Editorial

India as World's Factory: Reality or Fantasy

Starting from Wuhan in China, coronavirus has given a thunderous jolt to all the activities around the globe and China, the world's manufacturing pivot being at the heart of this fiasco, is facing backlash from almost all the nations for the economic earthquake. The situation has exposed the dark side of immoderate dependency on one nation. Anti China sentiments are on the rise and numerous companies are rethinking to shift their manufacturing units to other nations of the world. Even before the outbreak of COVID-19, the companies have started feeling unwell about their dependence on China and Japanese companies like Asics, Ricoh and Sony Corporation in order to escape US trade tariffs, aimed towards shifting their production units away from China. Since June 2018, there has been more than 50 per cent increase in imports of US from Vietnam and those from Taiwan increased by 30 per cent. Now, with the present pandemic in its full flow, the mindset of avoiding China as manufacturing or a supply chain hub has very strongly resurfaced. Countries who felt that the trade war would be an interim echo are now surer of not being over-dependent on one country, China. However, the majority of firms does not plan to totally move out of China but instead look for smaller units across the South East Asian Countries in lower the dependence.

Will this all ultimately end up in a major setback to China? Perhaps not immediately. China with the second rank in global economic status is the world's biggest exporter of manufactured goods and currently no nation in the position to substitute for it. The integrated infrastructure model of China which offers skilled labour, well-equipped ports and road network and advanced logistics facilities is unparallel and essential for abiding the international deadlines. During 2013-18 China contributed 28 per cent in global growth. But with a shortfall of labour, rising workforce costs, a trade conflict with the United States, the resurgence of manufacturing hubs in South-East Asia and now a pandemic that spring on its territory, China may not be able to withhold its place as the world's biggest factory in the post-COVID global economic disposition. China will witness tough competition from smaller countries like South Korea, Vietnam, Thailand, Bangladesh, and the Philippines because of its lower workforce costs.

With NITI Aayog and the Department for Promotion of Industry aiming to extend incentives to draw the companies out of China, it is a propitious time for India to stand up as a manufacturing global hub. In 2020, Doing Business report, India has moved up from 142nd rank to 63rd out of 190 economies. Despite India's upward movement in the World Bank's ease of doing business ranking, it is too premature to set up on its accolades. India has outreached 1000 American Multinational and has marked a land area twice the size of Luxembourg. The decision of land pooling is definitely the right choice but Multination Companies will not relocate just because of land availability. Production lines & supply chain network will undoubtedly play a bigger role in the change of mind. India has many things that China boasts, and is a nation with amicable ties with the United States, Japan and other European countries. In tune with the 'vocal for local' campaign initiated by the Prime Minister Narendra Modi, the government slowed down corporate tax rates of firms receiving incentives or exemptions down to 25.17 per cent from 35 per cent and the rates for other companies to 22 per cent from 30 per cent. The Indian government reports the engagement of many foreign companies at different levels to explore tie-up opportunities. This will definitely change the political dynamics prevalent in Asia & other parts of the world. One of the vital advantages of having India as a manufacturing partner is that it is also a vast market for selling finished products, whereas manufacturing in smaller South-East Asian nations would mean that the finished product further has to be shipped out to potential buyer markets in other countries.

The decision of nations for setup manufacturing unit elsewhere is still at an assessment stage and final decision shall not be made in a hurry. At this point in time, India needs to create conditions for attracting multinational. India with its meager expenditure on education (2.7% of GDP) in contrast to China (4.11 % of GDP) cannot ignore the crucial aspect of skilling and reskilling its labour force to make the dream come true. Other pitfalls which make India an unobvious choice is its lack of integration with prime global supply chain, redundant land policies and labour laws and unsteady power supply. Withdrawal of India from the Regional Comprehensive Economic Partnership (RCEP) makes it tough for Indian exporters to get the ease of tariff-free access to and from the member countries. Foreign Direct Investment (FDI) policy and regulation is also a matter of concern for global companies.

Preventive measures taken to reject easier capital flow from neighbouring countries and the prohibition on e-commerce companies to sell non-essential items is projecting a protective image of the country. With U.S. imposing high tariff on China, Japan announcing $ 2.2 billion packages for its corporative to move out of China and UK reconsidering its decision to allow Huawei, Chinese Telecom giant in its 5G Network, time is ripe for India. India has to adopt better standards and broad-based structural reforms to reach out to turn around the situation in its favour.

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