

Catching up with China and South Korea in Electronics

What is the issue?

To make India a global hub for electronics manufacturing, the government must come up with more incentives beyond The National Policy on Electronics 2019

What is India's position with respect to electronics?



IMPACT OF SCHEMES ON REMOVING DISABILITY

PLI: 4-6%

Financial incentive on large-scale production

SPECS: 0-1.6%

Scheme for promotion of electronic components and semi-conductors

EMC2+: 1%

Logistics plug-and-play infrastructure

INCOME TAX REBATE: 0.2-0.9%

RoDTEP*: 0.2-0.7%

In lieu of MEIS scheme

EASE OF DOING BIZ: 0.5%

Customs-bonded warehouse, port logistics reform

Total: 5.9-10.7%

* Remission of duties or taxes on export products; + electronics modified cluster schemes
Sources: Meity, govt, ICEA

STIFF TARGETS

Production value (\$ bn)
(domestic & exports)



Exports (\$ bn)



(%) Share in electronics hardware



(%) Global share in value

- Between 2015 and 2020, domestic electronics production jumped from \$29 billion to \$81.5 billion, a 23 per cent Compounded Annual Growth Rate (CAGR).
- India is the second largest manufacturer of mobile phones, though most of the components are imported.
- Now electronics manufacturing makes up **2.7 per cent** of India's GDP.
- This growth is attributed to the assembly of finished products from imported electronic components

- Electronics made up as much as 3.74 per cent of total exports in 2019-20.
- However, electronics imports fell only four per cent in 2019-20.
- Domestic demand for electronics hardware is expected to increase to around \$400 billion by 2025.
- Even 10 per cent of this manufactured domestically would lead to significant revenue or employment being generated.

What are the issues in this sector?

- Inadequate infrastructure
- Domestic supply chain and logistics challenges
- High cost of finance
- Inadequate availability of quality power
- Limited design capabilities and focus on R&D by the industry
- Inadequacies in skill development

What initiatives have been taken to promote electronics manufacturing?

- **Modified Special Incentive Scheme (MSIPS)** - offers subsidies for electronics industry was launched in 2012.
- **Phased Manufacturing Programme** - was launched to promote use of locally made components in mobile phones.
- **Scheme for Promotion of Manufacturing of Electronic Components and Semiconductors (SPECES)**- aims to provide financial incentive of 25 per cent on capital expenditure for the identified list of electronic goods
- **PLI scheme** - provides a 4-6 per cent incentive on incremental sales of goods manufactured in India for a period of 5 years

What can we learn from China and South Korea?

China and South Korea control around 48 per cent of the electronics manufacturing market in the world

- The Chinese government has provided investment and grants of up to 60 per cent of project cost and even 50 per cent subsidies in R&D costs.
- South Korean government has provided financial support to specific clusters, fund for building plants, tax incentives, low-interest loans and duty-free import of select capital goods.
- India needs heavy investment in building the R&D ecosystem.
- To make India a global hub for electronics manufacturing, the government must come up with more short-term incentives.

Source: The Hindu, Business Line

