

A BACKWARD TURN

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

Ever since the prime minister's speech exhorting the country to march towards an Atmanirbhar Bharat, there has been an unease: That lurking behind the rhetoric of "self-reliance" was an attempt to reorient the economic structure towards ensuring "self-sufficiency" by falling back on the decades-old failed policy of import substitution. Subsequent calls by the government to citizens to buy Indian, and the setting up of "targets" towards building self-reliance in certain sectors so that "unnecessary" imports can be reduced, indicate that the shift towards protectionism, that began over the past few years with the NDA government raising tariffs — threatening to undo decades of trade liberalisation — may be underway.

Protectionism ends up creating an inefficient and high-cost domestic manufacturing sector, while leading to poor allocation of resources. The Indian experience of the second half of the last century should have provided enough proof to drive this point home. Such a policy stance helps neither consumers nor producers. Yet, it is almost as if policy-makers are choosing to forget the lessons learnt, and are determined to ignore the immense economic benefits to the country and citizens post 1991. In all likelihood, tariff hikes will be the first line of defence against "unnecessary" imports. Once this door is opened, it creates space for lobbying by domestic players to keep in place the protections, which, once imposed, will not be removed easily.

A more appropriate policy response is to focus on boosting competitiveness — building infrastructure, ensuring cheap power, reforming land and labour markets, and creating conditions for companies to compete in global markets. India should be striving to embed itself in global value chains, not becoming more inward-looking. Companies, especially in the post COVID world, looking to shift away from [China](#), will look for policy stability. They are unlikely to relocate to countries that are susceptible to sudden tariff impositions. Further, as research has shown, India's trade balance has widened in part due to imports of raw materials, intermediate products, and capital goods, implying that the imposition of tariffs will also hurt export competitiveness. India needs to raise its share in world trade beyond 2 per cent. Doing so requires greater trade liberalisation. The country needs to reduce tariffs, be part of trade agreements, not head down a slippery slope in the opposite direction.

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