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India Announces New Scheme: Boost to Electronic Component Production

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Summary

The Indian government has approved a ₹22,919 crore (S$3.62 billion) scheme to boost the domestic manufacturing of electronics components. The initiative aims for a production value of ₹4.56 trillion (S$700 billion) with investments of ₹59,350 crore (S$9.38 billion). The key features of the scheme include the manufacturing of resistors, capacitors, inductors, transformers and other components vital for devices like mobile phones, laptops and tablets. The scheme is projected to generate 91,600 direct jobs. Incentives are proposed based on the number of direct jobs created. The scheme supports semiconductor manufacturing and finished products under the Production-Linked Incentive scheme. Customs and labour reforms are also proposed under the scheme.

A more comprehensive scheme, encompassing inputs, skilling and other aspects – premised on the experience of the Production-Linked Incentive (PLI) scheme announced in 2020 – is under consideration for well-performing sectors. Sectors such as footwear, toys, textiles and speciality chemicals are among the sectors likely to benefit from the new approach. The 2020 PLI scheme has helped substantially increase the production of phones and related accessories. Companies like Apple shifted a sizeable part of their vendor base to India but the import of components from China has continued unabated. Thus, in the footwear sector, where global giants are looking to step up sourcing from India, the inadequate supply of inputs from domestic sources makes the reliance on Chinese suppliers unavoidable.

It is in this context that the government has announced a ₹22,919 crore (S$3.62 billion) incentive scheme for manufacturing electronic components, spread over a period of six years. The scheme aims to deepen India's presence in global value chains while increasing domestic value addition in the country. The components that the government is looking to target through the scheme include display modules, sub-assembly camera modules, printed circuit board assemblies, lithium cell enclosures, resistors, capacitors and ferrites, among others. These components are used in gadgets like smartphones and laptops and appliances like microwave ovens, refrigerators and toasters, among others.

This incentive scheme differs from the government's earlier PLI scheme for electronics manufacturing in how participating companies can avail subsidies. Incentives have been linked to three key parameters – annual employment generation, capital expenditure needs and annual production.

The government is hoping that at least 91,600 direct jobs will be created as part of the scheme and has tied participating entities' yearly subsidies to the number of jobs they

create. The scheme is expected to generate production of ₹4.56 trillion (S$700 billion) and bring in incremental investment of ₹59,350 crore (S$9.38 billion).

To further aid electronics manufacturing, the Ministry of Electronics and Information Technology is in discussions with the labour, commerce and finance ministries to figure out labour reforms specific to the sector, resolve the classification of components and rationalise import duties. The components incentive scheme is a crucial next step as the PLI scheme for smartphone manufacturing is nearing its sunset. Despite getting companies like Apple and Samsung to localise some of their overall assembly in India, the domestic value addition has been relatively low — around 15-20 per cent — with the government hoping to raise it to at least 30-40 per cent. China, which has had a decisive lead in the electronics components sector for several decades now, has a domestic value addition of around 38 per cent.

Alongside the incentive scheme for semiconductors, the government has now launched support for practically all layers of electronics manufacturing, making the sector a crucial growth driver for the Indian economy.

The information technology ministry had carried out an internal assessment last year, in which it was found that there was a huge demand-supply gap in the electronic components sector — to the tune of ₹8.3 lakh crore (S$134 billion) for domestic consumption alone and ₹11.6 lakh crore (S$188 billion) if India wanted to export some components. That would have been almost 10 times that of India's current domestic capacity. In 2022-23, the country's electronic components production stood at ₹87,000 crore (S$14 billion), accounting for only about 10 per cent of total electronics production.

According to the assessment, the government has identified three key challenges in terms of electronic components manufacturing. The first is the woefully small capacity of domestic production within the country. The second is a high investment to turnover ratio – in terms of finished products such as smartphones, which is what India is currently focusing on. It is expected that every rupee of investment can bring it around ₹20 (S$0.32). However, in the case of electronic components, every rupee of investment will bring around ₹2-4 (S$0.032-S$0.064). Third, India has high domestic demand because of which a large chunk of components are being imported: electronics is the second largest import commodity after oil, accounting for nearly 75 per cent of the total electronics production in India.

If this continues to be the trajectory, component demand is expected to reach ₹13.3 lakh crore (S$215 billion) by 2028-29. As component imports continue to grow at around 12 per cent, the government's internal assessment is that component production with exports would have to grow by a compound annual growth rate of more than 53 per cent to meet demand. This significant gap in the availability of components required for electronics production makes it imperative for the government to launch a scheme which will substantially enhance the domestic component production capacity within the country.

The internal study has also revealed that while the PLI scheme for smartphones has resulted in a near tapering of imports of finished products, the import of key components and sub-

assemblies, including integrated circuits, increased from ₹2.47 trillion (S$39 billion) in FY2021 to ₹3.96 trillion S$62.5 billion in FY2023.

In its objective of attempting to become *Atmanirbhar* (self-reliant), the government will have to ensure that domestic production of electronics, which are a major export earner besides having a huge domestic demand, are adequately supported by a significantly enhanced domestic component manufacturing capability.

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