How to make in India

' Make in India' is a great slogan; but more of what we buy, or what the rest of the world buys is not yet being 'Made in India'

AJAY CHHIBBER

After the 1991 liberalisation and subsequently with a benign global environment between 2000 and 2013 non-oil exports grew by 18 per cent per annum and the Gross Domestic Product (GDP) growth exceeded 8 per cent per annum — it's fastest growth ever. But the benefits of this policy has run its course. India's exports peaked at $315 billion in FY13-14 but have since declined to $277 billion in FY16-17. There are some signs of a revival, but if India wants to be a $5 trillion economy by FY25-26 it needs not a small bump up but a quantum leap to $1 trillion in exports.

Imports are surging — hurting domestic industry — as the real exchange remains overvalued. Imports running at $383 billion in FY2016-17 must be contained to $1.2 trillion by FY25-26. This means making more in India competitively. A successful trade policy requires a competitive industrial policy.

India has largely missed out of the trade in networked products (NPs), where it exports only $25 billion (0.5 per cent of global trade in NPs) — both in assembled export products $15 billion and in Parts and Components (P&C) $10 billion. As against this China's share is per cent, Korea's 5 per cent, Singapore 3.5 per cent, Malaysia 2 per cent, Thailand 2 per cent and even Vietnam at 1 per cent. Our dismal showing in entering global value chains (GVCs) is due to poor logistics, unpredictable power supply and comparatively greater labor disputes. India did succeed in selected products — not by just liberalising trade but by deliberate strategic policies. For example, India's success in assembled automobile exports came through a strategic 10-year plan AMP 2006-2016, and Natrips which targeted $150 billion production by 2016 and made India a preferred destination for automobile assembly in selected segments.

Like in automobiles, India could become a preferred destination for assembly of electronics, telecom hardware, electrical machinery, computers and office machines, if it made a similar strategic plan to increase its exports from $15 billion to $ 150-$200 billion by 2025, especially as China looks to move out many of these. It will need much better logistics, skilled mid - level management, predictable power supply and R&D. At the moment India does not figure as a destination under consideration.

India is becoming somewhat of a hub for aeronautics and automobiles parts through a conscious effort to attract FDI — with an offset policy which requires 30 percent is domestically sourced. India could be a P&C supplier for a range of industries and could increase its exports from $10 billion to over $100 billion in developed markets and enter global value chains (GVCs) with a strategic plan.

India's pharmaceutical industry also grew because India enacted a non-TRIPS (Trade-Related Aspects of Intellectual Property Rights) compliant patent policy in 1970. This allowed the pharmaceutical industry to grow stronger so that by 2005 when a TRIPS compliant act was introduced its internal R&D capacity could allow it to remain competitive in global markets.

RISING HIGH **India's success in assembled automobile exports came through a strategic 10-year plan and made it a preferred destination for this segment**

India is a major supplier of IT services for design, architecture, accounting, logistics but uses very little of these domestically. There are some who say India should focus on services vs manufactures. These are false choices. Instead, India could bring its edge in services to a range of industries in electronics and electrical machinery, defense equipment and green technology and make them world class.

Likewise, some say focus only on small and medium sector enterprises. India needs faster growth in firms of all sizes and a cascading system of contracts between large, medium and small firms with synergy across them. India badly needs more middle sized firms employing 100-500 workers — the missing middle for which labor reforms are needed.

India has unfortunately started losing out on its traditional labor intensive exports — apparel, leather and footwear — which have fallen to around $30 billion due to poor logistics, access to credit and land, higher taxes and less competitive exchange rates.

In recent years India's exports have shifted, ironically, more to skilled labor and capital intensive products and from developed much richer markets to developing markets - especially in Africa and Asia. Of almost $2 trillion in EU imports, India supplies only a little over $40 billion. Of the total imports of Latin America and the Caribbean of over $800 billion, India supplies only $10 billion. This is where it must focus as well.

Strategic trade policy does not mean just opening up our markets. It means using access to our markets to pry open others as well. Reviewing and renegotiating the India- Association of Southeast Asian Nations Free Trade Agreement is needed if the premise of the original agreement that freer trade in services would follow free trade in goods has not happened. Anti-dumping may require temporary tariffs or better yet the threat to impose tariffs all within a WTO framework which India must try and preserve.

To reach $1 trillion, exports must grow by 18 per cent per annum unto 2025-26 — the same growth rate as in the golden period 2000-2013. Some say in today's difficult global markets the era of export-led growth is over. But with abysmally low export shares, the upside for an export led growth strategy for India is huge even if global trade grows more slowly.

What a New India needs some 25 years after liberalisation is a "Strategic Trade and Industry Policy", which revives traditional labor intensive exports, makes major inroads in networked products, avoids an overvalued exchange rate and pursues smarter trade agreements. The government and the private sector working closely together to take on the world and Make in India.

The author is chief economic advisor, FICCI, and visiting scholar, Institute of International Economic Policy, George Washington University. Views here are personal.