

## India's Capital Goods Sector

### Why in news?

To seize India's Capital Goods in the Global Electronics Revolution, there is need to embrace the innovative spirit that drove the Industrial Revolution.

### What is a capital goods sector?

- It is also known as the ***industrial sector***, a vital part of manufacturing and is the foundation for many industries.
- **Capital goods** - They are *tangible assets* that are used to produce consumer goods or services.
  - For example: Buildings, machinery, and equipment
- They are *durable items*.
- **Core capital goods** - They are a class of capital goods that excludes aircraft and goods produced for the Defense Department.



	Capital Goods	Consumer Goods
<b>Definition</b>	They are physical assets that are used in production process to produce consumer goods.	They are the finished products that consumers buy after the production process.
<b>Users</b>	Manufacturers	Final consumers
<b>Examples</b>	Plant, property, equipment, etc.,	Milk, appliances, clothes, etc.,

- However, *some capital goods can be considered consumer goods*, such as airplanes, used by airlines and some consumers.
- **Significance** - Investing in capital goods symbolise a nation's ability to innovate,

produce, and lead.

- It enhances exports and enable the nation to compete globally in international completion.

### How India's capital goods sector boosts electronic industry?

- **Relation of Capital goods with electronics** - Capital goods are central to the vision of expanding the electronics production.
- They enable us to produce high-quality electronics efficiently and at scale.
- **Electronic industry** - Globally, the electronics market, currently valued at \$4.5 trillion, is anticipated to soar to \$6.1 trillion by 2030.
- **India electronics production** - It has reached an impressive milestone of approximately \$115 billion in FY24, growing by almost four times in the past decade.
- Projections for the next five years are even more promising, with expectations to multiply this figure by five times.
- **Need of robust capital sector** - As *India aims to increase its electronics production by five times* thus the demand for advanced manufacturing technologies will also surge, necessitating a robust domestic capital goods sector.
- Currently the sector contributes 12% of the total manufacturing output, and in turn manufacturing sector contributes around 17% to the GDP of the country.



Direct and indirect employment expected to reach 5 Mn and 25 Mn, respectively by 2025.



India was the world's 8th largest consumer of machine tools globally, as of 2021



Indian Electrical equipment is the largest sub-sector followed by Plant equipment & Earth moving/ mining machinery.

### What are the challenges faced by capital goods sector?

- **Lack of infrastructure**- Insufficient *transportation and logistics networks*, affects the efficiency and cost of manufacturing and delivery of capital goods.
- **Financial constraints**- Access to affordable finance is limited, and the *high cost of borrowing* affects investment in new technologies and capacity expansion.
- **Policy and regulatory challenges**- Frequent changes in government policies and regulations create uncertainty, making long-term planning difficult for businesses.
- **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.

- **Reduced skillset**- There is a *mismatch between the jobs and the people*, which is counter to the demographic dividend that India currently holds.
- **Lesser 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.
- **High export transaction costs**- It increases the time and money required to export capital goods from India.

### What lies ahead?

- Close demand-supply gap by meeting both the domestic demand and targeting the export market
- Create dedicated centre with a substantive corpus of minimum ₹1,000 crore focused on innovation in capital goods, potentially housed at the Central Manufacturing Technology Institute (CMTI).
- Promote strong R&D ecosystem to develop indigenous technologies that not only meet international standards but also set new benchmarks in quality and efficiency.
- Create a dedicated funds for acquiring and enhancing capital goods, including second-hand equipment.
- Strong collaboration between industry and academia can foster innovation and ensure that research aligns with industry needs.
- Formulate supportive government policies for the growth of the capital-goods industry by providing incentives for R&D, facilitating ease of doing business.
- Adopt eco-friendly technologies and processes.
- Embrace digital technologies for more efficient and cost-effective production.
- Address technology and skill gaps is also critical for India's ambitions in the electronics sector.
- Form joint ventures with global leading firms to facilitate skills and technology transfer.

### References

1. [The Hindu| Elevating India's Capital Goods Sector for Electronics Revolution](#)
2. [Invest India| India's Capital Goods Sector](#)