

Ease Up, Quality Cops

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The global economy is sailing through choppy waters. Escalating tariff wars, shifting trade alignments, and the resurgence of protectionism have unsettled cross-border commerce. Supply chains that once thrived on predictability now operate under a cloud of uncertainty. For India's Micro, Small and Medium Enterprises (MSMEs), the backbone of domestic industry and vital contributors to exports, these tremors translate into amplified vulnerabilities. With wafer-thin margins and limited buffers, smaller firms are disproportionately exposed to rising costs, compliance hurdles, and sudden disruptions.

Against this backdrop, India's regulatory choices assume heightened significance. The rationalisation of GST stands out as one of India's most consequential economic reform which has streamlined indirect taxation, fostered transparency, and is delivering broad based gains to both enterprises and consumers. But another equally consequential dimension of industrial policy, Quality Control Orders (QCOs), demands urgent scrutiny. The core question is not whether quality standards are essential; they undoubtedly are. Rather, the challenge lies in whether the design, sequencing, and timing of QCOs advance industrial competitiveness or inadvertently impede it.

Challenges and Impacts of Quality Control Orders (QCOs)

Quality Control Orders are statutory instruments issued under the Bureau of Indian Standards (BIS) Act, 2016. They constitute non-tariff measures mandating that designated products conform to Indian standards and obtain BIS certification before manufacture, import, storage, or sale. BIS thus operates as the standard-setter, notifying authority, and certifying agency all at once.

Since 2014, the number of products covered under QCOs has risen from 106 to 672 , a nearly sixfold increase. They now cover sectors ranging from metals and machinery to textiles, chemicals, and electronics. The stated objectives are sound: safeguarding consumers, curbing substandard imports, and catalysing domestic value addition. Yet timing is critical. In industries where domestic capacity is still embryonic, premature enforcement can disrupt supply chains, raise costs, and stall industrial momentum.

A particular concern arises from QCOs applied to intermediary goods. A recent CSEP study found that 48% of QCOs target intermediates. Imports fall by 13% in the year after a QCO and by 24% over the long term. Exports initially rise by 10% but decline by 13% in the second year, with no sustained gains. Poorly calibrated QCOs may thus constrain, rather than catalyse, competitiveness.

Consider the QCO on Aluminium Alloy Forging Stock and Forgings (Alloy 24345) vital for aerospace, defence, and healthcare. Domestic production is limited, and imports bridge critical demand. Mandatory BIS certification risks creating bottlenecks precisely in sectors India seeks to expand.

Similarly, the QCO on polycarbonates, effective from September 2025, is significant. Polycarbonates are indispensable in automotive, electronics, medical devices, and construction. India's demand exceeds 270 kilotons annually, while domestic capacity falls short, necessitating imports. Imposing QCOs without ensuring adequate supply risks escalating costs and delaying output in high-growth industries.

Looking beyond India, global trade demonstrates a paradox: countries must import to export. China's electronics story illustrates this. In the early 2000s, only 30–40% of its electronics export value was domestic; the rest relied on imported intermediates. Even today, China imports semiconductors worth nearly USD 385 billion annually more than its oil bill.

The lesson for India is clear. Modern manufacturing hinges on imported inputs semiconductors for electronics, polycarbonates for automotive, or speciality alloys for aerospace. Restricting such intermediates through rigid QCOs risks blunting India's climb up the export value chain.

India today stands at an inflection point. From green mobility and advanced electronics to aerospace and healthcare, the ambition is to anchor India as a central node in global value chains. To realise this aspiration, supply chains must be globally integrated yet resilient.

Overly stringent or hastily implemented QCOs risk introducing friction where agility is essential. Already, countries such as Thailand and Indonesia have raised concerns at the WTO over delays in BIS certification. Left unresolved, such issues could cast India as an unpredictable partner just when it seeks to project reliability.

Further, the distributional impact of QCOs is uneven. Large corporations, with compliance teams and financial buffers, can navigate certification regimes. MSMEs, in contrast, often face existential risks. Certification entails costs, delays, and complex logistics, compounded by the scarcity of accredited laboratories.

The unintended result is market concentration: well-capitalised firms consolidate while smaller ones struggle. Given MSMEs contribute nearly 30% to GDP and over 45% to exports, such distortions carry systemic implications.

Towards a Balanced and Strategic Regulatory Framework

The imperative is not to abandon standards but to calibrate them. India must move from a blanket approach to a strategic framework that evaluates readiness before imposing QCOs.

Four guiding criteria could structure this process:

1. **Domestic Capacity:** Is local production sufficient to replace imports, or will QCOs create scarcity?
2. **Technological Readiness:** Can Indian firms meet benchmarks without disproportionate reliance on foreign know-how?
3. **Capital Adequacy:** Do MSMEs have the resilience to absorb compliance costs?
4. **Supply Chain Elasticity:** Will QCOs disrupt downstream industries reliant on these inputs?

Reform need not dilute quality enforcement. High standards are indispensable for competitiveness. But regulation must enable, not stifle, industry. A recalibrated QCO regime could rest on three pillars:

- **Mutual Recognition of Standards:** Accepting credible international certifications aligned with BIS norms to ease compliance while reinforcing India's global standing.
- **Decentralised Certification:** Accrediting third-party bodies to alleviate bottlenecks and accelerate approvals
- **Predictable Implementation:** Clear timelines, phased enforcement in sensitive sectors, and uniform treatment across firms to anchor stability.

India aspires to become a USD 30–35 trillion economy by 2050 and meeting this goal requires precise, foresighted, and credible policy design. Trade and regulatory frameworks should build trust, reduce friction, and nurture competitiveness. Just as the rationalisation of GST has been a vital reform, reimagining the QCO framework offers the next critical frontier. A calibrated, predictable, and internationally harmonised approach can transform QCOs from hurdles into catalysts. By doing so, India can empower its MSMEs not only to survive global volatility but to lead as standard-bearers of quality, resilience, and innovation in the twenty-first century.

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