Decoupling from Chinese Manufacturing - An Assessment - II

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What is the issue?

- The border clashes with China and the COVID-19 pandemic have reignited questions about India's dependence on Chinese manufacturing.
- In this context, here is a look into various economic and other factors for bringing in investments into India.

What are the key factors to attracting investments?

- **Skills** - Certainly, there are skill set problems in India.
- Foreign investors get into the sectors where there are acknowledged skills. E.g. IT services
- But there are no similar skill sets in manufacturing.
- **Infrastructure** - Foreign investors are not to be seen as those who come to develop India.
- They rather come to make profits, as apart of which development might happen.
- So, when it comes to investments, besides having a good policy, there is a need for supportive infrastructure to make profits.
- India lacks many of the advantages that China has locationally. E.g. ports
- **Productivity** - There is a view that since the wage rates are low in India, investments are going to come here.
- This may not work as expected.
- It is actually productivity-linked wages that matter, and productivity in India is less encouraging.
- **Land** - From 2005, after the special economic zones (SEZ) policy, the Government of India has gone and acquired land all over the place.
- So land is not an issue per se now in India, to attract investments.
- **Red tapism -** Red tapism is a constraint in business functioning.
- Much needs to be done on ground in this regard despite the development in the ease of doing business rankings.
- **Labour reforms** - Industries have been calling for labour reforms.
- There are complaints that labour unions are too powerful in India and it

should be easier to hire and fire workers.
- But COVID-19-led condition has proved this wrong.
- It is actually easy for industries in India to hire and fire.
- The reverse migration made it apparent that labour policies are much flexible in India.
- **Nature of investments** - Over the last 3-4 years, the kind of FDIs that India has seen, the big ticket FDIs especially, are essentially intending to acquire existing assets.
- E.g. Walmart's acquisition of a large stake in Flipkart, Facebook's in Reliance Jio
- None of these was in the nature of a typical greenfield investment, which is capable of creating substantial jobs and other additional capacities.

- **Market** - One thing India can probably offer unlike to the small degrees of many other countries in South-East Asia is a huge domestic market.

- For instance, economies like Vietnam, Malaysia, Thailand, Cambodia or Bangladesh are all competing for a slice of the pie of the relocated supply chains.
- These countries do not have the kind of a market that India has.
- But they have the ability to provide access to other markets in a far more effective fashion.
- E.g. Vietnam recently concluded a free trade agreement with the European Union, which will offer two advantages -
    1. Some businesses from China can get relocated in Vietnam, taking advantage of the European market, and they can also export back to China.
    2. Businesses will have the advantage of the greater ASEAN and Asia-Pacific region, which is basically following a strategy of scaling up markets if one's domestic market is relatively small.
- India should work to harness the strength of its dominant domestic market.

- Utilising India's market potential is linked to the overall strategy of -
    i. widening the manufacturing sector
    ii. allowing the manufacturing sector to absorb more labour, especially from agriculture
    iii. having a more resilient manufacturing sector, and thus reducing the dependence on countries like China

- A strong manufacturing sector would bring down the unemployment rates and thereby address the issue of shrinking demand in domestic market.
- A demand-filled market is what attracts both foreign investors and domestic investors.

- **Labour** - The issues such as increasing wage rates and skilled labour becoming costly are there even in Vietnam.
- But the point is to look at what kind of labour is wanted for what kind of operations.
- There is a situation in India and across the region where skilled labour continues to be at a premium.
- There will be a choice between countries and locations in terms of access to new labour.
- **Cultural elements** - Another factor is that of a cultural commonness in business practices across the region, found in China, Japan, Korea, and large parts of South-East Asia.
- There is also the emphasis on settling disputes through dialogues, emphasis on informal consultations.
- This is opposed to terms of a more structured fashion found in India as well as in the West.
- So, there also exists a cultural element to this entire question of supply chains and investments, and relocation, which India should not overlook.

How significant is RCEP in this context?

- With concerns with the functioning of the WTO, various groups of countries have moved on to pursue regional and bilateral agreements.
- The Asia Pacific has been a very active region in this regard.
- India's joining in the RCEP (Regional Comprehensive Economic Partnership) has been delaying for long.
- India's stated objective is to reduce dependency on China and work towards relocation of supply chains with like-minded countries like Japan, Korea, Vietnam, etc.
- Now all these countries are members of RCEP as well.
- Naturally, these are going to work on the same rules of origin that RCEP is going to give them.
- In essence, India is trying to position itself as a hub and to relocate supply chains along with countries that are part of a completely different sub-regional trade understanding.
- With such contradictory objectives in place, the RCEP gains a significant role.
- India should go ahead and make its stance about engagements with the trade agreements clear.

How does the future look?

- Given the trend in the last few years, India is seen to have gone more protectionist.

- The average tariffs have actually gone up.
- Likely, the tariff policy is going to be even more protectionist.
- There are already calls for promoting domestic goods, shunning imported goods, and even products made by foreign companies.
- This would mean India trying to take up the path of import substitution.
- But, in reality, it is hard to bring in indigenisation in everything from air conditioners to furniture to leather products, etc.
- So the right path ahead is for policies to be predictable and transparent so as to avoid these conflicting signals and instil confidence in investors and attract investments to keep the economy going.

Source: The Hindu

