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Review Of Polices For Economic Growth By The Government Of India And Its Implementation With Special Emphasis On Value Chain and Infrastructure Development

DIPLOMACY | DELIBERATION | DISCUSSION

About ORF

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ORF's aim is to encourage voices from all quarters, geographies and gender, both those that fall in and those that question dominant narratives. It is this plurality of thought and voice — in a country of over a billion individuals — that ORF seeks to carry abroad, while simultaneously bringing contemporary global debates to India.

ORF seeks to lead and aid policy thinking towards building a strong and prosperous India in a fair and equitable world. It sees India as a country poised to play a leading role in the knowledge age — a role in which it shall be increasingly called upon to proactively ideate in order to shape global conversations, even as it sets course along its own trajectory of long-term sustainable growth. ORF helps discover and inform India's choices. It carries Indian voices and ideas to forums shaping global debates. It provides non-partisan, independent, well-researched analyses and inputs to diverse decision-makers in governments, business communities, and academia and to civil society around the world.

ORF's mandate is to conduct in-depth research, provide inclusive platforms and invest in tomorrow's thought leaders today.

Mandate

The role of this committee would be to inform and impact the opinion of the Union Cabinet which will be meeting to discuss the government's economic policies and their implementation to further the development agenda with a focus on value chains and infrastructure development. The committee will be expected to produce a working paper on the effectiveness of India's economic policies while informing the future of the Indian economy. The group will be providing special emphasis to the development of new value chains while improving the existing ones and providing a clear roadmap for infrastructure and value chain development and sustainability.

Breaking down the agenda

The agenda consists of four main parts - economic policies of the government, effectiveness, and implementation of the policies, value chains, and infrastructure development. Each member of the group is expected to develop their specialization around at least two of the four parts where at least one of them is chosen from among the first two options.

Economic policies: Economic policies include the government decisions and orders which impact the fiscal, economic, socio-economic, and strategic decisions for all the proponents of public policy including development, defense, external affairs, security, and many more. Economic policies are of various types, for this group, we are focused on the fiscal policies and not the monetary policies. We are looking at high-level discussions on various economic policies launched and are in the pipeline for the Government of India. We will be looking at the socio-economic, strategic, and fiscal consequences of these policies and the way forward.

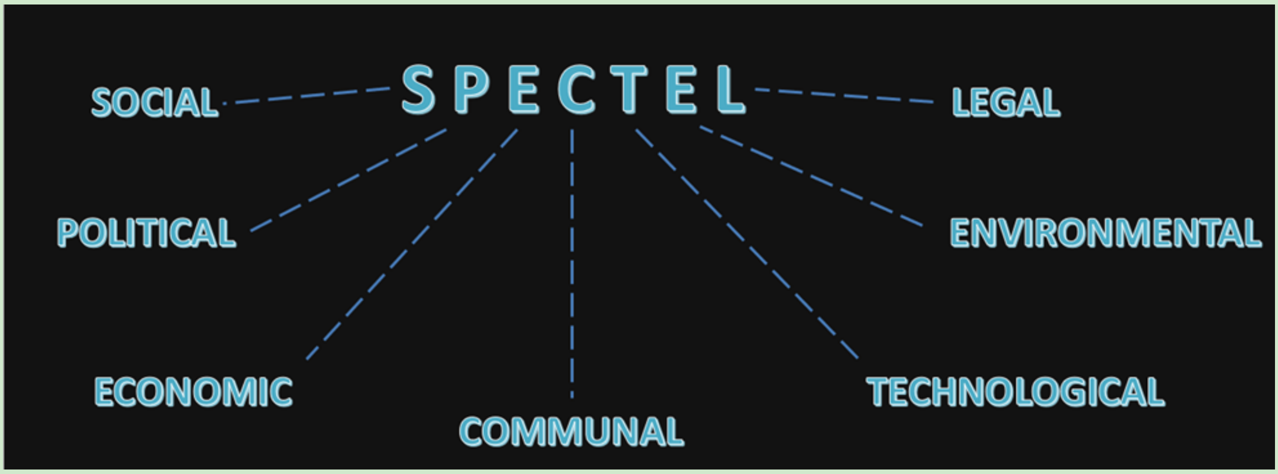
Effectiveness and implementation of policies: Legislative, Executive, and Judiciary are the three pillars of democracy, and the powers are separated amongst these three pillars. The legislative is tasked with making the law, the judiciary is tasked with protecting the law and the executive is tasked with implementing the law. Policies are the operational pointers and plans for any law that the cabinet and council of ministers from the ruling party created. Policies are implemented through the executive which consists of the government machinery consisting of all the civil servants including the Indian Administrative Service and the Indian Foreign Service. Evaluating the effectiveness of a policy is done by comparing the impact of the policy on the expected impact or the comparative analysis of retrospective policies in the same field, additionally, it is also helpful to look into the sustainability of the policies and the long term vision behind the policy.

Implementation of a policy is determined by the conducive environment created for the easier implementation of the policy and critical thinking around the operational challenges that can arise in the implementation of a plan. The group is expected to analyze this for various economic policies of GoI.

The committee will be looking into innovative ways and mechanisms to facilitate debate, discussion, and decision-making among the participants to chart out the plan of action for India's economic future. The debate will span across the realms of international affairs, economics, political sciences, strategy, public policy, and governance.

Policy Analysis

Basic steps to gain a holistic view of a situation through lens analysis is one of the first steps to decodifying a situation. SPECTEL Analysis is also known as Lens analysis and is utilized to gain understanding on a situation by picking two or more of the lenses from the available options and developing analysis that bridges the points together in teh form of causation or consequence or process definition.



Global Value Chains

The traditional view of international trade is that each country produces goods and offers services that are exported as final products to consumers abroad. However, in today's global economy, this type of trade only represents around 30% of all trade in goods and services.

In reality, about 70% of international trade today involves global value chains (GVCs), as services, raw materials, parts, and components cross borders – often numerous times. Once incorporated into final products they are shipped to consumers all over the world.

Exports from one country to another often involve complex interactions among a variety of domestic and foreign suppliers. Even more than before, trade is determined by strategic decisions of firms to outsource, invest, and carry out activities wherever the necessary skills and materials are available at competitive cost and quality.

For example, a smartphone assembled in China might include graphic design elements from the United States, computer code from France, silicone chips from Singapore, and precious metals from Bolivia. Throughout this process, all countries involved retain some value and benefit from the export of the final product. But much of this value-added throughout the international supply chain is invisible in traditional trade statistics, which attribute the full value of a good or service to the last country in the chain that finalised production.

Supply Chain Resilience

Manufacturers in most industries have turned to suppliers and subcontractors who narrowly focus on just one area, and those specialists, in turn, usually have to rely on many others. Such an arrangement offers benefits: You have a lot of flexibility in what goes into your product, and you're able to incorporate the latest technology. But you are left vulnerable when you depend on a single supplier somewhere deep in your network for a crucial component or material. If that supplier produces the item in only one plant or one country, your disruption risks are even higher.

A resilient supply chain is defined by its capacity for resistance and recovery. That means having the capability to resist or even avoid the impact of a supply chain disruption – and the ability to quickly recover from a disruption. Operational risk and interruption can threaten multiple areas of the supply chain. Worldwide disasters, as we've seen with COVID-19, can have a far-reaching, global impact upon supply chain logistics, suppliers, and workforces. Other supply chain disruptions can come in the form of unexpected competition, sudden market trends, or even rapid changes in consumer behaviours.

The obvious way to address heavy dependence on one medium- or high-risk source (a single factory, supplier, or region) is to add more sources in locations not vulnerable to the same risks. The U.S.-China trade war has motivated some firms to shift to a "China plus one" strategy of spreading production between China and a Southeast Asian country such as Vietnam, Indonesia, or Thailand. But region-wide problems like the 1997 Asian financial crisis or the 2004 tsunami argue for broader geographic diversification.

Trade Infrastructure

Infrastructure makes a huge difference in the process of development and the comparative edge of an economy, particularly in trade. Researchers estimated that poor infrastructure penalizes international trade. Countries with better infrastructure (such as Singapore and Hong Kong) perform well in international trade and punch above their weight while countries with weak infrastructure (such as Bhutan and Pakistan) perform poorly in the external sector. This means infrastructure is crucial for trade promotion and global economic integration.

It is difficult to understand the South Asian external sector performance without understanding the role of infrastructure in the region. For example, lack of energy, transport and communication and its related infrastructure adversely affect inter-regional and international trade in South Asia. Keeping in view the importance of physical infrastructure in a robust external sector, an Asian Development Bank report advised countries in the region to focus on investment in infrastructure in order to boost exports and tackle the perennial trade deficit.

Financing Trade Infra - Trade Infrastructure for Export Scheme

The objective of the Trade Infrastructure for Export Scheme (TIES) would be to enhance export competitiveness by bridging gaps in export infrastructure, creating focused export infrastructure, first mile and last mile connectivity for export-oriented projects, and addressing quality and certification measures. The main focus would be to create appropriate infrastructure for the development and growth of exports through the engagement of Central/State Agencies by extending assistance to them.

Infrastructure development is a key element of a country's ability to produce and move goods. Exports constitute the last segment of long sectoral value chains. Good infrastructure would reduce trade costs. India's new Foreign Trade Policy (FTP) 2015-20 has targeted a growth in exports to $900 Billion, which will make India a significant participant in World Trade by the year 2020. To achieve this level of growth there is a need for more affirmative action to create appropriate infrastructure for exports from the country.

There are infrastructural gaps related to exports like benchmarking of operations, testing facilities, cargo handling facilities, last-mile connectivity to the ports, provision of infrastructure in the special economic zones, the establishment of border-haats, land customs stations, etc. which are essential to ensure competitive exports.

NEED FOR SMEs IN INDIA TO INTEGRATE WITH GVCs

SMEs in India employ a large proportion of the country's workforce and therefore can be considered as a core economy sector. While downstream manufacturing companies mass produce and attempt to fulfil demands of the local market, India being a large consumer-base helps, there are a number of issues which plague the skill sector. Along with capital inadequacy, lack of managerial talent/skills to drive the industry to its intended global reach is a major issue. There is definite reluctance in entrepreneurs in the SME sector due to their inability to upgrade to global standards and when they possess niche technology are unable to protect them or in case of mass manufacturing their investments in R&D or motivation to innovate is less. It is in this background that integration with GVCs can give a fillip to the sector in a macro view.

Participating in GVCs provides avenues for firms, spread across regions/nations, to benefit from global trade. With the emergence of GVCs, a firm no longer has to produce a product in its entirety. Rather, smaller firms can now internationalise and enhance their efficiency by participating in supply chains via specialising in small component level manufacturing of the whole supply chain and thus, giving the product a comparative advantage - a fruit of which would permeate through the chain. SMEs' issues pertaining to management, technology and steady (global/wider) market access are effectively taken care of in a GVC model.

It may even bring investors to a manufacturer's door-step. Experiences indicate that SMEs that integrate into GVCs have managed to achieve a sense of stability and expand their business activities. Wider market access cushions or off-set(s) seasonal turns of trade.Even firms operating at the periphery of GVCs have reaped growth benefits associated with GVC participation. Small firms that focus on multipurpose technologies have secured their position in the market by becoming specialised suppliers serving different global value chains, especially in manufacturing sectors such as automotive, precision equipment and scientific instruments. Specialised and niche market SMEs have become conscious of their competitive strengths, which they associate in particular to the flexibility and quality they offer or a personalised service (as in the tourism sector). In turn, some of these firms have also succeeded in leveraging key assets from their lead partners.

The pandemic has accelerated the already ongoing fundamental shifts in GVCs, driven by aggregation of three megatrends viz. emerging technologies, environmental sustainability imperatives and reconfiguration of the term globalisation. As global companies adapt their manufacturing and supply chain to improve resilience, Indian SMEs have an opportunity to leverage them, especially in view of the prevailing stability in governance models and supportive economic environment in the country. Three key factors can be listed as - government's drive to encourage manufacturing, a distinct demographic edge and ability to ingest technology.

"Transformation pathways" to achieve this objective: 1. From the national scale to the global scale: Committing to coordinated action by the private sector and Government of India to help build domestic manufacturing companies that can compete globally 2. From cost arbitrage to capability advantage: Looking beyond cost to build competitive muscle through workforce skilling, innovation, quality and sustainability 3. From measured to accelerated integration in global value chains: Increasing the pace of integration by reducing trade barriers and enabling competitive global market access for Indian manufacturers 4. From financial incentives to agile execution on the ground: Building on the emerging success of the Production Linked Incentive scheme to focus on reducing the cost of compliance and establishing manufacturing capacities faster 5. From infrastructure inputs to infrastructure outcomes: Focusing infrastructure development on cost savings, speed and flexibility. These pathways offer an initial framework to help inform discussions on the role India can play in reshaping GVCs.

HOW DIGITALISATION IS SHAPING INDIAN SUPPLY CHAIN RESILIENCE AND ITS PARTICIPATION IN GVCs

The importance of digitisation originates from its ability to reduce distance and entry costs for firms by facilitating greater ease in communication and access to foreign markets. The merger of the physical and digital world has allowed real-time visibility and control of manufacturing units across the value chain and has paved the way for a new set of opportunities and challenges. Digitalisation allows firms to develop new commercial relationships with other firms all over the globe, and therefore provide firms with an avenue to increase their knowledge of foreign markets, develop marketing and sales strategies, and identify competitors. Digitalisation has important implications for supply chain management, as it provides firms with a repository of real-time data that induce efficient inventory management practices and improved capacity planning. For E.g., the supply chain of the Indian dairy industry is quite complex owing to its reliance on various factors such as ambient temperatures, availability of cold chains and short shelf life, digitalisation solutions such as IoT and advanced analytics can help sharing real-time data with different stake-holders, and detecting any deviations in the quality and quantity of milk during phases of its transportation in the value chain.

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Good Luck And

May The Force Be With You!