



# IAS PARLIAMENT

*Information is Empowering*

A Shankar IAS Academy Initiative

## Boosting Electronics sector

### What is the issue?

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Electronics imports of India is raising and it deems necessary to boost indigenous manufacturing in the sector.

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### What was the scenario before?

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- In the mid-1980s, India with an annual export of \$70 million was ahead of China in electronics and computers hardware sector.
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- Firms such as Wipro and HCL had end-to-end capabilities in hardware design, manufacturing, sales and services.
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- But the import duties on components remained high and clearance for it stayed as a big hassle, making it difficult to expand operations.
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- This was done because the government was more concerned about the misuse of imported components and future revenue losses.
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- It also did not allow import of Printed Circuit Board, the most critical element for computers.
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- These measures continued in the following decades which made India lag behind in the manufacturing of the electronics and hardware sectors.
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- On the other hand, China with an incentive-driven strategy reached \$600 billion in annual exports, which also became the world leader in the same period.
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## What was the Nokia story?

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  - Nokia decided to set up manufacturing facilities at Sriperumbudur SEZ in Tamil Nadu in 2006, attracted by India's vast market.
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  - Nokia moved to India along with its seven component suppliers and in the next few years, it started selling phones on a large scale.
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  - Exports rose to exceed \$2 billion during 2010-13, but the local leaders tried to subvert the Nokia worker's union, demanding scrap contracts and free phones.
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  - There were also allegations of showing domestic sales as exports on part of the company and it has also received a bigger tax notice from the Income-Tax Department in the later period.
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  - Both the tax department and the company have differently interpreted Finland-India Double Tax Avoidance Agreement, which ultimately ended in the plant shutting down in 2013.
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  - This made India's mobile phone exports collapsed from \$2 billion in 2013 to \$200 million in the following year.
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  - All 7,000 direct and 10,000 indirect employees including 70% women lost jobs.
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  - China was the only gainer as most imports of mobile phones came from China.
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  - The Nokia story dented India's image as a robust investment destination.
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## What should be done?

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  - **Focus** - India needs to promote deep manufacturing and not superficial assembly of components.
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- For example, lower import duty on components and higher on mobile phones made mobile phones assembled in India cheaper than the imported mobile phones.  
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- This made many firms to set up units to take the benefit, but they import ready-to-assemble kits from China.  
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- **Investment** - Although India's mobile phone imports came down in 2017, the combined import of mobile phones and components rose from \$15 billion in 2015 to \$20 billion in 2017.  
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- Thus India has to invest in semiconductor fabrication plants which build semiconductor chips and mobile phones, computers, or telecom products.  
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- The focus should also be on the manufacturing of critical parts like Mother Board/Printed Circuit Board (PCB) assembly and Integrated Circuits.  
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- These components serve as the heart of a computer, laptop, tablet, mobile and most electronic devices.  
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- **Model** - India could also follow a Chinese model of attracting MNC's through incentives like low-cost land, power, water, labour, tax exemptions and an efficient customs administration.  
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- This model made China the lead exporter of electrical machinery, electronic and telecom equipment by 2005.  
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- **Measures** - India could offer a robust incentive package to few anchor firms to set shop in India along with their dedicated component manufacturers.  
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- These may include low corporate tax at 10% and a 30-year lease of land lying unused at many SEZs.  
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- We must also allow the creation of a component hub that should ease bulk import where duty should be charged only at the time of clearance.  
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- This will ensure quick supply of components to meet an export/domestic order.  
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- The electronics story of the past four decades has suffered from bureaucratic short-sightedness and ambiguous tax regime.  
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- Thus, clearly worded tax laws that leave nothing on interpretation, freedom from interference in day-to-day operations and an attractive tax concession

package could attract large investments into this sector.

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- It would also kick-start investment-production-exports cycle in critical sectors like electronics, computer, and telecom, which will also pave the way to manage the rising current account deficit.

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**Source: Business Line**

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