

Return from global to local Anuj Sharma, Associate Professor, Bimtech

By **Asim Riaz** - October 19, 2020

In his address to the nation, Prime Minister Narendra Modi laid great emphasis on 'Self-reliant India' and 'Vocal for Local'. Now its effect is visible. According to reports, government stores such as the Canteen Stores Department (CMD) and Central Police Canteen (CPC) have started asking their suppliers where the product was manufactured and which countries the raw material came from? From this, it seems that the Prime Minister has joined the group of global economic forces in his speech, which is ready to leave the path of globalization and move towards protectionism.

Since the last years of the 19th century, there have been several periods of globalization. The first phase came to an end in 1929, in which European and American economies gained remarkable momentum and interacted with the rest of the world. After the Great Depression of 1929, many governments of the world adopted protectionist policies. This globalization-free economy continued until the 1970s. Then came the second round of globalization. India too adopted protectionist policies for more than four decades after independence. However, with the market reforms in China (after 1978) and the return of Russia to the world economy after the collapse of the Soviet Union in 1991, the world economies began to interconnect.

The form of globalization that we are seeing today began with the economic crisis of 2008, and later it was greatly affected by the US-China business war that started in 2018. Now Kovid-19 has a negative impact on it. Countries like Japan have announced a package of about two billion dollars to recall their companies doing good business in China. According to the Economist, the US is also inviting enterprises like Intel and Taiwan Semiconductor Manufacturing Company (TSMC) to return. Many economists are also speculating that the global supply chain will become very regional after the Kovid-era.

The Indian Prime Minister, in his speech, also stressed the need to create a self-reliant India by giving examples of PPE kits and N-95 masks, as well as turning disaster into opportunity. But our dependence on China in terms of imports is still very high (about 14 percent). We need more of China for the pharmaceutical industry, motor vehicle parts, electrical appliances, solar power industry and toy industry. According to the Ministry of Chemicals and Fertilizers, two-thirds of India's raw material for medicines, API, comes from other countries. In addition, we import about 60 percent of medical equipment from China. 88 percent of the parts used in the mobile industry also come from countries like China. However, for products like gems and jewelry, heavy machines, plastics, vegetable oils, we depend on

the United Arab Emirates, Japan, South Korea and Malaysia respectively. Clearly, there are many challenges in the path of 'self-reliance' and 'vocal for local'. First of all, we have to find an indigenous alternative to imported products. If we have to move towards self-sufficiency, the country will have to produce every thing imported, whether we are capable of its efficient production or not, that is, the country will spend its resources even in those areas where productivity is low. The principle of comparative advantage states that if less resources are provided to quality-producing areas at relatively low cost, then the profit situation may end. Our experience of protectionism centered on self-reliance during the Nehru-Indira era was not pleasant. Due to the same policies, India's share of world trade declined to 0.45 percent by 1985, from 2.2 percent in 1950. The GDP growth rate in the three decades after independence was just 3.5 percent. In such, Returning to the same policies may worsen the Corona-influenced economy. Therefore, it would be appropriate to continue importing essential components related to medicine, electronic or automotive. We must remain part of the global supply chain as long as they increase our productivity. Yes, we should import from different countries, so that supply is not interrupted when it becomes difficult from one country.

The second challenge is related to customs and non-customs. Government officials have been quoted in the media as saying that in the coming years, the government will encourage exports to different regions by giving more benefits to exporters and discourage imports by imposing non-customs duties. The situation can be worsened by creating barriers like customs and non-customs duty on imports, as other countries may impose such restrictions on us. The US-India business relationship is a vivid example of this. As such, any such constraint on imported products could harm Indian products in other countries. This step may increase our difficulties with China as well.

The third challenge is on the brand front. The Prime Minister said that today's global brands were the first local brands. But the difficulty in getting the Indian brand to go global is that even today the world does not trust our products in terms of quality. We are not in a good position even in the matter of innovation. This shortfall can only be fulfilled when we move ahead with the world economy. The Indian government wants to attract supply chains from China, especially American companies. This will not be easy, as the economic forces want their return home. We also have to build infrastructure related to logistics services, credit facilities and regulatory environment, only then will multinational companies be attracted to production and Indian brands will get a global platform. Obviously, a lot of work needs to be done for this.

Asim Riaz

I am someone who thinks positively and who can execute on difficult tasks. I'm not an individual who needs to be micro-managed. Rather, when given a specific task, I can figure out the best ways to solve the problem in an autonomous manner.