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Trade, Supply Chains and Economic Statecraft

Context

- In the 21st century, global power is no longer determined only by military alliances or territorial control; it is increasingly shaped by **supply chains, technology ecosystems, trade routes**, and access to **critical minerals**.
- Economic instruments such as **tariffs**, export controls, and sanctions now function as strategic weapons.
- In this evolving world order, nations compete through production networks, infrastructure, and technological leadership.
- For India, this transformation presents both historic opportunities and significant challenges as it seeks to strengthen its role in the global economy while preserving its **strategic autonomy**.

The Old Globalisation Model and New Economic Diplomacy

- **Collapse of the Old Globalisation Model**
 - The earlier belief that globalisation naturally promoted cooperation and shared prosperity has weakened.

- Nations now use economic relationships as instruments of pressure and influence. **Export controls**, supply-chain restrictions, and economic sanctions have become tools of strategic competition.
- China's restrictions on rare earth exports and the tariff policies adopted by the United States demonstrate how easily trade can be weaponised.
- As a result, **economic diplomacy** has become inseparable from **national security**.
- Prosperity and geopolitical influence are now deeply interconnected, making economic resilience a key priority for all major powers.

- **Rise of Economic Statecraft**

- Modern geopolitics increasingly revolves around economic capabilities rather than military strength alone.
- **Semiconductor alliances**, energy partnerships, and technology cooperation now resemble traditional defence pacts.
- Countries capable of controlling production networks and technological ecosystems possess significant strategic advantages.
- This shift has created a new global environment where infrastructure, industrial capacity, and regulatory systems are as important as military alliances.
- Economic power has therefore become one of the primary organising principles of international politics.

India's Emerging Strategic Importance

- **Structural Advantages of India**

- India's large market, political stability, and growing workforce make it an attractive destination for investment and production.
- A country once viewed mainly as a difficult but promising market is now seen as a reliable and essential partner in a diversified global economy.
- Three major developments explain this transformation:
 - **Digitisation**, infrastructure expansion, and deregulation have improved efficiency and reduced transaction costs.
 - Geopolitical tensions surrounding China have increased demand for alternative production ecosystems.
 - India now treats trade agreements and technology partnerships as central tools of foreign policy and statecraft.

- **Economic Security and Strategic Partnerships**

- Partnerships involving **semiconductors**, **critical minerals**, **digital infrastructure**, and defence-industrial cooperation are no longer purely commercial arrangements; they are strategic investments in resilience and influence.
- In this new order, technological and industrial leadership complements military strength.
- Global influence now flows through innovation, manufacturing capacity, and control over strategic supply chains.

Challenges in the New Global Order

- **Risks of Overdependence**

- Excessive dependence on a single nation for technology, minerals, or markets can expose countries to political and economic pressure.
- India therefore seeks **diversified partnerships** to protect its autonomy and flexibility.
- The strategy of maintaining multiple economic relationships allows India to avoid overreliance on any single power bloc while continuing to benefit from global integration.

- **Domestic Reforms and Institutional Strength**

- To become a reliable hub in global supply chains, India must continue improving logistics, workforce skills, infrastructure, and regulatory transparency. Leadership in emerging technologies also requires investment in **research, innovation, and intellectual property**.
- At the same time, India's global credibility depends on the strength of its democratic institutions and **social cohesion**.
- Sustainable economic growth requires political stability, institutional trust, and effective governance.

The Path Forward for India

- **Shift from Multilateralism to Flexible Alliances**

- The global trading system is moving away from traditional **multilateralism** toward flexible bilateral and regional partnerships shaped by strategic interests.
- Universal frameworks based on broad consensus are weakening under geopolitical rivalry and domestic political pressures.
- For India, this transition creates opportunities for a more agile and interest-driven diplomacy.
- India can build partnerships across regions and sectors while protecting its long-term national interests.

- **Opportunity and Responsibility**

- The world is actively searching for diversified production centres, trusted digital ecosystems, and stable democratic partners.
- India is uniquely positioned to meet these demands if it continues strengthening competitiveness and credibility.
- However, this opportunity is not automatic. It requires long-term planning, institutional steadiness, and the confidence to engage globally without compromising national interests.

Conclusion

- The fusion of **economics** and **geopolitics** has fundamentally reshaped the international order.
- Trade, technology, infrastructure, and supply chains have become the central arenas of global competition.
- In this changing environment, **India occupies a strategically favourable position** because of its scale, democratic stability, and reform-driven growth.
- India's future will depend on balancing **globalisation** with **self-reliance**, deepening international engagement while preserving **strategic autonomy**.

Trade, Supply Chains and Economic Statecraft FAQs

Q1. What has replaced traditional military dominance in modern geopolitics?

Ans. Economic power through supply chains, technology, and trade networks has increasingly replaced traditional military dominance.

Q2. Why has India become important in the global economy?

Ans. India has become important because of its large market, political stability, and growing role in diversified supply chains.

Q3. How are economic tools used in global politics today?

Ans. Countries use tariffs, export controls, and sanctions as strategic tools to influence other nations.

Q4. Why is diversification important for India?

Ans. Diversification helps India avoid excessive dependence on any single country for technology, minerals, or trade.

Q5. What is India's main challenge in the new global order?

Ans. India's main challenge is balancing global integration with strategic autonomy and self-reliance.

Source: **The Hindu**

Productivity, Not Just Growth, for Viksit Bharat

Context

- India's recent economic performance has been strong, especially in the post-COVID-19 period, combining relatively high growth with macroeconomic stability in a manner achieved by few large economies.
- Real GDP growth reached **5% in FY 2024-25**, making India one of the fastest-growing major economies globally.
- This performance has been supported by **strong domestic demand, subdued inflation, gradual fiscal consolidation, and a broadly stable financial sector**.
- However, while India has recorded meaningful productivity growth over recent decades, achieving the goal of **Viksit Bharat by 2047** will require a faster pace of growth.
- This will depend not only on maintaining macroeconomic stability, but also on activating all engines of growth—**labour, capital, and productivity**—through deeper structural reforms.
- This article highlights why India's journey to Viksit Bharat by 2047 requires a shift from growth-led expansion to **productivity-led transformation**.

Manufacturing: The Missing Link in India's Structural Transformation

- The Economic Survey 2025-26 highlights that manufacturing must anchor India's next phase of growth.
- However, the challenge is not merely expanding manufacturing, but making it more productive.
- **Skewed Structural Transformation**

- India's growth has been largely driven by the services sector, while manufacturing has not expanded enough to absorb labour or deliver broad-based productivity gains.
- This creates an imbalanced pattern of structural transformation.
- In successful development models, manufacturing acts as a **bridge** between low-productivity agriculture and high-productivity modern sectors.
- It plays a critical role in sustaining growth and generating large-scale employment.

• **Productivity and Firm Structure Challenges**

- Manufacturing productivity in India remains below its potential and lags behind international peers.
- A major reason is the sector's structure, marked by numerous small, low-productivity firms and too few mid-sized firms capable of scaling up.
- Unlike India, successful East Asian economies developed strong medium and large manufacturing firms that boosted exports, productivity, and industrial growth.
- The current structure leads to **inefficient allocation of resources**, with a large share of labour remaining stuck in low-productivity agriculture instead of moving to more productive sectors.
- Despite significant investments, especially in infrastructure, efficiency gaps continue to persist in the manufacturing sector.

Zombie Firms and India's Productivity Challenge

- India's productivity growth is constrained by weak business dynamism. The process of **"creative destruction,"** where efficient firms replace inefficient ones, remains slow, limiting productivity gains.
- Small, low-productivity "zombie" firms continue operating despite being economically unviable. These firms lock up capital and labour that could otherwise be used more productively.
- Although zombie firms form a small share of total firms, they account for a disproportionately large share of total debt and assets, creating significant inefficiencies in resource allocation.

• **A Persistent Structural Problem**

- Zombification is a gradual and persistent process rather than a temporary cyclical issue.
- Firms begin deteriorating financially well before being classified as zombies and often remain trapped in distress.
- The source of financing affects firm survival. Bank-financed firms are more likely to become zombie firms, stay distressed longer, and relapse after partial recovery, while equity-financed firms show better recovery prospects.
- Financial and regulatory systems often keep inefficient firms alive instead of enabling their exit.
- This crowds out credit for productive firms and weakens overall productivity growth.

Strategy for Viksit Bharat

- **Manufacturing-Led Growth as the Core Strategy** – India's journey to Viksit Bharat requires a manufacturing-led growth strategy that focuses not only on expanding scale but also on improving efficiency and productivity.

- **Strengthening Manufacturing Competitiveness** – Expanding manufacturing will require deeper integration into global value chains, addressing trade barriers, and sustaining infrastructure investment to improve competitiveness.
- **Boosting Productivity and Business Dynamism** – Higher productivity will depend on stronger business dynamism, greater research and development, and an environment that enables efficient firms to grow.
- **Enabling Exit of Inefficient Firms** – Productivity gains also require allowing unproductive firms to exit so that capital and labour can be reallocated to more efficient uses.
- **Reform Priorities** – Key reforms should focus on simplifying regulations, easing labour constraints, strengthening insolvency mechanisms, improving credit allocation, and expanding access to finance.

Conclusion

- Achieving Viksit Bharat will depend not just on sustaining growth, but on raising productivity through stronger manufacturing, efficient resource allocation, structural reforms, and greater business dynamism.

Productivity, Not Just Growth, for Viksit Bharat FAQs

Q1. Why is productivity considered crucial for achieving Viksit Bharat?

Ans. While India has achieved strong growth, becoming a developed economy by 2047 will require faster productivity gains alongside macroeconomic stability and deeper structural reforms.

Q2. Why is manufacturing seen as the weak link in India's growth story?

Ans. Manufacturing has failed to expand sufficiently to absorb labour, improve productivity, and drive structural transformation, unlike successful industrial economies such as East Asian countries.

Q3. How do zombie firms affect India's economic productivity?

Ans. Zombie firms lock up capital and labour in low-productivity activities, crowd out credit for efficient firms, and weaken the process of creative destruction essential for growth.

Q4. What reforms are needed to strengthen India's manufacturing sector?

Ans. India needs deeper global value chain integration, regulatory simplification, labour reforms, better insolvency mechanisms, improved credit allocation, and expanded financing access.

Q5. What is the two-pronged strategy for achieving Viksit Bharat?

Ans. The strategy involves expanding manufacturing scale while improving efficiency through productivity growth, stronger business dynamism, research, and the exit of inefficient firms.

Source: TH

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