Industrialisation in a Post-COVID World: Options for India

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While the chain of COVID-19 infections is proving to be rather difficult to be snapped, all other chains of economic activity appear to be brutally dismantled. Globalisation has been the most recognisable character of modern human civilization. This involved unprecedented scale of cross-border flows of goods, capital and people raised to the power of technology. This is going to change for sure. Host of factors determining cost of production led to fragmentation of production across countries. With some consensus building efforts globally, greater transparency and faith in multilateralism lead to common set of norms for trade and finance that allowed deepening of value chains in production and service delivery. Although, rising global inequities due to lopsided ownership of knowledge and resources had become a genuine concern in recent times leading to sporadic backlash against 'globalisation'.

High-income countries were fast losing their hegemonic dominance with the emergence of large developing countries. Their inabilities to owning up and responding to imminent global challenges like climate change and rising inequalities have significantly lowered their profile. The financial crisis of the last decade had already de-mystified the chances of global finance capital as an adhesive; further drying up of development finance in the face of rising global challenges led to deep legitimacy crisis of multilateral governance; and international trade has already fallen prey to trust deficits even though it was made to look innocent and decent for a long time. However, even as many countries have spent their energies in the previous decade to recover from the global financial crisis and stabilize their economies, the world looked uncertain and countries started looking inwards. While some developing countries utlilised the favourable window of globalization towards rapid per capita income growth, it is becoming increasingly difficult for many others with heightened apprehensions about 'middle income traps'. COVID-19 could not have come at a more wrong time.

What is absolutely certain is that over emphasis on GVCs as the dominant model of industrial production is going to change and countries that are not so intensely integrated with

GVCs are going to lose less. However, availability of resources and sources of intermediate inputs would remain distributed across countries. The question that was being asked for sometime was whether GVCs are a sustainable model and to what extent domestication of value chains is possible. It is also true that value chains would mean different things to different countries and smaller countries would be able to specialize in parts and components. The driving force in the form of increasing returns to scale at the level of the industry led to new manufacturing hubs often concentrated in a handful of countries. While the older paradigm of center-periphery was considered less relevant, newer inequities were emerging. A new wave of tension would be created while stemming rising inequities in a

post-COVID world through localizing production and focus on livelihood generation. New sources of competitiveness, rather than scale economies would be the defining character.

Big businesses and MNCs would have to adjust to new realities. Their accounting methods would have to stretch to social and environmental costs and risks. Hence, competitiveness defined in terms of factors of production alone may not be sufficient. As dependence on new technologies increase, countries may find it difficult to remain too distant from the sources of such technologies and the traditional business models propagated by MNCs. However, with increasing risks even such business models are set to transform and countries would be in a race to ramp up local capacities. The short term and long term policy incentives would be about promoting local production in many countries particularly in areas that necessitate self-reliance. Whether all countries would be successful remains to be seen.

What happens to industrial production in India next is matter of deeper analysis. India has a large market to fall back on. But industrial production needs to go up manifold as has been suggested – 'Make in India' is more meaningful today than before. The welcome expansion of some new sectors like electronics adds to the confidence. Chances are high that with active support for MSMEs, domestic supply chains can be improved and stabilised acting as new sources of competitiveness in India's case, notwithstanding similar policy moves in other countries. Innovation, quality and sustainability would be attractive components of firm level strategy comprehensively encouraged through Government policies. Pharma, capital goods, electronics, auto, FMCG, consumer durables apart from resource based industries would be important. Till the time the world regains the momentum in trade, focus should be on developing longer term strategy of diversifying the basket and deepening the technology content for higher premium. Human development, skill building and technological prowess would certainly add to industrial capacities that have so far remained below potential. While the economy would have to survive the virus, Government's early response is a reflection of the right intent. The National Electronics Policy announced exactly a year ago has been topped up with the recently approved financial assistance to the Modified Electronics Manufacturing Clusters (EMC2.0) Scheme for development of world class infrastructure along covering common facilities and amenities through Electronics Manufacturing Clusters (EMCs). Such policy push is absolutely necessary at this juncture and would incentivize the domestic industry and even encourage re-location.

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