INSTITUT Montaigne

[Scenarios] **India:** The Challenge of “Make in India”

EXPLAINER - FEBRUARY 2025

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Foreword

India occupies a unique position between China and the West, to the extent that it envisions the 21st century as its own through the concept of ”India’s century.” In Europe, this assertion is generally welcomed: eager to assert its historic status as a non-aligned power, committed to multilateralism, and home to a seemingly limitless labor force, India appears to be an ideal partner in countering the emergence of a U.S.-China duopoly.

To determine whether this vision is a mere illusion or a credible prospect, the Institut Montaigne has chosen to explore India’s possible futures through a scenario-based approach. This follows the methodology we initiated to study Russia and China in 2024, focusing on key uncertainties. We have deliberately selected four themes that we believe capture the main challenges India must address: food security, environmental sustainability, industrial development, and regionalism.

At the end of 2024, our analysis of food insecurity underscored the urgency of diversifying India’s agricultural production and modernizing its value chain to combat malnutrition and lay the foundation for truly sustainable development. Our examination of environmental transition identified a set of priority actions to address India’s triple crisis of water, air, and forest degradation.

Now, in early 2025, we extend our analysis to two additional challenges that will shape India’s trajectory. The first examines the ambitions of the “Make in India” initiative in light of persistent weaknesses in the country’s manufacturing sector. The second examines economic policy disparities among Indian states and their implication on our engagement strategies—too often framed solely through the lens of the federal government.

Taken together, these four scenarios present a nuanced portrait of India, one that challenges conventional perceptions—an essential prerequisite for any meaningful partnership.

Marie-Pierre de Bailliencourt
Institut Montaigne's Managing Director

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Although some recent investments in India by multinationals eager to minimize their exposure to "the China risk"—including Foxconn's opening of an iPhone plant there—have hit the headlines, how India plans to meet its objectives in terms of industrialization remains unclear. In spite of the "Make in India" scheme launched by Prime Minister Narendra Modi in 2014, the Indian manufacturing sector's share of GDP continues to diminish, and the country's dependence on China keeps increasing.

In the modern era, a country's economic development generally follows a trajectory that begins with an industrial revolution. This shift enables peasants who can no longer find work in agriculture due to the mechanization of the production process to find employment in industry. This stage is typically followed by a "service revolution," which provides jobs for workers who have been replaced in factories by machines.

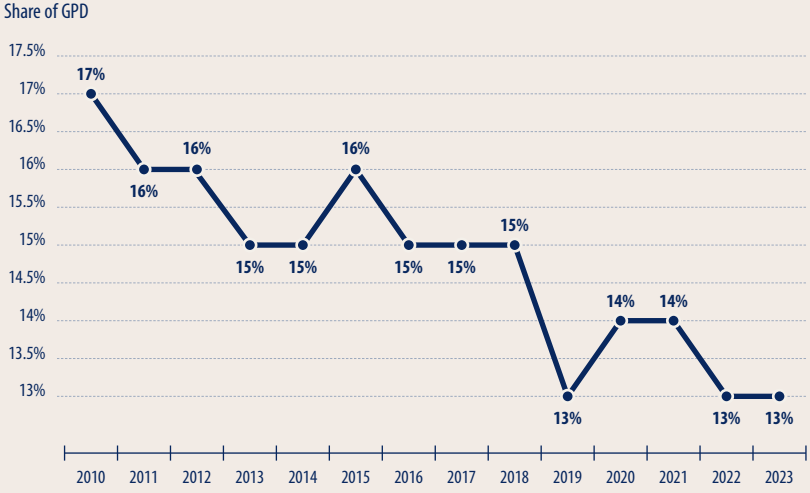
India, however, is the exception that proves the rule. Judging by the weight of the tertiary sector in the economy, India's service revolution took place before its industrial revolution. According to the Ministry of Statistics and Programme Implementation, in 2024, the primary, secondary, and tertiary sectors accounted for 19.62, 25.66, and 54.72 percent of GDP, respectively.[1] It is important to note the trends here. Compared to 2016-17, we see a slight increase in the share of GDP of the primary sector (from 17.95 percent), a fall in the share of the secondary sector (from 29.29 percent), and an increase in the service sector's share of GDP (from 52.76 percent). At the same time, the number of rural dwellers in India remains very high—68.8 percent of the population according to the 2011 census and 64 percent today[2]—due mainly to a **lack of employment opportunities in industry**.[3]

[1] *"India GDP Sector-Wise 2020," Statistics Times, accessed January 2025, https://statisticstimes.com/economy/country/india-gdp-sectorwise.php.*

[2] *"India Rural Population 1960–2024," Macrotrends, 2024, https://www.macrotrends.net/global-metrics/countries/IND/india/rural-population.*

Within the secondary sector, industry is in the worst shape, with the world of "construction" (a category that Indian statistics count as part of the secondary sector—like mining—and which refers to French-style building and civil engineering) often serving as an adjustment variable. Indeed, unable to find jobs as factory workers or in the informal industrial sector, the victims of the rural exodus—men and women alike—often hire themselves out on building sites. In 2023, the construction sector accounted for 9 percent of GDP, while manufacturing accounted for only 13 percent, compared with 16 percent in 2015 (see Graph 1).

Graph 1: Manufacturing sector's shares of GPD in India from 2010 to 2023



Source: World bank.

[3] *Not only is the secondary sector unable to absorb this extra workforce, but its weight in the economy is eroding, resulting in a certain degree of re-ruralization of Indian society, with more or less temporary migrants leaving the cities (or slums) where they used to work to return to their villages when they lose their jobs. This phenomenon was amplified during the Covid pandemic and can still be observed: the proportion of rural dwellers increased from 2018 to 2021, before beginning a slight decline in 2022. See "India Rural Population 1960-2024," Macrotrends.*

Is India experiencing **a process of premature deindustrialization**[4] similar to that observed in countries such as Egypt, in spite of the country's attractiveness to foreign investors in sectors such as defense and aeronautics, as well as electronics and semiconductors? This trend is particularly worrying given the key role played by industry in economic development, national sovereignty, and job creation in a country where nearly **nine million young jobseekers enter the job market every year**—and will continue to do so for many years to come.[5] This note analyzes the causes and consequences of this phenomenon, making systematic reference to China's role in these processes, before considering **two scenarios for India's development to 2035**.

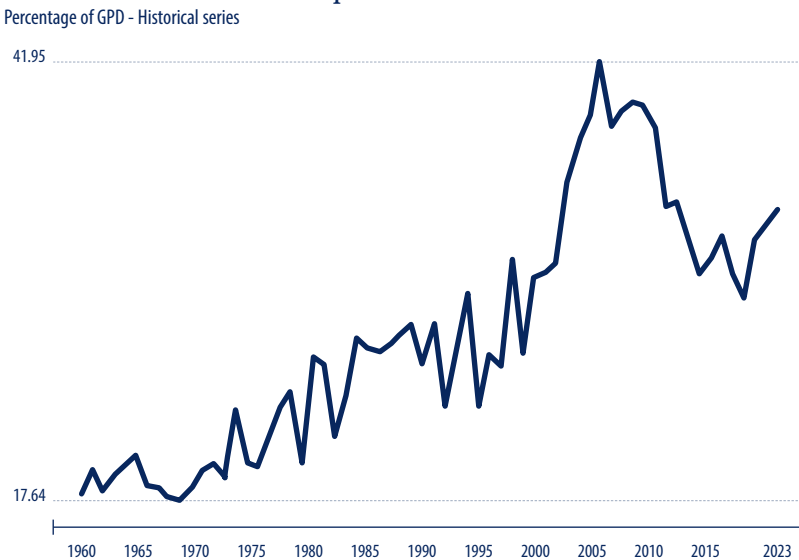
[4] *Judhajit Chakraborty and R. Nagaraj, "Has India Deindustrialised Prematurely? A Disaggregated Analysis," Economic and Political Weekly 55 no. 48 (December 5, 2020), https://www.epw.in/journal/2020/48/special-articles/has-india-deindustrialised-prematurely.html.*

[5] *The Indian government predicts that India will need to create 8 million jobs a year until 2036, but containing mass (youth) unemployment will remain a challenge until at least mid-century, as the Indian population is set to grow until 2065, when it will reach a record 1.7 billion.*

1 Industrial Investment Stalls

One of the main reasons for the difficulties faced by Indian industry is a lack of investment. After growing significantly in the 1990s and 2000s, the rate of productive investment (gross fixed capital formation) has tended to weaken structurally: it fell from almost 42 percent of GDP in 2007 to 29 percent in 2020. It rose to 34 percent in 2023,[6] but this still falls short of what is needed for rapid economic modernization (see Graph 2).

Graph 2: Capital investment as percent of GDP



Source: World Bank Data.

[6] *"Gross Capital Formation (% of GDP) – India," World Bank Group, accessed November 15, 2024, https://data.worldbank.org/indicator/NE.GDI.TOTL.ZS?locations=IN.*

This curve is all the more worrying in that it is largely explained by the slump in private investment. The rate of private investment[7] fell from 31 percent in 2011 to 23 percent in 2020, and although it has partially recovered since then, it peaked at less than 27 percent in 2022.[8] This trend has not been offset **by public investment, which has been declining since the late 1980s**, when private investment began to increase, driving Indian growth until the early 2010s. While the share of GDP of public investment fell from 12 percent in 1986-87 to 7 percent in 2019-20, that of private investment rose from 12 percent in 1986-87 to 27 percent in 2007-2008 before falling to less than 20 percent in 2019-20.[9] Within private investment, corporate investment[10] fell in the same proportions, from 25.1 percent of GDP in 2007-08 to 12 percent in 2020-21, before rising to 13.8 percent in 2022-23.[11] Investment in the manufacturing sector has fallen particularly sharply, from 6.1 percent of GDP in 2011-12 to 4.2 percent in 2021-22.[12]

What are the underlying causes of the relative collapse of private investment? **Weak demand** is a major factor. Manufacturing companies, in particular, are often faced with unused production capacity, making expanding their industrial facilities unnecessary. Over the space of a

[7] *The rate of investment is the ratio of gross fixed capital formation to value added.*

[8] *"Gross Fixed Capital Formation, Private Sector (% of GDP) – India," World Bank Group.*

[9] *Prashanth Perumal J., "Why Have Private Investments Dropped?" The Hindu, April 19, 2024, https://www.thehindu.com/business/Economy/why-have-private-investments-dropped-explained/article68081011.ece; TCA Sharad Raghavan, "Private Investment a Shrinking Slice of India's GDP Pie since 2012. It's a Vote of No Confidence," The Hindu, April 25, 2023, https://theprint.in/economy/private-investment-a-shrinking-slice-of-indias-gdp-pie-since-2012-its-a-vote-of-no-confidence/1535969.*

[10] *"Corporate investments refers to the financial decisions made by managers to allocate resources into real assets with the aim of maximizing the value of the firm" (Handbook of Empirical Corporate Finance, ed. B. Espen Eckbo, 2007).*

[11] *Latha Venkatesh, "India's Corporate Investment as percentage of GDP Is Still below Pre-Covid Level," CNBCTV18, May 26, 2023, https://www.cnbctv18.com/economy/indias-corporate-investment-as-percentage-of-gdp-is-still-below-pre-covid-level-16776561.htm.*

[12] *Suyash Rai and Anirudh Burman, "Is the Make in India Initiative Working? | Mihai Varga on World Bank-Led Land Reforms in Eurasia," Carnegie Endowment for International Peace, October 4, 2023, https://carnegieendowment.org/india/ideas-and-institutions/is-the-make-in-india-initiative-working-or-mihai-varga-on-world-bank-led-land-reforms-in-eurasia.*

decade, from 2011 to 2021, unused production capacity in Indian factories rose from 18 percent to 40 percent, an extreme situation linked to the Covid-19 crisis. By 2022, this percentage had fallen drastically but remained at around 25 percent, a far cry from the 2011 figure.[13] The weakness of demand here stems from **the thinning or even erosion of the middle class**, whose consumption was one of the engines of growth during the years 1990-2000.

Moreover, a closer look at the first decade of the twenty-first century, the decade in which Indian growth flirted with double-digit rates, reveals that **investment was boosted not only by attractive real interest rates but also by expectations that ultimately failed to materialize—**as I predicted back in 2012,[14] the development model adopted by India in the 1990s encouraged the growth of inequality so radically that only a small minority of Indians truly benefited. Since the turn of the century, inequality has increased dramatically, with the share of national income held by the richest 10 percent rising from 34.4 percent in 1990 to 57.1 percent in 2018. At the same time, the share of the same national income held by the poorest 50 percent fell from 20.3 percent to 13.1 percent.[15] Admittedly, the national income has increased significantly in the meantime, but part of the middle class has nonetheless undergone a process of impoverishment, making certain consumer goods inaccessible to them. In fact, for the first time since the 1970s, the National Sample Survey Office, India's equivalent of France's Insee, recorded in 2017-18 an increase—albeit very slight—in the number of people living below the poverty line, from 21.9 percent in 2011-12 to 22.8 percent in 2017-18.[16]

[13] *"India OBICUS: RBI: Capacity Utilisation," CEIC Data, CEICdata.com, accessed November 15, 2024, https://www.ceicdata.com/en/india/order-books-inventories-and-capacity-utilisation-survey-obicus-reserve-bank-of-india-capacity-utilisation/obicus-rbi-capacity-utilisation.*

[14] *Christophe Jaffrelot, Inde, L'envers de la puissance: Inégalités et révoltes (Presses du CNRS, 2012).*

[15] *"India – WID – World Inequality Database," World Inequality Database, 2017, https://wid.world/country/india/.*

[16] *Pramit Bhattacharya and Sriharsha Devulapalli, "India's Poverty Rate Has Started to Rise after Almost Three Decades of Continuous Reduction," December 3, 2019, https://www.livemint.com/news/india/rural-poverty-has-shot-up-nso-data-shows/amp-11575352445478.html.*

Although the Indian elite has become very wealthy, it is unable to offer a market that is large or stable enough to convince manufacturers to invest in India. Nearly 800 million Indians are currently eligible for food aid, a tangible indication of the **narrowness of the market comprising solvent consumers**.

The low purchasing power of Indian consumers is reflected in the decline in the savings rate, which has never been so low since the 1970s. In 2024, it stood at 5.3 percent of GDP. At the same time, households are taking on debt, with borrowings in 2023 representing 5.8 percent of GDP, another near-record since the 1970s.[17]

Low household savings deprive banks of resources they could use to lend to businesses, which are, therefore, even more hampered in their investment plans. But if banks are not lending easily to businesses, this is also because they have seen their balance sheets burdened by bad debts—loans to companies that cannot repay them because they have been unable to turn a profit on their investments since 2000. At that time, unreasonable confidence in the future—as mentioned above—led to massive investments that were not repaid,[18] leaving the banks very vulnerable. As a result, they were **reluctant to lend to potential investors**.[19]

A final reason why Indian industry is struggling today is **its lack of competitiveness**. As India opened up its market as part of its liberalization policy, it allowed foreign enterprises to penetrate entire sectors of its economy, while raw materials were among its main export items.

[17] *Soutik Biswas, "What's Behind a Dramatic Fall in Indian Families' Savings?" BBC, April 26, 2024, https://www.bbc.com/news/world-asia-india-68874403.*

[18] *The Nano is a textbook case. A car designed by the Tata company for the lower middle class, or even the poor, failed to find buyers, with two-wheelers remaining their vehicle of choice, to the point that the factory that had been making it since 2010 ceased production in 2018.*

[19] *Christophe Jaffrelot, "From Slowdown to Lockdown, India's Economy and the Covid-19 Shock," Institut Montaigne Policy Brief, June 11, 2011, https://www.institutmontaigne.org/ressources/pdfs/blog/slowdown-lockdown-policy-brief.pdf.*

2 India's Competitiveness Deficit: The Challenge of R&D and Innovation

In 2019, the World Economic Forum ranked India mid-table—68th out of 141—in terms of competitiveness (based on its Global Competitiveness Index, or GCI).[20] This very average ranking is partly due to a **major innovation deficit**.[21] Indeed, in its 2022 report on India's manufacturing sector, Mumbai's National Institute of Industrial Engineering attributed Indian industry's difficulties to five main factors, all having to do with the limits of innovation: **lack of R&D, low productivity, incomplete digitalization, inadequate technology adoption, and poor quality products**.[22]

The mediocre competitiveness of Indian industry can be partly explained by the weakness of its R&D efforts. Not only do the country's companies fail to innovate sufficiently, but they also **neglect entire sectors of the economy that Chinese firms have been able to penetrate**.

The Indian business world has been suffering from serious weaknesses in terms of innovation for many years, partly due to the protectionism under which it has long operated. Until the liberalization of the 1990s, Indian companies had a captive national market due to the customs barriers the country had built up (average customs rates were 80 percent at the time). In addition to this legacy, Indian capitalists were often quicker to seek rents than to innovate, partly because this group was largely

[20] *From an innovation point of view, India ranks 35th, but this is largely due to the performance of the services sector. "Global Competitiveness Report 2019," World Economic Forum, Geneva, October 8, 2019, p. 16, http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf.*

[21] *Other factors, which we don't have the space to examine here, could also be taken into account, such as the shortage of skilled labor (preventing the country from exploiting the advantage of its demographic dividend) and infrastructure bottlenecks (whether transport or energy).*

[22] *"Renaissance of Indian Manufacturing Sector," National Institute of Industrial Engineering, Mumbai, 2022, p. 5, https://iimmumbai.ac.in/files/Manufacturing_Sector_report.pdf.*

drawn from merchant castes who did not necessarily have an industrial culture or the taste for risk that supposedly goes with it. **These historical and sociological characteristics often led Indian industrialists to buy the technologies they needed rather than inventing them themselves**. Today, the culture of rent-seeking is perpetuated—despite the openness to the world inherited from the reforms of the 1990s—by the influence of industrialists close to the government, known as oligarchs or "cronies," who succeed in having the governments they finance raise customs barriers (often non-tariff barriers) that hinder the entry of foreign competitors into the Indian market (see below).

Indian R&D figures reflect this culture and these processes. Spending in this area has fallen from an already modest 0.83 percent of GDP in 2009-10 to 0.64 percent in 2020-21, following a linear erosion trend.[23] Among emerging countries, only Mexico is doing worse—by a small margin—with South Africa slightly ahead. India's R&D expenditure per capita (calculated in purchasing power parity terms) paints an even bleaker picture: it stood at $47.2 in 2017 (compared with $351.2 for China, $287.7 for Russia, $197.9 for Brazil, $108.5 for South Africa, and $91.3 for Mexico).[24]

These figures explain why India accounted for no more than 2.9 percent of the world's R&D expenditure (the same as France), while China accounted for 22.8 percent (just behind the number one, the United States, which accounted for 24.8 percent of the total).[25]

The shortage described above is linked to the meager efforts of the private sector in this area: In 2020-21, the private sector accounted for

[23] *"Research and Development Statistics at a Glance, 2022–23," Department of Science & Technology, Government of India, New Delhi, 2023, p. 7, https://dst.gov.in/document/reports/updated-rd-statistics-glance-2022-23. These figures are lower than those for China and Brazil – see Keun Lee, Jinhee Kim, and Joonyup Kim, "National Innovation System (NIS) of India in a Comparative Perspective: India vs. China, Germany, Korea and Brazil," Economic and Political Weekly 56 no. 34 (2024), p. 75.*

[24] *All dollar figures are in US dollars.*

only 36.4 percent of the country's R&D expenditure, compared with 43.7 percent from the central government, 6.7 percent from the states of the Indian Union, and 4.4 percent from state-owned companies (the balance being provided by higher education, which is largely public). The share of the private sector decreased from 45.2 percent in 2012-13 to 40.8 percent in 2020-21, while that of the state increased from 54.8 percent to 59.2 percent.[26] India is the only emerging country where the public sector accounts for more than 50 percent of R&D. The next highest-ranking country is none other than Russia, where public R&D accounts for only one-third of the total.[27]

Excluding defense and space, industry and services accounted for 41.4 percent of total R&D spending in 2017-18. The private sector accounted for 36.8 percent of this total, while the public sector accounted for just 4.6 percent.[28] However, if the private sector seems to be playing the innovation game here, we need to put this 41.4 percent in the context of GDP to measure the reality of this effort. In fact, R&D spending in industry and services (where the private sector plays a dominant role) represented just 0.28 percent of GDP. Another revealing

[25] *"Research and Development Statistics, 2019–20," New Delhi, Government of India, Ministry of Sciences & Technology, 2020, p. 64, https://dst.gov.in/document/reports/research-and-development-statistics-2019-20. India's limited R&D effort must also be put into perspective by the role of foreigners: in 2021–22, 66 percent of patents filed were by non-residents, mainly Americans (32.7%), Japanese (13.1%), and Chinese (10.5%). This fact partly explains the increase in the number of patents filed in India – most of which are of foreign origin – remains remarkable, as the country ranked 7th worldwide in 2018, ahead of Russia and Canada. Seven states in the Indian Union accounted for 75 percent of patents filed in 2017-18: Maharashtra, Tamil Nadu, Karnataka, Delhi, Telangana, Uttar Pradesh, and Gujarat.*

[26] *An older government source shows a different trajectory: The public sector share fell from 81 to 63.2 percent between 2001-02 and 2017-18, while the private sector share rose from 19 to 36.8 percent. See: "Research and Development Statistics, 2019–20," Ministry of Sciences & Technology, Government of India, p. 5.*

[27] *Among the public agencies reporting to the New Delhi government, the Defence Research & Development Organisation, with 30.7 percent of the total, comes well ahead of the Department of Space (18.4%), the Indian Council of Agricultural Research (12.4%), and the Department of Atomic Energy (11.4%).*

[28] *"Research and Development Statistics, 2019–20," Ministry of Sciences & Technology, Government of India, p. 6.*

figure: R&D spending accounted for less than 1 percent (0.98 percent) of sales turnover in industry and services, less than half of expenditure on advertising.[29]

The sectors in which private companies invest most heavily in R&D are **pharmaceuticals** (24.34 percent of R&D expenditure in industry and services), **transport** (16.41 percent), **information technology** (8.68 percent), and **mechanical engineering industries** (7.48 percent).

The lack of significant investment in R&D partly explains the underwhelming competitiveness of Indian industry, which has resulted in low export capacity. In response, **the Modi government has made industrialization a priority** and has sought to attract foreign investors for this purpose—while encouraging Indian manufacturers to modernize their production facilities.

[29] *The figures for the private sector are slightly more favorable: R&D accounts for 1.48 percent of sales and advertising for 0.67 percent.*

3 "Make in India": The Modi Government's Response and Its Limits

In 2014, only a few months after the BJP's electoral victory that had made him prime minister, the state of Indian industry prompted Narendra Modi to launch **a major stimulus program dubbed "Make in India."** It aims to achieve four complementary objectives:

1) to raise the growth rate of Indian industry to 12-14 percent per year;
2) to create 100 million industrial jobs by 2022;
3) to increase the share of the manufacturing sector to 25 percent of GDP by 2022 (a deadline shifted a few years later to 2025); and
4) to make India the "new factory of the world," taking over from China by moving up the value chain.[30]

Twenty-five Indian industry sectors were involved in this project. First, the government aimed to identify industrial corridors in which it planned to step up its efforts to develop infrastructure (notably transport and energy) to encourage new companies to set up shop; second, it would simplify the procedures that were previously required to set up a business in India; and third, foreign investors would be able to develop their own subsidiaries in India in more sectors than before without needing to set up joint ventures.

The simplification of the procedures to which investors were subjected in India allowed the country to improve its position in international rankings. Between 2014 and 2019, India rose from 142th to 63th in the World Bank's Ease of Doing Business Index.[31]

[30] *On the low value-added of India's exports as Modi launched the "Make in India" program, see Rahul Anand, Kalpana Kochhar, and Saurabh Mishra, "Make in India: Which Exports Can Drive the Next Wave of Growth?" IMF Working Paper, WP/15/119, 2015, https://www.imf.org/external/pubs/ft/wp/2015/wp15119.pdf.*

Despite these advances, the "Make in India" program has not achieved its objectives: the industry growth rate is far from double digits. Since 2014, it has averaged around 4 percent,[32] with manufacturing even falling below this level.[33] The share of manufacturing of GDP, far from having increased, has continued to erode, falling from 18.3 percent in 2010-11 of India's gross added value to 14.72 percent in 2019-20, before the Covid crisis. Two years after this crisis, in 2022-23, this proportion had fallen to 14.70 percent, the lowest figure since 1968-69. Far from creating the expected 100 million employment opportunities, industry has lost many jobs, with the number of manufacturing workers dropping from 51.31 million in 2017 to 35.65 million in 2022-23, a fall partly linked to the Covid crisis, which saw the number of manufacturing workers fall to less than thirty million in 2021.[34] Between 2016-17 and 2022-23, the manufacturing sector lost nearly 15.7 million workers.[35]

This setback is partly due to foreign direct investment (FDI). **The Modi government hoped to attract enough FDI to replicate China's development strategy and become a manufacturing hub for the rest of the world, capitalizing on India's low labor costs**. Indeed, FDI in India grew from $36 billion a year in 2014 to almost $85 billion by 2022.[36]

[31] *"DPIIT Coordinates Initiatives for Ease of Doing Business Creating a Conducive Business Environment," Ministry of Commerce and Industry, Government of India Press Information Bureau, February 7, 2024, https://pib.gov.in/PressReleaseIframePage.aspx?PRID=2003540.*

[32] *"India Industrial Production | 1994–2020 Data | 2021–2022 Forecast | Calendar," Trading Economics, 2024, https://tradingeconomics.com/india/industrial-production.*

[33] *"India GDP from Manufacturing | 2011–2019 Data | 2020–2022 Forecast | Historical," Trading Economics, 2024, https://tradingeconomics.com/india/gdp-from-manufacturing.*

[34] *"India: Manufacturing Sector Employment 2021," Statista, 2024, https://www.statista.com/statistics/1284237/india-manufacturing-sector-employment; "India Manufacturing Tracker: 2024–25," September 13, 2024, India Briefing, Dezan Shira & Associates, https://www.india-briefing.com/news/india-manufacturing-tracker-2024-25-33968.html.*

[35] *Suyash Rai and Anirudh Burman, "Is the Make in India Initiative Working? | Mihai Varga on World Bank-Led Land Reforms in Eurasia," Carnegie Endowment for International Peace, 2023, https://carnegieendowment.org/india/ideas-and-institutions/is-the-make-in-india-initiative-working-or-mihai-varga-on-world-bank-led-land-reforms-in-eurasia?lang=en.*

[36] *"India – FDI Inflow Amount for All Sectors 2012–2019," Statista, 2023, https://www.statista.com/statistics/715539/india-fdi-inflow-amount-for-all-sectors.*

However, this success needs to be put into perspective from two points of view.

First, only a fraction of these investments—an increasingly small portion since 2018-19—can be considered productive. Of the over $80 billion in FDI in 2020-21, only $21 billion fell into this category, representing just 3.1 percent of the country's gross capital formation. In the peak year from this point of view, 2018-19, productive FDI accounted for no more than 6.5 percent of gross capital formation.[37]

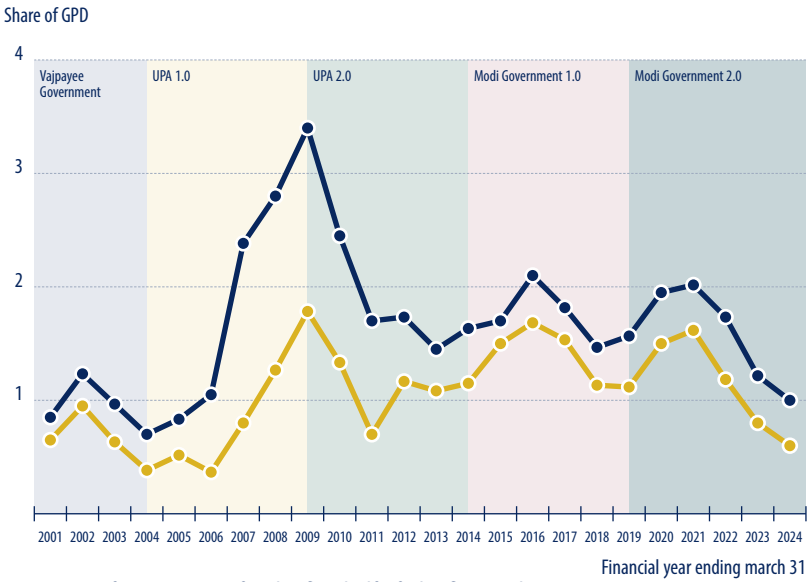
Second, to measure the real weight of FDI, we need to relate it to GDP. From this angle, the picture is different: **FDI represents an average of just 1.76 percent of Indian GDP** over the period from 2014-15 to 2022-23, compared with an average of 2.14 percent of GDP over the previous decade from 2007-08 to 2014-15.[38] Following a declining trend, the share of FDI made in India, after peaking at 3.5 percent of GDP in 2008-09, fell back to 1.25 percent in 2022-23 (See Graph 3).[39]

[37] *In fact, a still significant – and growing since 2019 – share of FDI is non-productive investment. See: Katharina Buchholz, "Indian FDI Inflow Rises but Fails to Aid Capital Formation," Statista, September 14, 2021, https://www.statista.com/chart/25759/india-fdi-capital-formation).*

[38] *Suyash Rai and Anirudh Burman, "Is the Make in India Initiative Working? | Mihai Varga on World Bank-Led Land Reforms in Eurasia," Carnegie Endowment for International Peace, 2023, https://carnegieendowment.org/india/ideas-and-institutions/is-the-make-in-india-initiative-working-or-mihai-varga-on-world-bank-led-land-reforms-in-eurasia?lang=en.*

[39] *Ibid.*

Graph 3: FDI as a % of GPD is set to fall to decadal laws in 2023-24



Note: Data for 2023-24 is for the first half of the financial year.

Source: RBI.

Third, **FDI has declined significantly since 2022**. It fell to just over $71 billion in 2022-23 and to just over $10 billion in 2023-24, a drop of 60 percent. This is the lowest figure since 2007, when FDI accounted for just 0.7 percent of GDP, a record in independent India.[40] These figures are counterintuitive, as a series of massive, well-publicized investments **created the impression that India was benefiting from a process known as "decoupling" in the US and "de-risking" in Europe**, whereby Western firms that had invested heavily in China were partly

[40] *Dhananjay Sinha, "A 60% Fall! Does Falling FDI Call for Policy Recalibration?" The Economic Times, June 14, 2024, https://economictimes.indiatimes.com/markets/stocks/news/a-60-fall-does-falling-fdi-call-for-policy-recalibration/articleshow/110989322.cms.*

withdrawing from that country for both economic and political reasons in order to diversify their FDI. However, India has not benefited from these flows as much as other countries in the Indo-Pacific region—starting with Vietnam.

Fourth, the **majority of FDI since 2017 has been concentrated in about nine sectors**, starting with services (especially IT), while fifty-three other branches—mainly in manufacturing—receive just 30 percent of total FDI.[41]

India's lack of attractiveness is partly due to its slow bureaucracy and corrupt practices, which still make it more difficult for foreign firms to set up operations in the country. Additionally, the country's mediocre port, rail, and even road infrastructure, along with insufficient training of its workforce, contribute to this issue.

Finally, the "Make in India" program has failed to increase India's merchandise exports, which have declined steadily over the past ten years in relative terms, falling from 10.2 percent of GDP in 2013-14 to 8.2 percent in 2022-23.[42]

To address the limitations of the "Make in India" program, which some experts attribute in part to its broad coverage of too many sectors,[43] the Modi government has reoriented its focus while still supporting the initiative. The scheme it has favored since 2020 is now called "Production-Linked Incentives" (PLI). It aims to help investors operating in key

[41] *Dhananjay Sinha and ET BFSI, "A 60% Fall! Does Falling FDI Call for Policy Recalibration?," ETBFSI.com (ET CONTRIBUTORS, June 14, 2024), https://bfsi.economictimes.indiatimes.com/news/industry/a-60-fall-does-falling-fdi-call-for-policy-recalibration/110992935.*

[42] *Suyash Rai and Anirudh Burman, "Is the Make in India Initiative Working? | Mihai Varga on World Bank-Led Land Reforms in Eurasia," Carnegie Endowment for International Peace, 2023, https://carnegieendowment.org/india/ideas-and-institutions/is-the-make-in-india-initiative-working-or-mihai-varga-on-world-bank-led-land-reforms-in-eurasia?lang=en.*

[43] *Suresh Babu, "Why 'Make in India' Has Failed," The Hindu, January 20, 2020, https://www.thehindu.com/opinion/op-ed/why-make-in-india-has-failed/article30601269.ece.*

sectors and promote cutting-edge technologies to improve the international competitiveness of Indian firms. The number of sectors covered by PLI has grown rapidly:

> Initially, the PLI schemes were focused on key starting materials, drug intermediates, active pharmaceutical ingredients, large-scale electronics, and medical devices. Later, they were extended to eleven more product categories: electronic/technology products, pharmaceutical drugs, telecom and networking products, food products, white goods (ACs and LEDs), high-efficiency solar PV modules, automobiles and auto components, advanced chemistry cell batteries, man-made fiber, and technical textiles, specialty steel, and drones and drone components.[44]

Expert observers point out that **PLIs favor large firms, as they can put together grant applications more easily than SMEs**, and it is easier for public authorities to verify that they meet the program's specifications.

Moreover, the cost of these PLIs to the state is already considerable, which raises the question of both the sustainability of such an effort and its relevance, since **such expenditure naturally comes at the expense of other items in the state budget**. The issue is particularly sensitive when the government extends aid to large firms. For example, the microprocessor plant that the American manufacturer Micron set up in Gujarat represented an investment of $2.75 billion, of which Micron covered only a small part ($825 million), the "rest" being financed by the governments of New Delhi and Gandhinagar.[45]

[44] *Suyash Rai and Anirudh Burman, "Is the Make in India Initiative Working? | Mihai Varga on World Bank-Led Land Reforms in Eurasia," Carnegie Endowment for International Peace, 2023, https://carnegieendowment.org/india/ideas-and-institutions/is-the-make-in-india-initiative-working-or-mihai-varga-on-world-bank-led-land-reforms-in-eurasia?lang=en.*

[45] *Ibid.*

Finally, **India's strategy of using protectionism strategically to attract investors has problematic collateral effects**. The authorities have chosen to increase tariffs to give foreign manufacturers who are no longer able to sell their products on the Indian market an additional incentive to invest in the country in order to maintain access to consumers. In doing so, the authorities are creating rents that shield many companies from foreign competition.

However, to measure the impact of the "Make in India" program and the PLIs, we need to situate the analysis at the sector level of Indian industry to better grasp the diversity of situations and their commonalities.

3.1. SECTOR ANALYSES:[46] AUTOMOTIVES, TEXTILES, ELECTRONICS, AND PHARMACEUTICALS

a. The Automotive Sector

The automotive industry is one of the pillars of the Indian manufacturing sector, accounting for 49 percent of revenues (27 percent of secondary sector revenues and 7.1 percent of GDP) and thirty-seven million direct and indirect jobs. The sector is organized around three geographical clusters of roughly equal size: the first is in **Tamil Nadu**, home to many foreign manufacturers, including Renault and Hyundai; the second in **Maharashtra**, where foreign manufacturers such as Volkswagen and Audi rub shoulders with Indian brands such as Mahindra & Mahindra; and the third is in **Haryana**, where Maruti—which accounts for around 45 percent of the automotive market—has its main plants. A fourth cluster is in the process of being set up in **Gujarat**, where Tata Motors has installed a production unit.

[46] *A useful source for any sectoral analysis of Indian industry: Annual Survey of Industries, 2021–2022, vol. 1, Ministry of Statistics and Programme Implementation, Government of India, New Delhi, https://www.mospi.gov.in/sites/default/files/publication_reports/ASI%20Volume%20I%202021-22%20%20Final.pdf.*

For a long time, the automotive industry was the **preserve of Indian manufacturers**, who lived under the protection of substantial customs barriers. Maruti (initially a 50/50 joint venture between Suzuki and the Indian state[47]) was an exception to this rule from the 1980s onwards. In the years 1991-2000, by sparing investors in the sector the need—de rigueur until 1991—to enter into a joint venture with a local partner, **India attracted a large number of carmakers, including Mercedes-Benz, Ford, GM, Honda, Hyundai, Toyota, Skoda, Nissan, and BMW**, who saw it as both a low-cost manufacturing platform, especially for labor, and a promising market (even today, only 2.2 percent of Indians own a car). Twenty years later, among the newcomers, only Hyundai has managed to carve out a place in the sun with over 16 percent of sales, with all other foreign manufacturers below the symbolically important 5 percent market share mark (Renault being 50 percent lower than this at 2.3 percent). Major players such as GM and Ford have even pulled out. The latter closed its factories in Gujarat and Tamil Nadu after years of operating at a loss—for a cost of $2 billion.[48] Nevertheless, foreign investment continued to grow until the early 2020s and the Covid crisis, which brought it to a halt before a strong comeback (see Table 1).

Table 1: Growth of FDI inflows in the Indian automotive sector

Year	**FDI inflows** (in million)	**Growth rate** (percentage)
2010	5,609.00	–
2011	6,008.00	7.113567
2012	4,347.00	-27.6465

[47] *Maruti came under Suzuki's flag in 2003, with the Indian state selling its last shares in 2007.*

[48] *Ragini Saxena and Keith Naughton, "Ford Will Cease Making Cars in India, Take $2 Billion Charge," Bloomberg, September 9, 2021, https://www.bloomberg.com/news/articles/2021-09-09/ford-will-cease-manufacturing-in-india-take-2-billion-charge.*

Year	FDI inflows (in million)	Growth rate (percentage)
2013	8,384.00	92.86865
2014	9,027.00	7.66937
2015	15,794.00	74.964
2016	16,437.00	4.071166
2017	10,824.00	-34.1486
2018	13,461.00	24.36253
2019	18,309.00	36.01515
2020	19,753.00	7.886832
2021	12,115.00	-38.6675
2022	51,624.00	326.1164

Source: Sandeepthi Robert M. and Nirmala J., "Foreign Direct Investment in Automobile Sector in India," Research Review International Journal of Multidisciplinary 8, no. 7 (July 2023): 71-74, https://doi.org/10.31305/rrijm.2023.v08.n07.010.

India's automotive sector remains highly promising. One analyst estimates that its size will reach $214.7 billion by 2032, up from $109.3 billion in 2023. However, the sector is failing to realize its potential. Although **India is now the world's fourth-largest car manufacturer, with some four million vehicles produced annually, its share of global vehicle sales remains modest** ($23 billion out of $800 billion, or 8 percent of the country's exports). Worse still, exports are declining. By 2023, they fell to 13 percent of national production, compared with 19 percent in 2014—the lowest proportion in ten years. In 2023, India's PV exports were 727,863 units, which is still lower than the pre-pandemic level of 747,430 units in 2019.[49] This decline can be explained first

[49] *Surajeet Das Gupta, "Share of Passenger Vehicle Output Geared for Export at 10-Year Low in 2023," Business Standard, May 24, 2024, https://www.business-standard.com/industry/auto/share-of-passenger-vehicle-output-geared-for-export-at-10-year-low-in-2023-124052301477_1.html.*

by the departure of the aforementioned American manufacturers, who accounted for 35 percent of exports of cars made in India, second by a lack of competitiveness in the medium and especially large car segments (which, incidentally, bring in more revenue than small models), and third by the delay experienced by Indian manufacturers in electric cars. In 2022, electric cars accounted for just 1.3 percent of passenger vehicles sold in India—49,800 out of 3.8 million –[50] and only a handful of manufacturers there have shown any interest in this type of vehicle, which is destined to become the majority. Even more significantly, India's leading automaker, Maruti, was slow to invest in this promising field, with its first electric model only appearing on the market in 2024, five years after Hyundai launched its first electric vehicle, the Kona.

Electric vehicles are, however, expected to benefit from the government's "Faster Adoption and Manufacturing of Hybrid & Electric Vehicles in India" (FAME I and II) and "National Electric Mobility Mission Plan" (NEMMP) programs, which offer tax breaks to buyers of electric vehicles.[51]

b. Textiles

The textile sector is another key pillar of Indian industry. This sector employs one hundred million people—forty-five million of them in direct jobs. By 2023-24, it accounted for 2.3 percent of Indian GDP, 7 percent of industrial income, 13 percent of industrial output, and 12 percent of exports.[52] However, textile sales abroad leave something to be desired: India accounts for only 3.1 percent of the global apparel

[50] *Manah Popli and Melissa Cyrill, "India's EV Production Capacity and Domestic Auto Market Trends," India Briefing, Dezan Shira and Associates, November 9, 2023, https://www.india-briefing.com/news/indias-prospects-as-an-ev-hub-consumer-market-and-production-capacity-30157.html.*

[51] *"India Automotive Industry Market Overview," Market Research Future, https://www.marketresearchfuture.com/reports/india-automotive-industry-market-12546.*

[52] *"Textile Industry in India: Overview, Market Size, Exports, Growth," India Brand Equity Foundation, 2022, https://www.ibef.org/industry/textiles.*

market, which seems modest compared to Bangladesh (8 percent) and Vietnam (6 percent). Furthermore, **India's share of the global textile market has been stagnating since 2005**, when Bangladesh's share was precisely 3 percent and Vietnam's 2 percent.[53] Admittedly, these countries often benefit from preferential treatment that exempts them from certain customs duties that weigh down Indian products in Europe and the US, but unlike the countries mentioned above, India has yet to succeed in attracting foreign manufacturers likely to integrate it into the global value chain. Between 2000 and 2024, it attracted only $4.47 billion in FDI in the textile sector.

India's textile industry suffers from a lack of competitiveness, which is generally attributed to the **sector's highly fragmented structure, which prevents economies of scale and limits its capacity for innovation**. Only 10 percent of the thirteen million[54] workers in the garment sector are employed in factories, while the overwhelming majority of the workforce is employed by SMEs or even produces at home on mechanical (or even manual) looms.[55] In contrast, the bulk of textile production in China and Bangladesh takes place in factories. This is the fruit of the struggle against the unions, which had acquired undeniable power in the factories of Bombay and elsewhere by taking advantage of the concentration of the working class within large production units. To remedy this situation, the factories were decommissioned, and production was distributed among innumerable small factories.[56] This dispersal is also a legacy of the Gandhian influence which, until the years 1990-2000, led the state to reserve this sector of activity for what was still called "cottage industry" in the 1950s. This emphasis on small production units (ideally family-run) went hand in hand with a focus on

[53] *Chinju Johny and Jayan Jose Thomas, "The Limits to Growth of India's Garment Industry," Economic and Political Weekly 59 no. 34, August 24, 2024, p. 108.*

[54] *Or rather female workers, as this sector is 55 percent female-dominated.*

[55] *Johny and Thomas, "The Limits to Growth of India's Garment Industry."*

[56] *The closure of Bombay's factories in favor of Bhiwandi's "poser looms" and "handlooms" in the 1980s is a textbook case.*

craftsmanship, the antithesis of standardization techniques. As a result, a multitude of small producers work with a variety of traditional materials, perpetuating a host of equally traditional designs. In fact, India sticks to conventional cotton and synthetic fibers. The National Institute of Industrial Engineering has stressed that it is vital to invent new blends and, in particular, to "innovate in new, multi-purpose textiles [...] that are recyclable, reusable, biodegradable, and good for the environment."[57] The NIIE also deplores the fact that the sector's productivity is hampered by the structure of its production facilities, which limits its capacity for investment, as the use of obsolete machinery is detrimental to product quality. Despite this, experts working for the Federation of Indian Chambers of Commerce and Industry (FICCI) predict that **the textile market will grow at a high rate**—with a CAGR of 10 percent—until 2030, when it should reach $350 billion.[58]

c. Electronics

Electronics occupied a central place in the "Make in India" program launched in 2014, as it was crucial for India to address its status as a net importer and, if possible, to join the international division of labor as a manufacturing hub. At the time, two-thirds of the products consumed by Indians in this sector were imported. India produced just 1.3 percent of the world's electronics, and this sector accounted for just 1.7 percent of its GDP. In 2016, foreign investors in the sector were allowed to own 100 percent of the branches they established in India, and electronic manufacturing clusters (sometimes located in Special Economic Zones) were set up.[59] **With labor costs 20 percent lower than in China, companies**

[57] *"Renaissance of Indian Manufacturing Sector," National Institute of Industrial Engineering, pp. 5, 31. See also: Kanupriya, "Indian Textile Sector, Competitiveness, Gender and the Digital Circular Economy: A Critical Perspective," National Accounting Review 4 no. 3, 26 August 2022, https://doi.org/10.3934/NAR.2022014.*

[58] *Abhinay Kumar, "Size of India's Textile Industry to Double by 2030: Report," Financial Express, October 24, 2023, https://www.financialexpress.com/business/industry-size-of-indias-textile-industry-to-double-by-2030-report-3284688.*

wishing to diversify their production sites as part of the "decoupling" and "de-risking" processes encouraged by the American and European authorities relocated their production sites to India.[60] Samsung and Dixon have invested in India in white and brown goods.[61] However, it was smartphone production that very quickly became India's major business, due once again to Samsung but above all to Foxconn, which emerged as a "game changer" after opening **the Sunguvarchatram factory** at the heart of the industrial corridor between Chennai and Bangalore. From 2019, this 35,000-worker factory produced the iPhone XR and then the iPhone 14. Viola Zhou and Nilesh Christopher's on-the-spot investigation revealed the difficulties faced by the company: managers discovered that everything in India—except labor—was more expensive than in China, including land, and, above all, that the country had no labor culture. The discipline to which they were accustomed in East Asia was conspicuous by its absence, as evidenced by the **absenteeism rate and lack of basic training**, which led them to bring in engineers and foremen from China—thus increasing the cost of the operation.[62] Still, the Sunguvarchatram factory has gained momentum.

The manufacturing of smartphones for export has become the driving force behind India's electronics sector due in part to support from the state, which launched a production-linked incentive (PLI) scheme for smartphones in 2021. Smartphone exports increased almost sevenfold

[59] *"EMC Scheme to Provide World-Class Infrastructure for Attracting Investments in the Electronics Systems Design and Manufacturing Sector," Ministry of Communications and Information Technology, Government of India, 2012, https://web.archive.org/web/20220314174013/https://www.meity.gov.in/sites/upload_files/dit/files/Notification-EMC-Gazette.pdf.*

[60] *Mike Hales et al., "Does India Represent a Viable Electronics Manufacturing Location? What Are Potential Drawbacks?" Kearney, March 16, 2020, https://www.kearney.com/industry/technology/article/does-india-represent-a-viable-electronics-manufacturing-location.*

[61] *Writankar Mukherjee, "Indian Consumer Electronics Break Boundaries; Export Surge to the US and Europe," The Economic Times, February 12, 2024, https://economictimes.indiatimes.com/industry/cons-products/electronics/indian-consumer-electronics-break-boundaries-export-surge-to-the-us-and-europe/articleshow/107602956.cms.*

[62] *Viola Zhou and Nilesh Christopher, "Inside Foxconn's Struggle to Make iPhones in India," Rest of the World, November 28, 2023, https://restofworld.org/2023/foxconn-india-iphone-factory.*

between 2018-19 and 2022-23, from $1.6 billion to $11.1 billion, with Wistron (recently acquired by the Tata group) and Pegatron joining Foxconn among iPhone producers.[63] As a result, **smartphones now account for half of all electronics exports from India, with iPhones accounting for 70 percent of smartphones produced**, or one-third of all electronics exports. Alongside the iPhone, Google has launched the production of its made-in-India smartphone, the Pixel.[64]

However, this "success story" requires a more nuanced assessment from three standpoints. First, India continues to import more smartphones than it exports by value, even if it has gone from "78 percent import-dependent in 2014 to 97 percent self-sufficiency in 2024."[65] As a result, its trade deficit in this area has fallen from $20 billion in 2016-17 to $3.5 billion in 2022-23,[66] but it has not yet turned into a surplus. Second, a significant proportion of the components used in smartphone manufacturing are imported due to a lack of sufficiently efficient local suppliers—95 percent in the case of premium iPhones. Moreover, these imports face high customs duties intended to protect local manufacturers, which raises the cost of exporting smartphones.[67] Third, and correlatively, **while India's share of smartphone exports is increasing, it remains very low compared to that of not only China but also Vietnam**, whose smartphone exports amounted to $138.8 billion and $33.3 billion, respectively, in 2022, compared to $11.1 billion for India in 2023.[68]

[63] *Vasudha Mukherjee, "India's Electronics Exports Surpass $20 Billion, iPhone Dominates Surge," Business Standard, January 22, 2024, https://www.business-standard.com/economy/news/india-s-electronics-exports-surpass-20-billion-iphone-dominates-surge-124012200147_1.html.*

[64] *Danish Khan, "Google to Export India-Made Pixel Smartphones to Europe, US; Trial Production Begins." Moneycontrol, 4 July 2024, https://www.moneycontrol.com/technology/google-to-export-india-made-pixel-smartphones-to-europe-us-trial-production-begins-article-12762020.html.*

[65] *Virat Bahri and Nisha Parveen, "Smartphone Exports from India: A Growing Global Presence," India Business & Trade, April 10, 2024, https://www.indiabusinesstrade.in/blogs/indias-smartphone-exports-are-customs-duty-reductions-the-answer.*

[66] *Pragynesh, "Make in India: Has the Ambitious Initiative Lived up to Expectations?" Probe, July 19, 2023, https://theprobe.in/stories/make-in-india-has-the-ambitious-initiative-lived-up-to-expectations.*

[67] *In 2024, however, customs duties were reduced from 15 percent to 10 percent.*

Other manufacturers, however, are developing complementary activities. Samsung and Intel, for example, have begun producing laptops in India.[69] Overall, in 2023-24, exports of electronic goods surged by 23.6 percent to reach $29.12 billion.[70] This success, however, needs to be put into perspective, partly for the reasons given above in relation to smartphones: **a very large proportion of India's electronics exports can only be manufactured using components imported from China**. Indeed, 70 percent of India's electronics imports come from China.[71] At $32.15 billion, imports of electronic products and electrical equipment will be India's largest item of purchases from China in 2023.[72] In 2021, laptops imported from China alone accounted for $4.35 billion (out of a total of almost $5 billion).[73]

d. The Pharmaceutical Sector

The growth promised by experts for the Indian pharmaceutical industry is even more phenomenal than the doubling mentioned for textiles, since they forecast a leap from $42 billion in sales in 2022-23 to $130 billion in 2030. **India has become "the world's pharmacy" thanks to its sales of generic medicines**—60,000 in total. In fact, this sector is highly

[68] *Bahri and Parveen, "Smartphone Exports from India: A Growing Global Presence."*

[69] *"Intel Introduces New "Make in India" Laptops and IT Products: All the Details," The Times of India, February 2, 2024, https://timesofindia.indiatimes.com/gadgets-news/intel-introduces-new-make-in-india-laptops-and-it-products-all-the-details/articleshow/107370142.cms; "Samsung to Start Making Laptops in India this Year," The Hindu, January 29, 2024, https://www.thehindu.com/sci-tech/technology/samsung-to-start-making-laptops-in-india-this-year/article67789010.ece.*

[70] *Shreya Nandi, "India's Electronics Exports Increase 23.6% to $29.12 Billion in FY24," Business Standard, April 16, 2024, https://www.business-standard.com/economy/news/india-s-electronics-exports-increase-23-6-to-29-12-billion-in-fy24-124041600004_1.html.*

[71] *"Top 15 Products Imported from China to India," Eximpedia, January 10, 2024, https://www.eximpedia.app/blog/products-imported-from-china-to-india.*

[72] *Ibid.*

[73] *"What Are the Products India Imports from China?" Unacademy, https://unacademy.com/content/bank-exam/study-material/general-awareness/what-are-the-list-of-products-india-imports-from-china.*

export-oriented: of the $42 billion mentioned above, $25 billion came from exports. For example, India now supplies 40 percent of the generic drugs sold in the United States. The situation of the Indian pharmaceutical industry is nonetheless weakened by a double dependence, which again points to a deficit in investment and, more specifically, innovation.[74]

Indian companies not only often simply copied molecules for years—they also **failed to invest in the development of active ingredients**. Before the Covid pandemic, two-thirds of them, by volume, came from China, at a total cost of $2.4 billion, while imports from other sources cost India $1.6 billion.

The government then sought to encourage manufacturers to innovate in this field by subsidizing their R&D in order to develop fifty-six active ingredients. The instrument used to implement this policy is a PLI involving the payment by the state of $2 billion between 2020-21 and 2028-29 in order to emancipate itself from dependence on China by investing in cutting-edge technologies that should make India an even stronger player in the pharmaceutical sector.[75] So far, this scheme has not borne fruit.

One expert observes that India had to close the factories where it manufactured active ingredients (and other products) due to competition from China, which he explains in detail:

[74] *For more information, see Christophe Jaffrelot, Vihang Jumle, and Maitreyee Kishor, "Indian Pharma: A Global Leader Under Pressure," Institut Montaigne, November 6, 2020, https://www.institutmontaigne.org/en/expressions/indian-pharma-global-leader-under-pressure.*

[75] *"Cabinet Approves Production Linked Incentive Scheme for Pharmaceuticals," Government of India Press Information Bureau, February 24, 2021, https://pib.gov.in/PressReleasePage.aspx?PRID=1700433.*

> "China's proficiency in bulk drug production is not only due to lower costs of utilities, raw materials, lower interest rates, tax incentives, and other such factors. It is also the result of significant investments made in creating and improving technological capabilities. The government has invested heavily in R&D. Several R&D parks have been set up with infrastructural support and other benefits. An R&D ecosystem has been developed involving funding, providing incentives, and encouraging networks including industry academia collaboration."[76]

This analysis reveals **the reasons for India's difficulties, starting with the absence of innovation and industrial policy**. He adds, "Private firms on their own typically underinvest in R&D because of the long time it takes, the large investments required, and uncertainty. Hence, in the absence of active government and support, the necessary R&D investments may not be forthcoming." The result is that, a few years after the 2020 surge, despite this government impetus, the situation remains largely unchanged, with Chinese inputs enjoying unbeatable competitiveness.[77]

In 2023, an in-depth study published by Bloomberg revealed that Aurobindo Pharma, India's leading exporter of generics to the US by volume, was sourcing **55 percent of its active ingredients and other components used in its medicines from China** (from which Washington had hoped to emancipate itself by importing more from India).[78]

[76] *Sudip Chaudhuri, "India's Import Dependence on China in Pharmaceuticals: Status, Issues and Policy Options." RIS Discussion Paper Series, no. 268, 2021, https://ris.org.in/sites/default/files/Publication/DP%20268%20Prof%20Sudip%20Chaudhuri.pdf.*

[77] *Surabhi Sarda, "Will India's Pharma Sector Be Able to Come out of Its China dependence?" The Economic Times, February 27, 2024, https://economictimes.indiatimes.com/industry/healthcare/biotech/pharmaceuticals/will-indias-pharma-sector-be-able-to-come-out-of-its-china-dependence/articleshow/108048363.cms.*

Here, India is paying for the weakness of its biotech sector, which is largely cut off from the pharmaceutical industry, and the modesty of foreign investment until the 2020s. There are no non-Indian firms among the top ten players in this sector, which is dominated, in order, by Sun Pharma, Cipla, Dr. Reddy's Laboratories, Divi's Laboratories, Zydus Lifesciences, Torrent Pharmaceuticals, Mankind Pharma, Lupin, Aurobindo Pharma, and Alkem Laboratories. Nevertheless, companies such as Divi's Laboratories and Laurus Labs have developed active ingredients that are essential to the manufacture of many generics. Moreover, FDI in this field has seen remarkable growth, rising from $18.42 billion in 2018-19 to $110.15 billion in 2020-21. Subsequently, there's been a slight decline to $105.52 billion in 2021-22 and a steeper one to $54 billion in 2022-23.[79]

If the Indian pharmaceutical industry's persistent dependence on China is one of its weaknesses in terms of production, its dependence on foreign markets is another in terms of sales, given the share of exports in its turnover and the regular questioning of product quality. In 2015, the EU withdrew seven hundred medicines from the market after "irregularities [were] found during a routine inspection carried out last year by the French Drug Safety Agency (ANSM) at one of the sites of GVK BIO, a company specializing in clinical trials and based in Hyderabad, southern India."[80] In 2022, a "made-in-India" syrup was held responsible for the deaths of seventy children in The Gambia and nineteen others in Uzbekistan—the alert was given by the WHO. In 2024, the European Medicines Agency suspended the marketing authorization of almost four hundred generics whose marketing had been decided on the basis of an evaluation carried out by an Indian company,

[78] *Anna Edney, "US Leans on India's Pharma Industry to Snub China. There's Just One Catch," Bloomberg, February 5, 2024, https://www.bloomberg.com/news/articles/2024-02-05/generic-drugs-made-in-india-rely-heavily-on-chinese-made-ingredients.*

[79] *"India: Pharmaceutical FDI Inflow 2023," Statista, 2023, https://www.statista.com/statistics/1464611/india-pharmaceutical-fdi-inflow.*

[80] *Julien Bouissou and Chloé Hoorman, "L'Europe bannit 700 médicaments génériques testés en Inde," Le Monde, July 27, 2015, https://www.lemonde.fr/economie/article/2015/07/27/l-europe-bannit-700-medicaments-generiques-testes-en-inde_4700553_3234.html.*

Synapse Labs, which was found to have provided "erroneous studies."[81] A 2007 report—which has unfortunately not been updated—indicated that 75 percent of counterfeit drugs came from India.[82]

4 Two Ten-Year Scenarios

Indian industry could be on one of several different trajectories by the mid-2030s. Two such scenarios are presented in this paper, one of which includes a variant in the event of the Congress Party returning to power.

4.1. IN THE SHADOW OF CHINA'S INDUSTRY

The worst-case scenario for Indian industry would be to fall under China's influence, with even greater dependence on imports from the Middle Kingdom and Chinese investment on Indian soil.

In terms of imports, beyond the dependence of certain sectors mentioned above, Indian industry is increasingly dependent on Chinese sources of supply. This dependence can be seen in the structure of Indian imports from China, as the share of intermediate goods is steadily increasing.

[81] *Myriam Chauvot, "L'Europe suspend 400 médicaments génériques pour 'études erronées'," Les Echos, July 3, 2024, https://www.lesechos.fr/industrie-services/pharmacie-sante/leurope-suspend-400-medicaments-generiques-pour-etudes-erronees-2102331.*

[82] *Kirsty Barnes, "New Counterfeit Report Highlights Worrying Trends," OutsourcingPharma, November 7, 2007, https://www.outsourcing-pharma.com/Article/2007/11/07/new-counterfeit-report-highlights-worrying-trends.*

In 2024, with $118 billion in merchandise trade, China once again became India's leading trading partner, supplanting the US, which had overtaken it for two fiscal years. At the same time, India's trade deficit with China widened from $46 billion in 2019-20 to $85 billion in 2023-24. India's exports—worth just under $17 billion, less than in 2018-19—consisted mainly of raw materials (including iron ore) and refined oil, whereas China's exports to India, worth over $101 billion (up from $70.3 in 2019), consisted mainly of manufactured goods, including machine tools, computers, organic chemicals, integrated circuits, and plastics.[83] Indian industry suffers all the more from competition from China because of its lack of competitiveness.

While Indian imports from China grew 2.3 times faster than Indian imports in general between 2005-06 (when India still had a trade surplus with China) and 2023-24, **the share of industrial goods imported by India from China rose from 21 percent to 30 percent of the total industrial goods imported by India** over this period.[84] This proportion is even higher in certain sectors, such as textiles (42 percent), machine tools (40 percent), and electronic or electrical products (38.4 percent). It is only slightly below average in key sectors such as chemicals and pharmaceuticals (29.2 percent), plastics (25.8 percent), and automotive parts (23.3 percent).[85] Meanwhile, Indian exports remained at around $16 billion, contributing to a cumulative structural deficit of $387 billion over the past six years.

[83] *"India (IND) and China (CHN) Trade," The Observatory of Economic Complexity, 2024, https://oec.world/en/profile/bilateral-country/ind/partner/chn.*

[84] *Vikas Dhoot, "Up 2.3 Times in 15 Years, India's Chinese Import Bill to Rise Further," The Hindu, April 28, 2024, https://www.thehindu.com/news/national/up-23-times-in-15-years-indias-chinese-import-bill-to-rise-further/article68118302.ece.*

[85] *Ibid.*

However, this deficit is not mainly due to the consumption of finished goods—which accounted for just 6.8 percent of total industrial imports—but to intermediate and production goods, which accounted for 70.9 percent and 22.3 percent, respectively, of total industrial imports from China in 2023-24, compared with 64.8 percent and 24.3 percent, respectively, in 2020-21.[86] Indian industry needs these Chinese goods to ensure its own production, whether it be electronic, electrical, or automotive spare parts, active ingredients for drug and vaccine manufacturers, or computers (which are classified as production goods when used for professional purposes).[87] These figures reflect the way in which **India fits into the international division of labor as a country where goods are assembled but where the components thus assembled come largely from abroad—and mainly from China (See Graph 5)**. This situation explains why the more India exports, the more it also imports to obtain the components it needs to assemble the smartphones, cars, and medicines it sells to the rest of the world—primarily to Western markets. This configuration points to another reality: India's main advantage in terms of industrial production lies in the low labor costs it continues to apply.

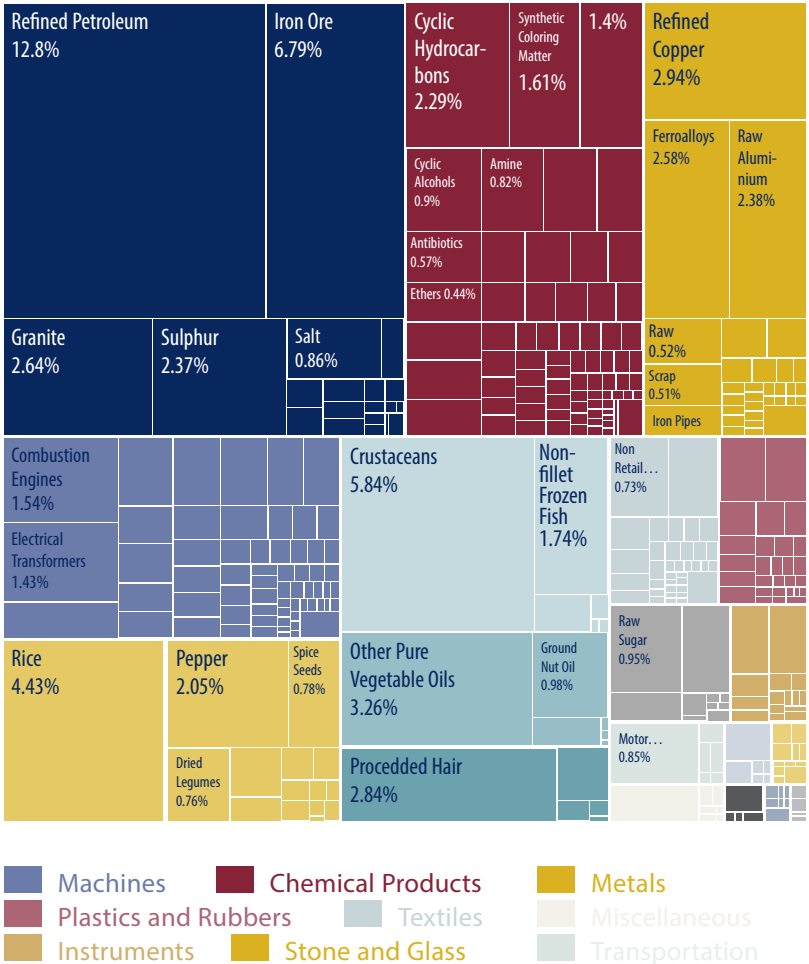
[86] *Tirumala Venkatesh Kaggundi, "China's Share in India's Imports: An Analysis with Focus on Intermediates and Capital Goods," Indian Westerlies (blog), May 21, 2024 (accessed November 18, 2024), https://www.indianwesterlies.com/2024/05/chinas-share-in-indias-imports.html.*

[87] *Ibid.*

Graph 4: Exports from India to China

(2022)

Total: $15.3B

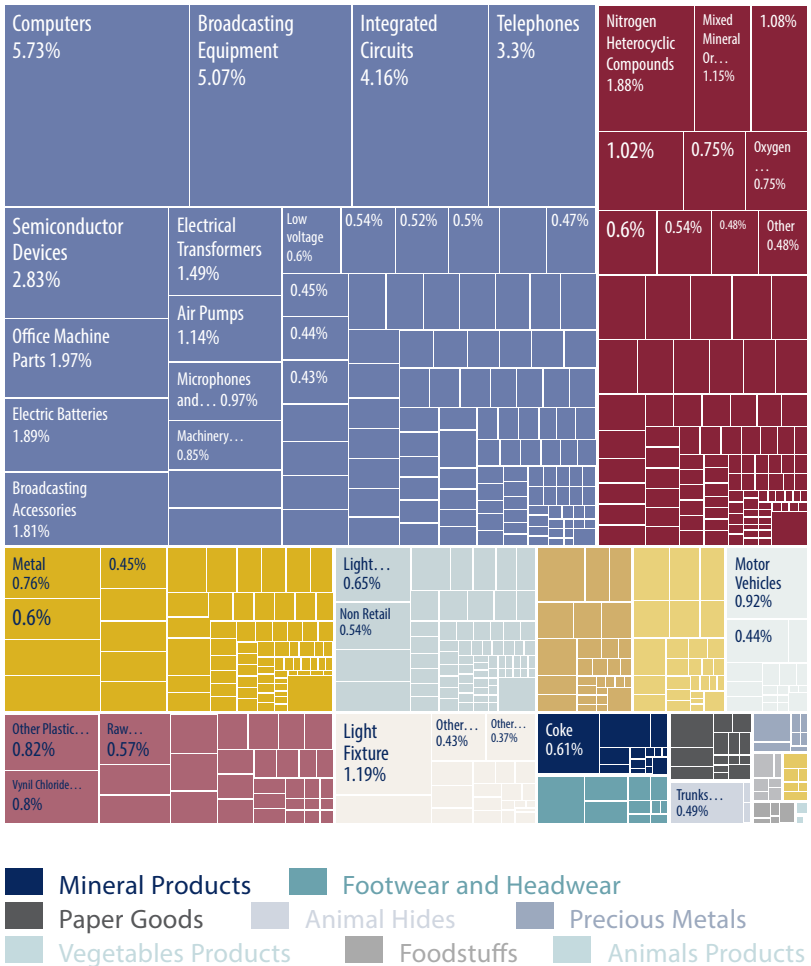


Source: The Observatory of Economic Complexity.

Graph 5: Exports from China to India

(2022)

Total: $110B



Source: The Observatory of Economic Complexity.

It should be noted that **India's dependence on China is greater than the statistics reveal**, as Chinese companies have relocated part of their production to neighboring countries such as Vietnam and Malaysia, from where exports of Chinese products now flow, to avoid the protectionist measures put in place by New Delhi (or Washington). Solar panels are a case in point.

While India produces almost half of its electricity from coal, the country is relying heavily on solar energy to achieve its energy transition—but is far from producing enough panels to meet its needs. As a result, two-thirds of photovoltaic cells and 100 percent of wafers (essential components for these cells) are imported. Overall, **China supplies India with between 57 and 100 percent of the components it needs for its solar panels**.[88] In the first half of fiscal year 2024, Indian imports of Chinese solar panels amounted to over $500 million, to which must be added $121 million in imports from Hong Kong and $455 million in imports from Vietnam, which are transit countries between China and India, rather than original sources of supply. At the same time, China sold 500 million photovoltaic cells for assembly, while Malaysia and Thailand—two other countries that Chinese firms use to circumvent protectionist measures against them—sold India 264 million and 138 million, respectively.[89] Indian imports of solar panels (and the components to make them) from China have thus fallen below the 80 percent mark, the red line for Indian surveillance measures. Although Indian companies are entering the market, they are not developing their own technology, but rather importing 70 percent of their equipment from China.[90]

[88] *Rajesh Kumar Singh, "Indian Solar Industry Still Heavily Reliant on Chinese Imports," The Economic Times, December 15, 2023, https://economictimes.indiatimes.com/industry/renewables/indian-solar-industry-still-heavily-reliant-on-chinese-imports/articleshow/106020392.cms.*

[89] *Aarushi Koundal, "India's Solar Panel Imports Set to Remain Higher in FY24," The Economic Times, December 25, 2023, https://economictimes.indiatimes.com/industry/renewables/indias-solar-panel-imports-set-to-remain-higher-in-fy24/articleshow/106268618.cms.*

[90] *"Chinese Vendors Dominate Supply Chain of Indian Solar PLI Scheme Winners: Report." Livemint, February 8, 2024, https://www.livemint.com/companies/news/chinese-vendors-dominate-supply-chain-of-indian-solar-pli-scheme-winners-report-11707365855802.html.*

The country is increasingly resorting to non-tariff barriers to limit Chinese exports,[91] but these are likely to be in vain if Indian manufacturers do not acquire the appropriate technologies.

This commercial dependence may soon be accompanied by another one if the scenario we are exploring here includes an investment component.

To escape its industrial dependence on China, India has sought to protect companies likely to produce some of the components it imports from the country by increasing certain tariffs from an average of 15 to 18.3 percent. This upsurge in protectionism was intended both to make Indian companies more competitive and to attract investors wishing to circumvent these customs barriers by producing locally. Paradoxically, far from emancipating India from its dependence on China, this approach may actually be accentuating it. Indeed, **the number of non-Chinese foreign investors willing to set up in India for the purpose of industrial production remains limited, as is evident from the failure of the "Make in India" scheme**, and this is leading India to review the strategy it implemented with respect to China at the beginning of the decade. In 2020, following tensions between the armies of the two countries that resulted in the deaths of twenty Indian soldiers in the Himalayas, India made all Chinese investment subject to authorization procedures that made it virtually impossible.[92] Four years on, New Delhi is in two minds.

[91] *Uma Gupta, "India Creates Non-Tariff Barrier for Chinese Solar Products," PV Magazine International, April 30, 2024, https://www.pv-magazine.com/2024/04/30/india-creates-non-tariff-barrier-for-chinese-solar-products.*

[92] *"The curbs disrupted billions of dollars of investment from China and halted some investment projects, including those of Chinese automakers BYD and Great Wall Motor. Also affected were Chinese smartphone makers Oppo, Vivo and Xiaomi" – Aparajit Chakraborty and Xu Weiwei, "Chinese FDI Seen as Vital for Indians," August 1, 2024, China Daily, https://www.chinadaily.com.cn/a/202408/01/WS66aae815a3104e74fddb7ef4.html.*

Today, there are two schools of thought within India's ruling class. In July 2024, the annual delivery of the *Economic Survey* was the occasion for a very intense debate. This survey argues that FDI inflows "from China can help in increasing India's global supply chain participation along with a push to exports." Second, it states that relying on Chinese FDI **"seems more promising for boosting India's exports to the US, similar to how East Asian economies did in the past."** Finally, the survey opines that "as the US and Europe shift their immediate sourcing away from China, it is more effective to have Chinese companies invest in India and then export the products to these markets, rather than importing from China, adding minimal value, and then re-exporting them."[93] While the Modi government's Chief Economic Advisor, V. Anantha Nageswaran, was behind this turnaround, he recommended it with the Finance Minister's agreement. This approach was based on an observation relayed by Alicia Garcia-Herrero, chief Asia Pacific economist at Natixis: "The US and Europe are a little bit hesitant to invest in India's manufacturing sector, most of the foreign investments have gone to the ICT [Information and Communication Technologies] sector, such as digital services."[94]

Harsh V. Pant, Vice President for studies and foreign policy at New Delhi's Observer Research Foundation, shared a similar stance, saying that India needs to be "plugged into Chinese supply chains if it wants to meet its aspirations to become Asia's manufacturing hub."[95] For the time being, Commerce Minister Piyush Goyal has vetoed such an opening, but other officials in the Modi government are less categorical. The Minister of State for Information and IT, Rajeev Chandrashekhar, was open to Chinese investors as early as July 2023.[96]

[93] *Biswajit Dhar, "Is India Ready to Welcome Chinese Capital Again?" The New Indian Express, August 8, 2024, https://www.newindianexpress.com/opinions/2024/Aug/08/is-india-ready-to-welcome-chinese-capital-again.*

[94] *Charmaine Jacob, "'Internal Battle' in Modi's BJP on Whether India Needs Chinese Investments, Natixis Chief Asia Economist Says," CNBC, August 1, 2024, https://www.cnbc.com/2024/08/01/internal-battle-in-modis-bjp-on-whether-india-needs-chinese-investments-natixis-chief-asia-economist-says.html.*

[95] *Ibid.*

The 2024 edition of the *Economic Survey* opened up a dual perspective that could circumvent the reservations of Goyal and BJP leaders who are nervous about an influx of Chinese investment: "To boost Indian manufacturing and plug India into the global supply chain, **it is inevitable that India plugs itself into China's supply chain**. Whether we do so by relying solely on imports or partially through Chinese investments is a choice that India has to make."[97] The preferred route today seems to be through trade. By reducing customs duties on imports of lithium, nickel, cobalt, and vanadium to zero, India seems to be inviting Chinese battery manufacturers—one of the areas in which India lags far behind—to forge links with Indian partners to produce them in the country. The reduction of customs duties on cell phone components from 20 percent to 15 percent has been interpreted in the same way.[98]

In response, **Chinese diplomats have changed their tone**. China's ambassador to India has been showing growing signs of openness since the summer of 2024. He has stated his support for increasing Indian investment in China and boosting scientific and technological cooperation between the two countries—while hoping that "the Indian side will be able to offer a healthy business environment for Chinese companies in India."[99]

The India-China rapprochement gained momentum in October 2024 when India announced an agreement with China on resuming patrolling rights in parts of the Himalayas that Chinese soldiers had been

[96] *"Open to Chinese Investments despite Border Clashes: Rajeev Chandrasekhar," Business Standard, July 23, 2023, https://www.business-standard.com/technology/tech-news/open-to-chinese-investments-despite-border-clashes-rajeev-chandrasekhar-123072600362_1.html.*

[97] *Aparajit Chakraborty and Xu Weiwei, "Chinese FDI Seen Positive for Indian Economy," China Daily, July 31, 2024, https://www.chinadailyhk.com/hk/article/589448. Emphasis added.*

[98] *Dhar, "Is India Ready to Welcome Chinese Capital Again?"*

[99] *« La Chine souhaite davantage d'investissements indiens, selon l'ambassadeur », [China Wants More Indian Investment, Ambassador Says], Zonebourse, September 20, 2024, https://www.zonebourse.com/actualite-bourse/La-Chine-souhaite-davantage-d-investissements-indiens-selon-l-ambassadeur-47904664.*

controlling since the 2020 border incident. Explaining this truce and India's goodwill—despite not having received anything close to what it was asking for in the Himalayas—Kanti Bajpai writes:

The first likely factor was economic. Indeed, India's economy is growing at an average of 7 percent per annum, but if it wants to raise GDP growth to 8-10 percent per annum, it needs critical Chinese products (metals, active pharmaceutical ingredients or APIs, and machinery and electricals) as well as Chinese investment. [100]

Certainly, one school of thought within the ruling elite is in favor of promoting greater rapprochement with China for economic reasons. Whether this prevails to such an extent that India will finally welcome Chinese investments (and give visas to Chinese businessmen and engineers in larger numbers) remains to be seen.

To sum up, Indian industry already depends on China a great deal and may increase its dependence if it decides, as assumed in this first scenario, to turn to this country to accelerate its modernization.

4.2. INDIA FINALLY INDUSTRIALIZES

This second scenario would see the country **achieve the objectives of the "Make in India" program, which implies a double-digit growth rate for Indian industry**. Over the course of a decade, such a process could transform the country's economy and society, transitioning it from an agrarian era to one defined by urban centers and industrial production. This shift would not only provide employment opportunities for the millions who are currently unemployed but also help absorb

[100] *Kanti Bajpai, "Why Have China and India Come Together?" National University of Singapore, November 22, 2024, https://ari.nus.edu.sg/app-essay-kanti-bajpai-4.*

a portion of the surplus agricultural workforce, ultimately enhancing overall productivity. Such a transformation would require a significant increase in investment by both Indian and foreign operators in the production sector.

It also implies a substantial increase in the relocation of production units from China to India and a greater investment effort on the part of Indian companies and the state.

With regard to the relocation of China-based production, certain sectors would play a key role, starting with electronics, which has already paved the way for integration into the international division of labor through India's role in the manufacture of smartphones. This could take on an even greater dimension if the pressure exerted by the Chinese authorities on foreign firms—and Taiwanese firms in particular—were to intensify. The situation for Taiwanese expatriates in mainland China has recently become precarious, especially following the arrest of four Foxconn employees. The company, which employs 800,000 people in China, may decide to intensify its relocation efforts to third countries such as Vietnam and India. This move could gain even more momentum if a military crisis were to occur in the Taiwan Strait. Additionally, tensions caused by American tariffs on Chinese exports could have an impact.

Besides smartphones, another part of the electronics sector that **could play a key role is semiconductors**, an area in which many countries—including India—are seeking to emancipate themselves from their dependence on China. In 2022, India set up a $10 billion fund for this sector through PLIs, enabling investors to receive up to the equivalent of their own capital outlay from the government. In addition, the taxes to which they are subject can be reduced by 30 percent. The following year, the company faced two significant setbacks. First, Foxconn ultimately decided not to proceed with its planned $19.5 billion investment in a semiconductor plant in Gujarat, which was to be established in

a joint venture with mining giant Vedanta.[101] Second, the International Semiconductor Consortium (ISMC)—a partnership between Abu Dhabi-based Next Orbit Ventures and Israel's Tower Semiconductor—abandoned its plans to invest $3 billion in Karnataka for India's first chip-making facility[102] after Intel acquired Tower. The Micron investment mentioned above marked a new departure in 2023, but apart from the modest investment made by the American company, it was only to create a packaging unit, not a manufacturing one. In February 2024, Tower made a proposal to the Indian government to create such a unit in India; the company said it was ready to invest $4 billion if the Indian government made an equivalent effort.[103]

If India becomes involved in the manufacturing chain not just of smartphones but also of semiconductors, the electronics sector could become the driving force behind industrialization, boosted by FDI from firms seeking to emancipate themselves from dependence on China.

However, FDI alone will not be sufficient to industrialize India, especially if the country continues to be a mere assembly site for components produced elsewhere. To address this situation and promote a genuine industrialization process, Indian companies need to start investing again. This is one of the conditions for the success of the present scenario. Under what conditions is this possible? In addition to the FDI mentioned above, **demand for manufactured goods must increase, SMEs must regain a certain vitality, and India must position itself to withstand Chinese competition**.

[101] *Anabelle Liang, "Foxconn: Apple Supplier Drops out of $20bn India Factory Plan," BBC, July 11, 2023, https://www.bbc.com/news/business-66160997.*

[102] *"ISMC to Invest $3 Billion in Karnataka to Set up India's First Chip-Making Plant," Financial Express, May 2, 2022, https://www.financialexpress.com/business/industry-ismc-to-invest-3-billion-in-karnataka-to-set-up-indias-first-chip-making-plant-2509657.*

[103] *Soumyarendra Barik, "Israeli Chipmaker Tower Closes in on $8 Billion Fabrication Plant in India," The Indian Express, February 12, 2024, https://indianexpress.com/article/business/israeli-chipmaker-tower-closes-in-on-8-billion-fabrication-plant-in-india-9155159.*

The likelihood of these three conditions being met would be greater if the Congress-led coalition came to power in the 2029 elections or earlier if the BJP were to lose some of its allies supporting the Modi government within the current parliamentary majority.

Indeed, in the past—and in its 2024 election platform—the Congress Party has emphasized forms of redistribution that would fuel demand for manufactured goods. This redistribution would involve both tax reforms and social programs. When Manmohan Singh was prime minister, he kept the share of direct taxes above that of indirect taxes in state tax revenues. His successor, Narendra Modi, reversed this trend by increasing taxes on important items such as petroleum products. At the same time, corporate taxes have been substantially reduced at the expense of income taxes. As we have seen, this supply-side policy has not led to a revival in investment, not least because it has resulted in the relative impoverishment of the middle class. A Congress-led government would undoubtedly work to reverse this trend—not only to promote the industrialization process but also to satisfy its electoral base, which is more proletarian than that of the BJP. In the same vein, he would relaunch social programs abandoned by the BJP since 2014, starting with the one implemented in 2005 under the Mahatma Gandhi National Rural Employment Guarantee Act. This program, which lifted millions of peasants out of poverty under Manmohan Singh, provides 100 days of work paid at the minimum wage to any rural family hit by unemployment. This program has helped boost consumption in the rural world, which accounts for 40 percent of India's total population. **Since supply-side policies have not been sufficient to revive production, a demand-side policy based on a tax reform raising the level of direct taxes on the incomes of companies and the Indian elite would be on the agenda of a Congress-led government** in order to reduce unused production capacity and revive industrial investment.

The second condition listed above—support for SMEs—also features in the Congress program and goes hand in hand with another of its watchwords: the fight against "monopolies and oligopolies and crony capitalism."[104] In recent years, India has experienced a process of economic concentration never seen before. In the early 2020s, twenty Indian companies accounted for nearly 70 percent of India Inc.'s total earnings, up from 14 percent three decades before. Among them were "huge private companies with mediocre returns but a knack for navigating both India's labyrinthine bureaucracy and its corridors of power"[105] (see Graph 6). At the apex of this elite are half a dozen very large companies with close ties to political power, to the extent that their leaders have come to be referred to as oligarchs.[106] **The country's five most profitable firms accounted for over a third of Indian profits in the early 2020s**. The figurehead of these "cronies" is none other than Gautam Adani, an industrialist who enjoyed a meteoric rise in the wake of Narendra Modi, first in Gujarat between 2002 and 2014, then across India.

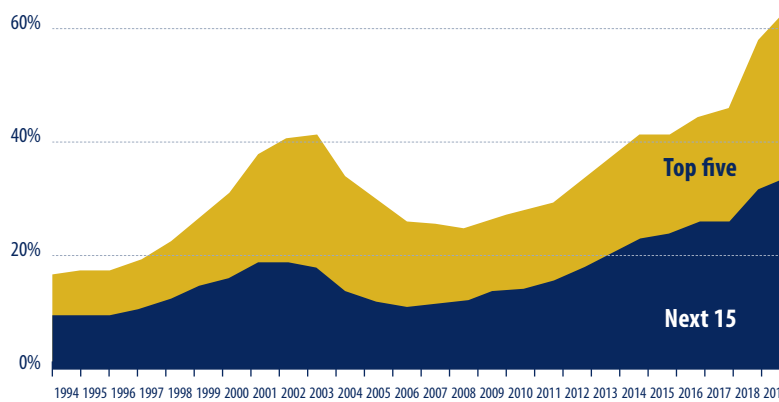
[104] *"Nyay Patra. Lok Sabha Elections 2024," Indian National Congress, p. 28, https://manifesto.inc.in.*

[105] *"India Inc's Profits Increasingly Belong to a Tiny Clutch of Companies," The Economist, May 21, 2020, https://www.economist.com/business/2020/05/21/india-incs-profits-increasingly-belong-to-a-tiny-clutch-of-companies.*

[106] *Christophe Jaffrelot, « Le capitalisme de connivence en Inde sous Narendra Modi », Les Études de CERI, no. 237, September 2018, http://www.sciencespo.fr/ceri/fr/content/le-capitalisme-de-connivence-en-inde-sous-narendra-modi.*

Graph 6: India Top 20 companies by profits [107]

(As % of total corporate net income [108])



Source: Marcellus Investment Managers.

The formation of **oligopolies controlling entire sectors of the industry** has been highly detrimental to the Indian economy. In financial terms, their domination has been reflected in the rise in bad debts mentioned above and, subsequently, the socialization of these colossal losses, which led banks to massively reduce their lending to companies—and SMEs in particular.

In terms of investment, **these large companies have tended not to support manufacturing but to seek rents in services (such as telecoms or air transport) and energy (including coal) and to invest heavily outside India**. Adani is a textbook case, to the point of appearing as the Modi government's ambassador to Australia, Israel, Bangladesh, Sri Lanka, and elsewhere. On a more general level, these companies

[107] *In any given year, three year average.*

[108] *20,200 private and public companies.*

have virtual monopolies over large segments of the economy and are able to impose their laws on their subcontractors. The Congress Party is committed to dismantling these anti-Congress Party cartels, which are financially supporting Narendra Modi's BJP. Some of them are in the process of spreading the risk by diversifying the beneficiaries of their funding, but for some, it is an existential struggle—in the event of a Congress victory, they will not survive as they are.

As for relations between India and China, they are unlikely to evolve significantly in the event of a new government in New Delhi, but the multiplication of overtures to Beijing by a Congress-led government seems highly unlikely. Indeed, such a government would immediately be branded "anti-national" by the BJP, which systematically presents itself as the herald of Indian sovereignty, even if its actions are not always consistent with this discourse. While Congress should not resort to warmongering—and attempt, for example, to reclaim the Himalayan territories nibbled away by China over the years—it would also not be open to criticism by renouncing the forms of protectionism already implemented by India.

*

The two scenarios presented in this paper are not mutually exclusive, and, in practice, we are **likely to see a mixture of the two**—barring a geostrategic coup de théâtre in the form of a war in the Taiwan Strait, for example, or new Chinese offensives in the Himalayas. In several industrial sectors, Chinese and Western companies are bound to invest in India, and New Delhi, true to its "plurilateralism" inherited from its tradition of Non-Alignment,[109] will try to attract partners from all over

[109] *On India's "plurilateralism," see my review of the book by India's Minister of Foreign Affairs, Jaishankar S., The Indian Way: "Christophe Jaffrelot Reviews 'The India Way: Strategies for an Uncertain World' by Dr S. Jaishankar," The Atlantic Council, May 26, 2021, https://www.atlantic-council.org/blogs/southasiasource/christophe-jaffrelot-reviews-the-india-way-strategies-for-an-uncertain-world-by-dr-s-jaishankar.*

the world, even playing them off against each other. Electric vehicles are a case in point. India is trying to attract big global EV makers such as Tesla,[110] but Chinese enterprises are already present and will probably continue to play a role, especially if the rapprochement between New Delhi and Beijing continues.

Attention will need to focus on the point of equilibrium where the pendulum will eventually stop: Will Indian industry ultimately be more connected to the Western economies, or will its dependence on China become a structural feature of its economy? The factors that are bound to determine India's trajectory are not just economic. Certainly, the relaxation of certain rules and regulations to ease business—particularly in a country still burdened by bureaucratic procedures and corruption—will make a difference, especially in attracting Western investors who place a higher emphasis on transparency and traceability. However, geopolitical and geoeconomic parameters need to be factored in too. Today, one of the reasons for the distancing of New Delhi from the West has something to do with the Western critiques of the Indian illiberal way of dealing with its minorities and its alleged violent actions against Sikh activists in the US and Canada. Tomorrow, Donald Trump may not emphasize these issues anymore, but another bone of contention may complicate bilateral relations: Trump's determination to reduce the American trade deficit with India.

Europeans will need to scrutinize the impact of these variables in order to understand the direction of India's industrial policy and its evolving priorities. Such an understanding should allow them to engage with India proactively in key sectors of the economy where their assets will be recognized technologically (in terms of offsets) as well as geoeconomically (by offering a "third way" in an increasingly bipolar word). The stakes are not only economic, however, but also social—as in the

[110] *Amitendu Palit, "Trade War in Electric Vehicles: India an Unexpected Winner?" ISAS Briefs, National University of Singapore, June 24, 2024, https://www.isas.nus.edu.sg/papers/trade-war-in-electric-vehicles-india-an-unexpected-winner.*

context of sustained demographic growth, only industry can offer the jobs that tens of millions of Indians expect. Beyond that, mass unemployment could even undermine political stability, with young people being the first victims.

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Institut Montaigne welcomes thoughts and ideas on how to address these issues collectively and put forward recommendations which serve the public interest.

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Roche
Roche Diagnostics
Rokos Capital Management
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Sanofi
SAP France
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ServiceNow
Servier
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SIER Constructeur
SNCF
SNCF Réseau
Sodexo
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India's economic trajectory is unconventional, with services dominating GDP while industrialization lags. Manufacturing has declined from 17 percent of GDP in 2010 to 13 percent in 2023, limiting job creation and weakening strategic autonomy. As India seeks to position itself in global supply chains, a key question emerges—will it deepen ties with China or strengthen partnerships with the West?

Despite efforts like "Make in India," results have been mixed. Electronics and pharmaceuticals are growing but remain dependent on Chinese imports, while industries like textiles and automotive struggle to compete internationally.

India's economic future could follow two paths: increasing reliance on China or a strategic shift toward diversified partnerships with the West. In reality, it will likely strike a balance, maintaining its policy of non-alignment. For Europe, understanding these dynamics is key to forging a resilient and mutually beneficial partnership with India.

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