



Delhi Policy Group

Advancing India's Rise as a Leading Power



DPG POLICY BRIEF

Aatma Nirbhar Bharat Abhiyan and the Trade Factor

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Prime Minister Narendra Modi launching the campaign for an Aatma Nirbhar Bharat in an address to the nation on May 12, 2020. Source: PM India

Prime Minister Narendra Modi inaugurates the Aatma Nirbhar Uttar Pradesh Rojgar Abhiyan through video conferencing from New Delhi on June 26, 2020. Source: PM India

Prime Minister Modi addressing the CII Annual Session – 2020 via video conferencing, New Delhi, June 02, 2020. Source: PM India

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Aatma Nirbhar Bharat Abhiyan and the Trade Factor

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Introduction

Prime Minister Narendra Modi has been actively campaigning for an Aatma Nirbhar Bharat (ANB), or a self-reliant India. The Indian government has also announced a Rs.20 lakh crore (approx. US 265 billion) relief and recovery package that includes several reform measures which are likely to have a more medium-term impact. Grippled by an economic slowdown even before the Covid-19 pandemic struck, a more sizeable stimulus may perhaps have mattered more. But seeking to turn the crisis unleashed by the still raging pandemic into an opportunity has considerable merit. Much needed structural reforms, be it on agri-marketing or labour, for instance, can easily get thwarted in normal times by small but influential vested interests.



Prime Minister Narendra Modi launching the campaign for an Aatma Nirbhar Bharat in an address to the nation on May 12, 2020. Source: PM India

The pandemic has utterly exposed the nation's capacities and constraints, including in health and infrastructure. Compounded with other disturbing developments such as the military and geopolitical assertions being attempted by some of our neighbours, the message is loud and clear. In the ultimate analysis, it is the nation's economic strength that can make the vital difference.

Several suggestions are already being made on how to take this ANB campaign forward, what it should stand for and what it should not. It is hoped that it is a long term goal and guiding vision to strive for, and not every implementation measure will be vetted with a "self-reliant" filter. China began with huge dollops of foreign investment that has, only decades later, brought its economy to where it is today, even as foreign investments in China remain substantial.

Campaigning to go vocal for local is understandable when import dependence has become high and many products earlier made in India, even if not competitively, have been significantly outsourced. That this dependence has also centred in one country, from which imports exceed 40% in a number of areas, a percentage deemed as a dominant presence in competition literature even if at the firm level, is clearly not sustainable from an economic security perspective. Even so, it is important that this campaign does not get implemented arbitrarily at the ground level. Delaying customs clearance for shipments at a time when economic revival is a priority could end up harming ourselves. In general, pushing the vocal for local theme in an uncalibrated fashion could lead India to becoming only local and not global.

It is, therefore, useful that clarifications have been made from the government's side that this campaign is not meant to be inward looking or a return to the 'license-permit raj' days. That the government is also actively seeking foreign investment shows understanding of this imperative need at this juncture. That we not only want to make products in India but make them for the world hopefully indicates that we are also aiming at competitive manufacturing and not import substitution at any cost.

Some of the measures, including reduction in the corporate taxation rates or the recent moves initiated to simplify labour codes, are useful in this regard. So are the production-linked incentive schemes seeking investments in a number of critical areas including mobile phones, semiconductors and electronic components¹, bulk drugs and medical devices², along with the indication that more are on the anvil³.

Equally important will be actual implementation measures in enhancing ease of doing business and reducing transaction costs. Even as India has improved its overall ease of doing business ranking to 63, it still scores very low in respect of registering property, payment of taxes and enforcement of contracts. If we can indeed rapidly progress to a stage of 'plug and play', as indicated by the Prime Minister in one of his speeches, at least in some of the special economic zones (SEZs), industrial clusters and the three bulk drug parks that are envisaged, the result could be transformational. In fact, considering our not so great past experiences with SEZs, how these new initiatives are going to be implemented becomes crucial; we can ill afford to see them fail a few years

down the line. The country desperately needs several E. Sreedharans (of Delhi Metro fame) to set up successful models of efficient industrial infrastructure.

This is, however, not to suggest arbitrary approvals or suspension of labour laws as earlier mooted by some of the states. Well-regulated entry with a clear understanding by the investors of their commitments is a far more assured way to proceed than leaving room for future disputes that can have a very negative demonstration effect. We have already had several unfortunate instances in this regard.



*Prime Minister Narendra Modi inaugurates the Aatma Nirbhar Uttar Pradesh Rojgar Abhiyan through video conferencing from New Delhi on June 26, 2020.
Source: PM India*

It will also be futile to rely mainly on foreign investments or to expect that becoming part of supply chains will bail us out, even though these are important avenues. India's share of manufacturing in its GDP, at around 15%, requires a far more robust effort. With our merchandise imports persistently standing at around 150% of exports, the ANB goal will simply prove elusive unless domestic exports rise sharply and we also find a way to reduce unnecessary imports. Significantly improving our trade profile needs to be an important part of the ANB effort.

Arbitrarily seeking to limit imports from a manufacturing behemoth like China will, however, hurt us more than them. Nor should knee jerk restrictive import measures be imposed that can invite prompt retaliation. As already pointed out by several analysts⁴, China's share in India's exports is higher than India's share

in China's exports. Many of our key sectors like automobiles, pharmaceuticals or textiles, to mention just a few, are critically dependant on imports of intermediates or components or accessories from China. At a time when India's industry is trying to stage a revival and recovery, any disruption can prove costly.

At the same time, reducing our overall import dependence progressively must be pursued. In such an exercise, imports from China no doubt require close scrutiny, considering their size in our import profile and the even higher share of the bilateral trade deficit in our total merchandise trade imbalance. They broadly fall into three categories, even as they are not mutually exclusive: a) industrial imports of machinery, intermediates, components and accessories from Chinese producers that are used by Indian manufacturers; b) imports of machinery, certain appliances, medical devices and consumer products of third country companies manufacturing in China; and c) imports of consumer items from China in a range of areas which are indigenously made and relatively low priced, with some of them also being of doubtful durability or quality.

A. Imports from China which serve as inputs for Indian industry

As for imports of category a), our industry's dependence on them at this stage is substantial and there are no quick solutions. That the government has taken measures to incentivise production of bulk drugs and certain electronics items is welcome. More such areas are required to be pushed such as expanding our auto component base (China is the No.1 import source accounting for 27% of our auto component imports), or for increased manufacture of batteries at a time when we are also wanting to move to electric vehicles, or machine tools⁵ that are basic to any engineering goods production, or accessories used by our garment or footwear manufacturers. It must also be noted that in product areas in which our industry has found that imports from China have adversely affected them, they have also sought imposition of trade remedy measures. Already, India has the one of the largest number of anti-dumping duties in place on such products from China. It is relevant to mention here that following China's decision not to further pursue its case in the WTO regarding the EU not treating China as a market economy, our anti-dumping authorities⁶ have greater discretion to continue their existing practice of requiring Chinese exporters to undergo a test for establishing they operate in market economy conditions for products under investigation.

B. Imports into India from China of items made by third country companies in China

In relation to b), it should be our effort to invite such foreign producers to locate their manufacturing in India by offering them attractive investment incentives and, if necessary, even limited but strictly time bound tariff protection, ensuring that progressively they will also export. These producers account for a range of products including machinery, electrical and electronic gadgets, precision instruments and even medical devices such as oximeters which are now in great demand. We hear from time to time from the government about discussions being held with select foreign companies to invest in India. It is hoped these will yield results. Obviously, foreign producers will move to India only if they are assured that producing in India would be more competitive and less risk prone than making in China and then exporting to the Indian market. In any case, creating a few success stories is needed at this stage for generating the necessary momentum.

C. Imports of consumer items from China made by indigenous producers

As for imports of c) many of them can and should be made in India, particularly by our SMEs, whose definition has now been expanded. Such items - electrical fittings, cycles and parts, locks and door fittings, blankets, plastic items, toys, umbrellas, crackers and even idols of worship - used to be made in India in industrial hubs like Surat, Ludhiana, Panipat, Agra, Aligarh, Coimbatore and Sivakasi, but have got substantially outsourced over a period of time. Recreating such hubs and creating newer ones carries rich employment potential. In any case, imports of these products now should be made subject to strict regulation as per declared product standards. China itself follows this practice. Moreover, under-pricing, under-invoicing and false declarations in these and other items like textiles and leather goods also need close monitoring. Apart from formal channels, such imports also come through a variety of informal channels, such as through our porous borders, land border trade points and even as accompanied baggage of recruited trade couriers. Such leakages need to be sharply brought down to give more space to our SMEs to make a serious effort of import substitution.

At the same time, ensuring quality and getting our SMEs to move progressively towards competitiveness should not be compromised. Otherwise, informal trade will again get to flourish. This will require sustained government efforts in training, skilling and initiatives for establishing testing and accreditation mechanisms. While SMEs have not earlier been able to avail of trade remedy provisions because launching such investigations require proof of industry support that SMEs find difficult to mobilise, other means need to be found involving relevant industry associations.

Enhancing value added exports

Table 1: Key Indian Exports in 2018-19

HS Code	Product description	Exports by India (in US\$ million)
3617	Frozen shrimps and prawns	4291
2516	Granite cut into blocks	809
2601	Iron ore and concentrates	1318
3901 & 3902	Primary polymers of ethylene and propylene	2113
41	Hides and Skins	723
5201 & 5205	Raw cotton and cotton yarn	5809
7202	Ferro alloys	2144
7207	Semi-finished products of iron and steel	1109
7403	Refined copper	312 (was 2447 in 2017-18)
7601	Unwrought Aluminum	4282

Source: DGCIS

While what has been stated in the foregoing relates to reducing imports, enhancing our exports to China as also worldwide also needs a great deal of attention. This writer has already dwelt on this aspect at some length in an earlier publication⁷ and these arguments will not be restated here. But one aspect merits reiteration since what the government is now attempting is to bring in some structural reform. This relates to enhancing levels of value addition in our export basket of which several items presently get exported in primary form in substantial quantities. These items could instead be exported as value added products, generating higher revenues and providing larger employment opportunities.

Products presently so exported include cotton and cotton yarn rather than fabrics, made-ups or high-end garments; leather rather than its products; ferro alloys and semi-finished steel rather than steel products; aluminium ingots rather than aluminium tubes, structures or foils; copper cathodes rather than copper plates or copper wires; basic polymers rather than plastic products; dimensional stones rather than polished granite; cut and polished diamonds rather than studded jewellery; and raw shrimps rather than processed produce. India also exported US\$ 9 billion worth of naphtha, a feedstock, rather than downstream petrochemicals, in 2018-19. The foregoing Table provides the

export levels in 2018-19 of some of these items as an illustration. (Source: DGCIS)



Prime Minister Modi addressing the CII Annual Session – 2020 via video conferencing, New Delhi, June 02, 2020. Source: PM India

As against the low value added exports referenced above, India imports several of their downstream products, such as value added aluminium or steel products. There are major structural issues here. One factor could be the degree of protection offered to primary producers that in turn does not incentivise them to sell at competitive prices to downstream producers. The following comment from an article on "India's focus should shift to negotiating a better deal to gain entry into RCEP" by T.K. Arun, which appeared in the Economic Times on November 6, 2019 makes this point effectively⁸:

"When the government shelters steel, aluminium, refining and petrochemicals from external competition, metal-working industry and manufacturers of plastic products and synthetic garments find their input costs higher than that of their counterparts in countries that have stripped their industry of such layers of protection. This is why we often find newspaper advertisements in which aluminium bucket manufacturers denounce high import duties on aluminium, even as big domestic producers of aluminium wax grateful on the government's courage in standing up against global pressure to turn India into a dumping ground for excess capacity abroad.

Cheaper aluminium would, of course, translate into cheaper aluminium vessels for domestic consumers and greater export competitiveness for makers of aluminium products, whether cable and screws or pots and pans. But cheaper aluminium would erode the margins of large aluminium makers, as well..."

There are other related aspects as well. Value added exports require greater adherence to quality standards that our downstream producers will have to match, even as they stay price competitive.

What would, therefore, be necessary is for our Ministry of Commerce and industry associations to undertake in-depth, sector wise studies in each of the areas cited in the Table and examine why value addition to competitively manufacture downstream items cannot take place within India. For example, when we have basic bauxite and iron ore available within the country and when we do export aluminium ingots, ferro alloys, and semi-finished steel, it implies we are globally competitive at least till those stages. Why is it that we are not able to extend this competitiveness further?

Recently, Indian Oil Chairman Sanjiv Singh is reported to have observed⁹ that HR coil manufacturers in India were limited for their API and API 5L grade steel plates for making pipes. The Union Minister for Steel and Petroleum, Dharmendra Pradhan, also noted on the same occasion that domestic players should rise to the occasion so that costs do not escalate in an effort to promote localisation of supply chains.

Pursuing the ANB campaign will require examining how in each of these areas India can extend its existing strengths to a good part of the value added spectrum that can both reduce imports and has the potential to increase exports.

Conclusion

The ANB campaign will necessarily have to be a long drawn out effort and would require a wider area of focus, not only the trade and manufacturing issues addressed in this brief. What will, however, be important at this stage, when the focus is mainly on economic revival and recovery, is to spell out meaningful and achievable objectives for the next three to four years and make a coordinated national effort to achieve them. It will be worthwhile to see if we can turn the current angst against external aggression on our borders into a constructive and sustained ANB effort. We must also bear in mind that well considered initial steps can provide the foundation for the long term success of the ANB campaign.

- ¹ See details at <https://www.investindia.gov.in/schemes-for-electronics-manufacturing>
- ² For details about production linked schemes relating to manufacture of APIs and medical devices as well as the scheme for promotion of three bulk drug parks which were all announced on 2nd June 2020 details can be seen at <https://pharmaceuticals.gov.in>
- ³ See the Economic Times newsitem titled 'Five more sectors may get output linked incentives' on 25 June 2020 at <https://economictimes.indiatimes.com/news/economy/policy/five-more-sectors-may-get-output-linked-incentives/articleshow/76586107.cms>
- ⁴ See for example the article by Arvind Panagariya on 'On China trade sanctions' which appeared in the Times of India on 25th June 2020. <https://timesofindia.indiatimes.com/blogs/toi-edit-page/on-china-trade-sanctions-india-can-serve-its-national-security-much-better-by-rapidly-expanding-its-economy/>
- ⁵ China accounts for a little over 25% of our machine tool imports. As per the Indian Machine Tools Manufacturers Association (IMTMA) that cover the metal cutting and metal forming segments the industry was now less dependent on imports and they were steadily moving towards greater indigenisation. They however suggest that machine tools imported from China (and elsewhere) must be type tested at the Central Machine Tool Institute/AMTTF for compliance of applicable quality standards. These were conveyed to this author when he was doing a study sponsored by CII for the then ongoing RCEP negotiations in drawing 'A Possible Approach Considering China's Already Large Presence in the Indian Market'
- ⁶ See the news item https://www.business-standard.com/article/economy-policy/china-s-retreat-from-battle-on-trade-front-could-help-indian-industry-120061700858_1.html
- ⁷ See Chapter 3 of the publication by Vivekananda International Foundation on 'Priorities for India in External Trade' July 2019 accessible at <https://www.vifindia.org/vifreport/2019/july/29/priority-issues-for-india-in-external-trade>
- ⁸ <https://economictimes.indiatimes.com/news/economy/foreign-trade/view-indias-focus-should-shift-to-negotiating-a-better-deal-to-gain-entry-into-rcep/articleshow/71924956.cms>
- ⁹ See the news item https://www.business-standard.com/article/economy-policy/refining-capacity-to-double-to-500-mt-by-2030-says-dharmendra-pradhan-120061601925_1.html



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