Source : www.livemint.com Date : 2020-11-16

ATMANIRBHAR BHARAT – PROMOTING LOCAL SHOULDN'T BE SEEN AS ANTI-TRADE

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Industry & Services Sector incl. MSMEs and PSUs

The Cabinet recently approved introduction of a production-linked incentive (PLI) program to attract manufacturing in ten key sectors to India. These ten sectors include the traditional export intensive warhorses like textile, pharmaceuticals, automotive, steel and white goods, but also the sectors of the future like solar panels, telecommunications gear, advanced cell batteries, food processing and electronics products.

The idea of the PLI program is to get large manufacturers to India, whether integrating India as part of the supply chains or encouraging them to set up new base. The total five year outlay of the program is INR 1,45,000 crore. The PLI program provides incentives to companies against their incremental sales, capital expenditure or investments after the program is notified.

Earlier in October, the government cleared a PLI program to boost large scale electronics manufacturing, approving ten firms in the mobile phone segment and six others in the electronics component manufacturing segment. The former segment included big names like Samsung, Foxconn (Hon Hai), Wistron and Pegatron. This targeted PLI program was notified in April and within six months, it evinced enough interest, netting several big names, with an expectation of INR 10,50,000 crore incremental production.

This success has led the government to look at the latest initiative involving ten new sectors.

When Prime Minister Modi gave the clarion call for Atmanirbhar Bharat, sections of the commentariat immediately got worried about Protectionism 2.0. The 'professional pessimistic' view was that India will go back to the days of license raj, close its borders and stop trade. This clamour grew when the government targeted certain imports with duties, especially in the aftermath of the Chinese border aggression.

The government is deploying a carrot and stick policy on trade, coupled with large scale domestic factor market reforms to plug the gaps on various shortcomings India has as an investment destination. But it continues to attract flak for being perceptibly anti-trade.

The conventional wisdom says that open trade and Free Trade Agreements (FTAs) should over time lead to better domestic competitiveness. India has had FTAs with the ASEAN nations (2009), South Korea (2009) and Japan (2010) for more than a decade. Not only has these FTAs not helped export competitiveness in a great way, India has actually yielded ground to several South East Asian countries in terms of trade balance.

While India eliminated tariffs on 74% of its market to ASEAN countries, the reciprocity was less generous. Indonesia eliminated tariffs only on 50% of its market for India while Vietnam on 69% of the trade market. In 2009, India's exports to South Korea was $3.4-billion, which barely increased to $4.7-billion in 2018-19 after a decade of signing an FTA.

Anecdotal evidence cited to call India protectionist flies in the face of ground reality of the last decade. Our concern should be the protectionism we face from other export oriented countries.

The situation has been complicated further with China using the South East Asian route to dump its goods, circumventing the Country Of Origin (COO) issue. This was a key concern why India did not sign the Regional Comprehensive Economic Partnership (RCEP) last year. In fact, at one point India had considered signing an FTA with China itself, which would have been a sure death knell to whatever little manufacturing happening in India. Thankfully better sense prevailed, for without that FTA, Indian trade deficit with China peaked at $73-bilion in 2016-17.

No large economy captured market share without using moderate tariffs to protect its interest. Today's advocates of free trades were all protectionist at some point, but do not wish India to traverse the same path. India in fact has the added advantage of a monopsony market to normalize its non-tariff barriers for global firms.

In the last few years, India has taken a more holistic view of the problem rather than treating free trade as some kind of an inalienable dogma. The labour and capital reforms currently being undertaken will provide a fillip to domestic competitiveness. Reduced corporate tax rates aligned with other competing countries would shift the location selection consideration towards areas of India's strength like human capital. The government is also using public procurement as a tool to truly leverage India's market power in promoting local manufacturing.

Free trade leading to unhinged import dependence and fair trade leading to strengthening specific areas of domestic manufacturing should really be a Hobson's Choice for India. The promotion of manufacturing should involve Make In India for India and for the world. We may never make everything that we need – imports won't be wiped off. That is neither the intent of the Atmanirbhar Bharat approach nor its end outcome. But that should in no way stop India from taking a sectoral view to re-shore manufacturing to India and to mount a challenge as global factory.

Restriction is not prohibition. India attempting to use targeted and phased tariffs, with an aim to reduce Chinese imports, while helping open the Western export markets is a perfectly legitimate strategy.

Adam Smith had once remarked that "Mercy to the guilty is cruelty to the innocent". Let our trade, commerce and manufacturing policy focus not be to incentivize those who adopt dubious ways while seeking Indian market access. Inflicting that self-cruelty may appeal to textbook perfection, but does not serve either the Indian firms or the Indian citizens.

(Aashish Chandorkar is a public policy analyst and author based in Pune. Views are personal and do not reflect Mint's.)

END