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ELECTRONICS INDIA
Billion Needs Million Chips

FICCI

# 'Make In India': ICTE Manufacturing Session

## December 29, 2014 | Vigyan Bhavan, New Delhi

**DRAFT**

# **ICTE Manufacturing:** Our starting position

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| S.NO | STARTING POSITION |
|---|---|
| 1 | • **Significant, sustained demand growth projected for electronics in India**<br>- Demand for electronics manufacturing industry estimated at ~$100B across all sub-sectors (2014)<br>- Domestic consumption projected to grow at 10-15% CAGR across several sub-sectors, driven by increasing *'electronification'* and 'Digital India' |
| 2 | • **Domestic manufacturing accounts for only 1/3rd of current demand today; and the gap is projected to increase significantly**<br>- Investments significantly declined after ITA was signed (1996-97); made the sector broadly duty-free<br>- Indian hardware industry production constitutes **only ~1.3% of total global production** |
| 3 | • **Several key factors which inhibit supply side growth, need to be addressed urgently:**<br>- Create a globally cost competitive platform for manufacturers to serve domestic demand, & drive exports<br>- Increase ease of doing business (infrastructure, supply chain/ logistics, regulatory/ tax issues etc.)<br>- Attract top global OEM/ ODM manufacturers & encourage Indian players to set-up scale manufacturing facilities<br>- Develop an innovative, design-led ecosystem which accelerates growth (e.g. COEs, skilled manpower, ease of financing etc) |
| 4 | • The **Make In India campaign has the potential to provide a dramatic fillip to the industry**, along with the National Policy on Electronics<br>- Several companies which were not present in India have started investing (Continental, NIDEC, Magneti Mareli, Calsonic Kensai etc.); many others are on the anvil |

# Our aspiration for the future

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| S.NO | ASPIRATION |
|---|---|
| 1 | **Drive explosive growth in Electronics manufacturing:** Achieve "net zero" import over the next 10-15 years; enhance share of world trade to over 5% |
| 2 | **Create a robust, vibrant ecosystem across the value chain** for all electronics products, attracting investments from MNCs, domestic players and start-ups |
| 3 | **Build an entrepreneurial, "innovation-first" culture** which **leverages our core technical strengths** (e.g. systems design) **and skilled talent base** (e.g. India has the world's 3rd largest pool of scientists and technicians) |

**Create a globally competitive electronics design and manufacturing industry to meet India's needs and serve the international market**

# Current issues plaguing the sector

| S.NO | | ISSUE | TYPE OF ISSUE |
|---|---|---|---|
| 1 | **Unattractive sector economics** | • Industry estimates suggest an average 6-8% cost disadvantage to manufacture in India (depending on product category)<br>- Lack of enabling infrastructure leads to high inward freight & conversion cost<br>• Imports are incentivized (vs domestic manufacturing)<br>- Inverted duty structure; Zero-Duty regime owing to Information Technology Agreement (ITA) and Free Trade Agreements (FTA) | Structural – Infra<br>Budgetary |
| 2 | **Ease of business relatively low** | • Simplify existing regulations and fast-track implementation, to drive faster turn-around times (e.g. customs certification, WPC licensing clearances etc) | Policy |
| 3 | **Absence of component manufacturing ecosystem** | • Insufficient domestic demand (or export opportunities) for component manufacturers to set up base in India<br>- India has a geographical advantage and could be a significant manufacturing hub for EMEA (vs most other Asia countries) | Policy |
| 4 | **Limited innovation** | • Lack of collaborative testing/ R&D programs with the industry<br>• Absence of accelerator programs or easy financing for start-ups<br>- Lack of professionally managed, VC (or govt.) funding to invest in R&D | Structural |
| 5 | **Insufficient "industry ready" talent** | • Insufficient focus on electronics in post-graduation courses<br>• Labour requires significant re-skilling for absorption (e.g. electronics assembly lines) | Policy |

**India's trade deficit on account of electronics import could well exceed oil by 2020, unless we address these issues**

# ‘Make in India’ initiatives: *Progress till date*

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| | | |
|---|---|---|
| 1 | **Promote manufacturing ecosystem** | • **Modified Special Incentive Package Scheme (M-SIPS)**, provides CAPEX subsidy of 20-25%<br>  - 28 proposals approved e.g. Samsung, Bosch, Nidec, Tata, Tejas (Rs. 4,455 Cr planned investment)<br>  - 26 in pipeline (Rs. 14,371 Cr planned investment)<br>• **Approved 2 Electronic Manufacturing Clusters (EMCs)** which provide financial support for 50-75% common infrastructure; 12 EMCs approved in principle<br>• **Preferential Market Access (PMA) policy being implemented;** Cabinet Secretary monitoring to speed up implementation (held meeting on 26th Nov, 2014)<br>  - 3 additional products (32 total), notified for preference to domestic manufacturers (e.g. Biometric Access Control System, finger print sensor)<br>• **Two hi-tech incubators dedicated for electronics approved (Delhi, Patna)** with est. outlay of **~75 Cr;** one in pipeline (Kochi), with est. outlay of ~35 Cr. |
| 2 | **Invest in Human Resource Development** | • **Special PhD scheme launched** for Electronics and IT – 228 PhDs already allocated; target of **1500 additional PhDs in Electronics** in 5 years<br>• Scheme for setting up **7 new Electronics & IT Academies approved** (Nov 2014)<br>• Phase 3 of **Special Manpower Development Programme** for VLSI and Chip Design **approved** (Dec 2014)<br>• **Financial assistance** to the States/UTs **for Vocational Training approved; target of 4L individuals** |
| 3 | **Stimulate sector economics** | • **Inverted duty structure rationalized** in select Electronic products/components<br>  - E.g. LCD & LED TV, Colour Picture Tubes, EVA & PVC Sheets, Set Top Boxes, Telecom products<br>• **Electronic Development Fund policy approved** to support early stage/ angel and venture capital funds (Dec 2014) |
| 4 | **Streamline standards** | • **15 additional products** notified for testing and certification to curb unsafe and grey market imports (Nov 2014) |

# A note on the process

- A **preliminary set of recommendations from the industry** was developed**, after discussions with several companies and industry associations**
- These views were shared and **discussed with senior officials from DeitY and DoT, over the last week**
- **Four key initiative thrusts have been highlighted, with a few specific policy recommendations**
- We are **seeking additional input from the industry**, to further refine and flesh these key initiatives
- These **suggestions will be deliberated by the government, and further actions taken**

# **Four key initiative thrusts** are suggested, to drive electronics manufacturing on an urgent basis

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| | |
|---|---|
| **1** | **Create a vibrant, innovation-led ecosystem** |
| **2** | **Stimulate sector economics; attractive incentives to develop a globally cost competitive environment** |
| **3** | **Streamline existing regulations to improve ease of doing business** |
| **4** | **Attract Top global OEMs and component manufacturers** |

# Short term initiatives (over next 1 year)

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| S. NO. | | DESCRIPTION | TYPE OF INITIATIVE | RESPONSIBILITY |
|---|---|---|---|---|
| 1 | **Create a vibrant, innovation-led ecosystem** | • Approve and implement **Fabless chip design policy** for promoting product development<br>• **Operationalize** Electronic Development Fund **(EDF)**, including a **dedicated venture fund for telecom** | • Policy<br>• Process | • DietY, Ministry of Finance |
| 2 | **Stimulate sector economics** | • **Extend Focus Product Scheme (FPS)** to additional electronic products<br>• Allow **deferred payment of excise duty** for 7 years to manufacturers (**threshold value addition)**<br>• Extend Income Tax Act **Section 35 AD** benefits to electronics & telecom equipment manufacturers<br>• **Reform inverted duty structure** | • Budgetary, Policy | • Ministry of Finance |
| 3 | **Ease of doing business** | • Enable **self-certification** for custom clearances of zero duty components and inputs<br>• Ensure that licensing processes for **WPC and SACFA clearances** are simplified and made time-bound | • Policy | • Ministry of Finance, DoT |
| 4 | **Attract Top global OEMs and component manufacturers** | • Develop a **comprehensive 'package' to attract the top global companies** to Make in India<br>- Approve a **"Mega policy"** to attract large investors<br>- Develop a **safe harbour policy** and **advance pricing agreements (APA)** to reduce **transfer pricing disputes** | • Process | • Department of Commerce, Ministry of Finance |

# *Initiatives with medium term impact* (over next 3 years)

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| S. NO. | | DESCRIPTION | TYPE OF INITIATIVE | RESPONSIBILITY |
|---|---|---|---|---|
| 1 | **Create a vibrant, innovation-led ecosystem** | • Setup **National Centres of Excellence** in emerging areas like Micro and Nano systems, IoT<br>• Leverage **Defense procurement** of Electronics to promote defense manufacturing | • Budgetary, Policy<br>• Policy | • DietY, DoD, DoPD |
| 2 | **Stimulate sector economics** | • **Extend interest subvention scheme** to **telecom** equipment manufacturing companies to offset high finance cost<br>• Setup **duty free component trading and warehousing zone** (component FTWZ) to facilitate ease of raw material supply | • Budgetary, Policy<br>• Budgetary, Policy | • Ministry of Finance<br>• DeitY, Department of Commerce |
| 3 | **Ease of doing business** | • Develop a **legal framework** for fast approval of **medical electronic devices** | • Policy | • Dept. of Health & Family Welfare, Dept. of Pharma, DeitY |
| 4 | **Attract Top global OEMs and component manufacturers** | • Encourage **top global OEM and Component makers (LCD/Lithium Ion/PCB/etc.)** to manufacture in India | • Policy | • DeitY |

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