

India's Manufacturing Ambitions in the Context of the Pakistan Conflict

Evaluating potential impact

- India is rapidly growing economically and is increasingly seen as a viable manufacturing alternative to China, though it will not soon replace China as the global manufacturing hub.
- Despite the current ceasefire, the nature of the recent India-Pakistan conflict erodes investor confidence and potentially undermines India's broader economic ambitions.

Indian boom

When India surpassed the UK as the world's fifth-largest economy in 2022, Indian Prime Minister Modi avowed, "We have left behind those who ruled us for 250 years... We will not stop now."¹

India had an average annual GDP growth rate of 7.8% from 2021-2024 compared to 5.4% for China.² Projections indicate India will continue to grow faster than China, gradually narrowing the gap. Its economic growth is driven partly by more investors seeking to diversify out of China due to U.S. tariffs, geopolitical risk, and rising Chinese labor costs. Companies like Apple and Samsung have expanded their production in India.³ Western companies also view India as a cheap alternative for diversifying their supply chains. As well, India has a demographic edge. It has surpassed China in population and has a younger and expanding workforce compared with China's aging and shrinking population. These trends have led many to wonder if India could become the world's manufacturing hub.

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Reality check

Modi launched the "Make in India" campaign in 2014 to boost employment and transform the country into a manufacturing hub. It has made some progress in attracting foreign investment and boosting some sectors, like electronics and defense, but it has largely fallen short of its goals.

In 2023, manufacturing in China was 26.4% of GDP, compared to 13.4% in India.⁴ Chinese exports were valued at a massive USD 3.38 trillion in 2023, while the value of Indian exports was much lower (USD 431 billion).⁵ China's manufacturing sector is deeply embedded in global supply chains and has a diverse production capacity. India's manufacturing shows promise,

particularly in electronics, but it is currently more focused on lower-tech industries.

China has other advantages. It has a central consolidation of power, has an economy approximately five times the size of India's, opened its economy to market forces ten years before India, and has pursued an export-led manufacturing growth economic model for decades.

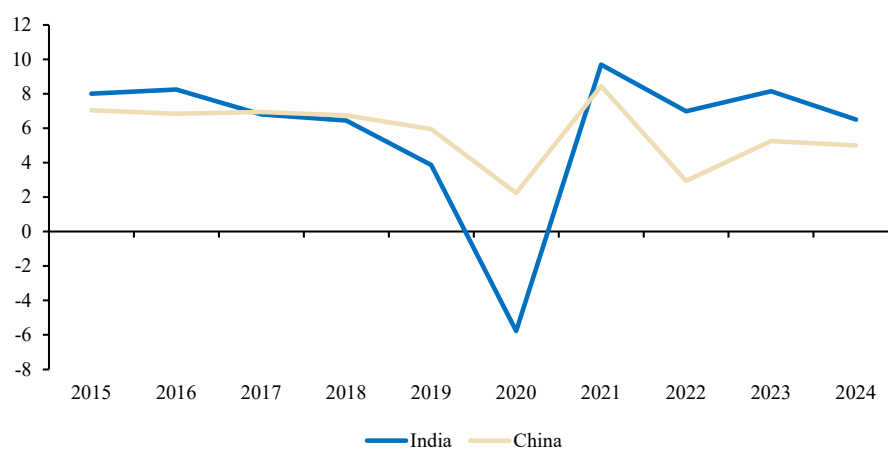
India's most recent military clash with Pakistan has not helped it burnish its image as a safe, stable place to invest

India's most recent military clash with Pakistan has not helped it burnish its image as a safe, stable place to invest. Sparked by a terrorist attack on the Indian side of Kashmir, the two nuclear-armed countries engaged in a series of military attacks from late April to early May until they agreed to a U.S.-brokered ceasefire on 10 May. A full-on war appears unlikely at this time, as both sides can claim success and do not have an incentive to continue. Many investors have likely factored in the potential for a cross-border skirmish into their investment risks. Indeed, conflict between India and Pakistan has been a long-standing reality for decades, rooted in post-colonial British partition. Yet the bold attacks and quick escalation of the latest conflict were alarming, leaving many to wonder what might happen when the two countries clash again. Nonetheless, European Union (EU) exposure is minimal. The EU is India's 10th largest trading partner, accounting for 64.9 billion euros, or 15% of India's total merchandise exports, in 2023.⁶

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India will unlikely replace China as the world's primary manufacturing hub in the medium term. Nonetheless, it could help secure a greater portion of China's market share if it reforms infrastructure bottlenecks, eases bureaucratic red tape at the federal and state levels, and improves the uncompetitive trade environment. Securing a more enduring peace with Pakistan would certainly help ease investor concerns and support India's broader economic ambitions.

EXHIBIT 5.0 – INDIA VS. CHINA ANNUAL GDP GROWTH RATE, 2015-2024



Note: India's 2024 GDP growth is a projection.

Sources: World Bank, Indian Ministry of Finance, and Chinese National Bureau of Statistics.

Notes

- ¹ <https://english.elpais.com/international/2023-04-10/india-the-most-populous-nation-is-fighting-for-a-place-in-the-world.html>
- ² <https://economictimes.indiatimes.com/news/economy/indicators/india-surpasses-chinas-growth-rate-it-will-continue-doing-so-european-parliament-policy-expert/articleshow/109140699.cms?from=mdr>
- ³ https://www-cnbcv18-com.cdn.ampproject.org/v/s/www.cnbcv18.com/photos/business/foreign-investments-in-india-surge-as-global-giants-commit-billions-to-tech-energy-and-defence-19500026.htm/amp?amp_gsa=1&_js_v=a9&usqp=mq331AQIUAKwASCAAgM%3D#amp_tf=From%20%251%24s&aoh=17470177757178&referrer=https%3A%2F%2Fwww.google.com&share=https%3A%2F%2Fwww.cnbcv18.com%2Fphotos%2Fbusiness%2Fforeign-investments-in-india-surge-as-global-giants-commit-billions-to-tech-energy-and-defence-19500026.htm
- ⁴ <https://data.worldbank.org/indicator/NV.IND.MANF.ZS?utm>
- ⁵ <https://data.worldbank.org/indicator/TX.VAL.MRCH.CD.WT?utm>
- ⁶ <https://indianembassybrussels.gov.in/pdf/Bilateral%20Trade-statistics-2024.pdf>

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