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CAN 'ATMANIRBHAR BHARAT' BE THE PATH TO INDIA'S ECONOMIC PROSPERITY?

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ABSTRACT

The concept of Atmanirbhar Bharat is as old as India itself, since self-reliance was always a goal in the economic policy of India post 1947. India's self-reliance will be based on five pillars — economy, infrastructure, technology driven system, vibrant demography and demand. In this paper, we study the viability of this policy with respect to the availability of resources in the domestic market, physical and social infrastructure, local supply chains, labour laws, education and foreign-exchange controls. The research has been undertaken by examining various government reports to identify different segments where import substitution is possible with the given resources and limited Research and Development in the country. Drawing on this analysis, the paper discusses on the negative impact of being an open economy where India had a trade deficit with almost all its trading partners, but challenges remain in the form of low investment in Research and Development where India invests mere 0.59738% of its GDP in R&D compared to China investing 2.1451%. Cumbersome Land Acquisition rules have also led companies including South Korea's top steelmaker, Posco, giving up their investment plans in India resulting in India importing 6.69 million tons of finished steel in spite of being a net exporter of its iron ore. Another major challenge identified in this trade policy is the difficulty of its survival in this globalized world where becoming a global exporting power will be anything but easy while simultaneously turning into a protectionist. The examples discussed in the paper highlight the need to upgrade the country's physical and social infrastructure, simplify its land and labour laws, introduce reforms in the education sector to curb the problem of unemployability and invest in Research and Development. It suggests using Theory of Comparative Advantage to boost manufacturing and improving the nation's Ease of Doing Business.

Keywords - Atmanirbhar Bharat, Import-Substitution, Self-reliance,

INTRODUCTION

Atmanirbhar Bharat which means 'self-reliant India' is a movement initiated by the Modi government for the country's economic development after the Swadeshi movement in the 20th

century by Mahatma Gandhi. It was launched on 12th May 2020 and focused on five pillars — economy, infrastructure, technology driven system, vibrant demography and demand. This movement started because of disruptions in trade relations with China (our biggest importing country) and loss of jobs due to the pandemic. Another push for this initiative was the lack of Personal Protective Equipment (PPE) at the start of the covid-19 outbreak.

The economic response of India to the pandemic was Rs 20 Lakh Crore stimulus package which is 10% of GDP. However, **(The Wire , 2020)** says that direct fiscal stimulus from the Centre is less than Rs 2.5 lakh crore (1% of GDP) and the data for the same is shown in appendix 1. This is because many of the government's proposals are aimed at easing liquidity for various affected sectors or are credit-focused. In some cases, the costs incurred is initially recovered by the banks and there is no cash outflow by the Centre. This economic package seems to be a case of too much bark, too little bite.

Before the era of Atmanirbhar Bharat could kick in, it was the era of globalisation. While globalisation bought in foreign commodities and foreign direct investment, it made India heavily reliant on its trading partner for imports incurring a trade deficit of -$157.2 billion for all products during 2019. India's trade deficit with China was -$51.2 billion whereas with Iraq it was -$19.6 billion. Atmanirbhar Bharat can help to convert these deficits into surpluses. India also has trade surpluses with some of the leading economies such as +$19.5 billion with the United States and +$1.9 billion with United Kingdom. These positive cashflows indicate India's competitive advantages with other countries.

In order for India to be self-reliant, it must invest in its most valuable asset, i.e., creating a healthy research and development atmosphere. As of 2018, India spent 0.59738% of its GDP on RnD which is $16 billion. This may look like a huge amount but China spends $292 billion which is 1825% of India's expenditure and the United States spends $558 billion which is 3487% of India's expenditure.

Delays and disputes in land acquisition is another hindrance for Atmanirbhar Bharat and increases our imports thereby creating trade deficit. In 2017, South Korea's biggest steelmaker Posco scrapped a $12 billion investment in India after it faced constant local disputes and lease issues for

over a decade. The consequence is that despite India being a net exporter of iron ore, it imports 6.69 million tons of finished steel. Land conflict Watch who are a group of researchers estimate that total land disputes in India cover an area bigger than the country of Israel threatening more than $200 billion in investments and affecting 7.3 million people.

Micromax, an Indian company has already benefitted from the Atmanirbhar Bharat Abhiyan (ABA). It was ranked among the top 10 global handset vendors. However, it lost its market share as it couldn't compete with the Chinese manufactures such as Oppo and Vivo on the pricing front. Using the production linked incentive scheme under the ABA, the company receives an incentive of 4-6% on incremental sales for a period of 5 years. This has helped the company to fight against Chinese brands on the pricing front and as a comeback the company has launched a new range of smartphones called 'IN'.

OBJECTIVES OF THE STUDY

- To assess the feasibility of specific sectors to achieve self-reliance.
- To examine the viability of the policy with the given physical and social infrastructure.
- To recommend policies to achieve the goal of self-reliance.

REVIEW OF LITERATURE

(Misra, 2020) states that Atmanirbhar India isn't a new concept and reflects upon the similar past policies. The author explains why policies targeting self-sufficiency didn't work for India in the past. **(Beniwal & Sunil, 2020)** also discusses major challenges like cumbersome land acquisition rules, forex controls and poor infrastructure in the path towards self-reliance.

(Fouda, 2012) discusses the arguments commonly used in favour of protectionism and free trade and reasons why protection retains such popular strength in spite of all exposures of its erroneous

beliefs. The author rationales the need for countries to favour free trade in order to avoid economic wars led by restrictive borders tariffs, quotas, barriers etc and to achieve economic growth.

(D'souza, 2020) lists down the pillars to achieve self-reliance and the sectors where the nation needs to prioritize to achieve the goal of Atmanirbharta. **(Kulkarni, 2008)** reviews the Theory of Comparative Advantage by David Ricardo and reflects why India should learn a lesson from its protectionist past and follow the route of free trade for economic and social growth by citing various case studies for countries like China and Japan and identifying the potential sectors where export promotion can be done in the Indian economy.

RESEARCH METHODOLOGY

This research paper is based on secondary data collected from government reports, newspapers such as The Print, Economic Times, Mint, Indian Express etc., research papers, online journals and articles along with government websites. The credibility of the source is checked along with the date of publication so that outdated information isn't being used. Secondary information, wherever used has been cited accordingly so as to not take credit for the work of others and referenced at the end of document using Harvard Referencing.

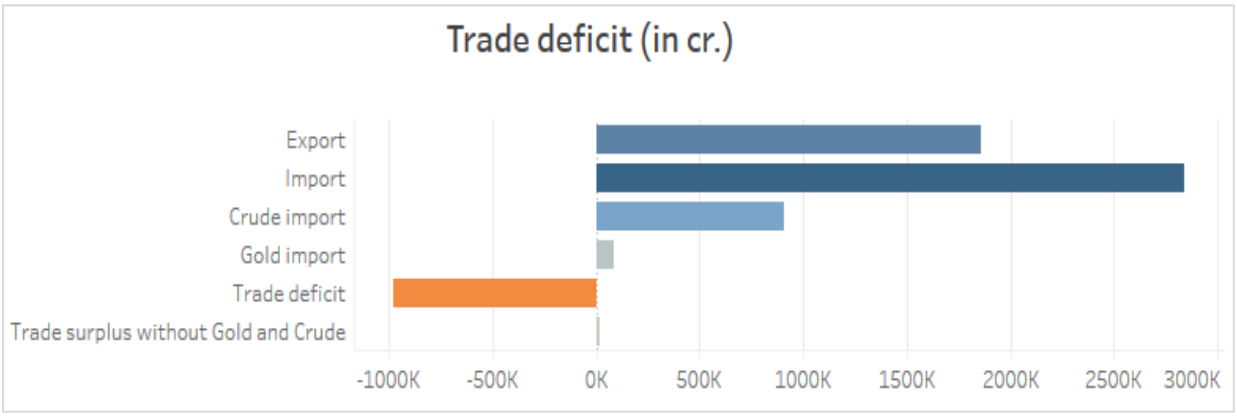
DATA ANALYSIS AND INTERPRETATION

ACCESSING THE FEASIBILITY OF ATMANIRBHAR BHARAT WITH RESPECT TO IMPORTS

India Imports By Category (2019)	Value
Mineral fuels, oils, distillation products	$152.67B
Pearls, precious stones, metals, coins	$58.91B

Electrical, electronic equipment	$50.85B
Machinery, nuclear reactors, boilers	$44.48B
Organic chemicals	$20.53B
Plastics	$14.62B
Iron and steel	$11.80B
Animal, vegetable fats and oils, cleavage products	$9.83B
Optical, photo, technical, medical apparatus	$9.51B
Fertilizers	$7.19B

The group of oil, gold, coal and diamond accounts for almost 45% of India's imports. Mineral fuels like Crude oil and Gold which covers approximately 32% and 3% respectively of the Indian imports are the irreplaceable elements. India is the second largest consumer of gold after China and imports gold worth $37 billion, out of which $21.6 billion gold is consumed locally while the rest of it is exported as jewellery, earning $13 billion.



Let us assume India narrows down its imports only to Crude Oil and Gold, keeping the exports constant, it will provide a reduction of Rs 18.5 lakh crore in imports which is still not enough to make a significant positive change in the trade balance. Hence, in order to reverse the trade deficit, India either needs to find an alternative to crude oil or expand its exports exponentially.

Another item which cannot be substituted is coal. India imports both coking coal and thermal coal. Coking coal is used as raw material for making steel and thermal coal is used to generate electricity. Coal imports have increased significantly since the new power plants are designed to use only high grade imported coal instead of low-quality Indian coal. A sound investment in technology is required to increase the calorific value of coal to reduce imports.

Similarly, India boasts of its self-sufficiency in food grains but it imports majority of the fertilizers like Nitrogen, Phosphorus and Potassium where import substitution isn't possible since Natural gas accounts for nearly 75% of fertiliser production cost. Indian firms already import large quantities of natural gas for energy, often at triple the domestic price and diverting a good portion of natural gas to fertilisers would come at the cost of power generation, CNG etc which isn't feasible.

India Imports by Country (2019-20)	Value	India Exports by Country (2019-20)	Value
China	$68.40B	**United States**	$54.29B
United States	$34.92B	**United Arab Emirates**	$29.54B
United Arab Emirates	$30.31B	**China**	$17.28B
Saudi Arabia	$27.00B	**Hongkong**	$11.48B
Iraq	$22.09B	**Singapore**	$10.74B

The dominance of China in several basic raw materials, intermediates and end products at comparatively lower prices cannot be overlooked. While consumer goods like garments, toys, shoes, electrical lighting and numerous other low value items can be substituted with concentrated efforts, it would be challenging to domestically replace most of the other products in the technology and skill intensive sectors such as APIs for drug manufacture, engine components for

automobiles, and lithium batteries for EVs and solar power which are all zones of key interest to India.

China exports only 3% of their total exports to India which account for approximately 15% of India's total imports while India exports 6% of its total exports to China. This means that proportionately the trade war will affect Indian exports more than our sanctions will impact China's exports. Import substitution and action to be taken against China in the interest of national security are two issues which shouldn't be mixed **(Agarwal, 2020)**.

ASSESSING THE FEASIBILITY OF ATMANIRBHAR BHARAT WITH RESPECT TO EXPORTS

Product description	Exports by India (in US$ million)
Frozen shrimps and prawns	4291
Granite cut into blocks	809
Iron ore and concentrates	1318
Primary polymers of ethylene and propylene	2113
Hides and Skins	723
Raw cotton and cotton yarn	5809
Ferro alloys	2144
Semi-finished products of iron and steel	1109
Refined copper	312
Unwrought Aluminium	4282

A classic colonial economy mostly exports raw materials and imports finished goods which is a road India should avoid taking but instead, statistics suggests that in the last 5 years, India exported cotton and cotton yarn rather than fabrics or high-end garments; leather rather than leather products; ferro alloys and semi-finished steel in the place of steel products; aluminium ingots rather than aluminium foils or tubes; copper cathodes rather than copper plates or wires; basic polymers instead of plastic products; cut and polished diamonds rather than embossed jewellery and raw shrimps rather than processed produce. India also exported $9 billion worth of naphtha rather than downstream petrochemicals. The value-added exports of items like gems and jewellery, ready-made garments, leather goods, engineering products, electronics, have all contracted by between 15 -55 per cent in 2020.

It is necessary is for the Ministry of Commerce and Industry to undertake in-depth, sector wise study in the areas cited in the Table and examine the reason and identify the challenges to why value addition to competitively manufacture downstream items doesn't take place within India.

IMPORT SUBSTITUTION OR EXPORT INDUSTRIALIZATION: THE BETTER FRIEND

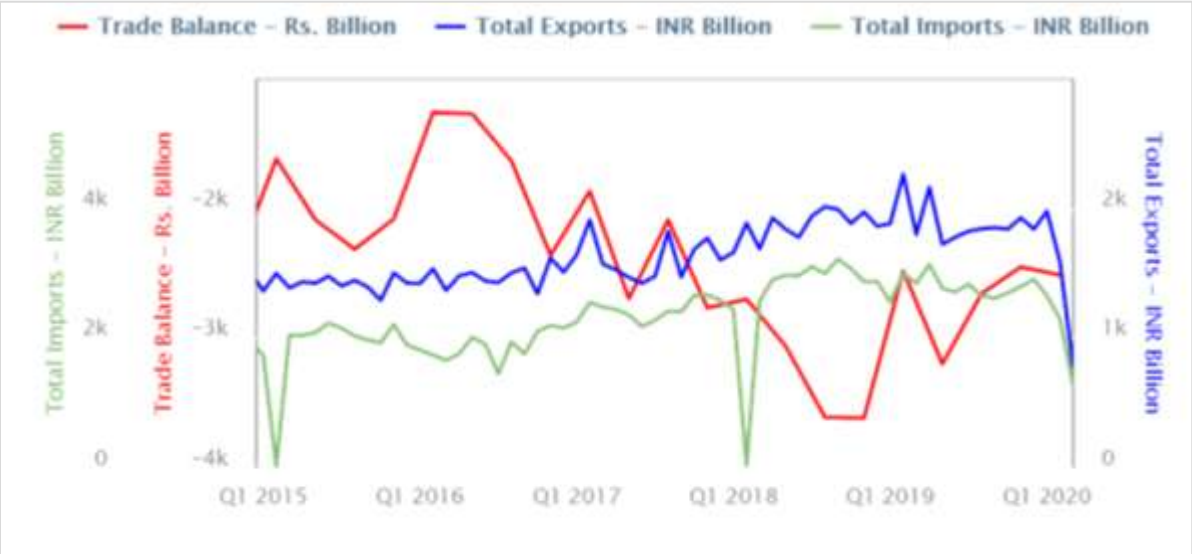
Jean-Baptiste Alphonse Karr said "The more things change, the more they stay the same."

We fought for the nation's freedom on the plank of Swadeshi or self-made India. Make in India and Atmanirbhar Bharat is thus, a restatement of the Swadeshi ideal instead of a new formulation. The fact is that we live in a globalised world where the prospects of local production are considerably attenuated, especially in manufacturing sector, which involves high technology, specific raw materials and expertise. **(Rajan, 2020)** said that India has already gone down this route earlier, but could not succeed.

There is nothing wrong with encouraging domestic manufacturing but if it is implemented by discouraging imports, it becomes inefficient. It drives up costs and narrows down choices for producers and consumers. For example: If government shelters steel, aluminium, refining and petrochemicals from external competition, metal industry and manufacturers of plastic products

find their input costs higher than that of their counterparts in countries that have shed their industry of such layers of protection.

In Budget 2021, the government raised duties on no less than 33 and as many as 45 products. For auto parts, it was the fourth duty hike in four years. The problem lies in the fact that the Indian finished goods producer will not become internationally cost-competitive if it is starved of lower-cost, higher-quality foreign inputs because of the tariff hikes.



The trade deficit in December 2020 widened to $15.71 billion while imports grew to $42.6 billion and exports declined to $26.89 billion, further stated in Appendix 3.

Growing protectionism will dent our ability to join both the global supply chains based on the relative competitiveness and free movement of goods and services. Since 2018, Hiking of duties on a large number of Indian imports (3,200 tariff lines constituting 70% of Indian imports) is a major cause of the prevailing stagnation in Indian exports.**(Dua , 2020)**.

SOCIAL INFRASTRUCTURE

This includes the foundational assets which are basic services that improve an individual's productivity, efficiency and their standard of living. This is done through providing adequate facilities of health, housing, education, transportation, sanitation, water supply etc. For instance, the education sector does not directly contribute towards economic development. However, it helps build learned workforce with employable skills which is essential for a strong economy. While economic infrastructure is a driver for growth, social infrastructure focuses more on development and hence self-reliance.

The first step towards Atmanirbhar Bharat in the education sector has already been taken with the launch of New Education Policy 2020. The education sector was lagging in the holistic development of learners at different stages in their development, but being a country with such a large population, our expenditure on education is negligible. Explaining this with an example, the country chosen for comparison is Brazil:

Indicators	India (in millions)	Brazil (in millions)
Total population (as of 2019)	1366	221
No of children in 0-14	363.3	46.4
Expenditure on education of GDP (Rs)	10280	11408
Expenditure on per child	28	245

Source: https://data.worldbank.org/indicator/SE.XPD.TOTL.GD.ZS?locations=IN-BR

Despite Brazil being a developing country as India, it spends 6.2% of its GDP on education whereas India spends 3.8%. If we compare government expenditure per child, in Brazil its 245 million where as in India its 28 million. In relative terms, Brazil spends 875% of India's expenditure on per child. This shows the need to increase government expenditure which the NEP 2020 brings. The government plans to spend 6% of GDP on the education sector. This package if truly visionary and also helps India to become self-reliant. However, its success depends on effective implementation but now, hope is on the horizon.

With the pandemic making education and learning online, India again lacks the required infrastructure. The table below shows number of secure internet servers per 1 million people as of 2019:

Countries	Number of servers (per million population)	In comparison with India
India	389	
China	735	189% more
Malaysia	6724	1728% more
Brazil	2741	705% more
Iraq	12	97% less
South Africa	14353	3690% more

Source: https://data.worldbank.org/indicator/IT.NET.SECR.P6?locations=IN-BR-CN-MY-IQ-ZA

In comparison, India doesn't have sufficient number of internet servers causing a problem to obtain quality education as well. Next indicator for comparison is access to electricity (% of population) as of 2018.

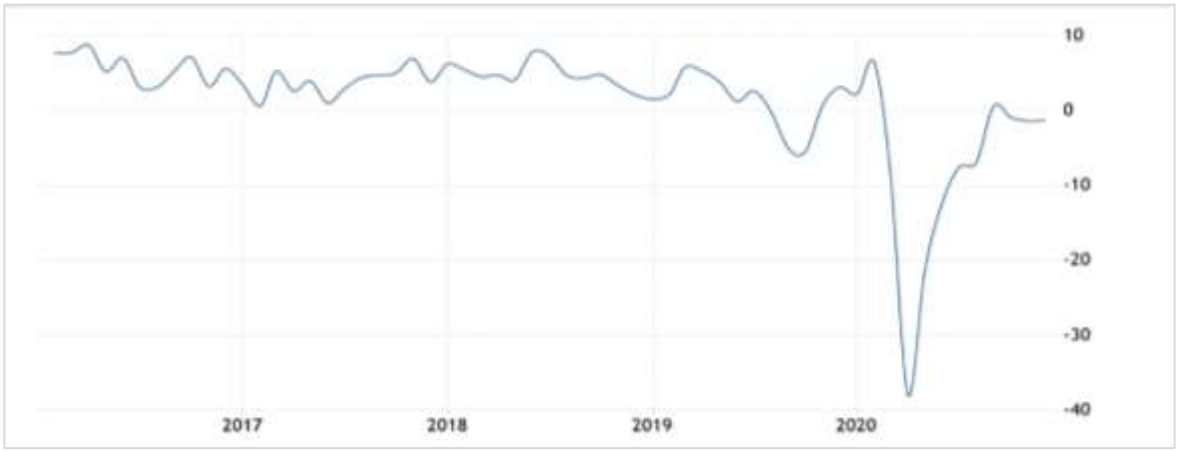
Countries	% of population with access to electricity	Number of people not having access to electricity
India	95.2	64.9 million
China	100	-
Malaysia	100	-
Brazil	100	-
Iraq	99.9	0.038 million
South Africa	91.2	5.08 million

Source: https://data.worldbank.org/indicator/EG.ELC.ACCS.ZS?locations=IN-BR-CN-MY-IQ-ZA

In comparison with Iraq, 170789% of India's population did not have access to sheer electricity as of 2018. The above indicators show that although NEP 2020 provides the means, it doesn't provide the infrastructure to receive quality education. For self-reliance, being employable is more important than education. Skill development isn't given the importance it should get as according

to **(India Budget, 2021)**, only 2.4% of the total workforce received formal training. This is one of the reasons for increasing unemployment especially among urban youth at 20.2% in the age group 15-29 years.

PHYSICAL INFRASTRUCTURE



Infrastructure output in India dropped by 1.3% year-on-year in December of 2020 while Infrastructure output shrank with declines in production of cement (-9.7 percent), natural gas (-7.2 percent), crude oil (-3.6 percent), refinery products (-2.8 percent) and fertilizers (-2.7 percent).

The share of manufacturing sector in the country's gross value added declined to 15.1% in 2019-20 as compared to 18.4 per cent in 2010-11, despite the strong and growing private consumption demand in the country and the efforts put forward by Make in India. The manufacturing sector lacks proper infrastructure, latest technology and suffers from deficiencies in tax and duty structures.

LABOUR LAWS

On 29th September 2020, the government amalgamated 29 Central Labour Laws into four Labour Codes. This was done because it was difficult for businesses to comply with multiple labour laws and involved a lot of paper work. Rigidity in labour laws forced employers to substitute labour with capital thus creating unemployment among labourers. Out of four Labour Codes, The Occupational Safety, Health and Working Conditions Code, 2020 simplified the registration process and improved the ease of doing business.

Initially the labour laws required 6 registrations, but under OSH Code, only 1 registration is required creating a centralized database with one registration, one return and one license for the establishment. The registration of migrant workers has also been made simple with the only requirement being of an Aadhaar card. In this regard, The Ministry of Labour & Employment has developed a national database to enrol all unorganised workers creating sufficiency of labourers and hence a self-reliant nation.

POLICY RECOMMENDATIONS

THEORY OF COMPARITIVE ADVANTAGE

The conversation of international trade revolves around ideas supported by two main schools of thought. The first of which was espoused by David Ricardo which supported the concept that strategically based trade between two separate nations would result in both nations becoming better off (Ruffin 2002). In 1912, Heckscher-Ohlin proved that even if technology of production of the same good across nations was exactly the same, a beneficial trade can still follow because countries enjoy different factor endowments. (detailed explanation in appendix 4)

In this sense, the Ricardian model suggests that India should take the advantage of International Trade by specializing production on goods in which it holds comparative advantage (agricultural raw materials, ores, metals, jute, cotton, technical services etc) and then export these goods to other nations for goods in which India's opportunity cost of production is relatively higher (Autos, Airplanes, Fertilizers etc.). In the long run, this would be beneficial to India since resources which would have been spent on inefficient production would now be free to be redistributed or invested elsewhere achieving economies of scale.

Apart from the evident cost-advantages, global trade fetches with its knowledge and awareness coupled with modern technology and capital flows which are imperative for rapid growth. From student economics textbooks to a plethora of real-world examples, evidence of this abounds. An isolated North Korea rots, while its neighbours South Korea China and Japan, pursuing free and open trade, thrive.

IMPORT-SUBSTITUTION AND EXPORT INDUSTRIALISATION: THE DUAL APPROACH

In order to export, one has to import items that go into those exports as cheaply as it can. China's rise as an export power came on the back of assembly where it brought in the stuff, put it together and exported it out. The focus should be on creating right environment for production in India instead of erecting huge tariffs. The success of the East Asian economies like Taiwan and China rests a viable case for the strategic use of Import-Substitution Industrialisation (ISI) policies but only when operated alongside Export-oriented Industrialisation (EOI). (detailed explanation in appendix 5)

India needs to capitalize on its export capacity and aggressively boost export-driven industries. The foreign capital generated from these exports should then be used for upskilling, technological upgradation and volume building in sectors covered under its ISI policy. Thus, this requires a prior identification of certain sectors that will benefit from such policy.

A recent study by Exim Bank identified various sectors such as electronics, defence equipment, pharmaceuticals for import substitution. For example: India has basic bauxite and iron ore available domestically and exports aluminium ingots, ferro alloys, and semi-finished steel, it implies that we are currently globally competitive to produce HR coil with the necessary infrastructure. Similarly, India can also substitute the import of Rs 8 lakh crore of petroleum with ethanol made from rice, sugar cane and corn, which are surplus in the country. India can expand the ethanol industry from 25,000 crore to Rs 2 lakh crore while simultaneously creating employment opportunities in rural areas by either creating mills that directly made ethanol or sourcing it from sugar mills. The surplus output of corn will be fully utilized for the production of ethanol, also helping farmers get fair price for their produce. (The market price of corn was Rs 1,000 per quintal compared to the MSP of Rs 1700 because of surplus in production).

Measures should be taken to ensure the Indian environment is seen as hospitable to FDI for infrastructural development. The legal system of the land and labour laws is outdated, corrupt and extremely inefficient and hence drastic steps should be taken for establishing right precedents and concluding the legal battles promptly. (refer Appendix 3) As we march towards attaining long-

term productivity gains and expanding the competitiveness of Indian manufacturing, investing in Research and development is inevitable in order to be Atmanirbhar in ideas as well.

SCOPE OF FURTHER RESEARCH

The research has presented the groundwork for identifying the sectors where import substitution isn't feasible and the sectors which needs to be prioritized for export promotion.

A further detailed study needs to be undertaken to identify the problems in the manufacturing industry and draft an investment outlay to finance and improve the industry. Further research needs to be done on the foundation and application of the theory of comparative advantage in order to reduce the trade deficit of the country. A detailed analysis needs to be done on the structural changes required in the production units and the Research and Development wing of the country.

CONCLUSIONS

There is no getting around that the state has to be the chief financier, promoter and disseminator of know-how and skill development. Prioritising the procurement of goods and services from R&D concentrated domestic companies and giving them further tax incentives and low interest-bearing loans is needed. Desirable as it is, progress towards Atmanirbharta needs to be carefully crafted without plummeting into populist landmines. Nuance in policy is required since the pace and process of reaching the desired targets will differ between industries. For short periods, protectionism and trade barriers might work but self-reliance, ultimately, has to be achieved by the Indian manufacturers standing on their own feet.

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APPENDIX

Appendix 1: India's Rs 20 Lakh Crore package and its fiscal cost

Breaking Down India's Rs 20 Lakh Crore COVID Stimulus Package

Economic Package Component	Announced Amount (Rs crore)
Earlier Stimulus Measures	1,92,800
RBI's Measures (Actual)	8,01,603
Tranche 1 (MSME + NBFC + Power)	5,94,550
Tranche 2 (Migrants, KCC, Nabard, MUDRA etc)	3,10,000
Tranche 3 (Agriculture)	1,50,000
Tranche 4 + 5	48,100
Total	20,97,053

Source: Finance Ministry

Fiscal Cost of Modi's Rs 20 Lakh Crore Package

Economic Package Component	Announced Amount (Rs crore)	Estimated Fiscal Impact (Rs crore)
Earlier Stimulus Measures	1,92,800	85,695 to 95,800
RBI's Measures (Actual)	8,01,603	None
Tranche 1 (MSME + NBFC + Power)	5,94,550	16,500 to 55,000
Tranche 2 (Migrants, KCC, Nabard, MUDRA etc)	3,10,000	5,000 to 14,750

Tranche 3 (Agriculture)	1,50,000	0 to 30,000
Tranche 4 + 5	48,100	48,100
Total	20,97,053	1,65,400 to 2,43,650

Source: https://thewire.in/economy/modi-rs-20-lakh-crore-package-actual-spend

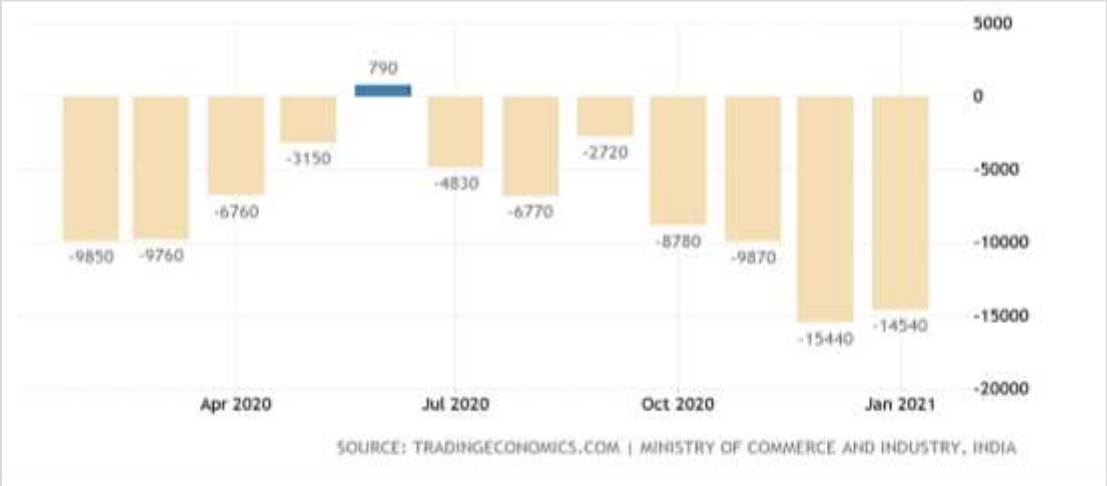
Appendix 2: Value of India's exports by category in the year 2020

India Exports By Category (2020)	**Value**
Mineral fuels, oils, distillation products	$44.53B
Pearls, precious stones, metals, coins	$36.73B
Machinery, nuclear reactors, boilers	$21.26B
Organic chemicals	$18.25B
Vehicles other than railway, tramway	$17.41B
Pharmaceutical products	$16.26B
Electrical, electronic equipment	$14.94B
Iron and steel	$9.77B
Articles of apparel, not knit or crocheted	$8.36B
Articles of apparel, knit or crocheted	$7.88B

Source: Ministry of Commerce and Industry, RBI, IMA

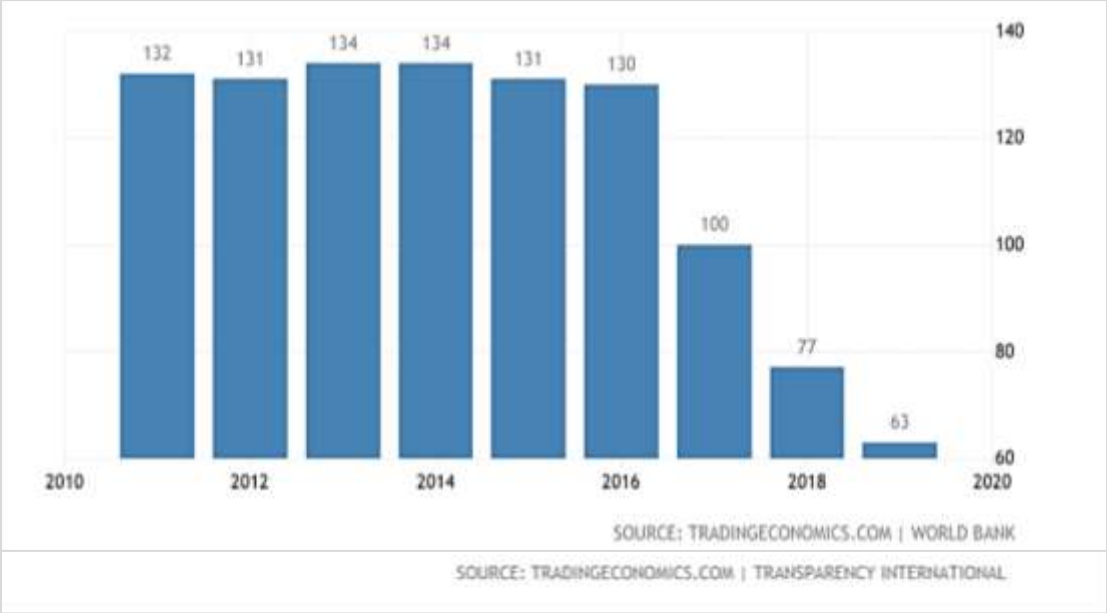
Appendix 3: Analysis of various economic indicators influencing international trade

Trade Deficit



India's trade deficit in goods narrowed to USD 14.54 billion in January 2021, from USD 15.30 billion in the same month last year and compared with preliminary estimates of a USD 14.75 billion shortfall. Exports were up 6.16 percent to USD 27.45 billion, boosted by sales of other cereals (343.57 percent), oil meals (257.50 percent), iron ore (108.84 percent), cereal preparations & miscellaneous processed items (44.88 percent), and rice (26.33 percent). Exports of petroleum products, however, slumped 32.06 percent. Meanwhile, imports increased 2.03 percent to USD 41.99 billion due to purchases of gold (154.70 percent). On the other hand, imports were down for oil (27.72 percent), transport equipment (-25.26 percent), and fertilizers, crude & manufactured (-11.57 percent). Considering April-January of 2020-21 fiscal year, the trade gap narrowed sharply to USD 72.0 billion from USD 141.2 billion in the same period of the previous year.

Ease of Doing Business



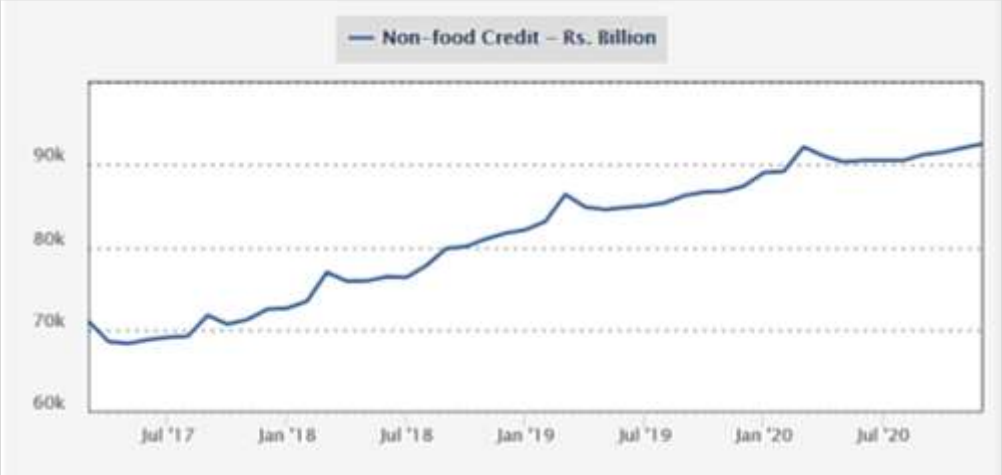
Corruption Rank

Foreign Direct Investment

Historically, there has been a sea of change in India's approach towards foreign investment since the early 1990s. Pre-liberalisation, FDI through foreign collaboration was only allowed in specific sectors related to high technology. A major shift occurred post-1991 reforms, whereby, restrictions were gradually removed in low technology areas. Over the last decade, reform measures have

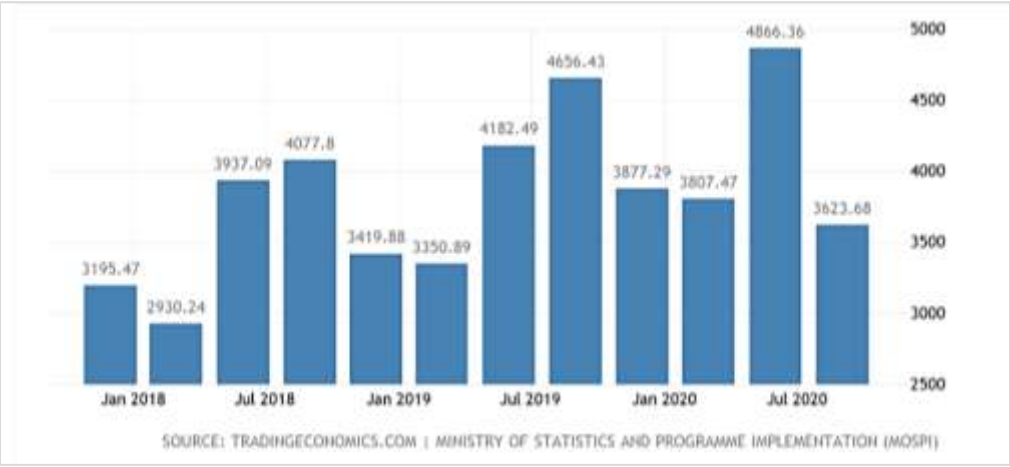
steadily gained momentum, as is evident from the ever-increasing volumes of FDI inflows being received in India.

Bank Credit



Since September 2016, credit to the industry has been slowing down, contracting by 1.7% for the first time in October 2016. The fall in credit to the industrial sector can be partly attributed to the twin-balance sheet problem (highly indebted companies and banking system plagued with rising NPAs) and partly due to a slowdown in credit demand post demonetization.

Government Spending



Government Spending in India decreased to 3623.68 INR Billion in the third quarter of 2020 from 4866.36 INR Billion in the second quarter of 2020.

Appendix 4: Theory of Comparative Advantage

Essentially, given a select set of environmental assumptions, trade would allow each nation to come away from the engagement with a higher level of satisfaction and a better mix of resources than was realizable before or without trade. The fundamental understanding in this argument was that in a model involving two nations, each producing two products while using one factor of production (labour), each nation would come into the engagement with a certain level of relative efficiencies of production. Ricardo maintained the idea that beneficial trade would then occur as each country comes to rely on individual comparative advantage, or when each nation produces the product that is relatively less expensive to produce (from both an efficiency of production as well as an opportunity cost stand point), and trades what is left over after consumption for the product which would have been relatively more expensive to produce domestically. The end result being that each nation comes away from trade able to realize a greater amount of product than would have been the case had she produced everything her-selves. Thus the main reason for Ricardian argument to prove the gains form international trade was the difference in technology of production across countries for the same good.

Appendix 5: Import Substitution and Export Industrialization: Case study of Taiwan and China

Due to its dexterous use of ISI and EOI policies, Taiwan and China recorded exponential economic growth from the 1960s to 1970s, and the 1980s to 1990s, respectively. In Taiwan's case, the shift from an ISI-only policy in the 1950s to a combined ISI and EOI policy took place between 1960s to the 1980s. Taiwan selectively opened up its market in the 1960s, and in the following years, between 1966 and 1970, its GDP increased at a rate of 9.8 per cent compared to a growth rate of 6.7 per cent between 1956-60. Furthermore, its share of exports in GDP, rose from 10 per cent to 55 per cent. During this time, Taiwan also pursued a "secondary ISI policy" that targeted intermediate and capital goods, and focussed on supporting the growth of chemical and heavy industries. It successfully leveraged the use of tariffs — some often exceeding 100 per cent — on imported goods in order to give protection to its import-substituted industry. Taiwan's self-reliance policy for chemical and heavy industries benefited its target industries, including, the petrochemicals, steel and iron products, and capital machinery, which became "significantly self-sufficient" — the replacement of imported intermediates and capital goods by domestic substitutes contributed more than 10 per cent to their growth. Similarly, the chemicals industry also built capacity and reduced the country's dependence on imports. As a result of this dual policy, between 1960-1973, Taiwan's export earnings grew by 28.7 per cent. Simultaneously, the heavy and chemical industries recorded its highest growth rate of any period between 1950 and 1985.Similarly, China, under the rule of Deng Xiaoping, shifted from an ISI-only policy in the 1950s to a dual track policy of EOI and ISI in the 1980s. In this second phase, the Chinese government — akin to Taiwan in the 1960s — prioritised growth of heavy industry and military armament through its 10 Year Plan. China implemented an ISI policy in the heavy industry sector, which included energy, iron and steel, machinery and chemical industries. With an average tariff rate of 43 per cent, China maintained high tariff barriers, compelling domestic firms to switch to products of import-substituting industries. Simultaneously, China also selectively liberalised its markets in 1979, mainly for primary raw materials rather than intermediate/finished goods. This allowed its domestic industries reciprocal access to foreign markets, and resulted in its share of exports rising from an average of 5.7 per cent in the 1980s to 12.4 per cent in the 1990s. China's GDP was growing at a rate of 15.1 per cent in 1984, as compared to -1.5 per cent in 1976. At the

same time, in the years between 1982 and 1984, heavy industry grew at 12.1 per cent, as compared to its 1.5 per cent growth rate in 1979-81 which was a direct result of China's ISI policy.