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Atmanirbhar Bharat: A Political Initiative

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Summary

The Indian government's recent call for a self-reliant India, urging industries to replace imports with locally manufactured goods, has gained credence, especially with the ongoing border conflict with China. If well-planned and backed with necessary reforms, this could create greater job opportunities as well as benefit small industries and agriculture.

The call for an Atmanirbhar Bharat (self-reliant India) has accelerated following the recent border tensions with China. The slogan was initially used in the context of giving a fillip to local manufacturing and to provide employment in the formal sectors to millions of unorganised labourers that had to trudge back to their homes after the COVID-19 lockdown was implemented in major urban areas. It gained further credence in the wake of the perceived dependence on imports for healthcare equipment, personal protective equipment (PPE), ventilators, bulk formulations and the like. Now, in the light of border tensions with China, the call for Atmanirbhar Bharat has taken on a different, more strident rhetoric.

Analyses of the statements made by the government in respect to this initiative have focused on the feasibility of replacing imports with locally manufactured goods, the costs of local production against imports, distortions in the value chains and the manufacturing environment needed to make this happen. Industry associations have responded by stating that this is not possible in the short-term and costs would go up. They have even said that this move is short-sighted in the context of integrated value chains for global production. Apart from looking at what has been said and announced, it is possible to construct an alternative narrative on why these announcements were made, in what context and who the beneficiaries would be. At a recent interaction with industry associations and manufacturers, Finance Minister Nirmala Sitharaman said that she was unhappy that even products, which were earlier made in India were now being imported, referring to bulk formulations for pharmaceuticals, as well small consumer items. She was unhappy that even household goods like Ganesha idols were being imported from "a country". She felt that it was time for the industry to look at their inputs and to maximise local production opportunities. There could be several reasons for this rhetoric by the government.

First, the pandemic has thrown up the extent of dependencies on external products. Over 60 per cent of bulk drugs and formulations are imported. Even though India is a major manufacturer and exporter of generic drugs, a substantial portion of the ingredients are imported. Two decades ago, import dependence was far lower than what it is now. Over the years, bulk formulations from overseas, especially from China, have edged out local manufacture. In the current scenario, it took nearly two months for the Indian industry to ramp up manufacturing of PPEs and masks. Production of over 50,000 ventilators from local manufacturers was held up due to the lack of crucial imported parts. Suddenly, in the context of the Coronavirus pandemic, the dependence of the healthcare industry on external inputs has become starkly evident. In the entire range of pharmaceutical products and most medical equipment, India has the capability to be self-sufficient and also the need, especially in times of health crisis like the one currently being faced. In the healthcare, medical and pharmaceutical sectors, self-reliance is a wake-up call for the advantages that have been lost. This is true, to a lesser extent, for the chemicals and light engineering sectors. Imported parts and goods have replaced the industry infrastructure assiduously built up by small firms over decades. It is possible and perhaps necessary to regain lost ground.

Second, the incentive packages that have been announced focus on the micro, small and medium enterprises (MSME). It is in these enterprises that substantial employment potential exists. There has been a large-scale movement of people from the urban centres of Mumbai, Delhi and Bengaluru back to the smaller towns and rural areas and it is necessary to find alternate employment opportunities for them. Several states have already tweaked their labour laws and the central government has rolled out several reforms in agriculture that are aimed at providing alternate opportunities for employment in the smaller towns. Some states have announced incentives for small industries and have focused on employment creation. In the Bharatiya Janata Party-ruled states, the action is quite evident, for these states need to keep the voting flock intact and provide livelihoods as well as safety nets for the migrant returnees.

Third, there is clearly an apparent fatigue with large industries. The reforms of 1991 led to considerable opportunities in manufacturing and organised industrialisation but the record of the past two decades seem to indicate that people are not climbing up the per capita gross domestic product ladder fast enough. There is enormous concentration of wealth in the hands of the early movers of the 1991 reforms, with income inequalities rising. Further, in the case of loan defaults, several members of the large industry have not acquitted themselves creditably. There has been something missing in the economic reforms strategy. There is a hope that employment, production and innovation will come out of millions of small industries as well as out of agriculture rather than a few large industries.

Fourth, there appears to be a political agenda as well. This government has been plugging a nationalistic rhetoric since it came to power last year. The initial steps of the abrogation of Article 370 in Kashmir, the National Register of Citizens and the Citizenship (Amendment) Act, 2019, were attempts to keep the core of its supporters together. The slowing down of the economy, large unemployment and internal migration have contributed to a dilution of voter confidence and it is necessary to find a different rhetoric that would appeal to the voters. If the government delivers on its reforms in agriculture, and revitalises the MSMEs, these could contribute significantly to voter satisfaction, especially in the Hindi heartland.

Fifth, there is the new anxiety over the China threat. It is clear that the stand-off is likely to be a long drawn out one, costing India dearly at a time when its economy is already struggling. It is strategically important to reduce dependence on Chinese goods and the government realises that it cannot be done immediately. Targetting low hanging fruit like the Ganesha idols, toys and firecrackers will be popular. It will also rouse nationalistic fervour and give time to plan for alternates to the China trade. At the same time, it would provide an opportunity for India to be economically stronger, with better technological capability. These may be low value items but are mass market products used by consumers across the country. Taking them off the shelves would send a very powerful signal that Chinese goods are not welcome. Simultaneously, this would give time to the government and industries to look at other import items such as power sector machinery, heavy equipment and the like, which would be more difficult to indigenise. During the days of the freedom struggle, Mahatma Gandhi led a movement to promote *swadeshi* (made in India) fabrics and textiles, wherein imported cloth and textiles, mostly produced at mills in Lancashire, were burnt. It was a symbolic gesture that spread nationwide and became a powerful signal of intent.

Sixth, there is a need to demonstrate that this is not a fall back to the import substitution, License Raj era. This is important, as there are already comments from economists that these initiatives could lead us back to the 1970s and 1980s. Given the way bureaucracy thinks and acts, it is also important to ensure that the new rules and regulations, which are put in place, are not repetitions of those that existed when India was a closed, import substituting, poor quality product manufacturing country. Carefully, there is a need for disentanglement with large industries, a wooing of the small-scale sector, a focus on agriculture, and a commitment that goods produced should be marketable outside the country and world class.

Next, there is an opportunity in the global attempt to locate manufacturing outside China. Leading this is Japan, which has announced a US$2 billion (S$2.8 billion) package to enable Japanese companies move production back to Japan or to look for alternative manufacturing locations in Southeast Asia and South Asia. There are already signs that Japanese companies are looking at India for some of this outsourcing. These are mostly sub-assembly manufacturers for Japanese companies already operating in India. There has also been a revival in interest from several other sources for investments in India. States like Gujarat, Maharashtra, Rajasthan and Tamil Nadu are competing with one another to get a slice of this pie by offering incentives to incoming investors. It may take some time for the actual investment on the ground to become visible but a number of memoranda of understanding have been signed between investors and state governments. Uttar Pradesh seems to be particularly active in offering incentives to such investors. Hence, the calls for 'China Exit' do suit India at this time.

Finally, there is recognition that large surpluses in inward remittances and services trade in the past have weighed down on export competitiveness. India imports 80 per cent of its oil needs and over 20 million tons of coal every year. There are also increasing imports of natural gas. These imports have to be paid for, and if remittances and services income flows become uncertain, India has to look at exports of other goods and services, especially manufactured goods. The last couple of months have seen several big-ticket foreign investments in Indian companies. There is also good flow from foreign institutional investors into the equity markets. Currently, the equity indices are only about 20 per cent below pre-COVID-19 levels, having fallen almost twice as much in March 2020. Even these only reflect the expectations of second and third quarter earnings but the market is likely to move up by the third quarter of the year. The announcements by the Finance Minister giving guarantees to non-banking finance companies, providing for listing of equities of Indian companies overseas, relaxations in foreign direct investment limits in several sectors including defense manufacturing, have contributed to positive sentiments in the financial markets. The Reserve Bank of India has stepped in with large liquidity infusions and lowering interest rates, and there is an expectation that these measures would be perceived as investment friendly. The external reserves are at an all time high of over US$500 billion (S$696 billion) that gives India a full year to work out an export-oriented strategy.

The Atmanirbhar Bharat movement, therefore, appears to be serving several different objectives at the same time, mostly from the ideological and nationalistic point of view. To look at it purely from the perspective of international trade, global value change and labour markets may be missing out these nuanced aspects of the policy initiative.

It is natural that established industries, secure in their value chains, marketing strategies and operating margins, would not like this change of direction. There are already representations from the Federation of Indian Chambers of Commerce and Industry and others that such a change of direction requires enormous effort and costs, and that the industries need to be able to be globally competitive. Supporters of globalisation argue that global value chains add efficiency and improve products. There is also a worry that it may lead to losing markets like the services sector. In India, established industries have always had a strong voice and the resistance is likely to be quite strong. There is also the foreign investor who would view these changes with concern.

The approach of the government appears to be to push through the agenda on a 'nation first' rhetoric for which the China stand-off is actually a positive factor.

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