

# SELF-RELIANT INDIA NEEDS A COMPETITIVE ECONOMY

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

As the Prime Minister's call for a country that relies on itself finds wide resonance, India Inc would be better placed to pursue this goal if our economy is kept open to the rest of the world

Ever since the Great Lockdown began, the term "aatmanirbhar", or self-reliant, has gained salience in India as an adjective for the country. It found mention in Prime Minister Narendra Modi's speech of 24 March announcing an interim closure of the economy to fight the covid-19 pandemic. For those stuck at home, the phrase had personal resonance, though it was to be a national project, the contours of which have been getting clearer in the weeks since. Addressing a Confederation of Indian Industry session on Tuesday, the Prime Minister made a pitch for strengthening local supply chains, boosting productivity, and reducing import dependence. In the context of slowing globalization and supply disruptions brought about by trade tensions and corona seizures, this was prudential advice. What can be done well at home, should indeed be. To put the idea of enhanced import substitution in play, the Centre has also identified a set of sectors, such as furniture, air-conditioners, footwear and leather, where the quality of local output could be boosted for exports, even as India aims to lower imports of mobile phones and defence items. To the extent that this is a pragmatic response to current circumstances, it will serve our interests. An apprehension, though, is that efforts to maximize domestic value generation could slip our economy behind trade barriers that reduce its exposure to the world and thus our competitiveness.

While India has been raising import tariffs on some items over the past three years or so, these haven't been raised to prohibitive levels. Neither has there been an attempt to block the inflow of goods from elsewhere. Should this begin to change, with policy tools rather than persuasion deployed to substitute foreign products for Indian-made ones, it could have adverse consequences. It may spell higher input costs for local manufacturers, for example. Even for ready-to-sell products, reduced competition in our markets from stuff made overseas could lower the value that consumers derive for their money on purchases. Our big learning from our pre-1991 closed economy was that efficiency is hard to spur without the prod of global rivalry. It is usually the threat of customers being lured away that pushes companies to raise quality, contain costs, invest in research, innovate and perform better. We saw this happen after we opened our markets to the rest of the world. This resulted in a far better allocation of private resources, by and large, an aspect of economic liberalization remains valid. Self-reliance is a worthy pursuit, but its implementation must not slide us back to the old days of inefficiency.

External trade need not be seen in us-versus-them terms. Its benefits are usually mutual. As economist Arvind Panagariya argued on Tuesday, openness to trade will continue to serve the country well, regardless of de-globalization. If India is to emerge as a global manufacturing hub, then the import policy regime must assure foreign businesses that their operations in India will not have to contend with sudden tariff tweaks that ruin their cost calculations. Policy stability needs to be part of the Make-in-India proposition for the country to present itself to others as a "trustworthy partner" in progress, as Modi put it. India Inc has a large role to play in achieving the Prime Minister's objective of a country that succeeds by virtue of its own ingenuity and endowments. Leaders of Indian enterprise have been paying attention. Let's rely on their determination, rather than policy tools, to get there.

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