

A new version of Atmanirbharta

Prior to colonisation, India was an economic powerhouse. At the beginning of the 18th Century, India's share of the world GDP was about one-fourth. The main contributors to India's wealth were manufactured textiles and agricultural products (e.g. spices) to niche markets.

Producing highly innovative and quality products, Indian manufacturers dominated world trade in manufactured and agricultural products.

By the middle of the 18th Century, India had become a British colony and soon thereafter, lost its dominant economic position in the world. While India was being subordinated to the colonial enterprise, the West was starting to harvest the fruits of the industrial revolution. One key gain from the industrial revolution was increasing returns to scale - if input was increased by 3 times, then the output would increase by, say, 3.75

times. For this, western nations brought together private and public vested interests into increasing return industries.

William Dalrymple's book, *The Anarchy*, captures in detail the line up of private interests (East India Company) with the vested interests of the British Parliament/Government. Furthermore, research by the Norwegian economist Erik Reinert has shown that the colonial powers protected domestic industries from competition by relying on patents and protection (for industrialisation, rather than for revenue).

Initially, such policies were followed by all the colonial powers (e.g. Britain, Spain, Portugal) and later by the United States. After World War II, Japan and Germany

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During the 1970s, the South East Asian nations and, most recently, China have relied on a slew of such measures. However, India followed a different path of self-reliance after independence. The crucial difference was that private and vested public interests were seen as separate and not aligned to achieve the singular goal of increasing returns to scale.

Covid-19 has provided an opportunity to take a complete relook at the existing

idea of self-reliance and draw up a new framework of Atmanirbharta. The new framework would consist of two broad interventions. The first intervention would encourage large-scale manufacturing in order to take full advantage of economies of scale.

Simple and minimalistic policies would be designed to marry the private interests with a vested public interest, such as employment generation. Undoubtedly, implementing such a radical change throughout the country



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would face many barriers, therefore, initially the policy could be implemented in earmarked industrial parks, say, of size 10,000 hectares, located around minor ports.

The medium, small and micro industries (MSME) could achieve economies of

scale in two ways: one by scaling up production using state-of-art technology. Another way could be to manufacture high value, single products for sale in niche markets (including handicrafts, handlooms and khadi). This is what the German small and medium-sized companies, called *mittelstand*, do. What are the lessons for Indian policymakers from the German experience?

First, the *mittelstand* companies realise economies of scale by serving the large global market. They also form joint inter-company activities at the regional, national and international levels in order to gain a market position equal to what otherwise only large companies could achieve. These networks take the form of a legally independent centre

and covers a variety of areas, such as purchasing, marketing, logistics, IT solutions, financing services, consulting or training, and so on. In Germany, around 250,000 companies from around 45 different branches of trade, craft trades and service industry are grouped together in around 400 groups.

Second, the *mittelstand* companies adhere high quality standards and constantly innovate based on the customer requirements. Continuous innovation leads to development of propriety products, giving the *mittelstand* companies an edge in an extremely competitive market. Moreover, as the innovations have a strong customer orientation, the companies develop long lasting relationships with their buyers. This reduces the pressure on the companies to engage in aggressive pricing or offer discounts. The net effect is enhanced and stable profits.

Third, the *mittelstand* companies are largely located in smaller towns of Germany. By encouraging MSMEs to locate in the *mittelstand* way, the long cherished goal of Governments to locate industries in rural/rurban areas would also be achieved.

In short, India missed out on the industrial revolution and since Independence has been making efforts to catch up. The Covid-19 pandemic has provided an opportunity to reboot industrial development policies and rapidly draw level with other nations. The essence of the new version of Atmanirbharta would be to encourage manufacturing that leads to economies of scale by aligning private interests with vested public interests.

(Author is a Ph.D. from USA and a D.Litt. from Kanchi University. The article is based on his research and practice and views are personal)