

At the root of India's manufacturing challenge

The issue of manufacturing or services as the desirable path for India's economy makes the rounds in public fora periodically. In the early part of this century, when India's software exports were booming, it had been asked why India's services sector should not leapfrog over manufacturing to propel the economy forward. This proposal challenged the standard model of economic development, for, in most successful economies, industrial expansion had come first. The frustration of the Indian economic policy maker can be well understood.

The economic reforms of 1991 had almost exclusively focused on manufacturing, but the significant scaling down of tariffs and the dismantling of the 'licence-permit Raj' did not lead to an increase in the share of manufacturing in the economy. Of course, India's manufacturing sector ought not to be seen only in terms of its size. There has been a qualitative change after 1991. The range and quality of products manufactured in India have undergone an impressive increase. The rising quality and variety of the goods produced, without the expansion of manufacturing in relation to the economy, suggests a rising inequality of income.

Unimpressive record

After the economic reforms of 1991, the next time manufacturing came into the government's view was after 2014, when 'Make in India', with its emphasis on foreign direct investment, was launched. More recently, there has been the Production-Linked Incentive scheme, which essentially subsidises production of certain products. Though announced with fanfare, the first within months of the Narendra Modi government assuming office, the record of these schemes has not been impressive.

The first advance estimates of the national income for 2022-23 show manufacturing growth to be 1.3% for the year, less than that for agriculture and all main segments of services. While the data unambiguously point to the role of the demonetisation of 2016 in the slowing of the manufacturing sector, the persistence of low rates of growth in the presence of policy initiatives that were focused on manufacturing point to something 'structural' holding back the sector in India.

This issue reportedly came up for discussion at a private event, where it was agreed that the economy needs a manufacturing push for the creation of jobs and to raise the growth rate. We are told that during the ceremony, the Finance Minister addressed the corporate leaders gathered with the remark, "I am sure the Indian private sector is ready. Are you?" Even on earlier



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occasions, the Minister has publicly referred to the many policy initiatives favouring the corporate sector. Among them, the tax rate had been lowered substantially in 2019 and the government also claims to have improved the ease of doing business. There is also another factor, namely, public investment. In the last Union Budget, capital expenditure was raised by 18.5%. This unusually high increase should come to the aid of the private sector by raising aggregate demand.

The price of food

Despite the favourable measures undertaken by the government, it would be simplistic to expect industry leaders to achieve a manufacturing push on their own. There is demand to be reckoned with, and this is largely independent of the supply side, which the government has acted upon. Household demand for manufactures inevitably follows the satisfaction of its demand for the necessities of life – food, housing, health and education, none of which can be postponed. For a substantial section of India's households, food occupies a large share. This constricts the growth of demand for manufactures.

The relationship between per capita income and the share of food in household expenditure is strongly negative globally, with the richest countries, such as the United States and Singapore, having low such shares. Of the large economies of the world, the share of food is the largest in India, and its GDP per capita the lowest. Industry leaders have no control over the demand side of the equation. However, the possibility of exporting means that the manufacturing sector of an economy can sidestep a narrow domestic market. After all, the smaller countries of East Asia would never have been able to grow their manufacturing base to such an impressive level had they relied on their domestic markets alone. Taking this route, however, does require that an economy's manufactures are globally competitive.

In a comparison with the economies of East Asia, we can see what is necessary for an economy to be a successful exporter. One is infrastructure and the other is the skill level of the workforce. These determine the cost of production and the type of products that a country can produce, respectively. The export of manufactures is largely by sea. The challenge of reaching the seaports faced by companies located in north India can be imagined. Goods have to first reach the coast by road, and then exporters must deal with the relatively poor infrastructure and practices in India's ports. The competitive disadvantage faced by India's exporters can be seen in the much higher turnaround time for

ships in India's ports with that in Singapore. The importance of ports for exports may be seen in a public statement recently issued by a section of Kerala's traders: that they are forced to use ports outside the State as they cost much less to use. While transportation is a big factor, it is not everything yet. Inexpensive power, space and industrial waste disposal services all matter.

Educational outcomes in India

But it is with respect to education that India has fallen most behind the countries that are the manufacturing successes of the world. The ranking of countries by the Programme for International Student Assessment reveals this directly. In a group of about 75 countries, the countries of East Asia are at the very top while India barely manages not to be the last. Now, if we do not wish to rely on tests administered by international bodies, we may turn to our very own non-governmental organisation Pratham, which assesses learning outcomes in India's schools. Its widely publicised findings point to the very low reading ability and numeracy of Indian children in their early years. These tests are for schoolchildren.

While there is no standardised test for university graduates, we have leading Indian employers issue statements on the lack of employability of these graduates. This dismal assessment has extended even to an Indian Institute of Technology. India's universities expanded to serve the aspiration of its middle class who wish to avoid manual work. However, for those headed for a life as a skilled worker, ranging from carpenters to plumbers and mechanics, university is not an aspiration at all. This cohort has been neglected in economic policy-making in India. There is no formal assessment available of the state of the vocational training institutes in India, but we certainly know that they are few and far between. When it existed, the Planning Commission had released data showing that only about 5% of Indian youth have had any kind of technical training. The figure for South Korea was over 85%. It would be naïve to expect India to make a mark on the global stage for manufacturing with such a labour force.

The economic reforms of 1991 were undertaken with a view to raising the presence of manufacturing. To this effect, the trade and industrial policy regime had been overhauled. However, it overlooked the need for an entire ecosystem, including schooling, training and infrastructure for manufacturing to flourish. This has to be built. It cannot be achieved merely through legislation. Liberalising reforms have run their course in India.

When the trade and industrial policy regime was overhauled in 1991, the need for an ecosystem for manufacturing, including schooling, training and infrastructure, was overlooked

Central Asian foreign policy multi-vectorism pays off

Between May 18 and 19, China hosted what was called the "C+CS summit", in the city of Xi'an (the first of its kind), which saw the participation of the leaders of five Central Asian countries (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan). The six countries then jointly signed the 'Xi'an Declaration' and issued a blueprint for the future development of China-Central Asia relations. In their discussions, the six countries focused on the 10th anniversary of the Belt and Road cooperation to be a 'new starting point'. In focus also were people-to-people exchanges, a 'Cultural Silk Road' programme, and issues of regional terrorism and extremism.

Importantly, the China-Central Asia Summit mechanism was officially inaugurated, which paves the way for future biennial summits between these countries. The next summit will be held in Kazakhstan in 2025.

Some may view this summit as testament to an ever-expanding Chinese influence in the region, which poses a challenge to Russia's ambitions. Despite being a valid argument, it only partly reflects regional complexities and shifting dynamics. In 2022, the Carnegie Endowment for International Peace said that in the same year, Russian President Vladimir Putin had held more than 50 meetings (both online and in person) with Central Asian leaders. The fact that all five Central Asian Presidents visited Moscow for the May 9 Victory Day parade indicates that these former Soviet republics intend to maintain balanced regional and international engagements.

A successful implementation

To their credit, the Central Asian countries have been able to successfully implement a multi-vector foreign policy that stretches beyond the Russia-China axis. In the context of the post-Soviet states, this policy has been



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To their credit, the Central Asian countries have been able to follow a multi-vector foreign policy that stretches beyond the Russia-China axis

traditionally associated with their sovereignty vis-à-vis Russia, since it implies stronger economic and political ties with other centres of power.

Notably, in October last year, the European Council President Charles Michel visited Kazakhstan and Uzbekistan, 'sending a strong political signal of the EU's commitment to the region and of the EU's wish to strengthen ties and bolster interregional cooperation'. In the same month, Mr. Michel also attended the first high-level meeting with the Central Asian leaders, that was held in Astana.

The basic parameter of Turkmenistan's foreign policy since its independence in 1991 has been the country's official status of 'neutrality'. After succeeding his father in 2022, Turkmenistan's new President, Serdar Berdimuhamedov, issued a statement, saying his country 'will continue the policy of neutrality based on good neighbourliness, equality and mutually beneficial cooperation with all the countries of the world'.

In the case of Uzbekistan, the main priority of its foreign policy is regional security in Central Asia, which includes the precarious environment in Afghanistan. Other priority directions cover relations with the Commonwealth of Independent States (CIS) member-states, Russia, China, the United States, the European Union (EU), Turkey, South Korea, Japan, Malaysia, Indonesia, Singapore, and Vietnam.

Economic and security concerns have been the decisive factor in formulating the foreign policy strategies of Kyrgyzstan in the post-independence era. After his election in 2021, Sadyr Japarov chose Russia for his first official visit as a new Kyrgyz President, an indication that Russia remains the main security partner for Bishkek, which hosts Collective Security Treaty Organization (CSTO) troops at the Kant military airbase. In terms of multilateral engagement, Kyrgyzstan is a member of the Eurasian

Economic Union (EEU), the Shanghai Cooperation Organization, CSTO, and the Organization of Turkic States.

The foreign policy of Tajikistan is 'open doors' and a peace-seeking policy, indicating the 'country's readiness to build friendly relations with all countries and recognize shared interests based on reciprocal respect and equality'.

Lessons for broader post-Soviet space

The brief overview of the foreign policy trajectories in Central Asia highlights their common characteristics, i.e., multi-vectorism. This pragmatic approach certainly pays off, as it provides the benefits of maintaining friendly ties with multiple players, including Russia.

In this sense, the Central Asian republics could serve as a relevant example for other post-Soviet countries, e.g., Georgia and Moldova. Their long-term aspirations for EU/North Atlantic Treaty Organization membership should not be fulfilled at the expense of workable relations with Russia. If anything, this prospective membership would hardly guarantee absolute security due to the spread of unconventional warfare, which is more difficult to detect and counter.

On May 21, tens of thousands of Moldovans rallied in the capital Chisinau to support the pro-western government policy. Moldova intends joining the EU by 2030 – which its President, Maia Sandu, describes as 'the chance for our people to live in peace and prosperity.'

Regardless of this 'pivot to West', 'belligerent' Russia will geographically remain where it is. Though Georgia and Moldova have legitimate reasons not to trust their neighbour, a multi-vector foreign policy should be viewed as the only optimum solution for a lasting peace in the region. Anything short of this would perpetuate an unstable environment, with the constant threat of escalation and a greater sense of insecurity.