

India's global ambitions

Table of Contents

Call Presenters	3
Presentation.....	4

Call Presenters

ATTENDEES

Ashima Tyagi

Deepa Kumar

Gauri Jauhar

Kristen Hallam

Announcer

Presentation

Announcer

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Kristen Hallam

Hi, I'm Kristen Hallam, Content Strategist at S&P Global Market Intelligence and your host for this episode of the Economics & Country Risk podcast.

It's a big year for India. It's become the world's most populous country. In September, it will host the G20 Summit at a crucial time for global partnerships in a post-pandemic world and an ongoing conflict in Ukraine. And in just about a year, voters will go to the polls and parliamentary elections. These recent global events have prompted India to recalibrate its geopolitical strategy.

India has earmarked manufacturing as a key sector to manifest its global ambitions, not least to attract jobs at home.

The country is keen to use platforms like the G20 and COP 28 to demonstrate to the world how it balances domestic needs with international pressures to pursue energy transition.

Here to share their insights into the story of India now are Deepa Kumar, Associate Director and lead India analyst for APAC Economics and Country Risk at S&P Global Market Intelligence; Gauri Jauhar, Executive Director, Energy Transition & Cleantech Consulting at S&P Global Commodity Insights, who leads our consulting work in India; and Ashima Tyagi, Economics Associate Director with the Pricing and Purchasing Service at S&P Global Market Intelligence.

Thank you all for joining us today. Deepa, let's start with you, how would you describe the recalibration of India's geopolitical strategy? What are the forces shaping this recalibration?

Deepa Kumar

Thank you, Kristen. I'd say, an evolution in India's geopolitical strategy is driven both by external factors and internal factors. Externally, India is looking at the world and how it is getting shaped right now, be it in a post-pandemic scenario, post-Russia's war happening in Ukraine. I'm thinking that it's a good time to want to perhaps do foreign policy differently and engage with countries in a slightly different tenor.

And internally, it's the fact that India is growing so much. Our own data suggests India is expected to become the world's third-largest contributor to global growth within the next decade. And the understanding is that as India becomes a bigger economic behemoth, it should also have more geopolitical heft that matches it.

There's a very slight appreciation in that geopolitical strategy now, which has gone from a paradigm of non-alignment more towards the paradigm now of strategic ambiguity. So for us who discern among the lines, it's basically India saying that we're going to choose our partnerships with a lot more self-interest. We're going to define our national interest on the basis of that with a broad spectrum of partners. So if it means that we have to continue importing oil from Russia but at the same time, increasing security and economic cooperation with the United States as it participates in the Indo-Pacific strategy.

There are 3 pillars to this. One is how India defines its spheres of influence, I would say. One is what it chooses to do in its immediate neighborhood with the Neighborhood First Policy, then moving a little outwards towards Asia Pacific and all the emerging economies and some of the challenges and benefits it finds there.

And then the broader piece, which I would say India considers to be the culmination of a successful strategy, is how does it lead the agenda for emerging economies on a global stage?

Kristen Hallam

So how does this geopolitical strategy show in India's economic and trade policies?

Deepa Kumar

So it actually segues quite well with what I was saying earlier, which is this concentric circles of strategic priority. India is almost ordering these countries or these partnerships that it's trying to seek with some calculation of where it finds high trust and where political ideologies are aligning a little bit more and where it benefits the Indian economy more.

So in some of the trade partnerships we've seen recently worth highlighting are how India is trying to increase its trade, one, within its neighborhood. So with South Asia countries, be it Bangladesh and the potential of a new economic partnership there with Nepal and with Sri Lanka and what we've seen, especially last year. And then going forward with what it's seen with an increasing trade posturing towards ASEAN. And very, very importantly now India's West, that is the Gulf States, be it UAE and Saudi Arabia.

With all of these countries, what we're seeing is that India is trying to move a little bit from being this kind of import-dependent country or with all of these countries having a strong import dependence to becoming more outward-looking and have an exporting relationship with all of them in a way that is mutually beneficial.

And of course, there's the broader kind of trade relationship that India is seeking with the United States and the European Union as well, especially as key exporting destinations that India can leverage from. All of this is somewhere matched by India wanting to balance its exposure to a few countries, especially, say, its trade deficit countries with, say, for instance, mainland China, where India would like to have a little bit more balance in that trade relationship.

Kristen Hallam

It seems like a good time to bring in Ashima to talk about the Indian government's all-out push to turn India into a manufacturing powerhouse from what is essentially a services-led economy right now. Ashima, what factors are contributing to further these ambitions do you think?

Ashima Tyagi

This is an important question, Kristen. There is consensus that manufacturing in India has largely underperformed with its contribution to GDP just 17.7% in the last financial year even though the government's initial target to increase the share to 25% was until the year 2022. Nonetheless, there is a lot of optimism on what the Indian manufacturing sector could achieve in the coming decade with some even calling it a renaissance.

So the primary reason for this enthusiasm is the Indian government's continual efforts towards offering a very conducive policy framework to incentivize for the Make in India, Make for the World plan. So this includes promoting homegrown manufacturing capacity expansion through production-linked incentive schemes, rationalizing corporate tax structures, improving the ease of doing business rankings. They're entering bilateral trade agreements very strategically. Of course, in investments into infrastructure development and many other things. Additionally, of course, factors such as diversification of the global supply chains post-pandemic, favorable demographics as we are all aware and healthy competition between the various states to attract investment have all added to its potential and opportunity.

Kristen Hallam

Now to drive a manufacturing boom, India is going to need more energy. At the same time, we've got international pressure on India and other economies to curb emissions. Gauri, what can you tell us about how India is balancing its energy needs with the energy transition?

Gauri Jauhar

Thanks, Kristen, for the question. A very important question, especially with the context that Deepa and Ashima have laid. Deepa on the geopolitical side, and also Deepa referenced how India is projected to account for 1/3 of global growth coming up. And Ashima talked about the manufacturing, what has also been called as a manufacturing renaissance in effect.

When you connect the dots here, what we are seeing is that to understand India's energy transition and the ability to curb emissions growth in the longer term, India will have to connect the energy transition to its economic transition. And I think connecting those dots of India's energy transition to India's economic transition is very critical. What we need to understand is that as India transitions, India also grows. And as India grows, India also transitions. These are incredibly interlinked phenomena.

When we look at economic variables, I think the key variables to look at are things like increase in urbanization. Our own projections show that India will transition from a middle income economy to an upper middle income economy by 2034.

So what we see happen in the mid-2030s is certain points of inflection, which get achieved on key economic and key energy variables driven by that growth from a middle income economy to an upper middle income economy by 2034. We also see India by 2050 adding about 362 million additional people to its urban population, which is almost saying that you added new United States by 2050 to India.

And when you look at the impact on energy variables, we see primary energy consumption grows. India's primary energy consumption is poised to grow between 1.5 to 1.8x by 2050. Per capita energy is also expected to grow. So India's per capita energy consumption, keeping pace with population growth, will grow at a CAGR of about 1% to 1.5% in all S&P Global scenarios.

Again, going back to the underlying economic transition, we will see an increase in urbanization. We will see a shift in the quality of mobility. So right now, India's cars per capita are still at the lower end of the of S-curve of mobility. And India's cars per capita will grow by about 3.6x by 2050. Motorcycles per capita -- India is still largely a 2-wheeler market -- will rise by about 2.4x per capita. So really, all key economic variables are impinging on critical energy demand and energy consumption and, really, the quality of the energy transition.

Kristen Hallam

Wow, those are a lot of big numbers that you just gave us there, Gauri. An entire new United States. That's impressive.

So is the Indian energy transition focused more on local air pollution or on climate change first? What can you tell us about that?

Gauri Jauhar

That's a very important question to answer because as India urbanizes more and per capita energy demand also grows, what we're seeing is that local air pollution will challenge India's growing urbanization. If you look today, 14 of the top 20 most polluted cities in the world are in India. So I think for India, especially, local air pollution is that critical building block on the path to net zero vision for 2070, which has been outlined by the government.

And why I say local air pollution is that critical building block? Because that is what really matters most to the electorate. That is what policymakers will be increasingly held accountable for in terms of how local air quality can improve. One outstanding example is from New Delhi. In the early 2000s, New Delhi introduced through a Supreme Court mandate natural gas in the city's public transportation fleet. And if you compare it to the late '90s and the '80s, it made a significant difference to local air pollution. Of course, now the quality of local air pollution has changed where particulate matter pollution is far more right now.

So I think the policymakers will be more occupied with local air pollution concerns. Do coal plants have to be shut down? At what rate do they need to be shut down? What types of cleaner equipment can be put? Do we just enhance quality of power that we are consuming in addition to, of course, increasing the renewables in the energy mix?

And I think as quite popularly known when we look at the international climate negotiations, India, like many other emerging markets, takes a just energy transition view that climate change is a global phenomenon. However, there has to be a basis for equity in climate action.

It was developed countries who are responsible for almost entire CO2 emissions until the 1980s. And it is really in the 1980s that we started seeing countries like India increased their emissions as they started to grow, especially in the manufacturing sectors and focus on, in many cases, export-led growth.

So I think to answer your question again, local issues will dominate the near-term focus, especially for policymakers while still keeping an eye on the ball for that long-term vision of a 2070 net zero.

Kristen Hallam

Some key points there, and connecting it back to the upcoming elections, which you mentioned earlier, let's go back to Ashima again. India's plans are clearly looking promising. However, what in your view, could expedite these goals and bring a spurt in manufacturing activity?

Ashima Tyagi

Well, Indian production can be set to be more focused on low value added, labor-intensive manufacturing goods at present with the average value-added per manufacturing employee at around USD 8,000, which is actually lower than regional competitors like Thailand, Indonesia, Malaysia, at least in this part of the world. And this low skill base poses a bit of a threat to India's goal of becoming a global manufacturing hub in a sustainable manner. As producers moving up the value chain will face challenges in finding the appropriately skilled workers to do so.

Of course, the Indian government has really put a lot of thrust on upskilling, increasing enrollment rates in schools and, of course, promoting an entrepreneurial culture.

Manufacturing processes are known to be more complex with intertwined supply chains compared to a service industry, which is more straightforward. Therefore, when international companies look to India, they will definitely compare regional variations in labor availability, right skills as well as cost, something that we track very closely in the pricing and purchasing team as well.

Additionally, things like single-window clearance systems, political and regulatory stability. Of course, the importance of rule of law in contract execution, superior logistics. I mean there are a lot of things there. But yes, before companies take decisions related to nearshoring or friendshoring, they are going to look at all of these facets, and those will be instrumental in making India a manufacturing hub.

Kristen Hallam

Thanks, Ashima. A lot to consider for manufacturers. You've all shared some interesting insights so far about India's economic goals and its vision for the energy transition.

Deepa, what does it all mean for how India chooses and choreographs its strategic partnerships, say, over the coming decade at least?

Deepa Kumar

That's a very important question because everything that Ashima and Gauri are even talking about point to how India's goals will be achieved better. This is how India picks its collaborations and how well it navigates a more adversarial international environment, be it these global challenges like climate change or addressing supply chain variations. They can't be done only by one country and at home via domestic policy. So how India actually navigates this kind of international environment is going to be key.

One of the differences that we specifically in our research have started picking up is this kind of distinction India is making between what does it do in bilateral relationships and what issues does it pick up there versus which are the multilateral engagements or forums that India is looking to prioritize.

So for instance, just between something that Gauri and Ashima were talking about, right? Like when it comes to climate change and talking about just energy transitions, India is very keen to use COP as a platform where it can speak not just for itself, but also for other emerging economies, who find themselves in the exact dilemma that Gauri was speaking about, which is that we have not been historically responsible for the emissions, but we're now being made responsible for the transition.

And on the other side, if we look at manufacturing or we look at the trading relationships, India chose in 2019 to exit the regional comprehensive economic partnership primarily because as a multilateral kind of forum, India felt that its interests were not going to be met well there or it was going to be at risk of becoming the word that is usually used is that you have a lot of dumping happening within the Indian market. So there's an increased sophistication now in understanding which is the bilateral forum.

India now chooses to do a lot more of its trade in free trade agreements that happen in a country-to-country relationship versus which are the multilateral forum. So for instance, what is India trying to achieve with G20 later this year, which is to kind of position itself as this global leader that I've been speaking about at the beginning that India is interested to do. Say, if I had to just highlight a few key bilateral relationships for India in the next few years, I'd say one is India and its relationship with every respective South Asian country, South Asian neighbor that it has: India, UAE; India, Australia; India, Japan; and India and the U.S. These are the big bilateral relationships that we're going to focus on. And the kind of multilateral forums where we see India engaging more strongly will be where there is a significant overlap with the emerging economies.

So we had COP 28, be it G20, be it the International Solar Alliance. That's where India is trying to galvanize this kind of emerging economic powers, share challenges and opportunities for its own ambitions. I think one of the more important ones for that is going to be the World Trade Organization and how India thinks of its trade policies on the basis of that.

Kristen Hallam

That will be really interesting to watch in the coming years. And while we're talking about the coming years, the next decade or so, Gauri, what are the timelines for India's climate ambitions?

Gauri Jauhar

Sure, Kristen. So when we're looking at India's climate ambitions, they can be met by a range of technology solutions, some of which are in play in the near term, medium term and some of which are more of a long-term nature. And no matter which technology we take, whether it's mature technologies or emerging technologies, they need financing and policy support in India and globally to reach a greater scale. So I think one of the important focus areas of policymakers will be to scale technologies, especially in the emerging clean technologies.

I think energy efficiency and renewables will be foundational to India's energy transition. So if we see the period 1990 to 2020, India has made significant gains in reducing its energy intensity through measures such as fuel switching from traditional biomass to LPG in cooking, efficiency measures such as improved standards of fuels and electrical appliances.

We do see the scaling up of renewables such as solar, wind, grid enhancements will all enable India to actually meet its nearer-term target of reducing the emission intensity of its GDP by 2030. India has a scope for further reduction of its primary energy intensity by shifting from fossil fuel sources towards renewables, deploying more energy-efficient measures and the electrification of many end-use sectors.

What is coming up in terms of emerging technologies to support this growth in renewables, things like energy storage, where there are qualities for diverse applications, links to generation, transmission, distribution and also behind the meter storage.

Among the emerging technologies, we do see that there is a potential for hydrogen. We do have a national emission in hydrogen, which was announced earlier this year to grow by about 3 to 3.5x by 2050, but it will have to be driven by policy support and demand creation, demand mandates also possibly in the fertilizer and refining sectors.

Carbon capture, utilization, storage is also one of those material climate technologies, which will have to come into play and in terms of time frames in the post-2040 timeframe to really achieve the big target for net zero by 2070. And this, of course, has potential implications for emission reductions.

In S&P Global, we work in a world of scenarios where if there is an accelerated ambition based on carbon capture and storage, what we call our ACCS scenario, where net zero does get achieved, then technologies like CCUS can have a potential to save up to 200% of emission savings as a percentage of total GHG emissions in 2040. So the potential is large, but it requires the critical policy support, which is right now a work in progress for these emerging and material technologies.

Kristen Hallam

As you say, lots of potential there.

Gauri Jauhar

Absolutely.

Kristen Hallam

And as I said earlier, India is going to need energy to execute its economic vision. It's also going to need labor.

Ashima, I know you touched on this earlier, but what role does labor play in shaping India's economic ambitions given the current state of composition, education, skill sets and productivity?

Ashima Tyagi

So taking forward what I mentioned earlier, of course, India's labor force is abundant. It's something that we're all aware of, but the participation rate at around 59.9% in 2022 sits way below the global average, and female participation rate at 24% definitely leaves much to be desired for. Of course, the long-term advantage of this is that if work opportunities increase and labor supply tightens, there remains a good pool of marginal workers that can be enticed into the labor force, but at the same time, we're seeing that availability of skilled labor in certain industries is still a pressing issue with certain employers highlighting shortages as well.

In terms of composition, 29.6% largely of the labor force was employed with the service sector and around 11.6% was engaged in the manufacturing sector in 2022. So of course, this is a natural progression due to India's capability to fulfill labor-intensive activities and relative strength in English proficiency. We have seen a higher average skill level prevail in the services sector as compared to the manufacturing sector.

Similarly, on the large start-up ecosystem side, it has the potential to provide substantial support to the Indian economy, but start-ups are also facing a lot of challenges in terms of paucity of mentors and issues related to access to early-stage funding.

So all in all, I think this will be a tricky issue. There is need for some structural reform, which the government would need to do eventually. But yes, it's a very important ingredient to look for when we're looking at India being the next smart factory of the world.

Kristen Hallam

Thanks, Ashima. It will be interesting to see how the policy evolves there. Deepa, how does what Ashima just told us about the labor market translate into India's migration policy?

Deepa Kumar

I think that's a very important question for the future of India and the kind of challenges that they'll have to navigate. And it ties back into Gauri's point as well, right? If urbanization is the direction of the Indian landscape and not least that with the statistic that she was mentioning, it's fair to think of India as the size of many countries rolled into one. So when we're talking about an internal migration policy, it's as good as talking about how other big regions in the world consider policy or migration policy amongst themselves.

I've not seen an official stat, but what I was reading in the newspapers was about 600 million people of India's 1.4 billion people at some point are going to be internal migrants. And of course, there are many social reasons and other kind of reasons for which there will be that cross migration happening. But it's fair to say that for whatever reason, the Indian cities are going to be at the front lines of these significant challenges.

What we're seeing there is these policies are starting to clash in terms of do we want to favor individuals from our states who in Indian parlance is called have domicile status? Or is it that we want to allow that kind of free flow and labor to just flourish? What we're seeing more of, though, is the former where there is policy contradiction and policy overlap happening, which is counterintuitively not going to help this kind of framework or this kind of position that India finds itself in, in the coming few years. It's unavoidable.

What is going to be important is how Indian cities are well prepared or are okay with facing the kind of migration pressure. That is going to be internal, but most important is going to be state government level policy. It's what is at the heart facilitating this migration that happens between and the management of resources, which is effectively the challenge at the heart of this whole issue.

I should plug here, in fact, that we have a special publication on India that is going to be out in July, called the Look Forward Journal where Gauri, Ashima and myself were all contributors. And one of the questions that we are covering

there is what is this kind of intra-country policy landscape and political connotation is going to look like for India in the coming decade?

Kristen Hallam

I really look forward to the Look Forward Journal. I'm sure we could keep on talking for quite some time, but let's move to the lightning round as it were and share the top takeaways for our listeners today. What would you say are your top takeaways? Gauri, let's start with you.

Gauri Jauhar

Sure. Thank you, Kristen, and this has been fantastic talking with my colleagues in Economics & Country Risk.

I think connecting the dots of India's energy transition to India's economic transition will be critical. So the C-suite should watch out for both sets of variables and the interlinkages between the two.

Also, my second takeaway would be watch out for that time period in the mid-2030s when based on current projections and current modeling, we believe that India does experience a mix of both energy and economic inflection points, driven by changes in per capita income, growth in urbanization, growth in mobility. And there's just a shift in the curve that happens around the mid-2030s. So watch out for that and see what opportunities that may have.

Kristen Hallam

Thanks for that, Gauri. Ashima, how about you? What are your top takeaways?

Ashima Tyagi

So yes, I mean there's an ongoing debate in India whether it should follow an economic growth strategy that is reliant on its high-performing service industry, which has exhibited competitive advantage for so many decades, or should it prop up its manufacturing capabilities to really become the new age factory of the world and leveraging technology as well. Of course, there are arguments to be made on both sides of the debate, but what we believe is that both are necessary at this point.

India is definitely showcasing a lot of structural shift in its manufacturing sector. And there is a lot of potential in attracting investment onto its shores. In fact, sectors like, I think, chemicals, pharmaceuticals, electronics, automotive. I can go on. But yes, textiles, they're really largely expected to drive a lot of manufacturing exports out of India.

But as I mentioned, earlier in your earlier questions, there is a realization that India would need to put emphasis on skilling its talent pool, encouraging a lot more R&D and innovation to really set up a world-class and design-led manufacturing industry, which is looking at industries of the future, be it electric vehicles or 5G or storage batteries and stuff like that. I think skilling your talent pool is key here.

Kristen Hallam

Thanks, Ashima. And Deepa, top takeaways from you.

Deepa Kumar

I think kind of 2 top takeaways. The first is how India culminates its internal dynamics. And so how does it go from ensuring that its absolute grassroots, so how last-mile delivery of resources is happening or how its more important cities are performing, how they coordinate with the different state governments and how the state governments coordinate with

the large central government? So this whole link from what I think of as from grassroots to globalism is going to be key to watch for India, how well it navigates that is going to be important.

And the second is if we go outside, right, and the external environment. Absolutely key will be how India chooses to navigate and negotiate with different emerging economies, especially how they come to collaborate together. That is a kind of once-in-multi-generational multi-decades shift in the power dynamic in the international system that we're forecasting right now. So we'll have to see how India does well to capitalize on that and what then that would mean for all kinds of global issues, be it energy transition, be it climate change, be it supply chain resilience and global security.

Kristen Hallam

Well, thanks again for sharing your insights with us, Deepa, Gauri and Ashima, and thanks to our listeners for tuning in. Please join us next week when we will dive deeper into the forces at work in 2023.

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