

TARIFFS PROPORTIONAL TO PRODUCTIVITY

# Swadeshi push, not ‘indiscriminate’ sheltering of industries, necessary

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Swadeshi is “inevitable and necessary” for India as developed nations raise export controls, enforce emission regulations and deny technology, said the Economic Survey on Thursday as it warned against “indiscriminate sheltering” of domestic industry.

“The policy question is no longer whether the state should encourage Swadeshi, but how it should do so without undermining efficiency, innovation, or global integration,” it said, warning that neither is all import substitution desirable, nor does it support long-term competitiveness.

Swadeshi — producing goods of the highest quality at the lowest possible price — should not be judged solely by import reduction, but by the creation of export capability in a world where capital flows are increasingly shaped by shifting geopolitical alignments and national interests.

“Swadeshi is a disciplined strategy rather than a blanket doctrine,” said the survey, adding that permanent protection is needless in sectors



The Survey also warned against protecting poor-quality producers through inverted duty structures.

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where India is cost-competitive, products act as general-purpose intermediates across supply chains, or where inputs are critical for labour-intensive industries. The survey proposed shifting away from protecting domestic industries through tariffs and restrictions. Import substitution is justified when domestic production is already feasible at reasonable costs and when time-bound protection to an industry can facilitate learning, scale-building, and productivity

gains. The protection should be conditional and not “indiscriminate sheltering of domestic incumbents”.

“India must pursue its near, medium- and long-term policy priorities of import substitution, strategic resilience, and strategic indispensability simultaneously. There is no time to waste. It is like running a marathon and a sprint at the same time, or having to run a marathon like a sprint!”

The survey warned against protecting poor-quality producers through inverted duty

structures. “The lesson is that protection without productivity-enhancing investment, capability upgrading, and export orientation creates fragility rather than strength.”

It called for a National Input Cost Reduction Strategy to encourage indigenisation without eroding exports. However, it has to be paired with input-cost reduction. “Reducing input costs is a necessary foundation for competitiveness, but it is not sufficient for capability building. Lower costs remove system-wide handicaps, but they do not by themselves create discipline, learning, or scale. Once the economy becomes cost-competitive, the binding constraint shifts from prices to performance, in the form of reliability, process control, quality, and coordination across institutions. It is at this stage that advanced manufacturing becomes decisive.”

The survey suggested that a national Swadeshi strategy should enable competition among states, reward outcomes, and disseminate best practices. The government’s task is to set direction, remove frictions, and provide credibility.