Reforms for Atmanirbhar Bharat

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COVID-19 has exposed the serious strategic implications of India’s import dependence, especially on China. Politics, Policy and Pandemic are the challenges to Prime Minister Modi’s vision of Atmanirbharata (self-reliance). While the initiative is essential to promote capacity building and competitiveness on a local and global scale, among the issues that still need to be looked into are cost of logistics, bureaucratic hurdles and comparatively higher taxes in some sectors that discourage investments. The military action by China along the Line of Actual Control (LAC) in Ladakh has led to dramatic changes in policies in keeping with the vision of self-reliance. The brief explores the Central Government’s policies towards curbing Chinese investments, defines protectionism in the new context and attempts to analyse the way ahead to achieve self-reliance, especially in the manufacturing sector of the Indian economy.

Introduction

In October 2019, President Xi Jinping visited India for the second Informal Summit held in Chennai. At the end of the summit, the joint-statement reiterated efforts to continue to maintain peace and tranquillity in the border areas. Both sides were to continue to work on Confidence Building Measures to pursue the said objective. Less than a year after the informal summit, Chinese troops attacked Indian soldiers in Galwan Valley, leading to casualties on both sides. The actions on the borders intensified subsequently leading to a continuing stand-off as China has not only violated the existing Line of Actual Control (LAC) but laid claim to the entire Galwan valley.

Calls for “boycott China” started gaining traction after the military showdown along the LAC. Interestingly though, the task of limiting Chinese economic expansion in India had already started in April 2020. The Department for Promotion of Industry and Internal Trade (DPIIT) under the Ministry of Commerce of India made changes to the Foreign Direct Investment (FDI) policy in response to the People’s Bank of China increasing its stake in one of India’s top private banks. India received Rs. 14,846 crore (USD 2.34 Billion) worth FDI from China in the last two decades (April 2000- December 2019). According to the new norms laid down by the DPIIT, direct or indirect investment by “an entity of a country that shares land border with India or where the beneficial owner of an investment into India is situated in or is a citizen of any such country, can invest only under the government route.”

Reforms for Atmanirbhar Bharat
The decision by the DPIIT was followed by Prime Minister’s call for “Atmanirbharta,” or self-reliance. A month after the FDI rules were changed, Prime Minister Modi, in his third speech after a nationwide lockdown was declared, called for self-reliance while announcing a special economic package worth Rs. 20 Lakh crore (USD 265 Billion). The economic package, the call for self-reliance, and the FDI policy change were a clear indication of India’s gradual economic “de-coupling” with China. It is important to note that the shift from dependence on China started a few months before the clash took place at the Galwan Valley, which led to boycotting of Chinese products. While defusing the border tension, the Modi government retaliated by first blocking 59 Chinese mobile applications, later adding 118 more to the list which are (the total list is 224) widely used in India. The mobile applications in a press release by the Government of India, “... engaged in activities that are prejudicial to India’s sovereignty and integrity, defence of India, security of state and public order.”

The main intention behind the government’s call to India’s business community was to emphasize self-reliance and create a domestic ecosystem to reduce the dependence of imports from China in certain sectors and become national champions. The tariffs on several products have been raised to pre-1991 levels, and there has been scepticism on the part of foreign and domestic analysts of India turning to protectionism. However, the reforms accompanying Atmanirbhar Bharat are truly path-breaking and radical and cover almost all sectors -- Agriculture, Manufacturing, Technology, Education, Taxation, Infrastructure, Defence, Cyber Policy, Welfare, Healthcare, Energy, Environment, etc. There is a vital strategic goal associated with it, given the China threat and the challenges posed by Covid-19.

Self-Reliance as a Pressure Point

The escalation of hostilities on the Line of Actual Control (LAC) has prompted India’s National Security establishment to consider various options to counter China’s growing influence in India’s neighbourhood. Globally, China’s role has become imperative as the Belt and Road Initiative (BRI) gains steam due to countries looking for investments as multilateral financial institutions predict negative economic growth rates barring China.

The disengagement on the LAC as negotiated by India and China might have helped diminish the tensions on the border. A recalibration in the usual Indian approach is imperative. India’s traditional approach to maintaining stable bilateral relations with China was to engage, cooperate, and compete. In the light of the recent events on the border, the approach needs to add counter and contain wherever possible. Competition with China across the board will strain India’s current capabilities.

In the commercial space, while India and its industries have started working on “Atmanirbharta,” there is still some way to go to formulate and implement business-friendly policies that would encourage international manufacturers, especially from the West, Japan, and South Korea to set up factories. Although multinational corporations are seriously considering moving out of China, they are following the “China +1” model, which is gaining traction. The core reason behind these manufacturing centres continuing their operations in China is the fear of losing out the Chinese market if they leave. The Chinese authorities have given benefits for these companies to stay on. However, countries like Taiwan and Japan have spent a considerable amount of money to encourage their companies to resettle and create local manufacturing units. In the “China+1” model, India is
not yet one of the first options for companies; they prefer Vietnam, Thailand, Mexico, or Indonesia. The Indian market, which consists of 400 million strong cash-rich consumers, is increasingly a lucrative option for the US companies. As the U.S. has blocked some parts of its market to China and is working on curbing more, India can use its domestic market as leverage against China to gain some concessions from them and tilt the balance of trade in favour of India.  

**Tilting the Balance of Trade**

As India’s second-largest trading partner, the trade between India and China reached USD 95 Billion in 2018, a historic high. The trade deficit with China also expanded to USD 57.86 Billion. However, the Indian government took note of these developments, and 2019 saw a decline in imports from China, and the deficit reduced to USD 48.64 Billion. The Ministry of Commerce actively worked towards lowering trade barriers for Indian exports to China. The first quarter of 2020 saw a decline in trade deficit with China from USD 21.42 Billion in 2019-2020 to USD 16.55 Billion.

Among many reasons for reducing imports from China is associated with the fact that its actions on the LAC and mismanagement of COVID-19 have led to a negative response from business communities and the consumers in India. Trade bodies like the Confederation of All India Traders (CAIT) have also called for banning 3,000 Chinese products. China observers usually see trade with China by also including Hong Kong. 2020 saw trade with Hong Kong and China falling by 7 per cent, lowest since 2013-2014. The Indian domestic industry’s reaction has been so sharp that industry leaders have registered anti-dumping cases against Chinese exporters. The trade bodies in India also realise that since China has joined the WTO in 2001, the trade deficit has only increased due to China flouting international trade laws and rules and dumping goods with the intention of destroying domestic industries. CAIT has announced that by December 2021, they would reduce imports from China by USD 13.3 Billion.  

As mentioned earlier, the “China+1” model is gaining traction a decade after wages in China began to rise sharply. Now, climate change and the subsequent disruptions due to the pandemic and the U.S-China trade war drive the desire for diversification of the global supply chains. Atmanirbharti initiative is the Indian government’s response to persistent border intrusions by China and its belligerence, its naval build up and expansionism, and it taking undue advantage of the international trading system that undermine local industries. India’s decision on bilateral trade with China is an intersection of its foreign and trade policy. India’s trade and investment decisions to reduce dependence on China in critical supplies send a clear message that India will not compartmentalise its national security and foreign trade anymore.

The table below details the Indian Government’s pursuit to reduce trade dependence on China in response to Chinese transgressions on the LAC.
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<thead>
<tr>
<th>Category</th>
<th>Subject</th>
<th>Action</th>
<th>Date</th>
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</table>
| Trade and Investment   | Govt Nod for FDI               | 1. According to amendments to India’s consolidated FDI Policy, 2017, while non-resident entities can continue to invest in India, except in prohibited sectors or activities, firms in neighbouring countries will have to seek approval.  
1. The move is seen as aiming to curb “opportunistic” takeovers of Indian firms during the ongoing COVID-19 outbreak and lockdown.¹³                                                                 | 19-04-2020 |
| Trade and Investment   | Country of Origin Tag          | 1. The government’s procurement portal made it mandatory for sellers to mention the country of origin on products they wish to sell through the platform, aiming to discourage Chinese products and promote local alternatives.  
2. The Department for Promotion of Industry and Internal Trade also told e-commerce companies to start prominently displaying “country of origin” for all goods¹⁴                                                                 | 23-06-2020 |
| Trade and Investment   | Duty Hikes                     | 1. India extended safeguard taxes on imports of solar cells and modules for a third-year starting July 30.  
2. Power Minister Raj Kumar Singh also said that the country would stop power equipment imports from China.  
3. India also imposed anti-dumping duty on:  
   a. Digital printing plates from China, Japan, Korea, Taiwan, and Vietnam for five years after an investigation by the Directorate General of Trade Remedies.  
   b. Aniline—used for dyes, drugs, among others—originating from China for six months.  
   c. Fluoro-elastomers or synthetic rubber originating from China for three months.  
4. Steel and fiberglass measuring tapes¹⁵                                                                                                               | 03-07-2020 |
| Trade and Investment   | Tyre import restrictions       | 1. Out of the total tyre imports, 75 per cent in value terms will now come under the categories included in the restricted list by the Commerce Ministry  
2. The Directorate General of Foreign Trade (DGFT) issued a notification moving imports of certain new pneumatic tyres of passenger vehicles, buses/lorries, and two-wheelers from the free list to the restricted list.  
5. This implies that now an importer would require a license or permission from DGFT for imports.¹⁶                                                                 | 15-06-2020 |
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<tr>
<th>Trade and Investment</th>
<th>Curbs on import of power tillers, components</th>
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<tbody>
<tr>
<td></td>
<td>1. The government has imposed limits on importing power tillers and components to target China and discourage these products’ inbound shipments. “Import policy of power tillers and its components is amended from free to restricted.”</td>
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<td>2. The cap of 10 per cent would also be applicable for components of power tillers.</td>
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<td>3. The applicant should have been in the business for at least three years and should have sold a minimum of 100 power tillers in the past three years</td>
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<td>4. Only manufacturers are eligible for applying for an import authorisation for the import of power tillers or its components.</td>
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<td>6. The applicant should have a satisfactory and proven infrastructure for training, post-sales service, and spare parts</td>
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<tr>
<th>Trade and Investment</th>
<th>Restrictions on Chinese companies from participating in public procurement bids</th>
<th>23-07-2020</th>
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<tbody>
<tr>
<td></td>
<td>1. Government order makes it mandatory for bidders to register and seek clearance from the MHA and MEA</td>
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<td>2. Companies from nations that share a land border with India will now have to register with a committee set up by the Department for Promotion and Industry and Internal Trade (DPIIT) before becoming eligible to bid for a Government tender.</td>
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<td>3. Political and security clearance from the external affairs ministry and home affairs ministry will also be mandatory</td>
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<td>4. Relaxation has been provided in certain limited cases, including procurement of medical supplies for containment of the covid-19 global pandemic till 31 December 2020.</td>
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<td>5. While the private sector has been exempted from any such restriction, the order takes into its ambit all public sector banks and financial institutions, autonomous bodies, Central Public Sector Enterprises (CPSEs), and Public-Private Partnership projects receiving financial support from the government or its undertakings.</td>
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<th>Trade and Investment</th>
<th>Import Restrictions Imposed on Colour Televisions</th>
<th>30-07-2020</th>
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<tbody>
<tr>
<td></td>
<td>1. The Government imposed restrictions on imports of colour televisions, a move aimed at promoting domestic manufacturing and reducing inbound shipments of non-essential items from countries like China.</td>
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<td></td>
<td>2. The Directorate General of Foreign Trade, an arm of the Commerce and Industry ministry, amended the import policy for colour televisions from 'free' to 'restricted.’ Now, importing T.V.s will need a licence from the DGFT.</td>
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<td>Date</td>
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| 04-08-2020 | Trade and Investment: Import Restrictions to Counter China Routing                         | 1. India plans to raise quality standards of imports, impose quantity restrictions, mandate stringent disclosure norms and initiate more frequent checks at ports of entry for goods coming from many Asian countries to check re-routing Chinese goods to India with little added value.  
2. The moves will mainly target imports of base metals, electronic components for laptops and mobile phones, furniture, leather goods, toys, rubber, textiles, air conditioners, and televisions, among other items. |
| 03-08-2020 | Trade and Investment: Anti-dumping duty on black toner                                    | 1. India seeks to impose provisional anti-dumping duty on imports of black toner in powder form originating in or exported from China, Malaysia, and Chinese Taipei for six months. |
| 07-08-2020 | Trade and Investment: Impose anti-dumping duty on Chinese PET Resin                         | 1. The commerce and industry ministry has suggested a provisional anti-dumping duty of $15.54-200.66 per M.T. on Imports of Polyethylene Terephthalate (PET Resin) coming from China.  
2. Reliance Industries Limited and IVL Dhunseri Petrochem Industries Private Limited had filed an application claiming injury resulting from the alleged dumping. |
| 17-08-2020 | Trade and Investment: Govt extends anti-dumping duty for three months on caustic soda from China | 1. India extended anti-dumping duty on imports of caustic soda from China and Korea till November 2020.  
2. The duty was extended after considering the recommendations of the commerce ministry’s investigation arm Directorate General of Trade Remedies (DGTR). |
| 19-08-2020 | Trade and Investment: Review on an extension of anti-dumping duty                          | 1. DGTR starts review on the extension of anti-dumping duty on certain Chinese products  
2. Products include front axle beam and steering knuckles, used in heavy and medium commercial vehicles. |
| 21-08-2020 | Trade and Investment: Imported toys                                                         | 1. Imported toys will be allowed to enter India only after complying with the mandatory quality norms from September 1 onwards.  
2. The government is in the process of making quality standards mandatory for 371 tariff lines ranging from steel, chemicals, pharmaceuticals, and electrical machinery to furniture to check shipments of sub-standard and non-essential goods, including from China. |
<p>| 24-08-2020 | Trade and Investment: 10% safeguard duty on Single-Mode Optical fibre imports               | 1. India is likely to impose a safeguard duty of 10% on imports of Single-Mode Optical fibre used for signal transmission for one year based on complaints filed by Sterlite Technologies Limited and Birla Furukawa Fibre Optics Private Limited. |</p>
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<th>Trade and Investment</th>
<th>FDI proposals from Great Wall Motors</th>
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<tr>
<td></td>
<td>1. All FDI (foreign direct investment) proposals from Chinese entities have been put on hold as they await security clearance from the Ministry of Home Affairs.</td>
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<td>2. The Centre is vetting such proposals from China’s Great Wall Motors (GWM), petrochemical major Hengli and Foton China.</td>
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<td>24-08-2020</td>
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<tr>
<th>Trade and Investment</th>
<th>Anti-dumping duty on Choline Chloride imports from China</th>
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<tbody>
<tr>
<td></td>
<td>1. India may impose anti-dumping duty on Choline Chloride imports from China, Malaysia, and Vietnam for five years based on a complaint filed by Jubilant Life Sciences Ltd.</td>
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<td>2. The Directorate General of Trade Remedies (DGTR) has recommended a duty of $94-315 per metric tonne on the imported product, an organic compound used as an animal feed additive.</td>
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<td>26-08-2020</td>
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<tr>
<th>Telecom and I.T.</th>
<th>Chinese Telecom Gear</th>
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<tbody>
<tr>
<td></td>
<td>1. India has told two state-run telecoms firms (MTNL and BSNL) to use locally made rather than Chinese telecom equipment to upgrade their mobile networks to 4G.</td>
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<td>18-06-2020</td>
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<tr>
<th>Telecom and I.T.</th>
<th>Ban on Chinese Mobile applications</th>
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<td></td>
<td>2. The Government of India has banned 59 Chinese mobile applications, including top social media platforms such as TikTok, WeChat, and Helo, to counter the threat posed by these applications to the country’s “sovereignty and security.”</td>
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<td>3. The Information and Technology Ministry banned 47 more apps, which are clones or variants of Chinese-linked 59 apps earlier banned in June.</td>
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<td>27-07-2020</td>
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<tr>
<th>Telecom and I.T.</th>
<th>5 G roll out in India</th>
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<tr>
<td></td>
<td>1. India will apply investment rules amended on July 23 that cite national security concerns to restrict bidders from nations it shares land borders with to keep out the companies</td>
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<td>2. China’s Huawei, ZTE set to be shut out of India’s 5G trials</td>
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<td>13-08-2020</td>
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<th>Contracts and Tenders</th>
<th>Ban on Chinese Infrastructure projects</th>
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<tr>
<td></td>
<td>1. India will not allow Chinese companies to participate in highway projects, including those through joint ventures</td>
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<td></td>
<td>2. The government will ensure that Chinese investors are not entertained in various sectors like Micro, Small, and Medium Enterprises (MSMEs).</td>
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<td>3. Prequalification requirements for major projects would be relaxed so that Indian contractors can bid for them without teaming up with foreign firms.</td>
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<td>01-07-2020</td>
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</table>
| Contracts and Tenders | Cancelled Signalling Contract | 1. The Indian Railways’ Dedicated Freight Corridor Corporation of India Limited (DFCCIL) terminated China’s contract. The signalling contract was given to the Beijing National Railway Research & Design Institute of Signal & Communication in 2016.  
2. The Chinese company was meant to complete the 417-km long Kanpur-Deen Dayal Upadhyay section to complete the signalling and telecommunication work. The project cost was Rs 471 crore.  
3. The decision was taken because the Chinese firm had only completed 20 per cent of the work in four years.\textsuperscript{33} | 18-06-2020 |
| Contracts and Tenders | Tender For 44 Vande Bharat Trains Cancelled After Bid From Chinese Joint Venture | 1. India has cancelled a tender for making 44 semi-high speed “Vande Bharat” trains  
2. The move to cancel the tender is a significant setback for China as a Chinese joint venture, CRRC Pioneer Electric (India) Pvt Ltd, was the only foreign bidder among the six contenders to supply 44 sets of semi-high speed train  
3. The fresh tender will be floated within a week as per the Revised Public Procurement (Preference to Make in India) order\textsuperscript{34} | 22-08-2020 |
| Travel | Select China entities face extra visa scan | 1. The government is placing visas for persons connected to certain Chinese think tanks, business fora, and advocacy groups under the “requirement of prior screening/clearance.”  
2. Tie-ups of various Indian universities and academic institutions, including IITs, BHU, and JNU, are also being reviewed.\textsuperscript{35} | 22-08-2020 |
| Trade and Investment | Probe into Vitamin C imports from China | 1. India begins anti-dumping probe into Vitamin C imports from China  
2. Probe initiated basis of a complaint by Bajaj Healthcare Limited to the Directorate General of Trade Remedies (DGTR) alleging that dumping is leading to a decline in its market share, profits, return on capital employed, and cash profits, and causing material injury to the domestic industry\textsuperscript{36} | 04-09-2020 |
| Trade and Investment | Anti-dumping duty on Chinese float glass for three months | 1. India has extended anti-dumping duty on imports of float glass from China for three months till December 7.  
2. The move is aimed at guarding the domestic industry against cheap imports from China.\textsuperscript{37} | 04-09-2020 |
<table>
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<tr>
<th>Date</th>
<th>Event</th>
<th>Details</th>
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| 05-09-2020| Telecom & I.T.                                   | 1. The Ministry of Information and Technology banned 118 more China-based apps, including popular PUBG Mobile in the country  
2. Banned under the section 69A of the Information Technology Act read with the relevant provisions of the Information Technology Rules 2009 and given the emergent nature of threats, has decided to block 118 mobile apps since because of the information available, they are engaged in activities which are prejudicial to sovereignty and integrity of India, defence of India, security of the state and public order. |
| 15-09-2020| Trade and Investment                            | 1. India has initiated an anti-circumvention investigation to consider the extension of existing anti-dumping duty on imports of the China trailers’ axle.  
2. The Directorate General of Trade Remedies said it had received information from Commissioner of Customs (Imports), Nhava Sheva, that the anti-dumping duty is being circumvented as the product is being imported semi and completely knocked down (SKD/CKD) form and after that being assembled. |
| 10-09-2020| Trade and Investment                            | 1. India is planning to raise the surveillance of copper and aluminium imports while developing policies to curb shipments from China and other Asian nations to protect domestic producers.  
2. Officials in New Delhi are expected to ask importers soon to register with authorities as to the first step towards tighter controls that would require permits for individual shipments of the two metals |
| 09-09-2020| Trade and Investment                            | 1. India has begun an anti-dumping probe on the import of certain flat-rolled aluminium products originating in or exported from China based on a complaint by Hindalco Industries alleging injury to the domestic industry dumped goods.  
2. Directorate General of Trade Remedies (DGTR) will probe the dumping from FY17 to December 2019. |
| 21-09-2020| Trade and Investment                            | 1. The CAROTAR Rules 2020 can be seen as a motivator for the domestic industry as it aims to cut down on frivolous imports at a preferential rate.  
2. Under the CAROTAR regime, the declaration and verification criteria will become comprehensive for import under Preferential Tariff Treatment.  
3. The CAROTAR Rules 2020 can be seen as a motivator for the domestic industry as it aims to cut down on frivolous imports at a preferential rate. It also implicitly boosts the Government agenda of “Aatmanirbhar Bharat”. |
Trade and Investment

1. In the information technology space, the call to bring under scrutiny companies with Chinese investments arose after intelligence reports suggested that some of these firms may be violating tax laws as well as local data storage norms, another official said.

2. The government has been cautious on Chinese investments in Indian companies as well as their participation in tenders for public procurement.

Trade and Investment

1. India extended the anti-dumping duty on imports of carbon black used in rubber applications from China and Russia till December 31, 2020

2. The duty was first imposed in November 2015 after the Directorate General of Trade Remedies (DGTR) had found that the imports were impairing local industry.

Telecom & I.T.

1. This action was taken based on the inputs regarding these apps for engaging in activities which are prejudicial to sovereignty and integrity of India, defence of India, security of state and public order.

2. Ministry of Electronics and Information Technology has issued the order for blocking the access of these apps by users in India based on the comprehensive reports received from Indian Cyber Crime Coordination Center, Ministry of Home Affairs.

(Is Atmanirbharata taking India back to protectionism?)

A primary concern raised about India’s plan for being self-reliant is that it is promoting protectionism. Even before the call for “Atmanirbharata” was made, India’s business and economic policies have been under pressure, especially from western countries, as its tariffs are one of the highest in the world. One of the Prime Minister’s promises in the 2014 elections was to open up the Indian economy further. Due steps were taken in that direction wherein the government rolled out General Services Tax (GST), which helped goods move across state borders seamlessly and lowered many taxes. But on trade, the Modi Government has drawn some flak from western countries, especially the U.S. government. The U.S. trade department has described India’s trade policy as unpredictable, opaque, and leaves U.S. firms drowned in paperwork. India’s strategy, as one commentator suggests, has always been “pro-investment and anti-trade.”

However, India has adequate reasons to secure itself against a predatory China and its increasing influence in the economy’s vital sectors. But India’s way-forward on self-reliance, unless carefully constructed and focussed, could conflict with its “Make in India” initiative that encourages foreign investment and manufacturing in India. In a globalised world, India’s self-reliance plan might seem like a step towards protectionism to help domestic growth. However, the call for “Atmanirbharata” comes at a time when global supply chains have
crumbled under the pressures of COVID-19. The west will argue that a country cannot be self-sufficient and self-reliant in a globalised world, but the west itself, especially the U.S. has raised tariffs under the circumstances multiple times against China over the past two years. At the same time, raising tariffs in an unplanned and non-selective manner could lead to India not capitalising on the opportunities created by the US-China trade war and COVID-19, unlike Vietnam and Mexico. Finding the right mix and balance is therefore, crucial for India’s policymakers.

India’s aversion towards reducing tariffs was already apparent during negotiations for the Regional Comprehensive Economic Partnership (RCEP) when it sought to protect its economic interests against dumping while insisting on strict rule of origin for imported product. India has now additional reasons not to sign the multi-national trade agreement endorsed by China due to the tensions on the border. RCEP did not give India enough guarantees to gain market access and help overturn the USD 105 billion trade deficit with its members and a balanced deal on services. As mentioned above, India’s firms do not get market access in China, and RCEP would have validated the same.

In the short run, doing business in India will be expensive for some who rely on global supply chains and imports. However, a united front, especially by private players, will benefit the country’s economic resilience by promoting local manufacturers over cheap Chinese goods. Prime Minister Modi’s call for “Atmanirbharta” is a step in the right direction, especially under the circumstance when viable supply chains are in dire need to jumpstart the national and global economy. The border clashes on the LAC and the disengagement are just a part of a broader Chinese expansionist challenge, militarily and economically, against India. Self-reliance in manufacturing in defence takes years of investment. In both cases, procurement policies and private players’ involvement are essential and need to continually evolve with the changing nature of India’s national security requirements.

Rationale for Protectionism by the West

There is historical evidence that whenever there is a sharp economic downturn, it engenders protectionism. The COVID-19 pandemic has led to a sharp fall this year in the GDPs of major trading nations, leading to their governments resorting to protectionism and economic policies taking an inward turn. The Great Depression of the 1930s, too, had led to importing restrictions. In modern times governments resorted to extensive scale subsidisation of farm produce and manufactured goods in response to Global Financial Crisis. Every time a widespread economic downturn occurs, governments use it to curb imports and restrain foreign commercial interests.

COVID-19 would be no different as pervasive tactics would be used to enhance protectionism. Such government actions are logical when they restrict exports of certain essential products or non-essential and locally replaceable imports, but such measures could have an adverse impact in the long term. Restricting exports might reduce access to critical supplies while increasing market volatility and distort investment decisions. Reactions like these are not just limited to the economic realm; trade is becoming a significant part of foreign policy formulation and most likely to lead to repercussions.
Countries restricting exports will increase prices while increasing the uncertainty of supply and price volatility. Emulation of the same policies by the developing countries, which rely on importing critical supplies and parts, will severely affect their production and domestic plans. Protectionism is, unfortunately, always confused with self-reliance as politicians and their advisors believe there is a greater need, if not complete, need for self-sufficiency. The belief comes from the following three premises:

- Countries can be (become) self-sufficient
- Global markets are unreliable
- Countries are willing to bear the costs to make manufacturing self-sufficient

Shocks in the global supply chain in the last decade started with the Fukushima Nuclear disaster in 2011. At the time, the one-off event hit Japanese companies worldwide, especially in the U.S., as manufacturing was halted. However, in the years after that, trade and politics have been increasingly getting mixed as countries are heading towards protectionism especially so in the current environment of COVID-19. The trade war between the U.S. and China can be justified as China has regularly and blatantly flouted international rules. However, it also created a precedent of justifying protectionism using national security arguments. The U.S. could have cited a threat to the rules-based order and used multilateral forums like WTO, bolstered them, and given them teeth to counter malpractices by China. Instead, the U.S. has been persistent in blocking appointing members for the dispute settlement, leading to the WTO’s judicial functions getting affected. The Trump administration also withdrew the U.S. from multilateral trade agreements like the Trans-Pacific Partnership; and initiated a new trade war with the E.U. A trade conflict with the E.U. has a considerably smaller scope than the US-China trade war but does put under pressure liberal democratic alliances or partnerships and questions their positions as custodians of the rules-based international order, especially in trade.

Way Forward

The last 30 years have seen the world has ceded the manufacturing space to China, which has not just fuelled its growth but gave undue short-term advantages. To expedite the processing of permissions for corporates to set up manufacturing facilities, the Department for Promotion of Industry and Internal Trade (DPIIT) has come out with a new mechanism that has been in the works since May 2020. This simplification is in line with the Modi Government’s action plan since 2014 on ‘Make in India’ for 25 sectors. The scope has increased to 27 “champion sectors” – 15 in manufacturing and 12 in services.

DPIIT has also started working on “an investment clearing cell,” a digital platform for investors to gather all clearance required from state and central governments in one place. The cell has been developed after consultations with some of the world’s biggest manufacturers. The champion sectors include leather and footwear, railways, medical value travel, education and legal services, biotechnology, and petrochemicals.

As India celebrated its 74th Independence Day in August 2020, the Prime Minister announced vital policies that would help India’s growth story as the country looks towards self-reliance in manufacturing and being ‘vocal for local.’ A significant announcement was the issuing of Health Identification Cards under the National
Digital Health Mission. The Prime Minister has also launched a financial facility under the Agriculture Infrastructure Fund, an essential step as the Central Government and the Reserve Bank of India have high expectations from the rural economy, which has grown strongly this year even in the current difficult circumstances. On the financial front, the Prime Minister launched the Tax Payer’s charter as announced earlier by the Finance Minister during the budget speech early this year. The charter intends to make the Income Tax Department and India’s citizens sensitive about their duties and responsibilities towards each other.

Policy news dominating headlines were the Indian Government’s decisions to contain and curb Chinese investments in India, more domestic policies to help the Micro, Small, and Medium Enterprises (MSME), and finally, the sweeping New Education Policy. The Government of India has made concrete decisions to promote inland waterways and the financial facility’s scheme for the ‘Agriculture Infrastructure Fund.’ As the government promotes self-reliance, the Technology Information, Forecasting, and Assessment Council (TIFAC), headed by the Scientific Advisor to the Prime Minister, has released a White Paper to make India Atmanirbhar. The White Paper focuses on five critical sectors: healthcare, machinery, ICT, agriculture, manufacturing, and electronics. For consumers, online shopping has become a new norm under the circumstances.

Meanwhile, three significant farmer bills have been passed. These are in addition to the Agriculture Infrastructure Fund, which complements the bills. Prime Minister Modi has set up the Fund to modernise the Indian economy’s laggard sector. The Essential Commodities Bill was amended to ensure the modernisation of the food supply chain and set up a new infrastructure for proper storage, including cold storage and price stability. The move would help eliminate the roadblocks, which has kept private players away due to excessive regulatory interference. The passing of farmer bills and the amendment to the Essential Commodities Bill and the well-funded Agriculture Infrastructure Fund is one of India’s many steps towards promoting domestic production and self-reliance.

India is increasingly becoming a major global growth engine as its firms are scoring in Environmental, Social, and Governance (ESG). Structural reforms like the passing of new labour codes, a new port authority bill, and relaxation in certain amendments and laws of taxation and other laws indicate that India is ready for investors, including sovereign wealth funds and institutional investors. Foreign investments need to focus on the four D’s that makes India special -- Democracy, Demography, Demand, and Diversity.

Scaling up Atmanirbharta

The NITI Aayog in 2018 came up with the strategy document in response to the Prime Minister’s call for a USD 5 Trillion economy by 2024. The document laid down what is necessary for India to achieve the target and highlights the progress made in 41 sectors and the challenges. NITI Aayog’s plan for growth and to achieve the target set by Prime Minister Modi was for the economy to grow at 9 per cent consistently. Other initiatives included codification of labour codes, a push for ‘Zero Budget Natural Farming,’ abolition of Essential Commodities Act, conversion of farmers to ‘agripreneurs’ and increasing investment rate from 29 per cent in 2018 to 36 per cent by 2022.

The NITI Aayog document ‘Strategy for New India @ 75’ at the time could not have taken into consideration a pandemic and falling economic growth due to the pressures of the U.S-China trade war along with
China’s aggressive behaviour in early 2020. Although the Government of India in 2020, two years after the recommendations by NITI Aayog did bring out new bills, ordinances, and initiatives in 2020, it has helped open a new chapter for agriculture in India backed by three bills as well as the Agriculture Investment Fund and new labour codes.

Prime Minister Modi since 2014 has focused on progressive policies to help India become more competitive and get rid of the certain red-tape policies and workings which have hindered India to compete on a global level and become the driver of global growth with its young population and a rising middle class. The sceptics of the ‘Atmanirbhartar’ initiative fail to understand that the government’s decisions, unlike in the 1950s five-year plan, are not based on the socialist ideology but on changing market forces and ever-evolving geopolitics. Through his speeches, the Prime Minister has made it clear that India’s self-reliance initiative is for active participation in the post-COVID-19 global supply chains. The aim is to move past the centrally planned economy days and promote local manufacturing by providing a platform for innovation and entrepreneurship for an economically resilient India.

The economic resilience of any country in the 21st century is dependent on how it performs in the tech sector. The Medium, Small, and Micro Enterprises (MSMEs) play a significant role in developing the tech sector of any major economy. Unfortunately, until recently, the MSME sector was under tremendous financial pressure made worse by COVID-19. Prime Minister Modi’s call for “vocal for local” is a blessing in disguise for the MSME’s to contribute to the economy. The first stimulus by the Government of India (Rs 20 Lakh Crore/Trillion) allotted Rs 3 Lakh Crore/Trillion as an emergency credit line to recover from the losses due to COVID-19. The bailout for the MSMEs is essential as the sector would play a significant role in ingeniously developed technologies (in association with the research and development of top universities in India), creating a market and helping in capacity building will help increase the scale of manufacturing in India. The MSME sector is now at the centre of the development backed ecosystem, which will complement the thrust of robust research.

The push for Atmanirbhartar and the three stimulus packages since the announcement has not just helped businesses, firms, and utilities immediate financing but kickstarted a manufacturing movement in India. COVID-19’s impact on the Indian economy exposed its deficiencies, especially in the manufacturing sector, which for a long time has had higher input costs, competition from cheap imports, along with low productivity. NITI Aayog’s CEO insists that the self-reliance initiative improves India’s domestic manufacturing base, which would then be used to make India an important part of a diverse global supply chain. The Modi-led government is determined to create global manufacturing champions in various sectors of growth. By applying future tech like Artificial Intelligence, Internet of Things, Blockchain Technology, robotics would help India sustain future-proof manufacturing value chains.

Production Linked Incentive (PLI) is one of the schemes which will help boost manufacturing, especially of smartphones and electronics in India. The PLI scheme is worth USD 7 Billion for the electronics sector and has seen major international and domestic players submitting proposals whose production worth is estimated at 11 Lakh Crore in the next five years. Indian industrialists have hailed this move as the government has also extended the scheme to other sectors like auto, auto parts, textiles, pharmaceuticals, and food products. The outlay of the approved scheme for the ten sectors besides electronics is Rs. 1,45,980 crores over the next five years.
Schemes like this will not just help various sectors to be globally competitive but also become self-reliant.\textsuperscript{59}

The Atmanirbharta scheme is not just limited to making India a manufacturing hub using sustainable policies and means for the future but to help create a localised digital ecosystem too through homegrown digital apps. To help the start-up and tech community, the government has introduced two tracks: Promotion of Existing Apps and Development of New Apps.\textsuperscript{60} Technology is one of the five pillars, according to Prime Minister Modi, to achieve self-reliance. The other four essential pillars are demographic dividend, infrastructure, demand, and socio-economic growth.\textsuperscript{61}

On the financial front, the Prime Minister launched the Tax Payer’s charter as announced earlier by the Finance Minister during the budget speech early this year. The charter intends to help understand the Income Tax Department and the citizens of India of their duties and responsibilities towards each other. The defence sector has seen exciting changes wherein a list was created of defence items barred from being imported, which indicates a massive push towards Atmanirbharta. The Central Government has also identified champion sectors like pharma, textiles, auto components, and aerospace while hand-holding investors to improve manufacturing capabilities. In implementing such a framework and positioning India amongst the leading countries of the world in defence and aerospace sectors, the Ministry of Defence (MoD) has formulated a draft Defence Production and Export Promotion Policy 2020 (DPEPP 2020).

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<tr>
<th>Atmanirbhart</th>
<th>package announce-</th>
<th>Stimulus announced (in INR)</th>
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<tr>
<td>On March 27, 2020, 2 days after a nationwide lockdown was announced, the Finance Minister Nirmala Sitharaman announced a Rs.1.7 Lakh Crore package for the poor.</td>
<td>• Monetary Stimulus (1)</td>
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<td>- The Reserve Bank of India (RBI) lowered the repo rate to a historic low of 4.4%, well below 4.75% level in April 2009, to which it was brought down in response to the 2008-09 crisis.</td>
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<td>- Several liquidity enhancing measures were announced on 27 March 2020, 17 April 2020 and 27 April 2020.</td>
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<td>- These included Targeted Long-Term Repos Operations (TLTROs) and special refinance facility for infusing liquidity into National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI) and National Housing Bank (NHB) for on-lending/refinancing purposes.</td>
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<td>• Fiscal Stimulus (1)</td>
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<td>- The government announced an economic relief package of INR 1.7 lakh crores under the PM Garib Kalyan Yojana.</td>
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<td>- The stimulus included insurance cover for doctors, paramedics and healthcare workers, free food grains provision and direct cash transfers through DBT for disadvantaged sections of the population.</td>
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On May 12, the Prime Minister, Mr. Narendra Modi, announced a special economic package of Rs 20 lakh crore (equivalent to 10% of India's GDP) with the aim of making the country independent against the tough competition in the global supply chain and to help in empowering the poor, labourers, migrants who have been adversely affected by COVID.

**Monetary Stimulus (2)**
- The RBI announced another reduction in the repo rate by 40 basis points, bringing it down to a historical low of 4%.
- Along with it, the other relevant rates such as the reverse repo rate, the bank rate and the MSF rate were also lowered by a similar margin.

**Fiscal Stimulus (2)**
- From 13 May 2020 to 17 May 2020, the Finance Minister announced a stimulus package in five tranches which together amounted to INR 11.02 lakh crores with an additional burden on the FY21 budget of INR 1.2 lakh crores.
  - **First Tranche (Rs 5,94,550 crore)** – Focused on firming India's economic backbone
  - **Second Tranche (Rs 3,10,000 crore)** – Poor, including migrants and farmers
  - **Third Tranche (Rs 1,50,000 crore)** – Agriculture
  - **Fourth Tranche & Fifth Tranche (Rs 48,100 crore)**
    - Two notable features of the fifth tranche were a) enhancement of the budgeted MGNREGA allocation of INR 61,500 crores in FY21 by INR 40,000 crores and b) relaxation in the borrowing limit of states from 3% to 5% of their respective GSDPs subject to certain conditions.
  - **Earlier Measures including PMGKP (Rs 1,92,800 crore)**
  - **RBI Measures & Reforms (Rs. 8,01,603 Crore)**

**12 Key Measures were**
- A new Scheme “Aatmanirbhar Bharat Rozgar Yojana” launched
- Emergency Credit Line Guarantee Scheme for MSMEs, businesses, MUDRA borrowers and individuals extended till March 31, 2021 and additional credit up to 20%
- Production Linked Incentive worth ₹ 1.46 Lakh crore offered to 10 champion sectors
- ₹18,000 Crore Additional outlay for PM Awaas Yojana
To achieve the vision of *Atmanirbharta*, modernised logistics involving all-round infrastructure upgrades is vital to support local businesses and investments from aboard. It is essential to de-clog the ports and deal with erratic power supply issues and social infrastructure also needs a major push. The pandemic has underlined the urgent need to augment skills, and improvement in health, nutrition, and education. The Asian Tigers, within half a century, saw state interventions in health and education along with a focus on exports that enabled them to transition from low-income economies to developed countries. China has successfully followed the same path in the reform era.

**Tech-war and Atmanirbharta**

As mentioned before, the Indian government has come down heavily on Chinese investments and apps after the escalation on the LAC. India has led the way for Japan and the U.S to ban certain Chinese apps from their digital ecosystem. However, significant capital has come from Chinese tech giants to venture capital firms. Unless alternative investors come forward the growth of India’s start-up universe may be hampered. Domestic capital has been scarce so far while U.S businesses have traditionally invested in established business houses in India, unlike the Chinese who supported several firms from ground-zero. A roadblock to the vision of Atmanirbharta in the tech start-up sector has been the lack of investors in India. U.S and Chinese tech giants got immense support from their respective governments. India should hold more conventions and deliberations for the sector to recommend the policy changes they would like to foster innovation and competition and ensure capital inflows.
Taxation

One of the most persistent and consistent criticisms of the government’s outlook towards businesses is India’s tax system. The introduction and gradual rationalisation of Goods and Services tax (GST) has attempted to address many of the issues raised by the private sector and balance them with the demands made by State and Central governments on tax revenue. The auto industry, for example, still has complaints about its higher tax slab.  

According to an analyst, a major problem which the Indian taxation system faced for long was the lack of dialogue between labour, state governments, and capital. To make things worse, the continuous tinkering with fuel policy, rates, and regulations created uncertainty for foreign and domestic investors and inhibited them to scale up their businesses in India. To break the cycle, wherein consumer demand is low, taxes are higher, job creation and investments are constrained, the government needs to be consistent with its policies and regulations for 15 years, which would also help boost incomes leading to more purchasing power from the middle-class. Lower taxation for international and domestic businesses would mean more job creation in the formal sector and social security, which would eventually help make Made in India products more competitive. Costs of such Indian products are today higher than those imported from Vietnam, Thailand, or China, competitive.

RSCI vs. RCEP

India, Japan, and Australia are leading the Resilient Supply Chain Initiative (RSCI). The plan is to build supply chains for the Indo-Pacific region, which would not be dependent on China. The RSCI proves two things: one, it shows the Quad’s increasing commitment to the region, and second, that relying excessively on China is not in anyone’s interest. Quad’s new initiatives also include members of the ASEAN who have already committed themselves to Regional Comprehensive Economic partnership (RCEP) but are looking to delink certain aspects of their dependence on Chinese factories. As Japanese companies have started relocating their factories in South-East Asia, RCEP, which has been in negotiations for decades, would face difficulty. India has refused to join RCEP and will be even more averse to deleterious Free Trade Agreements as it attempts to step up import-substitution in several key sectors.

Increasing Defence Exports

India has ranked high for more than a decade now for spending a significant amount of its defence budget on importing foreign-made equipment. But between 2015 and 2019 India’s defence exports have also risen by 700 per cent. The defence sector also saw radical changes wherein a list was created of defence items barred from being imported, consistent with the massive push towards domestic production, even as it eased conditions to attract leading global manufacturers to invest in India. The Central Government has also identified champion sectors like pharma, textiles, auto components, and aerospace while hand-holding investors to improve manufacturing capabilities. In implementing such a framework and positioning India amongst the world’s leading countries in defence and aerospace sectors, the Ministry of Defence (MoD) has formulated a draft Defence Production and Export Promotion Policy 2020 (DPEPP 2020). The policy aims to achieve exports worth Rs. 35,000 crore and an annual turnover of Rs. 1,75,000 crore by 2025.
The Ministry of Defence in mid-January 2020 announced that the Union Cabinet has cleared for the Indian Air Force to induct 83 indigenously built Tejas Mk-1A Light Combat Aircraft. Countries like Malaysia, UAE, even the U.S could show interest in the lightweight fighter. The Hindustan Aeronautics Limited (HAL) plans to complete the order for the Indian Air Force by 2026 and an export market would help the Ministry of Defence to achieve the export targets as mentioned earlier. The Rs. 48,000 crore deal would benefit 500 defence manufacturers including the private sector. India’s primary air-show Aero-India would showcase indigenous platforms like the Advanced Light Helicopter, Light Utility Helicopter, the Light Combat Aircraft (LCA) as well as two trainers. To help create an export market, a defence conclave is being planned to coincide with the air show. The conclave would include defence ministers of the Indian Ocean Region (IOR) to appreciate the domestic defence manufacturing ecosystem of India.

The MSME plight and recovery

The unprecedented nature of events last year has made it difficult to predict how businesses will perform globally and domestically. The year 2021 will prove to be a year of survival and gradual recovery. The priority is to sustain the damage and leverage technology to improve prospects, especially in the MSME sector. The fight against pandemic will need precaution and discipline. The escalation in cases had led to, as mentioned before, unpredictable lockdowns severely affecting domestic supply chains and livelihoods of daily-wage workers. Over the past two months, however, the number of infections has systematically declined, and the recovery rate has improved to 97% by mid-January 2021. Inter-Government cooperation is needed, especially knowledge sharing between the departments to push forward recovery and growth.

Make in India now has a fresh look and has been renewed under the Atmanirbhar initiative of the Government. The MSME sector can contribute more if it gains greater access to capital and technology. It is imperative now to identify import substitution in as many sectors as possible and give the MSMEs the responsibility to manufacture and improve quality to match global standards. Collaboration with international companies would be promoted where necessary. The same is applicable for contributing to the defence sector, where permissions are being fast-tracked. Moreover, clean energy is the future for India. Climate change resilient infrastructure is the need that MSMEs can fulfil, which would lead to more employment and environmental sustainability.

The MSME sector can push and help raise demand for their products if the Government releases payments owed to them. Large public infrastructure projects have no roles for the MSMEs. To help boost their earnings while helping stabilise the economy, there should be more focus on small scale infrastructure projects that help the sector. The small scale projects could renewal of urban centres and renovation of the existing infrastructure. Furthermore, a certain degree of protection is required for the MSMEs. Unfortunately, history has not been kind to the Indian economy when it took the path of protectionism, and it should be avoided, especially for individual products. To a large extent, MSMEs require revival, but the non-MSME sectors need to grow rapidly as well to generate demand for the MSMEs.
India’s Hospitality Sector in need of help

The hospitality sector in India was the first to get affected by the pandemic. It probably will be the last to recover once the world recovers from COVID-19. The Reserve Bank of India (RBI), too, has expressed concerns about the recovery of the sector. The projected trajectory for recovery for the sector would be between 12-18 months. The collateral damage is around Rs.15 Lakh crore to the travel and hospitality industry. The unorganised sector of the industry, too, has taken a hit. A white paper from the industry in collaboration with industry associations is the need of the hour. Going forward, expansion in the area for tourism would help in recovery and improved prospects for the industry. Steps like the ease of getting travel visas and the revival of business travel can lend a hand. The hospitality sector for the time to come and the years since remains a capital and labour-intensive sector.

Other necessary steps by the Government to help the industry could be a deferment of renewal of licenses and payments, especially in the form of taxes to the Government. Although the central Home Ministry has approved the opening of hotels, the state governments are dragging their feet because of the fear of Covid-19 spread, leading to continuous losses for the industry.

Demand and Lockdowns

Demand has returned strongly as the Government gradually, through phases, has eased the lockdown. However, local lockdowns that remain are disruptive, and affects the national supply chain. Another setback due to COVID-19 is that infrastructure companies in the B2G sector have their payments held up by the Government. Once the Government processes the payments, it will help further boost the economy.

The Stock Market’s Rally

The stock market fell considerably due to the lockdown. Even though the lockdown was removed, there have been many apprehensions about investments and growth. Fortunately, the Bombay Stock Exchange is less than 2 per cent away from wiping out its losses in 2020. Although the stock market does not show the reality as it does not go together with the economy. There are positive tidings, though, as Japan, the U.S, and the European Union have flushed liquidity, which has led to better stock market performances due to which India is likely to emerge as a huge investment destination.

Between January and April 2020, a chunk of foreign money was taken out from the Indian market in equity and debt. The panic sell-off by foreign institutional investors (FIIs) was the highest in March, amounting to 15 Billion USD a few days after the nationwide lockdown was announced by the Prime Minister, leading to massive liquidity outflow from the domestic market. Fortunes changed as April-August saw investments coming in as India attracted a significant chunk of 27.10 Billion USD FDI in the period, which means international confidence in India’s growth story. India’s economic recovery trajectory rate seems to better than others. Security Exchange Board of India (SEBI) and RBI have been pro-active, and the new legislations will assist in a wider and faster recovery.
The Government's push began last year when corporate taxes were reduced to 15%, especially for those who will set up a greenfield manufacturing base here, among the lowest in the world. Significant new changes in land and labour rules and regulations have followed since then. If changes are well implemented, India will move from its image as the world's back office to its factory.

**Conclusion**

The priority of the Government of India is to open up, the economy and motivate investment. As Global Corporations look for alternatives in their “China+1” model the Government is taking aggressive steps to demonstrate that India is “open” for business. The change in labour codes and decriminalising vital elements in the Companies Act are essential to give out signals that India can be an attractive investment destination for global manufacturing.

Participation in global supply chains depends on forward participation and backward participation. India’s dependence on foreign imports has led to higher backward participation leading to forward linkages being lower. India still needs to climb higher in the rankings of ease of doing business, to be complemented by covering the deficits in physical and social infrastructure. The Government's initiatives have already helped India become a lucrative destination for smartphone manufacturing, including the likes of Apple and Samsung. As multi-national corporations are looking to pursue the “China +1” model, India has many opportunities and incentives, following the Prime Minister’s initiatives, to aspire to become the “+1”.

The Atmanirbhar Bharat plan is a real opportunity to overhaul the Indian economy and adds serious momentum to its expansion and resilience. The economy has now got back to pre-COVID-19 levels. There will be a net reduction of GDP, in any case, this financial year. India will get back to being a USD 2.9 trillion economy and rapidly grow higher to become $ 5 trillion economy soon. The growth in 2021-22 is expected to be continuous and high. The Government’s approach to protecting the economy and livelihood has not just been helpful but vastly beneficial. There is no conventional economic theory that is in practice today. Innovative methods, along with the immediate response, are how the Government has reacted to the situation. Soft landing, rebooting, self-reliance as well as opening widely to the world constitute the plan for a strong economy, today and for the future.

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2 how much it depends on foreign input for production of its domestic exports


10. Ibid


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About the VIVEKANANDA INTERNATIONAL FOUNDATION

The Vivekananda International Foundation is an independent non-partisan institution that conducts research and analysis on domestic and international issues, and offers a platform for dialogue and conflict resolution. Some of India's leading practitioners from the fields of security, military, diplomacy, government, academia and media have come together to generate ideas and stimulate action on national security issues.

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