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INDIA MUST LOOK BEYOND ITS ATMANIRBHAR BHARAT POLICY

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Rapid economic growth calls for an export strategy that goes beyond mere incentive schemes

The government's focus on Atmanirbhar Bharat, accompanied by its introduction of production-linked incentives (PLIs) for manufacturing, has attracted criticism as well as praise. Critics have characterized it as an inward-looking import substitution policy that is likely to produce negative outcomes, while supporters have touted it as a game-changer which will finally allow Indian manufacturing to acquire its rightful place. A brief dive into the history of developing nations that have emerged from poverty would suggest that it is likely to be neither. In all probability, it will end up as just another middling policy of the sort that has defined India's economic decision-making process for decades.

Historically, most developed countries have followed a mercantilist model to enrich themselves at the expense of others. Britain ruthlessly exported finished goods to its colonies while keeping its domestic industry protected behind high tariffs throughout the 1700s and mid 1800s, till it achieved significant industrialization. The US had also imposed high tariffs on imports, reaching a peak of over 40% in 1870. In fact, US import barriers did not come down till the end of World War I, which generated huge surpluses for the US economy as it became the primary supplier of war material to the Franco-British alliance. Tariffs were again raised in the 1930s, as the US economy slipped into depression. Both the UK and US followed a policy of protecting domestic industry, building industrial capacity and absorbing technology, before opening their markets to the rest of the world.

In Asia, most countries that have achieved industrialization have used a version of the same policy. Japan pioneered such a strategy and was followed by South Korea and China. Given these lessons from history, it seems naïve and optimistic to think that India will be able to bootstrap itself out of poverty by deploying an Atmanirbhar strategy centred around PLIs for a handful of products. While India has a large domestic market, well developed financial institutions and a competitive private sector, as Arvind Panagariya has pointed out, most Indians are engaged in low-wage activities, which limits growth driven by domestic consumption. The only way for the Indian economy to break out of this middling rate of growth is to look outward for export-based growth drivers.

To be sure, many have claimed that India has already missed that bus, with New Delhi being an early signatory to the World Trade Organization (WTO), which severely constrains the spectrum of export-promotion measures that can be deployed. This argument has its merits. Although Japan joined the General Agreement on Tariffs and Trade (GATT) in 1955, it dragged its foot on liberalizing access to its economy for several decades. Similarly, China unabashedly promoted exports after its economic liberalization, and then joined the WTO only in 2001 after its domestic producers had gained considerable industrial capability. Even so, according to many commentators, China continues to flout WTO rules to give its exporters an unfair advantage. In comparison, India joined the GATT in 1948 and WTO in 1995. So, the country finds itself constrained on export incentives and cannot quite follow the economic examples of Japan or China.

However, India still has several levers to push up exports. One reason the country has been punching below its weight globally is the fact that the approach of its policymakers to export promotion has been tactical and not strategic. Export promotion in India revolves around fiddling with duties and exemptions that have a marginal impact on the creation of industrial capacity, which is what drives export competitiveness.

The government should create a strategic plan. It should start by identifying sectors where India has a comparative advantage or can acquire one. Once this is done, both labour-intensive and high value-addition sectors that have significant scope of growth should be prioritized. Non-financial measures, such as reduced regulatory burdens for export-oriented units, research and development centres, skill development institutes for the workforce, logistical support, access to technology and marketing support should be employed liberally. Financial measures such as accelerated depreciation benefits and credit support should also be instituted.

Secondly, the government needs to create a unified body to market India’s goods across the world. Currently, this is done by myriad export promotion councils, industry bodies and chambers of commerce without a unified vision or synergy. This body should report directly to the Prime Minister’s Office and be assigned explicit and sector-specific export targets.

Third, as a paper by Marianna Belloc and Michele Di Maio, ‘Survey of the Literature on Successful Strategies and Practices for Export Promotion by Developing Countries’, shows, the most important driver of export success is close collaboration between government departments and private exporters. The government should assign liaison officers in all departments the task of addressing problems faced by exporters. Also, administrative departments and ministries that deal with exports should be assigned quantitative export targets, which should be reviewed annually.

In sum, while self-sufficiency may be a commendable target, India’s development goals can’t be met without facing the world armed with a robust export strategy.

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