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SHIFTING SANDS FOR ASIAN ECONOMIES

Relevant for: Indian Economy | Topic: Issues relating to Planning & Economic Reforms

Discussions on the post-pandemic global economy have often predicted that China's appeal as a business destination would fade, losing favour as the global manufacturing hub. Arguments have been made that production would be dispersed to other appealing locations mostly in Asia, and even to those outside. It was expected that this relocation of production would benefit emerging labour-abundant economies. The reality, however, is more nuanced.

Some labour-intensive industries, such as textiles and apparels, have been moving to Bangladesh and Sri Lanka as labour costs in China are increasing. But trends in other industries show that businesses have mostly remained in China.

Yossi Sheffi, professor at the the Massachusetts Institute of Technology and an expert in systems optimisation and supply chain management, points out in a recent article that the combination of the trade war and the COVID-19 crisis has resulted in firms establishing relatively small-scale operations elsewhere. This is perceived as a buffer against being completely dependent on China, referred to as the 'China +1' strategy.

There are three reasons for firms to remain in China and pursue this strategy: First, starting an enterprise and maintaining operations in China are much easier than elsewhere. Second, Chinese firms are nimble and fast, which is evident from the quick recovery of Chinese manufacturing after the lockdown. Third, many global companies have spent decades building supply chains in China. Hence, getting out would mean moving the entire ecosystem, which involves time and expenditure. This strategy of global firms has led to an intensification of competition among Asian economies to be that 'plus one' in the emerging manufacturing landscape.

In 1968, Swedish Nobel laureate Gunnar Myrdal published the monumental 'Asian Drama – An Inquiry into the Poverty of Nations', which, focusing on South and Southeast Asia, was pessimistic about their development prospects. Half a century later, there has been remarkable growth in the very region in which 'Asian Drama' was set. Openness and trade exploded, and these newly industrialised economies rode the wave of exporting goods to the rest of the world, while raising their own levels of living.

A new 'Asian Drama' is likely to unfold with the formal launch of the Regional Comprehensive Economic Partnership (RCEP). Asia's growth would hinge on the role of trade and investment flows into these economies, and this would again be the centrepiece of global growth, as the 15 member countries account for nearly 30% of the global GDP. This largest free trade agreement in the world includes provision to cover the entire gamut of trade and commerce. Unlike the portrayal in 'Asian Drama', these economies have spruced up their institutional and infrastructural settings, which would be the deciding factor in the new edition of 'Asian Drama'.

The RCEP and the 'China +1 strategy' is likely to impact investment flows into Vietnam, India, Bangladesh and Indonesia, which have emerged as key investment destinations.

India faces three challenges in this race. First is the task of increasing domestic public investments, which have a central role in economic activity, for both demand and supply sides. According to the International Monetary Fund, "increasing public investment by 1% of GDP could boost GDP by 2.7%, private investment by 10%, and employment by 1.2%, if investments are of high quality and if existing public and private debt burdens do not weaken the response of

the private sector." In India, even before the pandemic, the growth in domestic investments had been weak, and this seems to be the opportune time to bolster public investments as interest rates are low globally and savings are available. Private investments would continue to be depressed, due to the uncertainty on the future economic outlook, which underscores the need to undertake high-quality public investments.

Second, India needs a major overhaul in her trade policy, as in the pre-COVID-19 era, world trade had been rattled by tendencies of rising economic nationalism and unilateralism leading to the return of protectionist policies. A revamped trade policy needs to take into cognisance the possibility of two effects of the RCEP: the 'Walmart effect' and a 'switching effect'. The first would sustain demand for basic products and help in keeping employee productivity at an optimum level, but may also reduce wages and competition due to sourcing from multiple vendors at competitive rates. Switching effects would be an outcome of developed economies scouting for new sources to fulfil import demands, which requires firms to be nimble and competitive. Trade policy has to recognise the pitfalls of the present two-track mode, one for firms operating in the 'free trade enclaves' and another for the rest. A major fallout of this 'policy dualism' is the dampening of export diversification. The challenge is to make exporting activity more attractive for all firms in the economy.

Third is to increase women's participation in the labour force. While India's GDP has grown by around 6% to 7% per year on an average in the recent years, educational levels of women have risen, and fertility rates have fallen, women's labour force participation rate has fallen from 42.7% in 2004–05 to 23.3% in 2017–18. This means that three out of four Indian women are neither working nor seeking paid work. Globally, India ranks among the bottom ten countries in terms of women's workforce participation. When Bangladesh's GDP grew at an average rate of 5.5% during 1991 and 2017, women's participation in the labour force increased from 24% to 36%. India could gain hugely if barriers to women's participation in the workforce are removed, for which the manufacturing sector should create labour-intensive jobs that rural and semi-urban women are qualified for.

India's approach to the changed scenario needs to be well-calibrated. The intensity of competition is evident from the fact that after India passed three labour code Bills on September 23, Indonesian Parliament on October 5 passed a legislation that slashes regulations contained in more than 70 separate existing laws, to open up the country to more foreign investment. Bangladesh on its part plans to start negotiations with a dozen countries, including the U.S. and Canada, for signing preferential trade agreements.

Thus, the stage is set for a new 'Asian Drama'. What will be India's role in it? Well, it will not be on the basis of past accolades, for sure.

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To reassure Indian Muslims, the PM needs to state that the govt. will not conduct an exercise like NRC

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