\\_and\\_Rare\\_Commodities\\_Responses\\_to\\_Chinese\\_Rare\\_Earth\\_Policy](https://www.researchgate.net/publication/327652453_Politics_Markets_and_Rare_Commodities_Responses_to_Chinese_Rare_Earth_Policy). Accessed on July 16, 2022.

11. World Economic Forum and Kearney, “The Resiliency Compass: Navigating Global Value Chain Disruption in an Age of Uncertainty”, July 2021, at [https://www3.weforum.org/docs/WEF\\_Navigating\\_Global\\_Value\\_Chains\\_Disruptions\\_2021.pdf](https://www3.weforum.org/docs/WEF_Navigating_Global_Value_Chains_Disruptions_2021.pdf). Accessed on February 28, 2023.

## COMMODITIES FACING SUPPLY CHAIN RISK

- **Automotive.** As automakers around the world switch to cleaner fuels or electric cars, they face two big problems: a growing domestic market and their reliance on China as a supplier, competitor, and market in its own right. Tesla Motors serves as a good example. China is the largest EV market in the world, and Tesla has committed to a “made in China for China” strategy. But Chinese OEMs are also key players in battery production and in the processing of minerals essential for EV production, which are becoming scarce as demand increases.
- **Active Pharmaceutical Ingredients (APIs).** Pharmaceutical firms are trying to diversify their supplier pools to protect themselves from geopolitical risk, which has been hampered by a lack of insight into an unforeseen event like COVID-19. To this day, China and India remain the only global producers of some essential API precursors.<sup>12</sup>
- **Semiconductors.** Semiconductors are used in a wide range of electronic devices, such as cars, factory machines, home appliances, cellphones, and more. Semiconductor materials like silicon can conduct electricity by using electric or magnetic fields, light, heat, or mechanical deformation to change the way electricity flows into a device. A semiconductor is a grid of millions, or possibly billions, of transistors on a 25 to 300-millimetre-diameter chip.<sup>13</sup> When chip shortages shut down auto assembly lines for the first time in 2021, the semiconductor industry drew a lot of attention. The current chip shortage is unlikely to be resolved in the near future, partly because of the complexities of the semiconductor production process and different source countries of manufacturing equipment (Fig 2). Many companies that need semiconductors are already

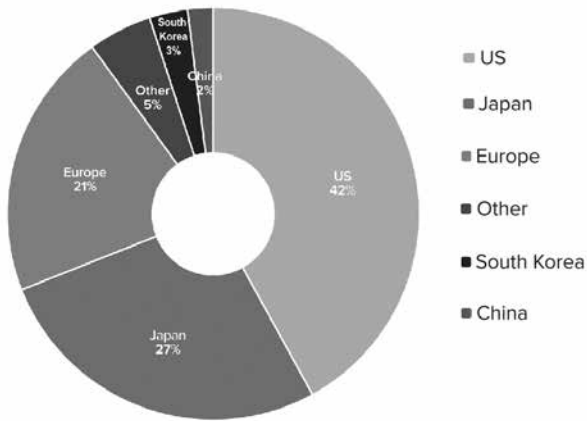
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12. Marc Lakner, Sherri He, Suketu Gandhi and Phillip Wessely, “The reshoring revolution: when to reshore in a new global economy”, *Kearney*, July 25, 2022, at <https://www.kearney.com/operations-performance-transformation/article/-/insights/the-reshoring-revolution-when-to-reshore-in-a-new-global-economy>. Accessed on November 20, 2022.

13. Steve Banker, “The World’s Most Vulnerable Supply Chain Impacts All Supply Chains”, *Forbes*, February 17, 2023, at <https://www.forbes.com/sites/stevebanker/2023/02/17/the-worlds-most-vulnerable-supply-chain-impacts-all-supply-chains/?sh=759a67f14cd6>. Accessed on February 25, 2023.

reconsidering their long-term procurement strategies. Some, for instance, may shift from a “just-in-time” ordering model, which helps minimise inventory costs, to one in which they order semiconductors far in advance.<sup>14</sup>

**Fig 2: Market Share of Semiconductor Manufacturing Equipment (2021)**



Source: Hung Tran, “Offensive friendshoring and deteriorating US-China relations”, Atlantic Council, February 21, 2023, at <https://www.atlanticcouncil.org/content-series/future-of-tech-competition/offensive-friendshoring-and-deteriorating-us-china-relations/>. Accessed on March 4, 2023.

- **Rare Earth Metals.** The crisis around rare earth elements resulted from Chinese resource diplomacy against Japan after the 2010 Senkaku-Diaoyu dispute. The great powers like the USA, Australia, and Russia began to develop their rare earth industries not only in terms of mining but also in terms of processing ores and producing REO. Besides the great powers, other countries with high reserves have also been developing their producing capacity, such as Greenland, Vietnam, Brazil, India, Myanmar, and so on. However, the motivation and reasons remained different

14. Aaron Aboagye, Ondrej Burkacky, Abhijit Mahindroo and Bill Wiseman, “When the chips are down: How the semiconductor industry is dealing with a worldwide shortage”, World Economic Forum, February 9, 2022, at <https://www.weforum.org/agenda/2022/02/semiconductor-chip-shortage-supply-chain/>. Accessed on February 28, 2023.



for countries to develop their rare earth sector. While the great powers aimed to counter the Chinese resource diplomacy and secure their technological advancement, the developing countries had economy and development as a priority. Regardless of the motivation, they have become part of establishing a strategic game over rare earth elements. The 2018 US-China trade war and the embargo imposed by China in retaliation furthered the significance of REE. The official statement of *Renmin Ribao*, the official newspaper of the Chinese Communist Party's Central Committee: "We advise the U.S. side not to underestimate the Chinese side's ability to safeguard the development rights and interests. Don't say we didn't warn you.",<sup>15</sup> reflected the confidence of China about its dominance in the supply chain market.

It is the resource nationalism of major powers and the geological distribution of reserves among them that shaped the following problems in the supply chain security of REE: (a) market opacity, which implies the uncertainty among the market parameters of a resource such as supply and demand, reserve resources, production capacity and cost, future supply and demand potential, price and size of stockpiles, and so on. (b) Lack of trust among stakeholders, mostly after the 2011 price peak crisis, as the import-dependent countries neither trust the reliability of China nor new start-ups. (c) Weak cooperation potential, as most cooperative arrangements survive for a short time due to competing interests, a lack of trust, and the resource nationalism of countries.<sup>16</sup>

- **Permanent Magnets and Batteries.** The supply and demand for various components are undergoing a significant change as the global economy becomes more digitised and energy-driven. The permanent magnet is one example of such a component,

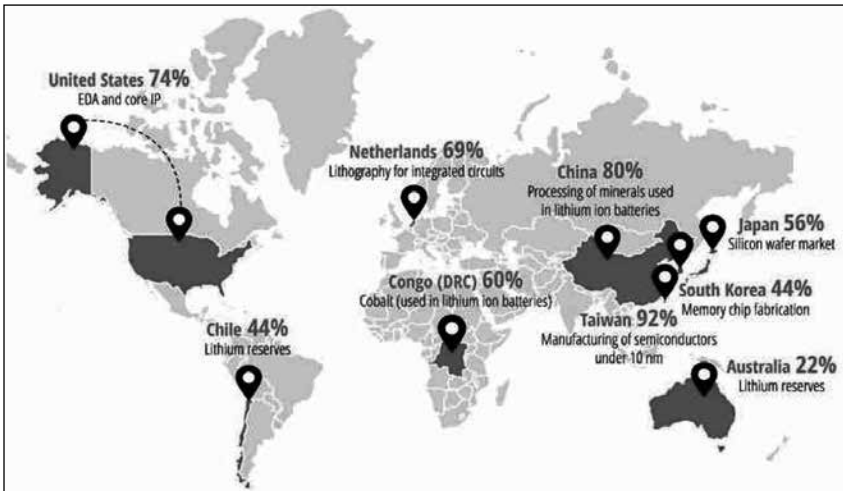
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15. James C. Kennedy, "Rare Earth Production, Regulatory USA/International Constraints and Chinese Dominance: The Economic Viability Is Bounded by Geochemistry and Value Chain Integration", in *Rare Earth Industry* (Edinburgh: Elsevier Inc., 2016), 37-55.

16. Polina Klossek, Jakob Kullik and Karl Gerald van den Boogaart, "A Systemic Approach to the Problems of the Rare Earth Market", *Journal of Resources Policy*, May 19, 2016, at <https://www.sciencedirect.com/science/article/pii/S030142071630126X>. Accessed on June 20, 2022.

while the lithium-ion battery has become a “neo-commodity”. About half of the high-performance magnets used in EVs and wind turbines are being imported by countries. While China being the main source, Hitachi Metals of Japan owns most of the patents for cutting-edge sintered NdFeB magnets, and the rest of the high-performance magnets market is dominated by Germany.<sup>17</sup> There is a high degree of concentration and interdependency in supply chains for lithium-ion batteries, as China leads in fabrication and assembly, as well in providing crucial raw material chips; interdependency for sophisticated displays is between Japan, South Korea, Taiwan, the US, and China; while the research & development lies with the US, UK, Japan and Taiwan (Fig 3).<sup>18</sup>

**Fig 3: Global Concentration of High-Tech Supply Chain**



Source: Michael Wolf and Ira Kalish, “Supply chain resilience in the face of geopolitical risks”, Deloitte Insights, December 3, 2021, at <https://www2.deloitte.com/us/en/insights/economy/us-china-trade-war-supply-chain.html>. Accessed on February 25, 2023.

17. Damien Ma and Joshua Henderson, “The Impermanence of Permanent Magnets: A Case Study on Industry, Chinese Production, and Supply Constraints”, Macro Polo, November 16, 2021, at <https://macropolo.org/analysis/permanent-magnets-case-study-industry-chinese-production-supply/>. Accessed on February 25, 2023.

18. Ibid.

## WHAT IS FRIENDSHORING?

The concept of Friendshoring developed as a defensive stance to strengthen supply chain resilience. For instance, to minimise its dependency on China, the US government has invested in rare earth mining and processing facilities in the United States and Australia. In doing so, they have lowered China's worldwide market share for these essential minerals from 80 to 60 per cent. These friendshoring initiatives have been claimed as offensive rather than defensive policy instruments, as stated by US policymakers, whose objective is to enclose international supply chains for strategic products, such as modern computer chips, within friendly nations. They claimed that the goal is to minimise the impact of China on key supply chains and impede the economic and military modernisation goals of the US through the use of friendly relations. For countries other than the US, friendshoring implies going beyond sustaining the United States' advantage over China over time and diminishing the consequences of their battlefields,<sup>19</sup> either geopolitical or geo-economic.

Friendshoring also includes the ideas of reshoring, which means bringing production back to the home market, and nearshoring, which means making things close to where people buy them:

- *Reshoring*: involves initiatives to redirect manufacturing operations back to the home market. Evident since 2019, particularly in the United States, due to tariff increases in the wake of the US-China trade conflict that have caused losses to the US manufacturing import ratio (imports as a percentage of total domestic manufacturing output). Reshoring must be pursued in a targeted and effective manner. Given increased costs and inefficiencies, reshoring is neither feasible nor desirable for many businesses. Although the US and EU heavily rely on East Asia for manufacturing, we frequently hear about their initiatives and strategies being introduced to rebuild their domestic production capacity for semiconductors. They have mainly left the more straightforward manufacturing processes to Asian economies in

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19. Hung Tran, "Offensive friendshoring and deteriorating US-China relations", Atlantic Council, February 21, 2023, at <https://www.atlanticcouncil.org/content-series/future-of-tech-competition/offensive-friendshoring-and-deteriorating-us-china-relations/>. Accessed on March 4, 2023.

favour of specialising in high-value-added upstream chip supply chain segments like Electronic Design Automation (EDA) and Discrete, Analogue, and Optoelectronics and Sensors (DAO). Reshoring intends to increase the security of the economy's crucial "new oil" or raw mineral supply chain. Nevertheless, the effectiveness of these reshoring plans will be determined by the level of technological sophistication in comparison to traditional overseas competitors in this situation.<sup>20</sup>

- *Nearshoring*: refers to bringing production capacity to surrounding countries. It uses the physical, cultural, and political proximity of adjacent nations for upstream or downstream supply chain parts. The key promoters of this strategy are regional trade blocs or agreements, such as the European Union, the Regional Comprehensive Economic Partnership (RCEP), and the United States-Mexico-Canada Agreement (USMCA). Another example is the Indo-Pacific Economic Framework (IPEF), which might be classified as "friendshoring" if the definition of "friend" extends beyond a specific geographic area.<sup>21</sup> Regionalisation by nearshoring is expected to facilitate communication and reduce the distance between markets, which will further reduce the risk of being drawn into trade wars and protectionist policies via the strengthening of political, social, and cultural ties among regional neighbours.

The concept of "friendshoring" has just begun to make ripples in international trading rooms. It entails shifting production away from nations with significant political risks or that are seen as unfriendly, and towards countries that are seen as allies and that share similar values. Using friendshoring, nations can lessen their reliance on certain key suppliers of raw materials, finished goods, and components in order to better manage their supply chains. Friendshoring is being seen as a preferable strategy for future-proofing supply chains and

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20. Jong Woo Kang, "Reshore or Diversify? How to Reorganize the World's Fragile Supply Chains", Asian Development Blog, August 3, 2022, at <https://blogs.adb.org/blog/how-to-reorganize-the-world-s-fragile-supply-chains>. Accessed on November 20, 2022.

21. Ibid.

ensure a continuous supply of vital inputs among allied nations. In principle, friend-shipping holds a lot of potential. The economies of developing countries like India, Vietnam, Malaysia, Indonesia, and the Philippines stand to gain greatly if Western corporations relocate their factories, production, and jobs from China to these more welcoming countries. As a result, infrastructure would be developed, workers' skills would be improved, and the general standard of living in these nations would rise. This, in turn, would aid industrialised countries in securing their supply lines and avoiding disasters like the recent COVID-19 outbreak and Russia-Ukraine conflict. The United States, the United Kingdom, Germany, and Japan all rely significantly on China to get the supply of key components, most particularly furniture, electrical machinery, or mechanical appliances. If these nations engaged in friendshoring, they would decrease their purchases of Chinese goods. In addition, allies with low political risk and the ability to supply these commodities would receive a larger proportion of global trade.<sup>22</sup>

#### **EXAMPLES OF MINILATERAL FRIENDSHORING OR ARRANGEMENTS**

- **Quad.** The goal of the Quadrilateral (Quad) group is to lessen the region's dependence on China by making the Indo-Pacific free and open and building robust supply networks. Effective communication and coordination among Quad members throughout the epidemic were reflected in the diplomatic efforts to develop and implement a vaccine. In order to further their climate-focused collaboration, they have decided to enhance resilience in clean energy supply chains such as clean hydrogen and to begin a Quad green shipping network. Members of the Quad agreed to work together on vital technologies such as biotechnology, genome sequencing, and genome manufacturing, as well as to create a semiconductor supply chain initiative and

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22. Aranca, "Friendshoring: Strategy to Reduce Supply Chain Dependency on China", January 23, 2023, at <https://www.aranca.com/knowledge-library/articles/business-research/friendshoring-strategy-to-reduce-supply-chain-dependency-on-china>. Accessed on April 28, 2023.

form an Open RAN policy alliance to promote the broad and diverse rollout of 5G.<sup>23</sup>

- **SCRI.** India, Japan, and Australia formally launched the Supply Chain Resilience Initiative (SCRI) to build resilient supply chains in the Indo-Pacific region as they sought to reduce dependence on China and said it could be expanded based on consensus. It seeks to build upon existing bilateral frameworks like the ASEAN-Japan Economic Resilience Action Plan and India-Japan Industrial Competitiveness Partnership and attract foreign direct investment in the region. The initial projects under the initiative include sharing of best practices and holding investment promotion events aimed at supply chain diversification amid the COVID-19 pandemic that has “revealed supply chain vulnerabilities globally and in the region.”<sup>24</sup> The SCRI’s overarching goal is to make sure that pandemics and other “black swan” catastrophes don’t disrupt global supply networks in the future. Since the SCRI can facilitate communication between states with similar concerns about economic security in the Indo-Pacific region, it is becoming an increasingly important topic of discussion among various states. The SCRI is an important counterweight to China’s growing clout, especially as a result of the Belt and Road Initiative.<sup>25</sup>
- **Indo-Pacific Economic Framework (IPEF).** One of the most promising international economic agreements to address supply chain challenges is the IPEF, which is a roadmap for US economic participation in the Indo-Pacific area region, unveiled by the Biden administration in May 2022. Its 14 partners account for

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23. Neha Mishra, “QUAD’s Quest to Overcome Dependence on China in Critical and Emerging Technologies”, Bharat Shakti, July 5, 2022, at <https://bharatshakti.in/quads-quest-to-overcome-dependence-on-china-in-critical-and-emerging-technologies/>. Accessed on March 28, 2022.

24. Kritika Suneja. “India, Japan, Australia launch supply chain resilience initiative, may be expanded based on consensus”, *The Economic Times*, April 28, 2021, at [https://economictimes.indiatimes.com/news/economy/foreign-trade/india-japan-australia-launch-supply-chain-resilience-initiative-may-be-expanded-based-on-consensus/articleshow/82276307.cms?utm\\_source=contentofinterest&utm\\_medium=text&utm\\_campaign=cppst](https://economictimes.indiatimes.com/news/economy/foreign-trade/india-japan-australia-launch-supply-chain-resilience-initiative-may-be-expanded-based-on-consensus/articleshow/82276307.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst). Accessed on August 27, 2022.

25. Jagannath Panda, “PacNet #31—The Structural Limits of the Supply Chain Resilience Initiative”, Pacific Forum, at <https://pacforum.org/publication/pacnet-31-the-structural-limits-of-the-supply-chain-resilience-initiative>. Accessed on March 25, 2023.

40 per cent of world GDP. The Supply Chain Pillar of the Four Pillars of Economic Growth (Trade, Supply Chains, Clean Economy, and Fair Economy) has received the most attention.

IPEF's Supply Chain Pillar should aim to reduce risks to regional supply chains rather than decouple them. It is in the best interest of all parties involved to work together to diversify the highly concentrated supply chain, as most of the 14 IPEF member countries have encountered supply chain vulnerabilities in recent years. The United States is the leading economic partner of only one of the 13 participating countries (India), while China is the top trading partner of 10 member countries, and this situation is not likely to alter any time soon. In this case, IPEF can promote the formation of supply chain networks that can be relied upon in times of crisis; in other words, open "friendshoring" that can be a win-win options for all member countries. Careful planning of the IPEF supply chain is required to create not just new norms and standards, but also effective cooperation mechanisms to resolve potential interruptions in the supply chain in the future. IPEF has the potential to be the first project of its sort to solve supply chain difficulties through a new economic agreement, which would supplement current traditional trade agreements.<sup>26</sup>

### **LIMITATIONS OF FRIENDSHORING**

It is a concern that friendshoring could have a major impact on commercial enterprises and international economies. If countries just traded with their friends, it would lead to the formation of trading blocs that can have a negative impact for the global economy as a whole, and for developing countries in particular. In addition, countries like China and Russia might respond with an all-out trade war that can increase geopolitical tensions. Even if only a small number of countries moved their production to places like Vietnam and Indonesia, it would help those countries get the most out of their

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26. Han-Koo Yeo and Wendy Kutler, "Strengthening Regional Supply Chain Resiliency through the Indo-Pacific Economic Framework (IPEF)", Asia Society Policy Institute, May 3, 2023, at [https://asiasociety.org/sites/default/files/2023-05/ASPI\\_RegSupplyChain\\_issuepaper\\_finalize.pdf](https://asiasociety.org/sites/default/files/2023-05/ASPI_RegSupplyChain_issuepaper_finalize.pdf). Accessed on May 10, 2023.

people resources because they are so small compared to China, but this would make prices go up, making it hard to make goods at prices that are competitive. It is also a concern that developing countries will have to take the hit if the United States and other rich countries decide to conduct business with just their strongest allies, as a result of friendshoring. Further, domestic political instability could result from the high cost of commodities being passed on to consumers. Even the recent events like Brexit have shown how fluid the concept of political friendship can be. As the global order evolves, old allies may no longer be reliable partners. As new leaders appear and the political landscape shifts, fresh disagreements may emerge. Given this, safety of global supply chains is a concern if friendshoring won't follow or establish proper norms and mandates. The COVID-19 epidemic and the Russia-Ukraine conflict have demonstrated the dangers of relying on only one or two countries for vital components in supply chains.<sup>27</sup>

Nevertheless, Friendship-based economic development may seem like a passing fad, but there are indications that economies are genuinely contemplating implementing it. Perhaps "Made in India" or "Made in Vietnam" will replace "Made in China" on most products in the future, and thus can give a sustainable supply chain to the countries, securing it through resilience.

### **IMPLICATIONS FOR INDIA**

India's strategy for accomplishing its international goals was on full display at the Raisina Dialogue, 2023. The participation in BIMSTEC, BRICS, the Quad, the Indo-Pacific, and other new cooperation frameworks has highlighted India's preference for coordinating via these minilateral organisations. Indian participation in regional minilaterals includes BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation), BBIN (Bangladesh, Bhutan, India, and Nepal), IMT (India, Myanmar, and Thailand), and IBRD (India, Bangladesh, and the Russian Federation). India uses these minilaterals to put its 'Neighbourhood First Policy' into action. In addition, India also participates in minilaterals for regional

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27. Aranca, n. 22.



cooperation through summits with Association of Southeast Asian Nations (ASEAN), Caribbean Community (CARICOM), and the European Union.

For its broader neighbours, India has established forums like the Forum for India-Pacific Islands Cooperation (FIPIC) and the Indo-Pacific Oceans Initiative (IPOI). India's policy of strategic autonomy is reflected in its membership in the Quadrilateral Security Dialogue (QUAD) and the Shanghai Cooperation Organization (SCO). As a member of QUAD, India is cooperating with the US, Japan, and Australia, to work on the Indo-Pacific security architecture. And as a member of SCO, India is working with China, Russia, and Central Asian Republics on the Eurasian security architecture. Through these minilaterals, India is securing its interests on both sides of the global power aisles.<sup>28</sup>

With the goal to emerge as manufacturing economy and develop 'Make in India' products, India is well positioned to get maximum benefit out of supply chain friendshoring arrangements, considering the availability of enormous labour supply, low costs, and gradual progress in its structural change. India is an attractive destination for the 'friendshoring' of manufacturing supply chain. This was pointed out by Shilan Shah, Deputy Chief Emerging Markets Economist at Capital Economics, who cited Apple's decision late last year to relocate more of its manufacturing from China to India, something that reflects India's establishing potential manufacturing.

The establishment of friendshoring arrangements can increase India's prospects and opportunities to obtain new bases of cooperation and investment, thereby boosting its domestic production and exports.

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28. Divya Singh Rathore and Suryapratap Babar, "Minilaterals: A New Channel for the Indian Foreign Policy", Open Guest Column, April 3, 2023, at <https://openthemagazine.com/columns/minilaterals-new-channel-indian-foreign-policy/>. Accessed on April 10, 2023.