In his Independence Day address, Prime Minister Modi focused on the proposed self-reliance of the Indian economy. In his first Independence Day speech in 2014, the focus was on “Make in India”. Already then he could not understand why India was maintaining a trade deficit for years and the Indian diaspora, especially in the Gulf, was paying for it. Somehow the “Make in India” campaign did not take off as hoped. The trade deficit kept on rising and especially the imports from China knew only one direction. A much-celebrated meeting of the Prime Minister and the Chinese President Xi Jinping last year in Mahabalipuram where a more balanced trade was discussed did not help. 14% of India’s imports come from China and only 5% of India’s exports go to China. For China, as the world’s largest exporter, India counts for less than 1% of its exports, and for the imports, India is even more insignificant. India’s dependency came to the forefront right after the beginning of the COVID crises when suddenly the supplies from China were stuck. While India considers itself as the pharmacy of the world in reality it is fully dependent on China that supplies some 80% of the raw materials. In some cases of Penicillin and Levodopa, it is even 100%. India had to impose an export ban on its pharma products since the supply to its own people was endangered. As a consequence, certain penicillin products suddenly were not available anymore in Germany and Chancellor Merkel had to call the Prime Minister to plead for some more supply of the lifesaving drugs.

With other products also, India’s dependency on China became more than obvious. As per a Deutsche Bank study, 60% of the mobile phones imported come from China and Hong Kong, 62% of electronic components, 56% of Computer hardware and 57% of consumer electronics. Another area where India wanted to improve its independence is the power sector with the National Solar Power Mission. The target is 100 GW by 2022. 80% of the solar cells and modules used in India are supplied by Chinese companies. Something simple like toys are almost entirely imported from China.

This disparity was somehow accepted since it suited the Indian trader mentality and the Indian consumer reality. The trader mentality simply follows buy cheap, have a decent margin and sell cheap. Consumer reality means buy cheap.

With the border conflict between India and China becoming violent, this easy way of doing business became unacceptable. And since due to COVID, the supplies from China were anyway disturbed and the Indian consumer was not consuming, it did not really matter it seems. Looks like we can live without the cheap stuff from China.

When arguments for “Make in India” did not help, now it is emotions and global politics that have to do the job. A detailed analysis by the MEA supported RIS in New Delhi reveals that 327 of the 4000 odd items imported from China that make up for 3/4 of the Indian imports from there can be qualified as sensitive. The rest can easily be imported from other countries or manufactured in India. The problem is the timing. Self-reliance is easier said than done. And it comes at a price. China has become the factory of the world over the last decades with huge investment and knowledge transfer.

To replace this on short notice is next to impossible. On top of it, the Chinese businesses have come out of the crisis the fastest of the lot. So many companies who may have considered to move manufacturing out of China to have less vulnerable supply chains now stay back to cater to the rising demand. With the introduction of import duties and substantial subsidies for manufacturing furniture, shoes, air conditioners and pharma products, the Government is now trying to force the Indian and international manufacturers to set up manufacturing in India. The question is how long will it take?

Over the years with globalization all over, the opening up of the Indian economy and the integration in global supply chains, many companies now cannot roll back and manufacture certain items that are not in high demand locally. The other problem is the Indian ecosystem for manufacturing. It is not cheap and it is not easy. When India wants to compete with China and even be the alternative then it has to be better, faster and easier. And a few countries in the region like Korea, Taiwan, Thailand or even Vietnam and Bangladesh show it is possible.

India is proud to have shot up in the ‘Ease of Doing Business’ ranking of the World Bank by 79 places from 142 to 63 within just 5 years. This is certainly remarkable but it is not enough. Prime Minister Modi himself said the target should be rank number 50. But looking at the competition even that is not good enough. China is at rank 31, Korea at 5 and Taiwan at 15 and Thailand at 21. On top of it, the sub rankings are not in favour of attracting investors. India does well in the protection of minority shareholders and it was lauded for the introduction of the insolvency law. Those are not really relevant for foreign investors. On the other hand, India is still doing very poorly with enforcing contracts, registering property, starting a business and paying taxes. This is critical for investors. We also know that the Ease of Doing Business ranking of the World Bank only applies to Delhi and Mumbai. Luckily the different states now try to present themselves as investor-friendly and promise land for manufacturing in 24 hours, one-stop license-free approvals and hassle-free business conditions. Will it be like how it has been in the past? Overpromised and under-delivered?

The Corona crisis, the conflict with China and the threats to globalization give India the unique opportunity to rise to its full potential. It can and should liberalize itself from archaic labour conditions where 80% of the working population are in the informal sector without a formal contract nor formal skillning, totally left to the mercy of the weather gods or natural disasters like Corona. To achieve quality and reliability with migrant workers is difficult. India should get independent from political clans and families who pull the strings from behind without accountability. And India should celebrate its Independent press, its independent voters and its independent intelligentsia and NGOs. India, a rich country with many poor people celebrates 75 years of independence in 2022. It will host G20 and it will have the chair of the UN Security Council. What better platform to show India and the world that it has become independent from the chains of the past?