Boost India's Capital Goods Sector

Why in news?

India has the opportunity to create national champions in the capital goods sector.

Picture of Capital Goods Sector in India
• **Capital Goods** - It is a category of stocks related to the manufacture or distribution of goods. • It includes companies that produce machinery, electrical equipment, aerospace and defence, engineering, and construction projects. • **Status** - The current value is at *US 70 billion dollars,* contributing about *2% to the country's GDP.* It is likely to cross US 100 billion dollars by 2025, in line with the growth of the Indian manufacturing sector. • It contributes *12% to the overall manufacturing* in India. • It employs *1.4 million people.*

What are the challenges present in capital goods sector?

- **Financial crunch**- India invests only ***0.7% of GDP*** compared to 2.5% of the developed world, which affects the competitiveness and productivity of Indian industry.
- **Poor skillset**- There is a mismatch between the jobs and the people, which is counter to the demographic dividend that India currently holds.
- **Inverted duty structure-** The import duty on raw materials and components is higher than the import duty on finished products, making domestic production uncompetitive and discouraging value addition.
- **High export transaction costs-** It includes costs related to transportation, logistics, documentation, certification and compliance, which increases the time and money required to export capital goods from India.
- **Lack of strong institutional mechanisms** - There is a lack of adequate and timely financing, insurance and marketing support for exporters of capital goods, especially for MSMEs.
- **Poor demand**- The traditional markets for Indian capital goods, such as the US and Europe, have been experiencing low growth and reduced investment, affecting the export prospects of the sector.
- **Slowdown in domestic demand**- This is due to policy uncertainty, regulatory hurdles, land acquisition issues, environmental clearance delays, and infrastructure bottlenecks, etc.
- **Lack of private players**- Private sector accounts for *75% of total investment in capital goods*, but there is slowdown in private investments due to low-capacity utilization, high debt, and low profitability.
- **Lack of awareness**- MSMEs and SMEs form large part of capital goods but they are

not aware of international standards and norms required to export their products.

Steps taken to promote Capital Goods Sector
• **National Capital Goods Policy-** It was launched in 2016 to promote the development of capital goods sector. • **Production Linked Incentive-** It was launched to provide incentives on incremental sales from products manufactured in domestic units. • **National Infrastructure Pipeline-** It is a long-term plan to invest over 1.4 trillion dollars in various infrastructure sectors such as energy, transport, water, digital, and social *by 2025*. • **National Logistics Policy-** It was proposed to reduce the cost of logistics to *10% of GDP from the current 13-14%.* • **PM Gati Shakti-** It is the national master plan for multi-modal connectivity to economic zones and aims to bring 16 ministries together for integrated planning and coordinated implementation of infrastructure projects. • **Samarth Udyog scheme-** It promotes digital transformation and Industry 4.0 in Capital Goods sector.

What are the ways to improve the capital goods sector?

- **Foster innovation**- Investment in research will form the foundation for success of industrial development.
- **Policy support**- *The Scheme for Enhancement of Competitiveness of the Capital Goods sector* should be scaled up as it is nurturing collaboration between industry and academia with remarkable results.
- **Infrastructure support**- Buildind a strong logistics and port infrastructure would reduce the cost associated with transportation.
- **Skill development**- There is a need to skill and reskill the workforce to meet the changing demands of the industry.
- **Promote environment sustainability**- India should be a responsible and sustainable player in the global trade and prioritise products with a low carbon footprint.
- **Access to testing facilities**- India should ensure access to facilities for product testing, performance evaluation, and certification, especially for MSMEs.
- **Impetus to Industry 4.0-** It emphasises the integration of digital technology into manufacturing processes which will not only improve efficiency, but also enhance the capital goods sector's capacity for innovation and adaption to changing market demands.
- **Trade facilitation-** Tariff rationalisation, trade agreements and diplomatic efforts will have to go hand-in-hand.
- **Global collaborations-** India can learn from joint ventures, technology transfers and collaborative research with other countries until it develops its own capabilities for *"Creating in India".*

What lies ahead?

- The cascading effects of having a booming capital goods industry will help provide insulation from the uncertainties of the world and truly transform India's aspirations from '*Make in India to Make for the World'.*
- With the momentous task of transforming India into the *'Factory of the world'* and to

reach a production size of 112 billion dollars by 2025, a concerted approach is the way forward

- There is a need to boost manufacturing and capital goods sector to achieve the India's *vision for 2047* as a developed nation.

References

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