

ECONOMIC DECOUPLING FROM CHINA – COULD INDIA STAND TO GAIN?

CURRENT SCENARIO

In the last few months, the world's second largest economy China has seen the worst spread of Covid-19 since the start of the pandemic in 2019. Since late March 2022 China's largest urban economy, Shanghai - a city of 25 million people, has been on a strict lockdown on account of spread of the Omicron variant of Covid-19. In the past week, the capital city of Beijing has been reporting increasing numbers of cases with stricter lockdown measures being implemented. As estimated by Nomura's chief China economist Ting Lu, about 327.9 million people in more than 40 cities are affected by the latest lockdowns, nationwide.

STATISTICS

As per the statistics released by the National Bureau of Statistics of China on 16 May 2022, China's industrial output dropped by 2.9% in April from a year earlier and retail sales in April shrank 11.1 year-on-year.

While these numbers are reflective of the short-term impact of the stringent lockdown measures on China's economy, in the long run, with the increasing challenges being faced by foreign businesses in China, economic decoupling from China will continue to gain tremendous significance for many foreign companies invested in the Chinese economy.

DECOUPLING TREND

Recently, many large companies such as Apple, General Electronics, Starbucks, Amazon, and Adidas for whom China is not only a large manufacturing base but also a large consumer market have expressed concerns about their future investment strategies for China. Some companies such as Starbucks for whom China is the second largest market have declined to make a forecast at all with CEO Howard Schultz calling it "the only responsible course of action". In April, Apple's CEO Tim Cook "warned of huge losses related to the Covid-19 outbreak in China, saying that supply chain issues could hit its sales by as much as \$4 billion to \$8 billion this quarter".

WHY INDIA?

Tech Giants such as Apple and Samsung have already started increasing their production in India signifying their diversification from the China supply chain. This could only become an increasing trend across many sectors and a huge opportunity for the Indian economy. To boost foreign investment the government of India has launched many initiatives such as "Digital India", "Make in India" and "Skill India Initiative". On the regulatory forefront, the Foreign Direct Investment Policy of India, tax, employment, and intellectual property related laws/regulations are also being continually improved and strengthened to increase the ease of doing business in India. The Indian government is also investing considerable sum to improve its infrastructure which is often considered one of the key draw backs of the Indian economy.

All the above factors combined could make India the next global manufacturing powerhouse. But only with the aggressive policy support from the government can India stand to gain an advantage and grow into the next manufacturing powerhouse. The time for India to act upon this opportunity is now.