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[Scenarios] **India:** The Challenge of "Make in India"

India is showing a highly unusual economic development trajectory. Even though it remains a **predominantly rural country**, services already account for over 50 percent of its GDP. In India, the process of industrialization—which has typically preceded the "service revolution" around the world—has been sluggish. Over the past fifteen years, the share of manufacturing in India's GDP has eroded steadily **from 17 percent in 2010 to 13 percent in 2023**, depriving the population of much-needed jobs amid rapid demographic growth. Furthermore, industrial weakness has strategic implications, as no country has achieved significant geopolitical influence without an industrial base that can ensure a minimum level of national sovereignty. This concern is particularly relevant in the context of India's ambition to position itself as a global power and a key partner in supply chain diversification.

India has long aspired to become an industrial powerhouse but has faced significant challenges in achieving this goal. Today, **its success depends on strategic partnerships**. Therefore, the strategic question is: will India's industrial ambitions take shape with China's support, or will it align itself with the West?

After taking office in 2014, Prime Minister Narendra Modi's government launched the "Make in India" initiative to stimulate industrial growth, with the following objectives:

(1) Achieve 12–14 percent annual growth in the industrial sector;
(2) Create 100 million manufacturing jobs by 2022;
(3) Increase manufacturing's share of GDP to 25 percent (now postponed to 2025);
(4) Position India as the "new factory of the world," competing with China.

A decade later, the results are mixed. At **4 percent a year, manufacturing growth remains lower than the GDP growth rate**, and industrial job creation has stagnated, a stagnation which goes hand in hand with the erosion of the manufacturing share in the GDP. However, a sectoral analysis reveals further nuances.

Since the 1990s, India's automotive sector has attracted manufacturers from all over the world. None of the newcomers, apart from Hyundai, made a name for themselves, and two (Ford and General Motors) wounded down their operations in India a few years later. More importantly, although the sector has grown, it has not established itself in the export market, **with the number of vehicles sold abroad tending to decline**.

The textile sector presents even more striking contrasts between India's situation and that of its competitors. This other pillar of the Indian industry, which has attracted little foreign investment, has seen Bangladesh and Vietnam overtake some shares in the world market. This state of play is largely the results of to delays in modernizing India's production apparatus and product offerings, in addition to the loss of economies of scale following the dismantling of large factories by their owners.

The electronics sector is more promising, with multinationals keen to mitigate their exposure to political risk by relocating some of their Chinese factories to India. This is particularly evident with smartphone manufacturers such as Foxconn. However, **India's main role here is as an assembly site**, with many of the components still coming from China.

The pharmaceutical sector reflects a similar duality: even while it is booming—particularly in the generics market, reinforcing India's reputation as the "pharmacy of the world"—it remains heavily reliant on Chinese imports, especially for active pharmaceutical ingredients, highlighting **a critical vulnerability in the supply chain**.

For European stakeholders, these dynamics require careful consideration. As the EU seeks alternatives to Chinese-dominated supply chains, **India's potential to integrate into global production networks presents an avenue for deeper cooperation**. However, India's reliance on Chinese imports—particularly in electronics and pharmaceuticals—poses risks to Europe's own supply chain resilience. This reliance on China raises crucial questions about the direction of India's industrial trajectory and its implications for global supply chains. In this context, two scenarios could shape India's industrial future over the next decade.

Scenario 1
Deepening Dependence on China

This scenario becomes increasingly likely if Western investors do not invest more in India—a declining trend has already become evident over the past two years, with FDI plummeting from **€69.4 billion in 2021–22 to €65.6 billion in 2023–24 and are projected to reach €38.8 billion in 2024–25**. This will make India economically dependent on China, a country with which it has been registering record trade deficits between **€78.6 billion to €92.5 billion** for the past year or two. It should be noted that Indian imports from China are essentially intermediate goods that Indian manufacturers need for their own production processes—including for exports. As a result, **the more India exports, the more it tends to import**.

It should also be noted that some of India's Asian suppliers act as intermediaries between China and India —as is the case, for example, with Vietnam—and that the statistics therefore tend to downplay Indian dependence on China, in solar panels, for instance. Today, the idea that India and China could well be forging closer economic ties is bolstered by the normalization underway on the geopolitical front (the border dispute in the Himalayas having been put on hold) and by the low level of investment (or even trade) with the West. In this respect, tensions are likely to intensify if Donald Trump seeks to erase the U.S. trade deficit with India.

Scenario 2

Industrial Emancipation and Strategic Partnerships

An alternative scenario for the coming decade could see **India break free from its dependence on China, potentially even making this a cornerstone of its industrial policy**. In terms of FDI, this path could be marked by the growing presence of Western investors, not only in electronics but also in semiconductors—a sector in which these players, eager to diversify their supply chains, have already begun to pivot toward India. On the domestic front, increased industrial investment could be further catalyzed if a stronger redistribution effort boosts the demand for manufactured goods.

In all likelihood, the trajectory of Indian industry over the next ten years will lie somewhere between these two scenarios: an intermediate position in line with India's concern to remain non-aligned or, to use the terminology in vogue today, plurilateral. In any case, a nuanced understanding of India's industrial landscape will be essential in shaping a mutually beneficial partnership for India and Europe. Donald Trump's attitude regarding trade relations and the migrant issue is one of the key variables that analysts must factor in. **A deterioration in India–U.S. relations would probably result in an intensification of the India–EU rapprochement**.