Making 'Make in India' Work

What is the issue?

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- Electronics, principally mobile devices and telecom equipment, were the cornerstones of “Make in India” policy.
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- But the measures taken as part of this are not encouraging in their achievements, calling for more workable policy decisions.
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What are the key measures?

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- The key objective of 'Make in India' scheme is to reduce the ever-increasing import bill on electronic items.
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- To this end, the government announced in 2017 an ambitious phased manufacturing programme (PMP).
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- This is to transform India into a major hub for domestic mobile device production and increase value addition by creating a large component vendor base.
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- Backing this was a punitive import duty on components that were not manufactured in India during the financial year set under the policy.
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- To boost “Make in India”, the government also offered preference to companies that met the mandated local content levels in public procurement contracts.
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What are the claims in this regard?

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- **PMP** - Indian Cellular Association (ICA) has achieved the PMP target of Rs 500 billion for domestic component manufacturing a year ahead of schedule (2019-20).
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- Its members have manufactured over Rs 1,650 billion in terms of value of mobile devices in the country, ahead of the target of Rs 1,500 billion.
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- Also, over 120 manufacturers have set up units in India.
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- Imports as a percentage of total production has fallen to 10%.
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What is the real scenario?

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- **PMP** - Local manufacture of crucial components has still not taken off.
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- So the average industry value addition on mobile devices is around 20%, though the target is double that by FY2020 for smartphones.
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- Indeed, ICA admits that production of microphones and receivers, die-cut parts and camera modules have not taken off.
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- But, notably, these were listed as key components under the 2017-19 PMP programme.
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- **Preferential purchase** - The rule does not extend to private mobile operators.
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- But government contracts account for just one sixth of total equipment value (Rs 20,000 – Rs 30,000 annually).
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- Also, domestic manufacturers complain that public sector tenders are often tweaked with additional specifications, so that they cannot participate, leaving it to global players.
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- So in all, the preferential purchase policy to domestic manufacturing has also not been that effective.
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What is the government's response?

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- The government recently decided to advance by two months the target for locally manufacturing a new set of key components, under the 2018-19 PMP.
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- These include display assembly, touch panels, cover glass assembly, vibrator motors and ringers.
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- But there is opposition from the industry side because manufacturing these components requires large investments and between 18 and 24 months to set up.
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- Moreover, most manufacturers have not invested yet.
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What do the manufacturers demand?

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- Manufacturers are demanding that the deadline be postponed for a year.
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- If not, the stiff 10% duty on importing these components will increase the cost of producing mobile devices in India.
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- It will also encourage many manufacturers to simply import the entire device.
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- Manufacturers call for strengthening the domestic manufacturing base for products like camera modules and other items which are under the earlier PMP.
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- This is more feasible than adding new components to the list for which large investments would be required.
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- Meanwhile, importing the other items makes sense for many global players that have factories in countries like Vietnam.
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- From there, they can import without duty under the free trade agreement.
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What are the policy shortfalls in India?

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- Global players say they would like to manufacture more in India but the value addition norms are too steep.
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- The local content requirement ranges from 50 to 100% in 2019-20 and that is impossible to do so as the component vendor base is poor.
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- Even in Vietnam and Taiwan the value addition is less than 20%.
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- At the heart of the problem is inadequate incentives to set up a global component base.
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- Unlike in the auto industry, global vendors for key components are limited to five or six big players and they prefer to set up a few mega plants to leverage cost through volumes.
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- So they set up units in countries from where they can serve at least a fourth or fifth of their global market.
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What is to be done?

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- Manufacturers not only look for domestic market but also for an export hub to efficiently export, for government’s incentives and ease of doing business.
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- So merely increasing duty on components and hoping manufacturers to come to India is far-fetched.
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- The slowdown in China and the trade war has offered new opportunities.
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- Mobile device manufacturers and telecom equipment makers and their vendors search for an alternative.
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- India has an opportunity, but it is Vietnam and Malaysia that are more competitive now.
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- India has to bring in place more relevant and practical policies, to make 'Make in India' work.

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Source: Business Standard

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