

‘Atmanirbhar’ India must be competitive

To benefit from the global shift away from China and boost our economy, we must take steps that improve our domestic system

RISHIKESHA T KRISHNAN
N DAYASINDHU

The earlier avatar of self-reliance in India had mixed results. While it resulted in a diversified economic base and the capacity to produce and deliver a wide variety of products and services, India fell behind the curve on quality, technology and productivity.

Economists attribute these shortcomings to the then industrial and trade policies, particularly industrial licensing, physical barriers to import of goods, high tariffs, and an over-reliance on planning rather than letting markets work.

Clearly, the government intends ‘Atmanirbhar Bharat 2020’ to help avoid such outcomes. What can be done to avoid the pitfalls of the past?

Before we answer this question, it’s good to keep a few things in mind:

Considering their demographics, most developed nations lack the workforce to produce all that they need inside their own countries. Since immigration is a more contentious issue than trade, globalisation will continue, though perhaps with more restrictions.

Both countries and multinational companies are more alive to concentration risk than before. So, the trend towards moving sourcing away from China will continue. But we need to be competitive to benefit from this shift.

India will continue to be dependent on other countries for fossil fuels, high-end capital equipment and raw materials like precious metals and rare earths. We will have to use domestic raw materials like coal productively. Only high levels of value addition will allow the generation of surpluses that will allow us to create wealth for our people.

In short, it is vital that we are *atmanirbhar* and competitive at the same time.

There are 10 important dimensions the government should em-

phasise to make *atmanirbharta* and competitiveness go together:

Identify emerging needs early. While firms should be able to identify new needs on their own, information asymmetry with respect to Central and State governments can prevent firms from understanding needs early enough to develop local products to meet them. This is particularly important in sectors like defence, healthcare and agriculture. Recent initiatives like the National Biomedical Research Indigenisation Consortium are examples of how proactive identification of needs can help build local capacity and need to be replicated across other sectors.

Policies should enhance domestic competition and eschew crony capitalism. In general, competition enhances innovation and efficiency. While government will need to support creation of domestic capabilities, this should ideally be done at the pre-competitive stage or on a competitive basis. As we have seen before, crony capitalism weakens rather than strengthens local competitiveness and often diverts resources away from more efficient and technologically innovative companies.

Support control of critical value chains. India cannot and probably should not think it can make everything it needs locally. While globalisation is likely to continue with more constraints, there is a need to ensure greater control over certain parts of the global value chain to protect strategic interests, especially in healthcare, agriculture and defence. One such analysis in the case of generic drugs and APIs has resulted in a policy to move towards production of 57 APIs in India. Similar initiatives are needed in other domains.

Make subsidies and incentives performance-dependent. The government has already shown an inclination to do this - eg companies



Self-reliant industry Government policies should support creation of innovative and efficient domestic capacities

manufacturing critical APIs for drugs will be given subsidies based on the quantum of their production in India. However, care needs to be taken that the right performance metrics are adopted - these should be aligned with efficiency, productivity, and indigenous technological development that benchmarks well with the best in the world, and not just volumes or revenues.

Careful calibration of standards is imperative. India needs to set high standards to ensure quality, safety and public health. At the same time, over-specifying standards should be avoided as this results in perpetuating import monopolies. Some years ago, for example, an automated teller machine made by an Indian company that was cost-effective and specially designed for Indian conditions could not be sold to Indian banks, because it did not meet some esoteric specifications which were not essential but a differentiator for the existing foreign suppliers.

Improve quality of regulation. During the Covid crisis, it has been the ICMR and not the CDSCO which has been spearheading the testing and certification of new testing devices and methods. There is a need to boost the technical capabilities of

organisations like the CDSCO to remove impediments to the local production of high quality drugs and medical devices. India could think of automatic recognition of certification by well-established foreign agencies like the FDA, as well as a serious effort to enhance the capabilities of the CDSCO and similar organisations in other sectors.

Strengthen public procurement. Some steps like compulsory e-tendering and the creation of the Government Electronic Marketplace have already created a more level playing field for suppliers. These processes should be strengthened further by quickening the cycle time for completion of the “quote to cash” cycle of public procurement.

Use grand challenges more effectively. In recent years, the government has started using grand challenges and hackathons to solve important problems, motivate domestic innovators and build local capabilities. Global research shows that grand challenges are more effective when the problem is well-defined, there are clear metrics for evaluation, and the challenge is well-designed to ensure confidentiality of data and protection of intellectual property. These principles need to be incorporated

into the Indian grand challenges.

Be mindful of trade restrictions. In recent times, even before Covid, the government has shown a propensity to ban imports and exports at short notice and change import duties (usually upwards). The effective rate of protection has been steadily increasing. Since such changes sometimes prevent companies from fulfilling commercial contracts, and also enhance protectionism, they need to be made with care. There is a need for a mechanism to review these decisions periodically (say, once in six months) to check if duties can be revised downwards.

Build alliances with countries aligned with India’s geopolitical interests. In the past, India entered into free trade alliances with a variety of countries. Many of these were criticised for adversely impacting domestic producers. In the post-Covid era, we are likely to see several geopolitical realignments, and India should carefully evaluate where new alliances could result in a win-win for Indian industry.

Krishnan is Professor of Strategy at IIM-Bangalore. Dayasindhu is co-founder of itihaasa Research and Digital. Views are personal