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
Definition	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.
Users	Manufacturers	Final consumers
Examples	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.



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

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