New Moves to Boost “Make in India” and Potential Pitfalls

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Summary

1. Since September 2014, the Government of India has been carrying out a manufacturing industry promotion campaign under the slogan “Make in India,” and implementing reforms to improve the business environment in various fields. However, India’s manufacturing industry has not developed at the pace expected by the government because of the following reasons: 1) temporary economic and social turmoil associated with bold institutional reforms, 2) restrictions on economic activities and the economic downturn caused by the COVID-19 pandemic, and 3) the stagnation of reforms on land and labor, which are important production factors for manufacturing. Against this backdrop, the government is trying to shore up manufacturing industry by tightening import regulations and expanding subsidies. As a result, industrial clusters have been developed in smartphone manufacturing. However, considering the following three points, it is unlikely that a similar trend will spread to the entire manufacturing sector.

2. First, stricter import regulations will reduce the competitiveness of assembly-type export industries. With its proximity to China and the signing of the Regional Comprehensive Economic Partnership Agreement (RCEP), the ASEAN region has attracted more attention than India as a hub for exports to Europe and the United States, replacing China. India’s tightening of import regulations will strengthen the ASEAN orientation of companies and may slow the development of Indian manufacturing.

3. Second, there is the fiscal deficit problem. As various business challenges remain, in order for the government to attract foreign capital and develop manufacturing industry, mainly by providing subsidies, it is necessary to further expand the subsidy system, including raising the subsidy rate, expanding the scope of application, and easing the incidental conditions. On the other hand, the fiscal situation has deteriorated significantly due to the COVID-19 pandemic, and it is not easy to secure the budget necessary to expand the subsidy system. Once the COVID-19 crisis is brought under control, the government is expected to take a clear stance that fiscal consolidation is more important than boosting the economy, and pressure to cut subsidies will likely intensify.

4. Third, existing business challenges remain. As reforms to facilitate land expropriation stagnate, the issue of land expropriation will continue to hinder the construction of logistics infrastructure and factories. With regard to labor, even after the new law that integrates and simplifies several labor-related laws comes into effect, compliance with complicated state-specific regulations and strict regulations on dismissal will continue to be issues in the labor management of companies.

5. With the current impasse in measures to promote manufacturing industry, India will be forced to review its policies. It is expected that Japanese companies and the Japanese government will urge the Indian government to shift its policy toward economic liberalization and focus on reforms to improve the essential business environment, rather than further sharpening its current policy stance.

Introduction

The intensifying confrontation between the United States and China and the COVID-19 pandemic have accelerated the realignment of supply chains in Asia. Asian countries see this as an opportunity to promote their manufacturing industries and are stepping up efforts to attract investment.

So far, Vietnam has been the sole winner in terms of production transfers from China(1). However, there is limited scope for Vietnam to replace China's manufacturing industry, which employs more than 100 million workers. For this reason, whether a full-scale reorganization of supply chains will proceed depends on whether similar moves will spread to emerging Asian countries other than Vietnam. A particularly important player in this movement is India, which has a GDP per capita of about 2,000 dollars, a relatively low figure among emerging Asian countries, with a population of just under 1.4 billion, the world's second largest after China. Since September 2014, India has been carrying out a manufacturing industry promotion campaign with the slogan "Make in India." With supply chain restructuring in the background, attention has been paid to whether the structure of global value chains (GVCs) will change significantly as labor-intensive and capital-intensive industries move their assembly processes to India.

The future direction of India's manufacturing industry is also important for the country's prospects for stable and high growth. In order to overcome social problems such as unemployment, poverty and hunger, which have been exacerbated by the COVID-19 pandemic, the development of labor-intensive manufacturing, which has a great effect on job creation, is essential. In addition, the promotion of manufacturing industry is indispensable for India to improve the stability of the rupee through a reduction in its trade deficit, as well as to reduce its dependence on China for imports and diminish economic security risks.

Furthermore, the development of manufacturing industry in India is important for the realization of Free and Open Indo-Pacific Strategy (FOIP)(2), which is being promoted mainly by Japan and the United States. India decided not to participate in the Regional Comprehensive Economic Partnership Agreement (RCEP), which is expected to strengthen the economic connectivity of the FOIP. Behind this decision is concern over the expansion of the trade deficit due to economic liberalization(3). While many RCEP members have requested that India return to the RCEP, partly because of concerns that the RCEP without India will be led by China, India's future participation in the RCEP will largely depend on whether the country's manufacturing sector performs well and the trade deficit shrinks.

Based on the awareness of the above issues, this paper looks at the prospects of India's manufacturing industry, which is important for various issues such as the structure of global value chains (GVCs), India's medium- to long-term economic growth, and the course of the U.S.-China conflict involving the world.

1. Current Status of Make in India

First, the overview of Make in India and the current status of manufacturing industry will be discussed. During the course of the discussion, why manufacturing industry did not develop at the pace expected by the government despite various economic reforms aimed at promoting manufacturing under the Modi administration will be examined.

(1) Overview of Make in India

The following two points can be highlighted as the drivers for the Indian government's emphasis on the promotion of manufacturing industry.

The first is the need to overcome social problems such as hunger, poverty and unemployment. In India, the working-age population (people aged between 15 and 64 years old) is increasing by more than 10 million people per year, and the country has a structure in which the labor supply constantly tends to exceed demand. As the employment environment deteriorated due to the outbreak of COVID-19[(4)], the need for the development of labor-intensive manufacturing, which has a great effect on job creation, is growing.

The second is the need to improve macroeconomic stability by reducing the trade deficit. India continues to have a current account deficit, mainly due to its trade deficit. Before the outbreak of the COVID-19 pandemic, the development of manufacturing industry was considered important from the perspective of controlling the risk of economic instability caused by a vicious cycle of depreciation of the rupee and inflation[(5)].

Since the outbreak of COVID-19, pressure on the rupee has eased due to 1) a decline in import demand stemming from worsening domestic demand, 2) a decrease in energy imports as a result of the fall in international prices of mineral resources, and 3) an increase in capital inflows to India following monetary easing in developed countries. However, when the COVID-19 crisis subsides, the current account deficit is expected to expand again as import demand picks up. Under these circumstances, the rapid depreciation of the rupee triggered by the normalization of monetary policies in developed countries has increased the risk of economic deterioration. Therefore, the Indian government aims to reduce the trade deficit by promoting manufacturing industry, and thus increase the stability of the exchange rates. In addition, the supply chain disruptions following the outbreak of COVID-19 and the rapid deterioration of India-China relations, triggered by the skirmish between Indian and Chinese armed forces in disputed areas on the India-China border in May 2020, have made it increasingly important from an economic security perspective to reduce dependence on imports through the promotion of manufacturing industry[(6)]. Efforts to promote manufacturing with the aim of creating jobs and reducing the trade deficit were also carried out under the previous government led by the Indian National Congress party, and there are many similarities in the economic policy stance of the Bharatiya Janata Party (BJP), which is in charge of the current government (see Supplementary Explanation for the common points and differences in economic policy stance between the Congress party and the BJP). The current Make in India initiative is more about accelerating the efforts of the previous government than a new policy.

Next, looking at the target industries for the Make in India initiative, the government targets about 30 industries, including transportation machinery, electronics, pharmaceuticals, food, and textiles (Table 1). Make in India is widely recognized as a “promotion campaign for manufacturing industry” because it aims to increase manufacturing industry’s share of GDP to 25% and create 100 million new jobs in manufacturing industry. However, service industries such as IT, tourism, and media are also included in the target industries for the initiative. Strictly speaking, it can be referred to as an “industrial promotion campaign.[(7)]” When the scope of industries subject to the initiative was changed in 2018, the change in manufacturing industry focused on a review of industry classifications, while new industries such as financial services and education services were added from the service sector. This suggests that in recent years, the Make in India initiative has been increasingly focused on promoting the service industry.

Next, let’s look at efforts to promote each industry. Make in India is a campaign to comprehensively promote efforts that will lead to the development of industries that will support the future growth of the Indian economy, and the initiative itself does not define development plans for each industry. Therefore, it is necessary to refer to individual policies for development plans for each industry[(8)]. For example, the National Policy on Electronics 2019 (NPE 2019) specifies plans to promote the electronic equipment industry, while specific plans for the automobile industry are outlined in the Automotive Mission Plan 2016-2026 (AMP 2026) and the National Electric Mobility Mission Plan 2020 (MEMMP 2020).

The policy stance for development varies among industries, including whether they aim for

Table 1 Industries Covered by Make in India

		Initial priority industries		Current priority industries
Manufacturing industry	1	Defence manufacturing	1	Aerospace and defense
	2	Aviation		
	3	Space		
	4	Automobiles	2	Automotivea and auto components
	5	Automotive components		
	6	Pharmaceuticals	3	Pharmaceuticals and medical devices
	7	Biotechnology	4	Biotechnology
			5	Capital goods
	8	Textiles and garments	6	Textile and apparels
	9	Oil and gas	7	Chemicals and petrochemicals
	10	Chemicals		
	11	Electronic systems	8	Electronics System Design and Manufacturing
	12	Electronical Machinery		
	13	Leather	9	Leather and footwear
	14	Food processing	10	Food processing
			11	Gems and jewellery
	15	Ports and shipping	12	Shipping
	16	Roads and highways		
	17	Railways	13	Railways
	18	Construction	14	Construction
	19	Renewable energy	15	New and renewable energy
	20	Mining		
	21	Thermal power		
Service industry	22	IT and business process management	16	IT services
	23	Tourism and hospitality	17	Tourism and hospitality services
	24	Wellness	18	Medical Value Travel
			19	Transport and logistics services
			20	Accounting and finance services
	25	Media and entertainment	21	Audiovisual services
			22	Legal services
			23	Communication services
			24	Construction and related engineering services
			25	Environmental services
			26	Financial services
			27	Education services

Notes 1: As the list of industries on the official website of Make in India has not been updated, there are still media coverage and reports that regard the previous 25 industries as the current priority industries of Make in India.
Notes 2: Classification of manufacturing and service industries is based on the reference materials. Industries such as construction and the electric power generation are classified under manufacturing industry in the priority industry list of Make in India, but these industries are not included in the scope of manufacturing industry according to the GDP statistics.
Source: Prepared by The Japan Research Institute, Limited based on the Make in India website and Press Information Bureau ("Make in India 2.0," February 3, 2021)

import substitution-led development or export-oriented development. Therefore, it is not easy to describe the nature of the industrial policy under the Make in India initiative, which is a mixture of various ideas(9). There is also a difference of opinion on the consistency between targets and reality. While the government has said it wants to transform India into a global hub for design and manufacturing in the long run through Make in India(10), it has stepped up protectionism in recent years. While the objective and reality are consistent for the Government of India, which believes that increased protectionism will lead to the expansion of domestic production, for those who believe that protectionism will make it more difficult to promote manufacturing in India, the government's approach seems to contradict the objective. These are the reasons why interpretations of Make in India differ depending on who is providing the explanation.

(2) How Has the Business Environment Surrounding Manufacturing Industry Changed?

Next, how the business environment has changed and how manufacturing industry has developed since the inauguration of the Modi administration will be examined. First, let's look at the Doing Business survey prepared by the World Bank, which is often referred to when analyzing changes in the business environment in India. India's rankings improved significantly in categories such as dealing with construction permits, getting electricity, and resolving insolvency, rising sharply from 142nd in 2014 to 63rd in 2019 (Table 2). The main reason for the significant improvement in the rankings is that the business environment, particularly regarding construction permits, electricity procurement and foreign trade, improved due to the unification, simplification and online implementation of various procedures(11). Looking at construction permits, whose ranking improved significantly from 2014, the number of procedures and the number of days required to obtain a construction permit and the financial cost have significantly improved as a result of the standardization of application forms in Delhi and Mumbai and the introduction of a high-speed approval system.

A drastic change in the system also led to improvements in the medium- to long-term business environment, albeit with temporary confusion. A prime example of this is the simplification of the tax system through the introduction of Goods and Services Tax (GST) in July 2017, which has been seen as the Modi administration's greatest achievement. Prior to the introduction of GST, there were multiple taxes with different rates in each state, such as excise and service taxes, and a central sales tax was imposed on cross-state transactions. Therefore, it was difficult to build an efficient production system across states because of the heavy administrative burden involved in corporate tax payments. However, the replacement of various local taxes with GST and the elimination of the central sales tax have greatly reduced corporate tax costs and made it possible to build optimal cross-state supply chains. In addition, as for the notable changes in taxation, in 2019, the government decided to lower the standard corporate tax rate from about 30% to 22% and to apply a preferential tax rate of 15% to newly established manufacturing companies that meet certain conditions. As a result, India's standard corporate tax rate became the second lowest among the major emerging Asian countries, after Thailand, Cambodia and Vietnam (each at 20%).

Along with the changes in the tax system, the enactment of the Insolvency and Bankruptcy Code (IBC) can be pointed out as a reform that has attracted attention. Until the IBC was enacted, there had been no comprehensive law on bankruptcy proceedings in India. In addition, there had been a lack of a framework for prompt insolvency and bankruptcy processing, such as automatic liquidation if a corporate rehabilitation plan is not approved within a certain period of time. As a result, conflicts over differences in interpretations of several laws related to insolvency and bankruptcy continued, and it took at least several years for companies to complete their business rehabilitation and liquidation procedures. The difficulty of withdrawing from a failed business and the low collection rate from defaulting counterparties had been important factors that prevented multinational companies from expanding into India. Therefore, the government worked on the consolidation and amendments of relevant laws and regulations and enacted the Insolvency and Bankruptcy Code (IBC) in December 2016, which requires the completion of business rehabilitation procedures within 180 days in principle. As a result, the ranking for resolving insolvency rose to 52nd from 137th in 2014.

Although not directly reflected in the Doing Business rankings(12), the following items indirectly contributed to the improvement of the business environment in India: 1) improving the transparency of the business environment by enhancing measures against black money (illegal funds),

Table 2 India's Business Environment Rankings in the World Bank's Doing Business Survey and Efforts to Improve the Business Environment

Evaluation field	Ranking in 2014 (189 countries/ regions)	Ranking in 2019 (190 countries/ regions)	Changes in ranking over 5 years	Initiatives implemented toward business environment improvement
Overall	142	63	79	
Dealing with construction permits	184	27	157	Early issuance of construction permits through the introduction of uniform construction regulations in Delhi and Mumbai according to building types and risks, standardization of application forms, and the introduction of high-speed approval systems
Getting electricity	137	22	115	Power supply within 15 days, simplification of power supply procedures and introduction of online procedures
				Development of electric power infrastructure through "UDAY (Ujwal Discom Assurance Yojana)," a debt relief program for power distribution companies
Resolving insolvency	137	52	85	Enforcement of the Insolvency and Bankruptcy Code (IBC) in 2016
				Completion of insolvency processing within 90 days by introducing a high-speed corporate insolvency processing system for SMEs
Trading across borders	126	68	58	Centralized online customs procedures through the "Indian Customs Single Window Project"
Paying taxes	156	115	41	Reduction in the standard corporate tax rate (30% → 22%, and 15% for newly established manufacturers that meet certain conditions)
				Simplified tax system through introduction of Goods and Services Tax (GST) in 2017
				Online tax refund procedures by Employee State Insurance Corporation (ESIC)
Enforcing contracts	186	163	23	Establishment of the Commercial Division and the Commercial Appeal Division at High Courts in Delhi and Mumbai
				Introduction of a case search system in 2015
				Digitization of judicial documents and procedures in Delhi and Mumbai
Starting a business	158	136	22	Integration of Permanent Account Number (PAN), Tax Deduction & Collection Account Number (TAN), and Director Identification Number (DIN)
				Online procedures for employees' employment insurance and pensions through "Shram Suvidha," an integrated portal site
				Elimination of requirements for pre-registration inspections of stores and facilities in Delhi and Mumbai (stores and facilities subject to the Shops & Establishment Act)
Getting credit	36	25	11	Enhancement of the development of laws related to financial assets through the amendment of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act (SARFAESI Act) for banks and financial institutions
				Improving the stability of the financial system through measures such as the use of the Reserve Bank of India to identify nonperforming assets of commercial banks, mergers of state-owned banks, and the injection of public funds
Protecting minority investors	7	13	−6	Mandatory submission of Business Responsibility Reports (BRR) by top 500 companies in terms of market capitalization, starting in 2015
				Expansion of simplified application of Ind-AS (Indian Accounting Standards) in accordance with International Financial Reporting Standards (IFRS)
				Stricter regulations on investment trusts
Registering property	121	154	−33	Online registration procedures in Delhi and Mumbai, centralization of competent authorities
				Promotion of the "Digital India Land Records Modernization Program (DILRMP)," an initiative to promote the digitization of land transaction records
				Preparation of statistics on land disputes in Delhi and Mumbai

Notes: Shaded columns indicate the items for which India ranked below 100th in the 2019 rankings
Source: Prepared by The Japan Research Institute, Limited based on the World Bank, Make in India website, and various media reports

including the abolishment of large denomination bills in November 2016, and tightening controls on corruption; 2) improving the financial access environment for low-income earners through the introduction of “Aadhaar,” an identification card that uses biometric technology; and 3) relaxing restrictions on foreign investment, particularly in the service industry.

Despite these efforts, however, manufacturing has not expanded at the pace expected by the government. The manufacturing sector’s share of the economy is on a declining trend, and it will be difficult to achieve the target of raising the share to 25% by fiscal 2025[(13)] (Fig. 1). The GDP ratio of goods exports also declined in the latter half of the 2010s (Fig. 2), with the number of workers in the manufacturing industry falling from about 50 million in fiscal 2016 to 40 million in 2019, and the number falling further to just under 30 million due to the effect of COVID-19[(14)].

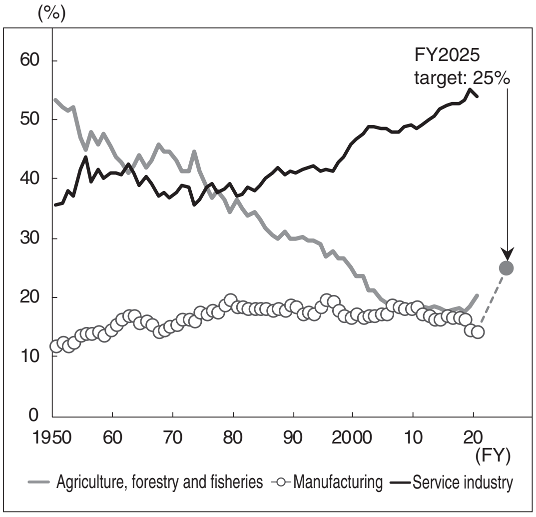
Looking at the changes in the industrial production index by industry between fiscal 2014 and fiscal 2020, production expanded for pharmaceuticals, furniture, apparel, basic metals and precision machinery, while production did not expand or rather contracted in other industries (Fig. 3). Production in government-focused industries such as transportation and electronics had been below FY2014 levels even before the outbreak of the COVID-19 pandemic.

(3) Why Didn’t Manufacturing Industry Thrive Despite Improvement in the Business Environment?

While the business environment has improved in various fields, manufacturing industry has been in a slump due to the following three factors: 1) temporary economic turmoil resulting from drastic system changes; 2) activity restrictions and drastic economic deterioration following the outbreak of COVID-19; and 3) various remaining business challenges (Table 3).

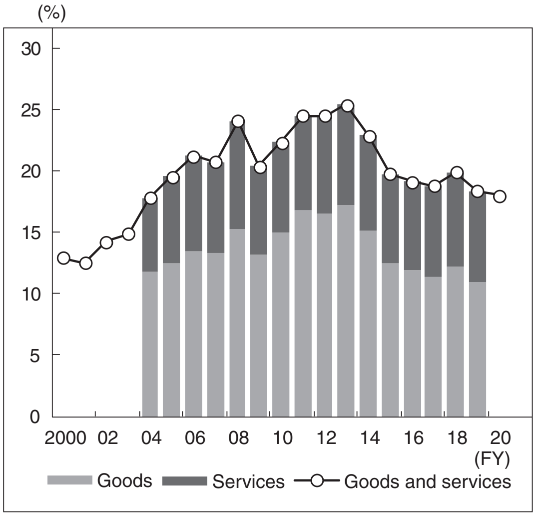
First of all, regarding the drastic changes in the system under the Modi administration and the resulting temporary confusion in the economy[(15)], it was the abolition of large bills in November 2016 that caused the greatest confusion. While 500 rupee notes and 1,000 rupee notes, which accounted for more than 80% of cash in circulation, were

Fig. 1 Industrial Composition Ratio in India



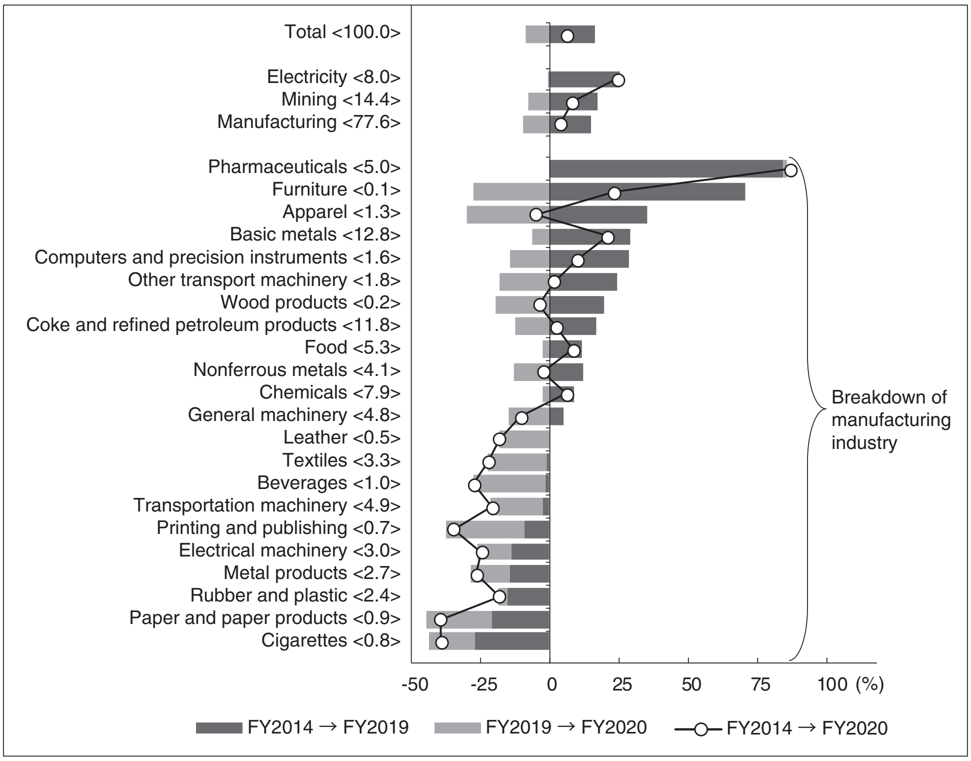
Notes: Percentages for FY2020 are the ratios for the first half. Share against GVA (GDP - net indirect taxes (indirect taxes - subsidies)).
Source: Ministry of Statistics and Programme Implementation

Fig. 2 Ratio of Exports to Nominal GDP



Source: Ministry of Statistics and Programme Implementation

Fig. 3 Change in Industrial Production Index (FY2014 → FY2020)



Notes: The figures in parentheses for each item indicate the weight in the industrial production index (100 in total).
Source: Ministry of Statistics and Programme Implementation

Table 3 Impediments to the Development of Manufacturing Industry

Factor		Example
Temporary economic turmoil and deterioration resulting from drastic changes in the system		Confusion caused by the abolition of large bills in November 2016
		Confusion in line with the introduction of GST in July 2017
		Sluggish automobile sales due to the introduction of the strict BS-VI emission standards ahead of schedule (2024 → April 2020) and the tightening of regulations on financial institutions triggered by a series of defaults of major nonbank IL&FS between 2018 and 2019
Restrictions on activities and economic deterioration due to the outbreak of the COVID-19 pandemic		Implementation of strict lockdowns in spring of 2020 and spring of 2021
Remaining business challenges	Insufficient reforms	Complicated tax system even after tax reforms
		Delay in reforms in some states
		Complex regulations that vary from state to state
	Stagnation in reform	Stagnation in efforts to amend the Land Acquisition Act since 2015
		Stagnation in labor reform due to opposition from labor unions

Source: The Japan Research Institute, Limited

suddenly abolished, the supply of new notes was delayed, causing a major disruption in economic and social activities, mainly in transactions with SMEs and low-income earners who are highly dependent on cash settlement. As a result, there was a growing tendency to postpone investment until the confusion subsided and the economy recovered.

After that, while the negative effects of the abolition of large denomination bills were coming to an end by the middle of 2017, the introduction of GST in July of the same year brought about new confusion. The government introduced GST less than a few months after the standard corporate tax rate was set, which hampered transactions between companies that were slow to adapt to the new tax system and their business partners(16). Another factor that destabilized the economy was temporary large fluctuations in demand due to a rush in demand in anticipation of the change in the tax system and a restraint on buying after the change.

After the confusion caused by the introduction of GST ran its course in 2018, the economy gradually recovered its original strength. However, after the middle of 2018, automobile sales declined significantly due to the confusion caused by the introduction of the stringent Baharat Stage VI (BS-VI) emission standards ahead of schedule and the tightening of lending standards for automobile loans against the background of the credit uncertainty in the financial sector, which resulted in continued stagnation of the manufacturing industry(17).

After that, the government announced a series of economic stimulus measures, and the economy seemed to have bottomed out toward the beginning of 2020. However, the outbreak of the COVID-19 pandemic soon after forced the economy into a double-dip recession. Manufacturing production, with the exception of food, beverages, and pharmaceuticals, fell sharply after plants for all but basic necessities were shut down due to strict lockdowns. After the latter half of 2020, production activities began to recover along with the gradual easing of lockdowns. However, lockdowns were introduced again following the massive surge in new COVID-19 cases after the middle of March 2021, and there was a growing movement to replace industrial oxygen with medical oxygen. As a result, factories in industries requiring oxygen, such as metal welding, were forced to temporarily suspend production. Although not only India, but also other emerging countries face uncertainties and each country's economy deteriorated significantly due to the COVID-19 pandemic, the standard deviation (deviation from average) of the real GDP growth rate of India from 2013 to 2020 is higher than that of those countries that compete with India as a destination of investment, such as China, Indonesia, the Philippines, Vietnam, and Thailand.

A series of bold institutional reforms and the outbreak of the pandemic have brought about waves of temporary economic disruption and social turmoil one after another, and the remaining challenges in India's business environment have constrained the development of manufacturing industry.

Various challenges remain in areas where economic reforms have been implemented. For example, with regard to GST, which led to the simplification of the tax system, the current standard tax rate is divided into five stages (0%, 5%, 12%, 18% and 28%), and GST Compensation Cess is added individually to luxury goods, indicating that India's tax system is still complicated. In addition, the periodic review of the tax rates for each product item increases the financial costs of companies as well as uncertainty about the future business environment.

Furthermore, it should be noted that there are a large number of states in India where economic reforms have not progressed at the same pace as in Mumbai and Delhi, which are included in the scope of evaluation in the Doing Business survey, because the authority of state governments is large in India and their stances on economic policies, including those for attracting foreign capital, differ among states(18). The initiatives that helped improve India's Doing Business rankings are largely unique to Delhi and Mumbai, but not all states have similar initiatives. According to the Ministry of Commerce and Industry's 2019 Business Reform Action Plan, Maharashtra, the state in which Mumbai is located, and Delhi ranked 12th and 13th, respectively, out of 36 regions, indicating that they are regions with relatively favorable business environments(19). Given the lagging pace of reform in states in the northeastern region and the difficulty of expanding business operations across India due to differences in systems between states, it is concluded that the actual business environment has not improved as much as indicated by the Doing Business survey.

In addition, the stagnation of reforms on land

and labor, which are important production factors for manufacturing, continues to hamper the development of manufacturing industry. First of all, regarding land, land expropriation, which is necessary for the development of logistics infrastructure and the establishment of factories, continues to be difficult because 1) the central government and state governments jointly manage the land, and the system concerning the use of land and transactions is complicated; 2) there is no registration system for land, and problems regarding ownership constantly occur[20]; and 3) an agreement with high hurdles and expensive compensation are necessary for land expropriation. The Modi administration worked to amend the law between 2014 and 2015 to facilitate land expropriation, but the amendment was not realized due to difficulties in deliberations in the upper house, where the ruling coalition has less than a majority of seats[21]. Since then, the momentum for amendments to the Land Acquisition Act has receded, and no amendments to the Act were included in the manifesto for the 2019 general election of the lower house. As a result, in the 2019 Doing Business survey, India ranked low at 154th in the "registering property" ranking, which measures the ease of processes from the purchasing to registering of land and buildings.

On the other hand, regarding labor, the following factors have made it difficult for companies to build an efficient production system across states: 1) prior permission from the state government is required for a business establishment with 100 or more employees to close down a business site or lay off workers, which makes flexible employment adjustment difficult[22], 2) state governments have established their own labor-related laws within the scope of federal law, and the system is complicated, and 3) the labor laws are not unified among states, which makes it difficult for companies to respond to them. For this reason, the Modi administration aimed to ease regulations on layoffs and unify and simplify labor laws in order to attract foreign investment, but the reform was difficult due to persistent opposition from labor unions.

Although some local governments, which are active in attracting foreign investment, have eased their own regulations, the central government's reforms have been limited to those which are relatively easier to be accepted by both companies and workers, such as extending the period of maternity leave for women and restricting child labor. Since then, reforms have progressed, including the enactment of new labor codes in September 2020 that incorporated approximately 30 labor-related laws into the following four laws: 1) wage-related law; 2) labor-management relations-related law; 3) social security-related law; and 4) labor safety-related law. However, the effective date of the laws has been postponed from the initial plan of April 2021 to avoid the confusion caused by the system change amid the ongoing COVID-19 crisis, and positive effects of labor law reforms have yet to materialize[23]. If the complexity of labor laws and the difficulty of labor management associated with strict dismissal regulations were included in the scope of assessment of the Doing Business survey, India would have ranked even lower.

2. New Moves to Boost "Make in India"

In September 2014, when the government announced the Make in India initiative, it stated that for the realization of Make in India, it was necessary to improve the business environment through 1) "New Processes" focusing on simplification of procedures and deregulation, 2) "New Infrastructure" focusing on the development of logistics networks necessary for the sophistication of industries, 3) "New Sectors" which identify growing industries and share information leading to the promotion of investment in those industries, and 4) "New Mindset" which transforms the government from a business regulator to a facilitator. However, as manufacturing industry has not developed as expected and both India's economy and economic reforms have stagnated, the government is now trying to revive Make in India by emphasizing subsidy benefits with a view to tightening import regulations and attracting foreign investment.

(1) First Pillar: Tightening of Import Regulations

First, let's look at the tightening of import regulations, which is becoming the new first pillar of the promotion of the manufacturing industry. The Modi administration believes that the tightening of import regulations will lead to the development of manufacturing industry(24). Based on this recognition, the average effective tariff rate has been gradually increasing in response to the introduction of the Phased Manufacturing Programme (PMP), which gradually increases import tariffs on intermediate goods for mobile phones (World Trade Organization [2020]). Furthermore, since the outbreak of COVID-19, the government has made clear its stance of reducing import dependency as part of economic measures under the slogan of "Atmanirbhar Bharat (self-reliant India)" and has stepped up efforts to curb imports(25) (Table 4).

Table 4 Efforts to Curb Imports

Timing	Details of initiatives
June 2020	Introduced the licensing system for the import of vehicle tires
	The Bureau of Indian Standards (BIS) plans to introduce its own quality standards for 371 imported products and restrict imports of those products that do not meet the standards (based on media reports; the new standards are scheduled to be introduced by the end of FY2021)
July 2020	Introduced licensing system for the import of some color televisions
October 2020	Banned the import of air conditioners using refrigerants
	Registration with the steel import monitoring system became mandatory for the importers of steel products
March 2021	Introduced anti-dumping tariffs on PET (polyethylene terephthalate) resin products imported from China
April 2021	Introduced tariffs of up to 40% on imports of solar power generation equipment (40% for modules and 25% for solar cells)
	Introduced anti-dumping tariffs on imports from Europe and the United States of n-Butanol, which is used as a raw material for chemicals

Source: Prepared by The Japan Research Institute, Limited based on various media reports

Other notable tariff increases apart from the PMP include the introduction of an anti-dumping tariff on PET resin imports from China in March 2021, the introduction of a 40% basic tariff on solar power generation equipment imports in the following month(26), and the introduction of an anti-dumping tariff on imports from Europe and the United States of n-Butanol used as a raw material for paints and refrigerants in the production of chemical fibers. Looking at the notice on the introduction of tariffs on solar power generation equipment, which attracted particular attention, the government pointed out the needs to strengthen domestic manufacturing capacity and reduce its dependence on imports as the reasons for introducing the tariffs(27).

In addition, import regulations other than tariffs are being tightened. In June and July 2020, the government introduced a licensing system for the import of automobile tires and color televisions, which had not been previously regulated, and in October of the same year it banned the import of air conditioners using refrigerants. The Bureau of Indian Standards (BIS) also plans to introduce new quality standards for 371 items, including iron products, home appliances, electronics and rubber products, and to restrict imports of products that fall short of those standards(28).

In addition, China, whose political confrontation with India is intensifying, has been subject to stricter restrictions in areas other than imports(29). In the past, the Indian government has sought to curb the trade deficit with China by encouraging Chinese companies to invest in India and increase domestic production. Since 2020, however, India has become increasingly wary of Chinese companies expanding into India. In April 2020, the Indian government switched to a prior approval system for investment from countries bordering India. Since investment from Pakistan and Bangladesh has already been subject to a prior approval system, this measure is considered to have been taken with investment from China in mind. In June 2020, the government banned several Chinese-made apps, including WeChat and TikTok, for security reasons. The Indian government is also trying to shut out Chinese companies in the IT sector by excluding Huawei and ZTE from the list of companies eligible to participate in the next-generation communications pilot program announced in May 2021[30].

However, the exclusion of Chinese companies is likely to constrain India's manufacturing development. In particular, it is extremely difficult to achieve high-hurdle targets such as realizing economic growth and environmental improvement at the same time without cooperation with Chinese companies in fields which play an important role for India's sustainable growth in the future, such as electric vehicles (EVs) and renewable energy. It is assumed that the reason why the Indian government took such measures despite such adverse effects is that it believes that the elimination of Chinese companies will promote the development of domestic companies, or that the local production of foreign companies in India other than Chinese companies will expand and manufacturing industry can develop without depending on China.

(2) Second Pillar: Expansion of Subsidies to Attract Foreign Capital

The government is stepping up measures to curb imports and, at the same time, expanding subsidies to attract foreign investment. Of particular interest now is the Production-Linked Incentive Scheme (PLI Scheme), which provides incentives according to the increase in sales from the base year. The policy was introduced in April 2020 for the production of mobile phones and medical devices, and then expanded to include automobiles, white goods, and renewable energy-related equipment in November of the same year. The government plans to spend about 2 trillion rupees over the next five years (Table 5). The ratio of incentives to sales increases varies by industry, product, and year of application, but is generally set at around 5%. Therefore, if the entire budget of the PLI Scheme is used, the increase in sales is estimated to be about 40 trillion rupees ("To-

Table 5 Budget of the PLI Scheme and Progress Status

Sectors	Contribution for five years (Billion rupees)	Program progress status
Automobiles and automotive components	570	Before introduction
Mobile phones and specified electronic components	410	Already introduced
Advanced chemistry and cell batteries	181	In the process of introduction
Pharmaceuticals	150	In the process of introduction
Telecom and networking products	122	In the process of introduction
Industrial textiles	107	Before introduced
Food products	109	In the process of introduction
Critical key starting materials, drug intermediates, and active pharmaceutical ingredients	69	Already introduced
Specialty steel	63	Before introduction
White goods (air conditioners, LED lights)	62	In the process of introduction
Electronic / technology products	50	In the process of introduction
High-efficiency solar PV modules	45	In the process of introduction
Manufacturing of medical devices	34	Already introduced
Total	1,973	

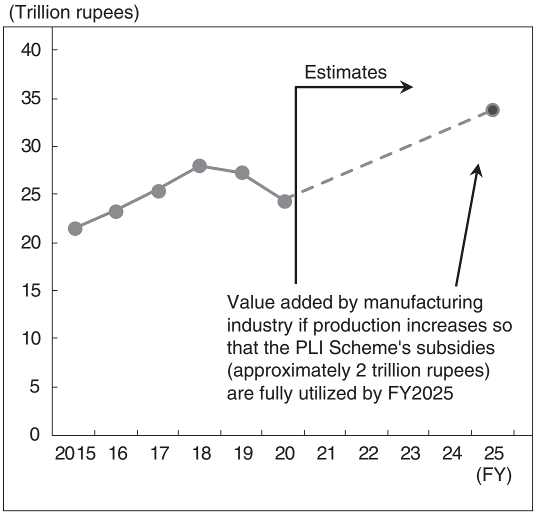
Notes 1: Progress status is as of June 10, 2021.
Notes 2: "Already introduced" means that the details of the system have been approved by the Cabinet and the applicable companies have already been selected, "In the process of introduction" means that the details of the system have been approved by the Cabinet and the applicable companies are currently being selected, and "Before introduction" means that the details of the system have not been approved by the Cabinet.
Source: Prepared by The Japan Research Institute, Limited based on Press Information Bureau "Cabinet approves PLI Scheme to 10 key Sectors for Enhancing India's Manufacturing Capabilities and Enhancing Exports," and various media reports

tal PLI Scheme budget (1.9 trillion rupees)" divided by "Average incentive ratio to sales increase (5%)"). Considering that the value added ratio of the manufacturing industry to the production value is a little less than 30%, it can be said that the PLI Scheme aims to increase the value added of manufacturing industry by about 30% to about 33 trillion rupees in fiscal 2025 from 25 trillion rupees in fiscal 2020 (Fig. 4).

The current state of introduction varies by industry and is divided into three groups: 1) already introduced, 2) in the process of introduction, and 3) before introduction.

First, mobile phones, specified electronic components, and medical devices, for which the system was announced earlier, can be cited as industries that have already introduced the system. A total of 16 mobile phone manufacturers are certified, including large Taiwanese contract manufacturers, such as Foxconn Technology Group, Pegatron Corporation and Wistron Corporation, as well as Samsung Electronics and local manufacturers in India(31). The government will provide incentives equivalent to 4-6% of the sales increase from the base year to the certified companies that meet the application criteria for each year(32). In fiscal

Fig. 4 Value added in Manufacturing Industry



Source: Prepared by The Japan Research Institute, Limited based on the Ministry of Statistics and Programme Implementation, ADB, Reserve Bank of India, etc.

2020, the first year of the scheme, Samsung Electronics was the only company to receive financial incentives, as sales of other certified companies slumped due to the economic downturn and supply chain disruptions caused by the COVID-19 outbreak(33). The government plans to launch a similar system for the production of motherboards and semiconductors soon.

On the other hand, as for the majority of industries that were newly added to the subject to the PLI Scheme in November 2020, the screening process for certified companies is currently underway, and the first year of application is expected to be fiscal 2021. With regard to telecommunications network equipment, including computers, tablets and servers, a total of 19 companies, including Dell and EMS companies in Taiwan and Singapore, have applied for the scheme, and certified companies are expected to be announced soon.

In addition, the industries that are in the pre-introduction stage include the automobile and automobile parts industries that have the largest budgets. Discussions are under way on how to set standards for subsidies, such as the local procurement rate and the increase in investment. The government is considering introducing strict benefit standards to boost production(34), but subsidies will not work if high targets are set that are difficult to achieve. Therefore, the details of the system are expected to be finalized after careful consideration of its feasibility. If discussions are prolonged, the introduction of the system may be delayed until fiscal 2022.

Furthermore, in parallel with the PLI Scheme, the government has developed a subsidy policy aimed at supporting specific industries. For the manufacture of electronic components, in April 2020, the government announced the Scheme for Promotion of Manufacturing of Electronic Components and Semiconductors (SPECS), a subsidy program for capital investment in the industry, and the Modified Electronics Manufacturing Clusters (EMC 2.0) Scheme, a subsidy program for projects leading to the formation of an ecosystem (Table 6). It is also considering introducing a new cash incentive of more than 1 billion dollars for companies starting to manufacture semiconductors in India[35]. At present, India depends on imports for most of its semiconductors, and the government is trying to expand domestic production, focusing on processes such as product testing and assembly of semiconductors, through subsidies[36].

Similarly, the government is expanding its subsidy policies for the automobile industry. For example, in June 2021, the government raised the subsidy amount for electric motorcycles significantly in FAME (Faster Adoption and Manufacturing of (Hybrid &) Electric Vehicles), a policy to promote the production of EVs through the provision of subsidies for the purchase of EVs. With the subsidy cap raised to 40% of the price of vehicles from 20%, the government expects electric motorcycle production to surge as the price gap with gasoline-powered vehicles largely disappears. As for four-wheel vehicles, the government is also considering introducing a vehicle scrappage policy to subsidize the purchase of new automobiles that requires the disposal of aging vehicles in the near future. The number of vehicles subject to the vehicle scrappage policy, including passenger cars over 20 years old and commercial vehicles over 15 years old, is estimated to be about 10 million, which is more than two times the annual sales in the latter half of the 2010s. Therefore, the replacement demand for new cars under the policy is expected to have a large impact on manufacturing industry[37].

In addition, as the employment environment deteriorated due to the severe economic downturn following the outbreak of the COVID-19 pandemic, the government introduced a subsidy system for corporate employment. In December 2020, the government approved a subsidy program named "Atmanirbhar Bharat Rojgar Yojana (self-reliant India employment scheme)" to support payments to the Employees' Provident Fund (EPF), which is equivalent to employment insurance, over a period of two years for new employment that meets certain conditions[38].

Moreover, the economic stimulus measures announced amid the COVID-19 pandemic include many subsidy policies for low-income people and small and medium-sized enterprises, and the dependence of the economy on subsidies is rapidly increasing.

Table 6 Subsidy Policy Related to the Promotion of Manufacturing Industry

Industry / sector	Program / policy	Details
Manufacturing of electronic equipment	Scheme for Promotion of Manufacturing of Electronic Components and Semiconductors (SPECS)	Provision of subsidies equivalent to 25% of expenditure for capital investment necessary for production of electronic components (announced in April 2020)
	Modified Electronics Manufacturing Clusters (EMC 2.0) Scheme	Provision of subsidies equivalent to 50% of the costs of projects related to the development of the electronic equipment production ecosystem (announced in April 2020)
	No program/policy name yet (based on media reports)	Payment of about 1 billion dollars in cash benefits to companies starting to manufacture semiconductors in India (details of the system are being worked out)
Transportation machinery	Faster Adoption and Manufacturing of (Hybrid &) Electric Vehicles (FAME)	Provision of subsidies for the purchase of EV taxis, buses and motorcycles (the first phase started in April 2015, the second phase started in April 2019, and the subsidy amount for motorcycles was raised in June 2021)
	Voluntary Vehicle-Fleet Modernization Program (VVMP)	Provision of subsidies for the purchase of new vehicles that involve the scrapping of aging vehicles (announced in March 2021 and planned to be implemented gradually from April 2022; details of the system are currently under consideration)
Employment	Atmanirbhar Bharat Rojgar Yojana (self-reliant India employment scheme)	Provision of subsidies for the payments to the Employees' Provident Fund (EPF) by enterprises that hire new employees under certain conditions

Source: Prepared by The Japan Research Institute, Limited based on the Ministry of Electronics and Information Technology, Make in India website, and various media reports

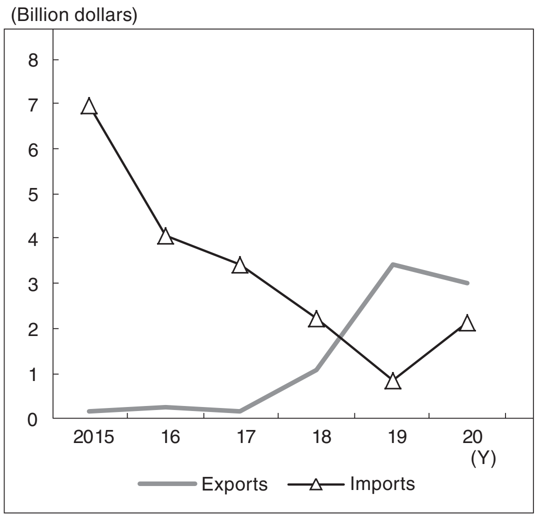
(3) Increase in Industrial Clusters in Smartphone Manufacturing

The Indian government's emphasis on strengthening import regulations and expanding subsidies for the promotion of manufacturing industry can be attributed to the stalemate in economic reforms and the deteriorating relations with China. In addition, the development of industrial clusters in the manufacturing of smartphones, where such initiatives were implemented ahead of other industries, is considered to be a factor that deepens confidence in this policy.

Given the above, let's look at the recent production and sales trends in this industry. In the 2010s, with the spread of smartphones, demand for inexpensive Chinese-made smartphones, such as Xiaomi, Vivo, Oppo, and others, rapidly increased, causing India's trade deficit with China to expand. In response, the Indian government increased tariffs on intermediate goods in stages to encourage local production, mainly in the assembly process. As a result, Chinese companies increased production in India, mainly in the assembly process, which led to investment and employment and reduced the trade deficit with China. Nevertheless, the local procurement rate of intermediate goods remains low, and the trade deficit in intermediate goods continues to expand in line with the increase in smartphone sales in India. On the other hand, imports of finished goods declined significantly, while exports of finished goods increased mainly to the Middle East, with exports exceeding imports in 2019 and 2020 (Fig. 5).

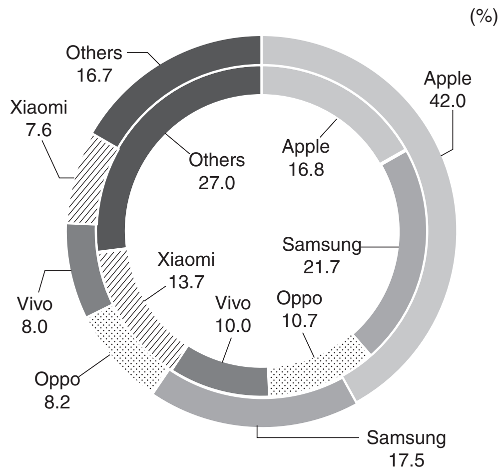
In addition, not only Chinese manufacturers, which have a high share of sales in India, but also Taiwanese companies manufacturing iPhones on consignment, and manufacturers with a high market share in developed countries such as Samsung, have been expanding their production in India, and there is a growing view that India will become the global hub of smartphone manufacturing in the future[39]. As iPhone's share of the global smartphone market is less than 20% on a unit basis but more than 40% on a shipment value basis (Fig. 6), particular attention has been drawn to the trends in its production shift. Apple has been producing iPhones in India since 2017 through Taiwan's Wistron Corporation, and major contract manufacturers such as Foxconn Technology Group and Pegatron Corporation are also looking

Fig. 5 India's Imports and Exports of Mobile Phones (HS Code 8517)



Source: United Nations

Fig. 6 Market Share of Smartphones (January-March 2021)

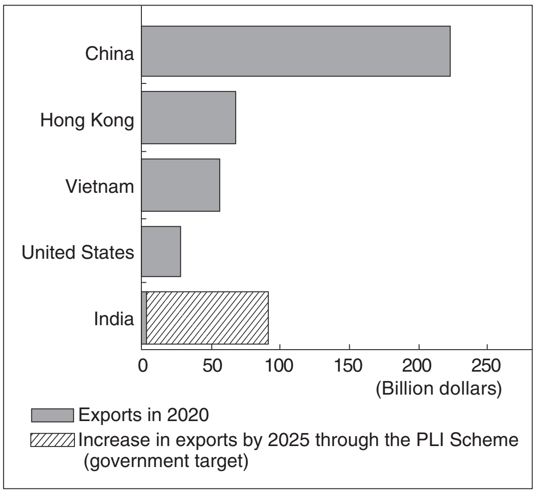


Notes: Outside: Percentage on shipment value basis
Inside: Percentage on unit basis
Source: Counterpoint's press release dated April 29, 2021 "Apple Leads the $100 Billion+ Smartphone Market with 42% Share"

to expand production in India.

Through the PLI Scheme, the government aims to increase smartphone sales by 10.5 trillion rupees (of which 6.5 trillion rupees are through increased exports) and to increase the value added ratio of domestic products from the current ratio of 15-20% to 35-40%. During the first year of the PLI Scheme's implementation, only Samsung was able to achieve the targets due to the effects of the COVID-19 pandemic, among other reasons. However, if sales continue to grow at a pace that will help recover from the decline during the COVID-19 pandemic and the targets under the PLI Scheme application are achieved, India's mobile phone exports will grow to about 40% of what China currently exports[40] (Fig. 7).

Fig. 7 Exports of Mobile Phones (HS Code 8517)



Notes: Exports from Vietnam are based on figures for 2019. Future increases for India are based on the government target (6.5 trillion rupees) and the average dollar/rupee exchange rate in 2020 (1 dollar = 74 rupees).
Source: Prepared by The Japan Research Institute, Limited based on the United Nations, Press Information Bureau "PLI Scheme to herald a new era in mobile phone and electronic components manufacturing," and the Reserve Bank of India

3. Potential Pitfalls for Current Manufacturing Promotion Measures

The Indian government hopes that tighter import regulations and expanded subsidies will help spread the same movement as smartphone manufacturing across the entire manufacturing industry. However, based on the following three points, it is unlikely that manufacturing industry will develop steadily using such an aggressive approach.

(1) Declining Competitiveness of Assembly-type Export Industries

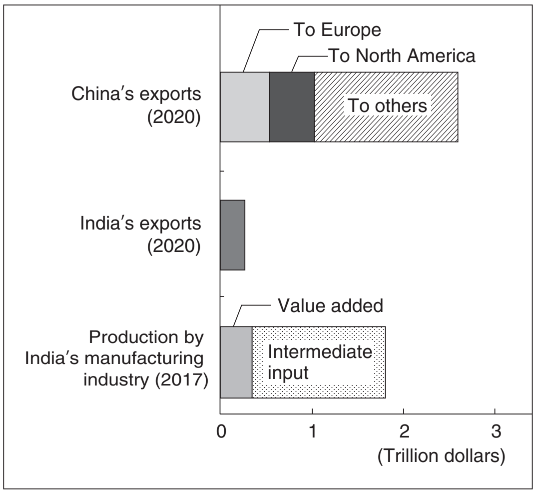
First, strengthening protectionism, such as increasing tariffs on imports of intermediate goods and import regulations, will hinder the entry of assembly-type export industries into India.

China's exports to the world are approximately nine times larger than India's exports and seven times larger than the value added of India's manufacturing industry, respectively. The extent to which production transfers from China to India will proceed will greatly affect the development of India's manufacturing industry (Fig. 8).

However, the development and production of intermediates for high-value-added items such as semiconductors and electric vehicles, which are regarded as key industries in "Made in China 2025," China's policy for the enhancement of its industrial structure, are expected to be limited to China. As a result, the destinations for production shifts will be concentrated in countries that can stably procure intermediate goods from China and have an environment suitable for export. ASEAN countries meet these conditions and are currently attracting attention.

In addition to their geographical proximity to China, ASEAN countries have concluded FTAs with China, Japan, South Korea, Australia, New Zealand, and India. Furthermore, the entry into force of the RCEP is expected to expand trade by standardizing procedures such as rules of origin.

Fig. 8 Goods Exports by India and China and India's Manufacturing Output



Source: Ministry of Commerce and Industry, ADB, General Administration of Customs

Under these circumstances, if India becomes more protectionist, the ASEAN orientation of foreign companies will become stronger. India's high trade costs due to the absence of FTAs are directly linked to a decline in export competitiveness, which could slow India's manufacturing development.

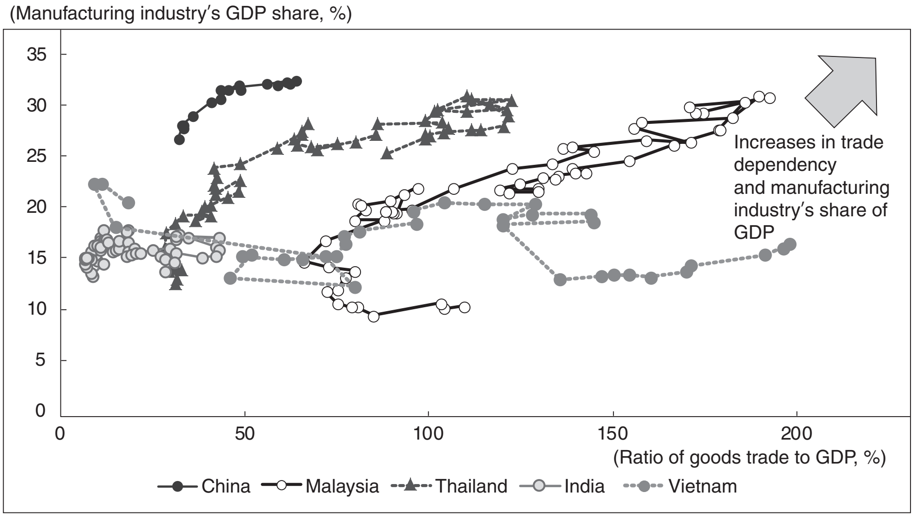
Past experience with industrialization in other countries, including India, also suggests that stricter import regulations may not necessarily lead to increased domestic production(41). First, with regard to India, since its independence in 1947, the Jawaharlal Nehru and Indira Gandhi administrations have promoted import substitution-led industrialization policies, but manufacturing industry did not develop. India's industrialization began in the 1990s, when the country was forced to shift toward economic liberalization in the wake of an economic crisis triggered by a shortage of foreign reserves.

By the way, the pharmaceutical industry, which has high international competitiveness among Indian manufacturing industries, continued to form industrial clusters under the repressive import policy(42) (Kamiike [2019]). However, the effects of the following factors cannot be ignored: 1) the pharmaceutical industry is a knowledge-intensive industry; and 2) many developed countries adopted anti-patent policies until the 1990s, enabling domestic production by Indian companies based on imitation of original drugs. In addition, the global presence of India's pharmaceutical industry has increased since the 1990s, when India promoted free trade, including the implementation of the World Trade Organization (WTO) Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs). Based on these past experiences, some prominent Indian economists, such as Raghuram Rajan, a professor at the University of Chicago (former governor of the Reserve Bank of India) and Arvind Panagariya, a professor at Columbia University (former vice chairman of Niti Aayog, the Indian government's think tank), have expressed a negative view on the government's import substitution-led industrialization policy(43).

As in India, the development of manufacturing industries in emerging Asian countries from the 1950s to 1970s was also limited, even though they adopted closed industrial policies that restricted foreign investment during the same period in order to protect and nurture domestic industries. The industrialization of these countries started to progress in the 1980s, when economic liberalization was implemented to increase exports through attracting foreign capital(44). Although the relationship between the degree of trade openness and the manufacturing sector's share of GDP varies depending on the stage of economic development and the degree of dependence on imports and exports of natural resources, the manufacturing sector's share of GDP tends to increase as trade openness increases in many countries (Fig. 9). It should also be noted that Vietnam, which is aggressively promoting trade liberalization in contrast to India, has benefited most from a shift in production from China. In Vietnam, service consumption is also expanding at a high pace, so the pace of increase in the manufacturing sector's share of GDP relative to the increase in trade openness is slow. However, the real value added by the manufacturing sector has expanded at a pace exceeding 10% per year over the past 10 years.

In addition, a quantitative empirical analysis of the differences in the degree of participation

Fig. 9 Openness to Trade (Ratio of Goods Trade to GDP) and Manufacturing Industry's Share of GDP



Notes: Figures for China are from 2004 to 2019, those for Vietnam are from 1985 to 2019, and all others are from 1960 to 2019.
Source: World Bank

in global value chains (GVCs) conducted by the World Bank and the Asian Development Bank shows that while increasing tariffs has a significant negative impact on the degree of participation in GVCs, improving the business environment through infrastructure development, enhancement of policy quality, and boosting the quality of the labor force leads to increasing the degree of participation in GVCs (World Bank [2020], Sabyasachi Mitra, Abhijit Sen Gupta, and Atul Sanganeria [2020]).

(2) Lack of Funds Due to the Budget Deficit

Second, the fiscal deficit is likely to constrain the future development of subsidy-dependent manufacturing industry. The government has announced various subsidy policies, including the PLI Scheme, but the extent to which companies expand production depends not only on subsidies but also on the business environment and economic trends. In addition, foreign companies decide whether or not to invest in India after comparing their overall business environment with that of India. Countries such as Thailand and Indonesia, which compete with India as destinations for production transfers from China, have not introduced a subsidy system for increased production, as in the PLI Scheme, but instead offer corporate tax reductions and exemptions for promoted industries, as well as more generous tax breaks for research and development than India (Table 7). On the other hand, India has abolished the reduction and exemption of corporate tax that had been applied to companies that develop or move into the Special Economic Zones (SEZs), which are “deemed foreign regions,” indicating that India’s subsidies and tax breaks have not been remarkably substantial(45). Therefore, in order to attract foreign companies with a focus on subsidies and aggressively develop manufacturing industry while various business challenges remain and the wounds caused by the COVID-19 pandemic have yet to be completely healed, it is necessary for the Indian government to significantly expand the subsidy system. These include introducing new subsidy programs, increasing the subsidy rate of the existing subsidy programs, expanding the scope of application, and easing incidental conditions.

On the other hand, given the nation’s fiscal situation, there is limited scope for expanding the

Table 7 Corporate Tax Incentives in Asian Countries

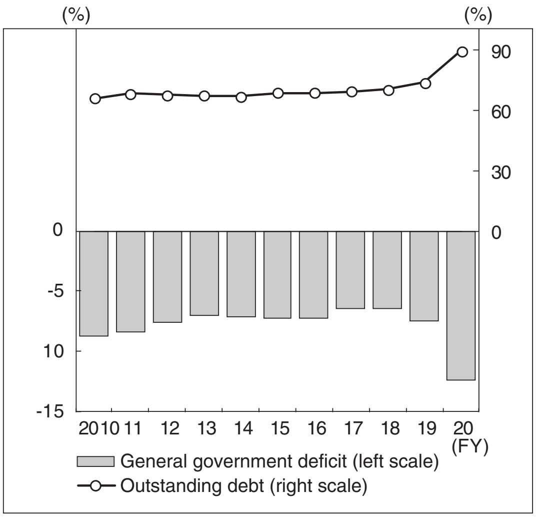
Country	Standard corporate tax rate	Corporate tax incentives
China	25%	Application of preferential tax rates to companies investing in designated industries and regions (e.g., the corporate income tax rate for the high-tech industry is 15%)
South Korea	11～27.5% (Varies according to taxable income base)	Reduction and exemption of rent and customs duties for companies making investments that meet certain requirements
Indonesia	25%	Up to 20 years of corporate tax exemption for companies investing in designated industries and regions (tax exemption period depends on investment amount)
Thailand	20%	Up to 13 years of corporate tax exemption for companies investing in designated industries
Vietnam	20%	Corporate tax exemptions for up to four years and a 50% corporate tax reduction for up to nine years thereafter for companies investing in designated industries and regions
India	22% (25.17% including special-purpose tax, etc.)	Application of the preferential tax rate of 15% to new companies established after October 2019 that meet certain criteria
		While corporate tax reductions and exemptions for up to 15 years had been applied to companies developing and moving into the special economic zones (SEZs), they have now been abolished

Source: Prepared by The Japan Research Institute, Limited based on the Japan External Trade Organization (JETRO)'s Country/Regional Information "Encouragement for Foreign Capital"

subsidy system. The fiscal deficit of the general government in fiscal 2020 expanded to more than 10% of GDP, due to a significant decrease in tax revenues resulting from the economic downturn amid the COVID-19 pandemic (Fig. 10). While the Indian government is expected to prioritize economic and social stability over fiscal stability until the COVID-19 pandemic is brought under control, it is expected to gradually tighten its austerity stance toward fiscal consolidation after the COVID-19 pandemic is brought under control[46]. As in the mid-2010s, when the Modi administration came into power and pressure to reduce subsidies for food, fertilizer, and fuel increased, downward pressure on overall subsidy programs is likely to increase in the future. Even if the government gives priority to short-term development of manufacturing industry rather than medium- to long-term fiscal stability and expands the subsidy system while increasing the issuance of government bonds, a rise in long-term interest rates and an increase in interest payments on government expenditures could exert negative pressure on the economy through other channels and offset the positive effects of expanding the subsidy policy.

In addition, there is a possibility that the WTO will demand that certain subsidy policies be rectified because they violate WTO agreements. The WTO agreements prohibit "red-light subsidies," which are highly trade-distortive, such as export subsidies and preferential subsidies for domestic products (Table 8). Notable subsidies, such as

Fig. 10 General Government Deficit (as a Percentage of Nominal GDP)



Notes: Figures for FY2020 are based on IMF estimates.
Source: IMF

the PLI Scheme, do not fall under the category of red-light subsidies because they do not require an increase in exports as a condition for subsidy benefits and there is no difference in terms of subsidy benefits between domestic and foreign capital. However, since the provision of subsidies is limited to specific companies and industries, they fall under the category of "yellow-light subsidies," which could adversely affect other countries[(47)].

While WTO subsidy rules have a variety of exceptions[(48)], a country may file a complaint with the WTO if it determines that it has suffered a significant disadvantage due to India's subsidy policies. If the WTO judges the subsidies to be in violation of agreements, it will be required to abolish or review the subsidies. Unless India responds appropriately, countermeasures such as the introduction of countervailing duties will be taken. In fact, the United States, which had filed a complaint with the WTO over India's subsidy policy and also expressed concern over regulations on foreign investment in the service industry and infringement of intellectual property rights, halted the application of the Generalized System of Preferences (GSP) to India in March 2019 on the grounds of "lack of fair and reasonable access." If the United States and Europe, India's main export destinations, step up such measures, it will be impossible for India to reduce its trade deficit and develop its manufacturing industry by expanding exports.

Table 8 WTO Rules on Subsidies

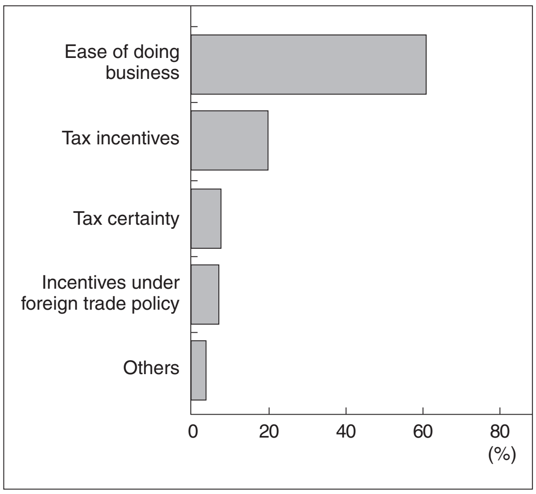
Type of subsidy	Example	Note
Red-light subsidies (prohibited subsidies)	Export subsidies, preferential subsidies for domestic products	If WTO recommendations are not properly implemented, the requesting member may take countermeasures, such as raising tariffs
Yellow-light subsidies (subsidies subject to countervailing duties)	Subsidies that can adversely affect other countries as their targets are limited to specific companies or industries	
Green-light subsidies (subsidies not subject to countervailing duties)	Subsidies related to certain R&D, regional development, and environmental protection	The provisions on green-light subsidies expired five years after the WTO agreement came into effect, and therefore, green-light subsidies are now treated as yellow-light subsidies

Source: Prepared by The Japan Research Institute, Limited based on the Ministry of Economy, Trade and Industry (METI) "2020 Unfair Trade Report"

(3) Remaining Issues Such as Land and Labor

Third, existing business challenges, such as difficult land expropriation and complex labor legislation, continue to constrain the development of manufacturing industry. Based on a survey conducted by the Federation of Indian Chambers of Commerce & Industry, many companies recognize that other essential improvements in the business environment are more important for the development of manufacturing than tax incentives, including the PLI Scheme (Fig. 11). Therefore, the development of manufacturing industry will be difficult unless the existing bottlenecks are removed. Some believe that the COVID-19 crisis

Fig. 11 Questionnaire Survey of Members of the Indian Chamber of Commerce & Industry: What Is Needed to Improve the Manufacturing Industry Ecosystem?



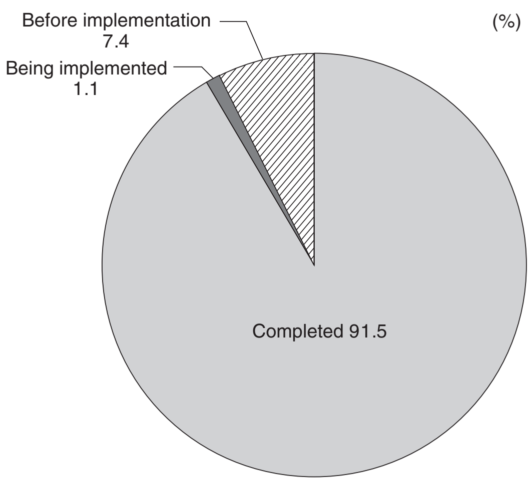
Source: Prepared by The Japan Research Institute, Limited based on the Federation of Indian Chambers of Commerce & Industry (FICCI), Dhruva Advisors "Pre-Budget 2021-22 Survey (January 2021)" will lead to drastic economic reforms[49], but as the upper and lower houses continue to be divided, it will not be easy to reform controversial issues[50].

The reform of the Land Acquisition Act even failed to achieve partial reforms, such as simplification of the land expropriation procedures for building infrastructure related to security and arterial industries, due to opposition from the upper house. Given this, it is unlikely that drastic reform will proceed. Amid the difficulty in amending the Act, the government is digitizing land-related transaction and tax records through the Digital India Land Records Modernization Program (DILRMP) in an effort to reduce the cost and time required for corporate land expropriation assessments. Looking at the progress made, although transaction records of more than 90% of the land in rural areas have already been digitized (Fig. 12), many records have been poorly managed and updated, and land transactions have not been facilitated[51]. The difficulty of land expropriation continues to be a hindrance to the construction of factories to expand corporate production capacity, the development of cross-state projects, and the enhancement of infrastructure.

Various labor issues also remain unresolved. Once the COVID-19 pandemic is brought under control, the environment surrounding corporate labor management will improve because the new labor codes, which integrate about 30 labor laws, will be enforced. The new codes will make it easier for small factories to adjust their employment, because factories that are required to obtain prior state government approval to lay off workers or close operations will be changed from those with 100 or more employees to those with 300 or more employees (Table 9). However, there is still a need to comply with various state regulations, including minimum wages. It will also be necessary to take measures to respond to the expansion of the scope of application of social security-related laws. Factories with 300 or more employees will continue to be subject to strict layoff regulations, which could prevent small factories with fewer than 300 employees from scaling up to improve production efficiency. In addition, under the new labor codes, strikes without prior notice will be illegal, but there is still a risk that strikes will develop into riots and factories will be forced to suspend production. Most recently, in December 2020, a strike over unpaid wages at a factory of Wistron Corporation, a contract manufacturer of iPhones, led to massive riots that forced the factory to shut down until early March 2021. If a similar situation occurs, foreign companies will be cautious about expanding production capacity in India.

India also faces a variety of business risks, including 1) the risk of temporary economic and social turmoil stemming from bold institutional changes, 2) the risk of instability in the financial sector as a result of the growing problem of non-performing loans held by commercial banks, and 3) the risk of social instability associated with ethnic conflicts, such as conflicts between Muslims and Hindus. For this reason, multinational companies are expected to optimize their supply chains by diversifying their production bases in ASEAN countries and China, rather than concentrating them in India, where business hurdles and risks are high[52].

Fig. 12 Progress in Digitizing Rural Land Transaction Records (As of June 2021)



Source: Department of Land Resource

Table 9 Key Points of the New Labor Codes

		Before the enforcement of the new labor codes	After the enforcement of the new labor codes
Wage-related law		The Payment of Wages Act of 1936, the Minimum Wages Act of 1948, the Payment of Bonus Act of 1965, and the Equal Remuneration Act of 1976	Code on Wages of 2019 (the laws listed in the left column were consolidated into one)
	Wage definition	The definition of wages varies by law	All compensation except allowances (commuting allowance, housing allowance, retirement allowance, etc.)
	Upper limit of allowance	No provisions	50% or less of total compensation
	Minimum wage	The central government sets the “national minimum wage level” (not legally binding)	The central government sets the minimum wage according to the standard of living of workers in each region (state government's own minimum wage must exceed the level set by the central government)
	Bonus	Obligation to pay bonuses to employees whose monthly wage is 21,000 rupees or less	The extent of the obligation to pay is determined by the state government
	Deadline for claiming unpaid wages	6 months to 1 year	3 years
Labor-management relations-related law		The Trade Unions Act of 1926, the Industrial Employment (Standing Orders) Act of 1946, and the Industrial Disputes Act of 1947	Industrial Relations Code of 2020 (the laws listed in the left column were consolidated into one)
	Dismissal	A state government permit must be obtained prior to employee dismissal or business site closure for an establishment employing 100 or more workers	The targets for the permit requirement described in the left column were changed to factories with 300 or more workers
	Strike	No clear provisions regarding strikes without prior notice	A strike without a notice 14 to 60 days prior to the start of the strike is illegal
	Obligation to establish an internal complaint handling committee	Business establishments employing 50 or more workers	Business establishments employing 20 or more workers
Social security-related law		Nine laws, including the Workmen's Compensation Act of 1923, the Employees' State Insurance Act of 1948, and the Employees’ Provident Funds & Miscellaneous Provisions Act of 1952	Code on Social Security of 2020 (the laws listed in the left column were consolidated into one)
	Scope of the social security system	Employees and contract workers	Workers in a broad sense, including gig workers and platform workers, on top of employees and contract workers
	Obligation to participate in the Employees’ Provident Fund (EPF)	Companies with 20 or more employees in designated industries	All companies with 20 or more employees
	Retirement allowance	No obligation to pay for retirees whose length of service is less than five years	Retirees whose length of service is less than five years are also entitled to retirement allowance according to their length of service
Labor safety-related law		13 laws, including the Factories Act of 1948, the Mines Act of 1952, and the Dock Workers Act of 1986	Occupational Safety, Health and Working Conditions Code of 2020 (the laws listed in the left column were consolidated into one)
	Employment notice	No obligation to notify	Mandatory issuance of employment notice to all employees
	Working hours	Up to 9 hours per day and 6 days per week (Factories Act)	Up to 8 hours per day and 6 days per week
	Night work for women	No work permitted between 7:00 p.m. and 6:00 a.m.	Night work is permitted with written consent
	Number of working days required to grant paid leave	240 days (Factories Act)	180 days

Source: Prepared by The Japan Research Institute, Limited based on the Japan External Trade Organization (JETRO) [2021] “Overview of India’s New Labor Legislation (March 2021),” TMI Associates “Latest Information on Laws and Regulations in India,” and various media reports

Conclusion: Implications for Japan

What is discussed above has some implications for Japan's businesses in Asia. First of all, given India's business environment, Japanese companies' aggressive use of India as an export base to replace China will be limited. Even if they plan to expand their production bases in India, there is a risk that they will not be able to expand their production capacity as planned due to land, labor and other business challenges. For this reason, rather than India, which is reluctant to liberalize trade and has a challenging business environment, many companies will consider using ASEAN countries, whose trade environment has been improved through the entry into force of the RCEP and the TPP, as export bases to Europe and the United States, or continuing to use China as a production and export base.

The tightening of import regulations in India will also require Japanese companies in Asia that have been involved in Indian business through exports to review their business models. The Government of India believes that stricter import regulations will lead to the development of domestic manufacturing industry. Therefore, if manufacturing industry does not develop at the expected pace in the future, the government may further tighten import regulations. Measures introduced in 2020, such as restrictions on the import of tires and a ban on refrigerators using refrigerants, have made it difficult for Thailand, which has export competitiveness in this field, to export to India. There is a risk that other industries will face similar situations in the future. For this reason, among companies that face business risks associated with changes in the import system on the Indian side, those with a wealth of overseas business know-how and financial resources will consider switching from an export-oriented business model to local production. However, for SMEs with limited experience of expanding overseas or limited financial resources, it is not always possible to do the same. If companies determine that it is difficult to develop business in India through direct investment and that business in India through exports is also at high risk due to institutional changes, they may consider reducing their business in India, whether through exports or direct investment, and using their management resources to expand their business in other emerging countries. In such a case, tighter import regulations may hinder the development of manufacturing industry contrary to the wishes of the Indian government.

Given the above, it should be viewed that India's current efforts to develop its manufacturing industry will be potentially deadlocked. If the Indian government revises its current principles on policy management in response and implements a policy shift toward economic liberalization and reforms in areas that are bottlenecks to Indian business, the possibility of developing manufacturing industry in the medium to long term will increase. Conversely, if the Indian government concludes that "manufacturing industry did not develop sufficiently because the expansion of subsidy policies and tightening of import regulations had been insufficient" and thus further sharpens its current stance, the possibility of the development of manufacturing industry may become even more remote.

The "carrot and stick" approach plays an important role in changing the behavior of economic agents. However, with limited budgets, it is impossible to continue to give a large amount of "carrots." Also, using "sticks" too much can have adverse effects. The Indian government should be aware of these facts. Japanese companies and the Japanese government need to persistently urge the Indian government to focus on more essential economic reforms.

Supplementary Explanation: The Economic Policy Stance of the Current (Modi) and Former (Singh) Administrations

Although interest in India's manufacturing industry has increased since the Modi administration launched the Make in India initiative, measures to promote manufacturing industry to create jobs and reduce the trade deficit had also been implemented in the previous administration (Manmohan Singh administration). In fact, the National Manufacturing Policy (NMP), announced by the previous government in 2011, set the same goals as Make in India, including raising the ratio of manufacturing to 25% of GDP and creating 100 million new jobs in manufacturing (Ministry of Commerce and Industry [2011]), and the government indicated that it would improve the business environment and infrastructure to achieve these goals. In addition, the economic stances of the current and previous administrations have some similarities. For example, both of them are positive about accepting foreign manufacturers, but cautious about opening up the service industry to foreign capital, especially in the retail sector (Table 10).

On the other hand, there are significant differences between the two administrations in terms of the stance on trade liberalization and the state of reform efforts for the development of manufacturing industry. The previous administration actively pursued FTA negotiations based on the recognition that trade liberalization would lead to the development of manufacturing industry. However, other economic reforms stagnated, partly because the administration was maintained by a coalition with left-wing parties that

Table 10 Commonalities and Differences in Economic Policy Stance of the Current and Former Administrations

	Singh Administration (Indian National Congress, May 2004 - May 2014)	Modi Administration (Bharatiya Janata Party (BJP), since May 2014)
Lower house's map of power	Maintained a coalition government with left-wing parties	BJP alone won a majority of seats
Relations with China	Continued to pursue dialogue	Rapidly worsening since mid-2020
Background and targets for the promotion of manufacturing industry	Improving price and exchange stability by creating jobs and reducing the trade deficit	Improving price and exchange stability by creating jobs and reducing the trade deficit, and decreasing dependence on imports from China
	Raising the ratio of manufacturing to GDP to 25%, creating 100 million jobs	
Achievements of economic reforms	The opposition of the left-wing parties in the government coalition, which were reluctant to accept foreign capital, has prevented drastic reforms.	Implementing various reforms, including the introduction of GST and the enactment of the Insolvency and Bankruptcy Code (IBC)
	In the early autumn of 2012, the government announced a reform plan called the "Big Bang Reform" and implemented deregulation of foreign investment and subsidy reform.	Land and labor reforms stagnate.
Stance toward trade liberalization	Aggressive stance (They assumed that trade liberalization will promote the development of manufacturing industry in India.)	Negative stance (They assume that the tightening of import regulations will promote the development of manufacturing industry in India.)
	Many FTAs came into effect, including the South Asian FTA (which came into effect in 2006), the ASEAN-India FTA (which came into effect in 2010), and the Japan-India EPA (which came into effect in 2011).	No FTA conclusions, withdrawal from the RCEP, tariff increase by the Phased Manufacturing Program (PMP)
Stance on foreign investment	Positive about accepting foreign investment in manufacturing industry, while protective about the service industry, especially the retail sector	
	Although the cap on foreign investment in the service industry was raised after the early autumn of 2012, severe incidental conditions remained.	Taking over the policy of the previous administration, the restrictions on foreign investment have been eased, while regulations on e-commerce were tightened, and they have become more cautious about accepting investment from Chinese companies.

Source: The Japan Research Institute, Limited were reluctant to reform the economy. As for the reasons for the progress of FTA negotiations despite being a coalition government including left-wing parties, it can be pointed out that the main cause of the trade deficit at that time was mineral fuels such as crude oil, and that the trade deficit with China was small. On the other hand, the current administration tightened import regulations in light of the fact that manufacturing industry did not develop as expected under the previous administration's policy and the trade deficit with countries and regions with which it had concluded FTAs increased. At the same time, it implemented various economic reforms to improve the business environment based on a solid political foundation.

End Notes

1. Refer to Miura [2021] for the recent developments in supply chain restructuring.

2. The Japanese government has identified three pillars for the realization of the FOIP: 1) penetration and establishment of the rule of law, freedom of navigation, and free trade; 2) pursuit of economic prosperity (strengthening connectivity, economic partnerships such as EPA/FTA and investment agreements); and 3) ensuring peace and stability (building maritime law enforcement capacity, humanitarian assistance, disaster relief, etc.). Given the foregoing, India's accession to the RCEP will play an important role.

3. Refer to Kumagai & Nogimori [2020] for India's participation in and withdrawal from the RCEP.

4. In India, a comprehensive labor force survey is only produced once every few years, but the unemployment rate based on an independent survey by the Centre for Monitoring Indian Economy (CMIE), a local think tank, temporarily soared above 20% for the April-June 2021 period. After that, the unemployment rate dropped to the single-digit level as a result of the resumption of economic activities as the number of new COVID-19 cases decreased, but rose again to the double-digit level due to a massive surge in new infections in the early spring of 2021.

5. In fact, in the second half of 2013, the rupee depreciated rapidly as capital outflow from emerging economies accelerated, triggered by the spread of speculation about an early interest rate hike in the United States. In response, the Reserve Bank of India was forced to raise interest rates to stabilize exchange rates and prices, which put negative pressure on durable goods consumption and investment.

6. Refer to Kumagai [2020a] and [2020c] for the India-China relationship.

7. In the IT and tourism industries, other initiatives such as "Digital India" and "Incredible India" have been developed, and this is one reason that Make in India is recognized as a campaign focused on the promotion of the manufacturing industry.

8. Since independence, India has been conducting socialist policy management, and up until 2014, the five-year plan of the Planning Committee laid down development plans for each industry. However, with changes in times, the effectiveness of the top-down approach has declined, and the Modi government dissolved the Committee at the end of 2014. Currently, each ministry and agency is relatively free to formulate policies in a bottom-up manner.

9. Even within the same industry, there are cases where the policy stance differs depending on the time horizon. For example, in smartphone manufacturing, the government is aiming to make India a hub for smartphone exports in the medium to long term, including the production of intermediate goods, while the current policy is aimed at import substitution.

10. According to the Make in India website, the aim of the campaign is described as "Devised to transform India into a global design and manufacturing hub." In addition, the Economic White Paper (Ministry of Finance [2020]), which was released prior to the announcement of the government's draft budget for fiscal 2020, recommends the incorporation of "Assemble in India" into Make in India.

11. Under "Digital India," the efficiency of society as a whole is being improved through the digitization of administrative services and the provision of digital infrastructure to the people.

12. The Doing Business survey does not evaluate the state of corruption, economic stability, quality of logistics and energy infrastructure, or foreign capital controls.

13. If the higher-than-expected growth in the agriculture, forestry, and fisheries industries and the service industry is the reason, it is not necessary to regard the continued erosion in manufacturing industry's share of GDP as a problem. However, the continued stagnation in manufacturing industry is the actual reason behind the erosion in GDP share.

14. Refer to the results of estimates by the Centre of Excellence for Data Analytics (CEDA) and the Centre for Monitoring Indian Economy (CMIE), which are India's local think tanks (CEDA, May 24, 2021, "CEDA-CMIE Bulletin: Manufacturing employment halves in 5 years").

15. Refer to Kumagai [2020b] for the economic trend in recent years.

16. Even if the company's IT system is compatible with the GST network, input tax credit will not be applied if the customer's IT system is not compatible. Therefore, the delay in responding to the changes in the tax system by SMEs with limited financial resources caused confusion even for large enterprises that had already completed their responses to the changes.

17. Initially, it was planned to introduce BS-VI, which is stricter exhaust gas emission standards, in fiscal 2024, following the introduction of BS-V. However, in order to accelerate efforts for environmental improvement, BS-V was not introduced and BS-VI was introduced in April 2020. Speculation that the use of old-style cars would be banned after the introduction of BS-VI contributed to the decline in car sales.

18. The Modi administration sought to accelerate competition for economic reform across states by quantifying the reform status and business environment for each state. These efforts have encouraged states that are willing to accept foreign capital to refer to the best practices of other states, but have limited impact on states that are reluctant to accept foreign capital, such as those in the northeastern region.

19. The state of Andhra Pradesh, whose capital city is Hyderabad, a home to a number of major IT companies, ranked first; the state of Uttar Pradesh, which has Noida, which is attracting attention for its mobile phone assembly plants, ranked second; and the state of Telangana, which became independent from the state of Andhra Pradesh in 2014 (Hyderabad is the common capital city of both states), ranked third.

20. In India, land ownership is clarified by registering real estate transaction records and real estate-related tax payment records, rather than by registering and managing the rights of individual propertie (Refer to Kawamura [2021] for India's land system).

21. The amendment was made possible temporarily by the issuance of an executive order that did not require senate deliberation, but moves toward reform have stalled since the executive order expired in August 2015.

22. India's labor laws separate workers into "workmen" and "non-workmen" according to their position and authority, and provide ample protection for relatively weak workmen.

23. While the central government wants to enact the law as soon as possible, there are reports that the law will take effect after April 2022 due to delays in revising state laws in response to the new labor codes (Economic Times, May 10, 2021, "Implementation of Labour Codes may be pushed to next year").

24. External Affairs Minister Jaishankar, when explaining why India did not sign the RCEP, states that past FTA agreements had led to the de-industrialization of India (The Indian Express, November 17, 2020, "Jaishankar defends decision to not sign RCEP").

25. The term "self-reliant," which corresponds to "Atmanirbhar Bharat (self-reliant India)," was frequently used in the fifth five-year plan of the Indira Gandhi administration, which promoted the policy of import substitution and industrialization, suggesting that the underlying concepts of current and 1970s trade policies are similar.

26. It was originally scheduled to be introduced in August 2020 because the period of emergency import regulations on solar power generation equipment from China and Malaysia would expire at the end of July 2020.

27. Ministry of New & Renewable Energy, March 9, 2021, “Imposition of Basic Customs Duty (BCD) on Solar PV Cells & Modules/ Panels”

28. Economic Times, June 27, 2020, “BIS to frame quality norms for 371 items by March 2021 to curb non-essential imports”

29. Refer to Kumagai [2020d] for the deterioration of India-China relationship.

30. A total of seven companies, including four local telecommunications carriers, Ericsson (Sweden), Nokia (Finland) and Samsung (South Korea), were allowed to participate in the program.

31. Press Information Bureau, October 6, 2020, “PLI Scheme to herald a new era in mobile phone and electronic components manufacturing”

32. Increases in sales and investments from the base year by a certain amount are required, and the specific amount depends on the application category.

33. Financial Express, April 22, 2021, “Smartphones: Samsung sole firm to qualify under PLI”

34. Live Mint, November 25, 2020, “Govt may set a high PLI bar for auto cos”

35. Hindustan Times, March 31, 2021, “$1 billion for every chip-maker who ‘makes in India’: Report”

36. Live Mint, June 9, 2021, “India’s Journey in chip-making may start with ATMPs”

37. Refer to Kumagai [2021] for the overview of the vehicle scrappage policy.

38. Press Information Bureau, December 9, 2020, “Cabinet approves Atmanirbhar Bharat Rojgar Yojana (ABRY)”

39. An example is Ernst & Young [2021].

40. The IMF's Working Paper states that global smartphone sales are peaking out and may decline in the future if no innovation takes place (Joannes Mongardini and Aneta Radzikowski [2020]). There is still a lot of room left for India to expand smartphone production by replacing Chinese production, but once it reaches a certain level, the growth will likely stagnate due to sluggish global sales.

41. Refer to Douglas A. Irwin [2020] for evaluation of import substitution-led industrialization policies in each country.

42. In the 1980s, the Indian government introduced the Phased Manufacturing Program (PMP) to the pharmaceutical industry, restricting imports of pharmaceutical raw materials.

43. Economic Times, October 22, 2020, "Raghuram Rajan cautions against import substitution," Times of India, July 22, 2020, "Don't resurrect failed policy: Why import substitution is doomed to flounder again"

44. One of the reasons behind Asia's industrialization in the 1980s and 1990s was that Japanese companies accelerated production shifts to emerging Asian countries against the backdrop of the strong yen following the Plaza Accord in 1985.

45. Refer to "Encouragement for Foreign Capital in India" by the Japan External Trade Organization (JETRO) (information as of February 7, 2021). The United States has filed a complaint with the WTO over India's tax breaks for the SEZs. The dispute settlement commission (panel), which is equivalent to the court of first instance, judged the Indian system to be unjust, but no further deliberation has been made because of the U.S. objection to the appointment of the Appellate Body, which is the court of final instance.

46. The Reserve Bank of India notes that the NPL ratio will surge toward the end of 2021, potentially causing capital shortages at multiple banks (Reserve Bank of India [2021]). Therefore, if it becomes necessary to inject a large amount of public funds into state-run banks, it may be difficult for the government to rebuild its finances even after the COVID-19 crisis.

47. Tax incentives in export zones in emerging economies other than India could also violate the WTO subsidy rules.

48. For example, in the case of government procurement, priority can be given to purchasing domestic products. Import restrictions are also permitted for environmental protection and food and product safety reasons. When the United States filed a complaint with the WTO over solar subsidies in India, India argued that they could be justified under these exceptions (refer to Sekine [2017] for more information on issues surrounding the subsidies related to solar power generation in India).

49. For example, McKinsey Global Institute [2020] noted that economic reforms could accelerate and that India could return to its high-growth path in the future.

50. For the upper house (245 seats and six years in office), one-third of the seats are contested roughly every two years and the members are elected through the state legislative assemblies. Therefore, the results of the state assembly elections indirectly affect the course of economic reforms of the central government, but the ruling coalition has been struggling in the state assembly elections in recent years. For this reason, even if the issue of divided government is temporarily resolved, it is still possible that the government will be divided again in the future.

51. Bloomberg, February 4, 2021, “Modi Targets Land Disputes That Cripple India’s Infrastructure”

52. There is still a possibility that production in India will continue to move forward as a result of an all-out confrontation between the United States and China, the occurrence of the “Taiwan emergency,” and the expansion of anti-government demonstrations in Thailand. However, at present, such a situation is regarded as a tail risk (a risk with a low probability of occurrence but with a large impact at the time of occurrence).

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