Don't lose export focus at the altar of import substitution: Arvind Panagariya

KR Srivats
New Delhi

India must preserve its export-focused orientation and remain open to global markets for it to grow faster and move into a higher growth trajectory, Arvind Panagariya, Chairman of 16th Finance Commission has said.

This is even as the country had in recent years enhanced its focus on import substitution via Aatmanirbhar and Production Linked Incentives (PLI) to spur economic growth and employment.

Exiting this current phase of import substitution is going to be a challenge for a country like India, Panagariya said, in an exclusive interaction with Rahul Ahluwalia, Director at Foundation for Economic Development (FED), a think tank.

Arvind Panagariya, Chairman of 16th Finance Commission

Panagariya said that the intellectual support for industrial policy and import substitution remains strong in India. And there are few champions of an outward export-focussed orientation, he noted.

"I fear that, in our case, exiting this new phase of import substitution will be a challenge," he added.

OPEN DOOR

Panagariya said that he has looked at successful countries such as Hong Kong, Singapore, Taiwan, South Korea, China, and India — that have had high-growth. "My conclusion is very clear — countries that have been open are the ones that have grown rapidly", Panagariya said.

"This temptation of import-substituting industrial policy is not unique to India. A good example is South Korea. Between 1963 and 73, it grew rapidly, and exports had been a big part of the growth, but the import-GDP ratio was even higher, around 25 per cent, which is when the temptation to reduce imports by industrial targeting of heavy and chemical industry started. In the end, growth fell by 2-3 percentage points. The difference is that they realised it quickly and, by 1979, exited the industrial policy", he said.

On why countries with low per-capita incomes, such as India, must focus on exports, Panagariya explained how the global export market was worth $32 trillion in 2022, almost ten times India's GDP. "Even if we can capture the global market for a few products, that's it! We don't have to do anything else. That really is the China story — it acquired a very large share in certain products. And that gave China such a huge boost; for 3-4 decades, it grew at 10 per cent a year."