

# ECONOMIC LIBERALISATION AND ITS FAULTS

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

“India is not able to get required quantities of test kits, PPE and parts of ventilators through importation.” Central Reserve Police Force soldiers stitch personal protective equipment suits for health workers in New Delhi. AP

[Dr. Manmohan Singh's 1991-92 Budget speech](#) marked the beginning of the end of the 'Licence Raj' in India. The Budget also announced the reduction of import duties and paved the way for foreign-manufactured goods to flow into India. Following this, most of the manufacturing sector was opened up to foreign direct investment. India's industrial policy was virtually junked, and policymakers and the political leadership became contemptuous of the idea of self-reliance.

In the late 1980s, transnational corporations started shifting the production base to smaller companies in developing countries, especially Asia, in search of cheap labour and raw materials. Developed countries supported the move because shifting the polluting and labour-intensive industries suited them as long as ownership remained with their companies. Thus, the world witnessed the development of global supply chains in many products starting with garments, wherein huge companies with massive market power dictated the terms to smaller manufacturers down the value chain to produce cheaply.

[Coronavirus](#) | [No need to panic over availability of PPE: Health Ministry](#)

Though many developing countries participated in the global production/value/supply chains, the substantial value addition in developing countries happened in a few production hubs, of which China emerged to be a major one. Manufacturing shifted from a decentralised production system spread across different counties to just a few locations. However, countries like China defied the logic of supply/value chains ensuring substantial value addition for themselves. They even carried out backward integration and thus emerged as global manufacturing hubs for certain products. In the case of health products, China became the global supplier of active pharmaceutical ingredients (API), personal protective equipment (PPE), and medical devices diagnostics.

This has major implications for the [COVID-19 outbreak](#). The resultant loss of manufacturing base has affected the ability of many governments, including of developed countries, to put up an effective response to the crisis. The U.K. Prime Minister asked the country's manufacturers to produce ventilators in order to provide care for critical COVID-19 patients. Similarly, the U.S. President invoked the Defense Production Act of 1950 to ramp up N95 mask production. Under this legislation, the U.S. President can direct U.S. manufacturers to shift from their normal manufacturing activities to produce goods according to the directions of the government. Similarly, the French Health Minister stated that the country may nationalise vaccine companies if necessary. Spain nationalised all its private hospitals. Israel and Chile issued compulsory licences to ensure that medicines are affordable. In an indirect show of power, Chinese billionaire Jack Ma sent a flight containing 5.4 million face masks, kits for 1.08 million detection tests, 40,000 sets of protective clothing and 60,000 protective face shields to the U.S. This exposes the poor state of preparedness and dependence on imports for essential goods required to meet the challenge of any major disease outbreak. This shows that what is good for the company may not be good for the country in all circumstances. So, the overwhelming objective of private sector-led economic growth has proved to be disastrous.

In India, economic liberalisation has damaged the government's capacity in two ways. First, it

incapacitated the government to respond to emergencies based on credible information. The dismantling of the 'Licence Raj' resulted in the elimination of channels of information for the government, which is crucial to make informed policy choices. For instance, as part of the removal of 'Licence Raj', the government stopped asking for information from the manufacturer to file the quantity of production of various medicines. As a result, it has taken weeks now and a series of meetings for the government to gather information about stocks and the production capacity of pharmaceutical companies. Similarly, there were difficulties in finding out India's production capacity of PPE, medical devices and diagnostics. The only government data available in the public domain is with regard to the production of vaccines.

Second, the logic and policies of economic liberalisation seriously undermined the manufacturing capabilities of health products in India. The short-sighted policy measures, with the objective of enhancing profitability of the private sector, allowed the import of raw materials from the cheapest sources and resulted in the debasing of the API industry, especially in essential medicine. According to a report of the Confederation of Indian Industry (CII), nearly 70% of India's API import is from China. The CII report lists nearly 58 API where the dependence is 90% to 100%. The disruption in the supply of API due to the COVID-19 outbreak has impacted the production of not only medicines required for COVID-19 patients, but also of other essential medicines in India. As a cost-effective producer of medicines, the world is looking to India for supply, but it cannot deliver due to its dependence on China, which has also forced India to impose export restrictions on select medicines.

Similar dependence exists with regard to PPE, medical devices and diagnostic kits. The 100% dependence on Reagents, an important chemical component for testing, is limiting the capacity of the government from expanding testing because the cost of each test is 4,500. A population of 1.33 billion requires a large number of tests. Dependence on imports affects the ability of Indian diagnostic companies to provide an affordable test for all those who want to test for COVID-19. There are only a few domestic manufacturers who can produce PPE and medical devices like ventilators. Now the country is not able to get required quantities of test kits, PPE and parts of ventilators through importation. In the name of economic efficiency, India allowed unconditional imports of these products and never took note of the dangers of dependency.

[Coronavirus](#) | [India to get 15 million PPE kits from China](#)

Global supply/production chains not only destroyed the manufacturing base in developed and developing countries; they also resulted in loss of jobs and poor working conditions in these sectors. Developing countries were asked to ease their labour protection laws to facilitate global production and supply chains popularly known as global value chains. As a result, people were forced to work in precarious working conditions without any social security net. This created an unorganised army of labourers and is preventing many developing country governments from effectively offering relief.

A virus has made us rethink our obsession with the economic efficiency theory. It implores us to put in place an industrial policy to maintain core capacity in health products so that we can face the next crisis more decisively.

*K.M. Gopakumar and Ranja Sengupta work with the Third World Network*

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