India Exim Bank

DOMESTIC POLICY CONSTRAINTS FOR EXPORTS IN SELECT SECTORS

- REPORT ON EXPORT HUBS

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INTRODUCTION

The Government of India has long been concerned about the country's poor export performance and trade deficit. It has emphasised raising merchandise exports to reduce the trade deficit, and increase manufacturing output and employment. Most recently, the Finance Minister of India in her Budget speech stated that:

"It is the vision of the Prime Minister that each District should develop as an **export hub.** Efforts of the Centre and State governments are being synergised and institutional mechanisms are being created."[1] (emphasis added)

Similarly, with reference to export hubs and Global Value Chains (GVCs), India's Economic Survey 2020 states that:

"India has huge potential to emerge as a **major hub for final assembly** in a range of products, referred to as "network products" (NP) … The GVCs in these industries are controlled by leading MNEs such as Apple, Samsung, Sony etc. within "producer driven" networks. In general, these products are not produced from start to finish within a given country; instead, countries specialize in particular tasks or stages of the good's production sequence."[2] (emphasis added)

The concept of an export hub is closely linked to that of global value chains (GVCs). A hub connects, manages and aggregates several parts of the GVC to result in an increase in the volume of exports. The export hub requires the presence of a "lead firm" which manages the different parts of the GVC and enables the product to be successfully placed in different global markets. The Economic Survey also indicates that the lead firms help develop the eco-system or supply chains within the domestic economy to provide a sound basis for the export hub, i.e. they create export-potential and help develop a number of products and activities linked to (and generated due to) the export hub.

This short Report is a result of discussions with exporters from selected sectors, as well as policy makers in the Government that focus on improving export performance. In this context, lessons from the strategies and experience of some key competing nations such as China and Vietnam were also useful to understand their policy measures to improve their participation in GVCs.

This Report is organised as follows: Chapter 1 outlines the framework of policies and strategies that are needed for creating an export hub. Chapter 2 provides a discussion on policy measures that are considered important by major global firms for investing in a particular country or to increase their operations, which helps build major export hubs. Chapter 3 summarises the main lessons from the strategies and policies emphasised by Vietnam and China. Chapter 4 discusses the insights gained from discussions with industry/ exporters and policy makers in specific sectors. The policy steps and

[1] Paragraph 47 of the Budget speech; https://www.indiabudget.gov.in/doc/Budget_Speech.pdf
[2] Paragraph 5.21 of https://www.indiabudget.gov.in/economicsurvey/doc/echapter.pdf

approaches depend on the differences in the operational context and business opportunities for specific sectors. The concluding Chapter summarises the main findings.

The Report has two Annexes. Annex 1 provides a background with some key concepts and factors which are crucial for establishing and operating a value chain. Annex 2 reproduces key aspects of a recent major announcement by the Government of India to support/ incentivise major global firms to invest in electronics and create global hubs here for sales to external markets as well.

CHAPTER 1

The Framework

Four important concepts are introduced here. They form the basis for the framework within which export hub policies should be considered.

1.1 A "lead firm" is crucial to enable the successful establishment of an export hub

The large number of activities and standards- related requirements for products that are a part of the value chain require an important over-arching entity to manage it and connect the product to export markets. Lead firms are international or domestic firms that manage/ oversee the value chain process and help sell exports to key markets. Without a lead firm, supply chains cannot be consistently and effectively managed. Likewise, without a lead firm, placing the product in a specific large export market is not easy. The above quotation from the Economic Survey mentions some of the lead firms in the context of electronics. Table 1 shows the types of activities that are overseen or managed by lead firms.

Table 1. Activities Overseen/Managed by Lead Firms and Policies Relevant for Consistency Among Different Parts of an Export Value Chain

Co-ordination by Lead Firm	Policies Affecting Domestic Input	Policies Affecting Imported Input	Policies Affecting Exports
Transport →	Internal Transport (Road, Sea, Air)	International/Internal Transport (Road, Sea, Air)	Internal/International Transport (Road, Sea, Air)
Quality →	Quality; Timely Response	Quality; Timely Response	Quality; Timely Response
Standard →	Standard (domestic)	Standard (Imported Input)	Standard (Export Market)
Labelling Requirement →	Labelling Requirement (Domestic)	Labelling Requirement (Imported Input)	Labelling Requirement (Export Market)
Other Regulatory Conditions →	Reg. Requirement (Domestic)	Reg. Requirement (Domestic and Imported Input)	Reg. Requirement (Domestic and Export Market)
Regulatory Clearances: → - Production - Transport - Other Approvals	Reg. Requirement (Domestic)	Reg. Requirement (Domestic and Imported Input)	Reg. Requirement (Domestic and Export Market)

1.2 Creating and Efficiently Enabling Export Hubs Requires a Combination of a Strategic Approach and Relevant Policy measures

Establishing and enabling export hubs needs to begin with a strategic approach relevant to the sector being considered. The lead firms need to be identified and approached. A deep analysis is required to understand the key markets which could provide a basis for an ambitious export target. Given that new suppliers of inputs from the domestic market will replace the existing international partners of the lead firms in their GVC, it is crucial to enable and facilitate the transition to the new participants in the GVCs so that they become globally acceptable.

An important point to keep in mind is the need to keep the policy initiative as simple as possible. A few sectors could be selected to begin with. Key priority areas of policy focus should be identified together with policy measures which could be implemented within six months to one year. The policies implemented for these sectors would include some with a much wider impact, i.e. those benefiting several other sectors as well

Moreover, if a national level decision is taken for the creation of export hubs, a national level emphasis should be given to this objective by all Ministries. A High-Level Co-ordination Committee should be established, similar to the National Committee on Trade Facilitation (NCTF), involving the relevant stakeholders as in the case of the NCTF. Further, since developing export hubs in specific sectors is likely to be a focused target area, every six months a progress Report could be made to an inter-Ministerial meeting chaired by the Prime Minister, or by a Minister delegated by the Prime Minister. Countries which have succeeded in establishing export hubs have done so with an active role of the highest executive authority in that nation. Such an initiative for export hubs could be part of a revised agenda for Make in India, i.e. Make in India 2.0.

1.3 Policies for Export Hubs – Some are Common Across Sectors and Others are Specific to the Sector Concerned

The operational context, product and technological characteristics, and major requirements for an efficient value chain may vary across different sectors. A number of the relevant policies, e.g. ease of doing business or financial assistance for capital investment, are common across different sectors. Some policies, however, may be sector-specific, such as those concerning the specific standards or other requirements for selling a particular product in major export markets.

To get a good insight into these aspects, it is essential to engage in discussion with lead firms, other stakeholders, and consider the overlap with ongoing policy initiatives to assess where improvement in policy is required or which specific issues require an introduction of new policy initiatives. The overall approach, nonetheless, has to be an emphasis on consistency and timely policy response to facilitate the activities shown in Table 1 above.

1.4 It is essential to support and facilitate the development of a domestic ecosystem that incrementally provides domestic skills and inputs into the value chain of the export hub

While the lead firm is essential for export, so is a domestic ecosystem. In general, the lead firm helps develop such a web of activities through its demand for products, attracting its international suppliers to the country of location, and supports a transition process by training its workers and suppliers. This process can be supported and consolidated through policies which are specifically oriented towards addressing the gaps in the domestic ecosystem, with a focus on certain priority areas for early action.

CHAPTER 2

Attracting Lead Firms to Invest in the Country, and Encouraging Those Within the Country to Expand Operations to Create a Major Export Hub

A large part of this Chapter is based on detailed discussions with investors in the electronics sector, with a specific focus on mobile phones. Interactions with a number of other sectors covered in this Report show that the specific policy areas of focus mentioned here are relevant to them as well. The purpose of the discussion is to conceptually separate three kinds of concerns in the context of export hubs.

There are certain policies emphasised by foreign investors (international lead firms) when they evaluate options for investment among different countries. These policies determine whether global firms would invest in a specific country. More than one nation is trying to attract investment from the large global firms. The policies relevant to the decision on whether or not firms invest in a given market could be termed as areas where adverse operational conditions create a "chill" or "freeze" in the investment decisions.

These policies with a possible "chill" or "freeze" factor are also relevant when a major global firm (a potential lead firm) operating with the country, examines the possibility of increasing its investment to a higher level so as to establish an export hub.

The above mentioned policies are also part of the policies which affect the competitiveness of a nation, that form a larger set of policies. An important factor in this context is that policies that affect competitiveness are given varying importance by investors (lead firms). Notably, certain policies that create an investment "chill" are relatively less important than some other policies for improving competitiveness, but they are crucial for any effort seeking to promote investment or support an export hub.

Table 2 below shows the results of discussions with investors and exporters conducted by India Cellular and Electronics Association (ICEA). As mentioned above, Table 2 shows that the investment "chill" factors are not necessarily considered the most important for competitiveness. However, they are significant for building confidence among the lead firms about the credibility and effectiveness of governance mechanisms which enable smooth operation.

Tax policies, leadership (and stability of that leadership), the approach of the State bureaucracy, good infrastructure and easy availability of land are important factors which determine the investment

decision of a lead firm. In this context, countries that have encouraged export hubs have relied on a focused approach through industrial zones or plug and play facilities.

The factors which affect competitiveness provide a basis for discussions with lead firms on specific steps that would increase investment levels and create export hubs. Countries that have been successful in establishing export hubs have paid specific attention to the two sets of policies mentioned in Table 2 below, considering them within a strategic approach that is based on a detailed discussion with potential lead firms.

Table 2. Factors Which Affect Investment and Competitiveness of Lead Firms

Importance Given to Individual Factor in Terms of Impact on Competitiveness (%)	Factors Important for Investment Decision	Affecting Competitiveness	Cause Investment "Chill/Freeze"
15%	Tax Policies and Administration	√	√
14%	Attractiveness and Credibility of Special Package	√	
14%	Logistics	√	
10%	Manpower	√	
	- Cost of Labour	√	
	- Availability of Labour	√	
10%	Leadership and stability	√	√
10%	State Bureaucracy and Administration (approach towards ease of doing business and stability and timeliness of policy response)	√	√
9%	Infrastructure (regular supply of adequate power, water, transport, quick clearances, efficient ports/airports)	√	√
7%	Land	√	√
6%	Industrial Relations Scenario	√	
5%	Social Infrastructure	√	

Source: ICEA

Note: Tax policies and administration includes tax reduction/exemption (i.e. subsidies) for specified investments and assurances that these policies will be administered in a stable, predictable and assured manner. In that way, this factor overlaps with "Attractiveness and Credibility of Special Package".

CHAPTER 3

Lessons from Other Countries That Have Established Export Hubs: Vietnam and China[3]

Both China and Vietnam have adopted the two-pronged approach mentioned above. They have a consistent strategy which emphasises a coherent approach towards developing a system that focuses on facilitating export initiatives in a major way. They particularly emphasise the creation of an export hub. While China has a thriving large ecosystem for many product areas, Vietnam has focused on selected areas for expansion. The approach however is similar for both.

A major part of Vietnam and China's strategy is a focus on attracting mega-firms or "lead firms" that are key players in GVCs. Both Vietnam and China aim to attract investment, through a framework which includes inviting investment from lead firms as well as other foreign direct investment. This approach also attempts to incentivise domestic producers to link up with the production processes of foreign investors. The major focus is on large global firms which could be a basis for creating global export hubs.

This initiative is implemented within a conceptual framework that identifies priority sectors for which more attractive set of incentives and support policies are provided. The policy approach and specific policies of Vietnam and China are part of a coherent framework focused on creating major export hubs combined with developing a strong domestic ecosystem.

Both countries emphasise the following features of policy:

- While higher support and incentive levels are specified for investment above a certain threshold level, these countries connect directly with major global firms to establish their facilities in the country;
- They have gradations of support and incentive policies, with higher incentives for specified sectors, certain socio-economic activities, or locations of investment. The aim of these policies is to encourage sectors that are employment-intensive, technology-intensive, or those which help meet specific social objectives[4];
- Beyond a notified framework for general application, there are additional support and incentive policies provided to large global firms based on bilateral discussions; the details of these policies are generally not announced. These large firms are a highly preferred group because

[3] The points discussed in this section rely in a significant way on the previous work by experts, including for the textiles, apparel, mobile phones, and auto components and automobiles. The results of this previous work are in published sources as well, the gist of which is re-produced in this section.

[4] The social objectives include, for example, education, vocational training, healthcare, culture, sports, environment, improving economic activity in disadvantaged regions.

they help establish global export hubs;
- The global firms are identified from those operating in the high priority areas specified by the government;
- In addition to the support for foreign investors, the governments have specific incentives and support policies for the domestic industry which supplies to the large investor.

The support/incentives policies have a very high level of political commitment. This provides credibility to the policy support announced, and also converts the initiative into a national priority.

Other forms of policy intervention include:

(a) In addition to a package of substantial tax incentives for priority sectors (with larger incentives provided to global major firms), support programmes include subsidies for capital and operational costs, e.g. interest subvention, subsidies for R&D, exempting/reducing costs of constructing dormitories, transport of labour, and labour training;

(b) Other measures include trade and investment facilitation, easing of the conditions of operation[5], and improvement of infrastructure facilities, e.g. easy availability of land, good quality and reasonably priced power supply, and improved logistics.[6] The location of special investment zones is usually within an easy distance from the airport or port;

(c) In Vietnam, when a production facility is set-up, imports of machinery and equipment and other items needed for establishing the facility are allowed in duty-free, if they are not produced within the country;

(d) The various support/incentive schemes are co-ordinated primarily by a single point of contact, particularly in the provinces. The objective of the single window personnel is to facilitate the investors and enable ease of operations;

(e) Finally, the government conducts a periodic review to examine the impact of the policies and revise the incentive and facilitation schemes, as necessary.

The features of Vietnam and China's schemes described above cover all the different policy aspects mentioned in Chapters 1 and 2 above. A distinguishing feature is that the schemes are a part of an overall structured framework, with a major focus on global firms. The strategy is clear, and it is implemented within a coherent approach.

[5] Applications are assessed and approval given relatively quickly. Quick approvals and permits are provided. A special priority is given to the time required for customs clearance with quicker processes for large global firms. In addition, the policy constraints on exports are identified periodically to be addressed as required.

[6] In addition to land, building – plug and play, and good quality of power supply, emphasis is given to access to roads, water, and skilled labour, with ports, airports, and technical universities nearby. This is combined with a relatively low price charged for land and other infra-structure facilities. In certain areas, the charge for land is totally exempted for a certain period of time.

CHAPTER 4

Policies to Promote Export Hubs in India

Table 2 above shows that the factors which affect competitiveness are wider in scope than those which determine the decision on investment (or whether to invest above a specific threshold required to create a hub). Discussions with exporters suggest that it is useful to classify policy measures in terms of three categories

1. Policies which are relevant for exports and export hubs, but are much more significant for export hubs, i.e. without them the export hubs cannot be established or operate efficiently.
2. Policies which have a similar significance for export hubs and exports in general.
3. Policies which are specific only to export hubs.

The points mentioned in this Chapter are based on discussions with Indian exporters, with a special focus on those which operate an export hub or are planning to establish them.

4.1 Some Key Policy Areas Particularly Relevant for Export Hubs in General

(4.1.i) Single-window and co-ordination among policies: The main difference between an export hub and other exports is that a hub works within a hub and spoke system, where spokes are the inputs providers to the value chain. The focus for an export hub is wider than that of normal export activity. Those managing a hub have to co-ordinate a much larger number of activities and linked operations. For this reason, those operating an export hub consider a wider scope of policy measures, and need a high level of consistency to be maintained between the various policies affecting their several operational activities connected to their value chain. For this reason, those implementing policies relating to export hubs also need to co-ordinate and ensure consistent and smooth operating conditions.

This makes it essential to have single-window facilities for co-ordination between firms managing an export hub and the various concerned agencies implementing policy relating to the export hub.

(4.1.ii) Conceptually, the export hub model needs two hubs, one relating to operations (i.e. the export hub itself), and another a hub for policies: A successful export hub requires co-ordination not only within the operations of the hub and spoke linked to the export effort, but also co-ordination among the export hub and policy hub. Each hub (i.e. export hub and policy hub) has to co-ordinate its internal activities and both the export and policy hubs must stay in contact to ensure co-ordinated actions so that any policy related obstacles can be addressed in a timely manner.

This is crucial for export hubs to compete effectively in the global market. Global competitiveness requires timely turnaround after processing the inputs (domestic or imported) for operations to move onwards along the GVCs in a cost-effective manner. In addition, the quality of inputs into the

export product should be consistent so as to result in smooth operations throughout the value chain to produce the quality acceptable in export markets.

An export hub requires a corresponding policy chain with its policy hub, to enable the requisite product quality and quick turn-around. These two hubs need to function consistently so that policy-related obstacles for exports are anticipated and solutions are provided quickly.

Policy Hub (PH)<------Co-ordination Among Policy and Operations----->Export Hub (EH)

PH: Co-ordinating support and incentive policies **EH:** Managing the export value chain

In India the Policy Hub comprises two different hubs, one at the Centre (PHC) and another at the State level (PHS). The two Policy Hubs need to co-ordinate with each other as well.

Policy Hub Center (PHC)<--Co-ordination Among Policy and Operations--->Policy Hub State (PHS)

Given that a single window interaction for all transactions is required, that should be at the Centre, at least until the production process is underway.

(4.1.iii) A very large level of investment may be required for the lead firm managing the export hub. Policy needs to take this into account for incentives to promote these hubs.

Lead firms that invest in export hubs need to invest a much larger amount than in general, when compared to the current investment thresholds for "mega firms" specified by a number of State Governments. Under the incentive schemes of various States, the threshold to qualify as a mega firm (with associated incentives) ranges from INR 200 crore to INR 500 crore (or about USD 30 to 70 million).[7]

In this regard, during discussions the lead firms mentioned two important points.

(a) In a number of States primacy is given to the land area covered by the production facility and not to the level of investment or the value of production. In several sectors, especially technology-intensive sectors, a high investment or value of production level does not require much land, but goes a long way towards establishing an export hub. Therefore, the level of investment should be a primary criterion for distinguishing firms which are capable of producing high value products and targeting export markets.

(b) A much higher investment threshold should be considered to distinguish between the current concept of mega-firms and the large lead firms that operate an export hub. This much higher threshold could be used as a basis for an enhanced package of support and incentives provided to the firm meeting the highest threshold for investment.

In general, according to lead firms, such an investment threshold could be about USD 150 to 200

[7] These thresholds are often combined with an additional objective specified in terms of the level of employment. However, these levels of employment thresholds are not difficult to attain with a comparatively much higher investment level.

million at a minimum. A comparison could be made with, for example, the thresholds specified by Vietnam to provide incentives according to the level of investment. There are two different categories.

1. Total capital of VND 6,000 billion (or about USD 260 million) or more, disbursed within 3 years since being licensed, with:
(a) Minimum annual revenue of VND 10,000 billion (or about USD 430 million) by the 4th year of revenue generation at the latest; or
(b) Regularly employing more than 3,000 employees by the 4th year of operation at the latest.

2. Total capital of VND 12,000 billion (or about USD 520 million) or more, disbursed within 5 years since being licensed and using technologies being evaluated under the Law on High-Technology[8], and the Law on Science and Technology.

(4.1.iv) Avoid policy-generated delays, arbitrary changes in policy, or policies with retrospective effects: The various interconnected parts of the hub and spoke have to ensure that their operations work consistently while meeting all time schedules that the export market requires. For smooth and timely operations, the connected parts of the GVC have to plan their inventories in such a way that there is a timely supply of inputs to keep the supply chain moving smoothly.

To the extent that operations are delayed due to the Government's approval process, slow or inconsistent policy implementation, logistical problems or arbitrary changes in policy measures, there is a disruption in the operations of the GVC. This raises the risks involved in the operations, and inventory levels have to be increased in anticipation of the higher risk. These developments result in an increase in operational costs.

An example will clarify the situation regarding the need and scale of co-ordination within the value chains. Take for instance a large OEM firm which produces mobile phones and parts/components for exports. At the facility, 2 to 3 phones are made every second, with the existing capacity available to increase production as more exports take place. The smart phone has an average of about 1,500 components. Components, services and production consumables are supplied by about 300 firms domestically, and additionally from imports. The time taken for the production process and dispatch to the main buyer is about 1 day. Inventory of part, components, semi-finished goods and finished goods is kept for a duration of about 15 to 18 days. The time duration for inventories of domestically supplied inputs is much lower.

A noteworthy point is that export hubs have operated well in India, with considerable success for a period of time. One such example is the erstwhile Nokia facility in India. This was about 10 years ago. The initiative of one company and a very supportive policy environment created the export hub that sold mobile phones to more than 100 countries.

The three sections of Box 1 below provide some insights into Nokia's speed and volume of production, the related broad features of supply chain management, and inventory policy that is impacted by delays and ad- hoc policy changes.

[8] Vietnam's list of high-technology areas includes 130 different activities, several with very wide coverage.

Box 1. The Story of Nokia Phones: An Export Hub That Used to Function Well Within India

1. Pace and Volume of Production, Exports and Value Creation

Nokia used to produce phones in India and sell them to 110 countries. A large volume of phones was produced. Each second 5 to 7 phones were produced, which translates into about 5 lakh phones per day. A significant value was exported, and the rest were sold in the domestic market.

Everything was planned around this level and speed of production. Planning for this production included inventory management throughout the value chain as well as other tasks such as serving meals to tens of thousands of employees.

The production took place in an SEZ with Customs practices aligned with the best class operations that helped competitiveness. The Unit Load Devices (ULDs) or containers used to load the products for freight were cleared by customs at the Nokia site. Clearances used to be through the green channel – the whole process was efficiently synchronised with the Takt[9], i.e. the level and pace of production.

The Average Selling Price of the phones ranged between USD 50 to USD 75.

2. The Value Chain and Inventory Management

Each phone had 250 to 700 components, depending on the model. These components came from more than 200 locations in and outside of India. The average inventory Days of Supply (DOS)[10] was estimated at 10 to 12 days including the stock of semi-finished goods (SFG) and finished goods (FG).

The supply chain was 4 or 5-tiers depending on the component. Nokia did up to 3-tiers development in India; about 20 were tier-1 suppliers, 10 were tier-2, and about 5 were tier-3 suppliers (or those with deep technical abilities).

Extraction and manufacturing had long lead times. Such production requires commitment to a specific production run and cannot be on and off. Therefore, capacity had to be booked about 6 weeks ahead.

All the parts, components and finished products had to arrive Just in Time (JIT) to fulfil the orders. Any kinks in this process created a problem in order delivery, invoicing and profitability.

3. Key Factors That Enabled the Hub

After the factory was established, efficient inventory planning and management, good power supply, availability of multi-modal cargo capacity, and quick clearances and line deliveries were key aspects of the system which enabled the export hub.

Source: Discussions with industry

[9] Takt is the time between the start of production of one unit and the start of production of the next unit of the product.

[10] DOS is the number of days of inventory kept to ensure smooth production in the supply chain. This shows the number of days funds are tied up to maintain the relevant inventory.

(4.1.v) A strategic approach specific to the sector clarifies the relevant policy package for establishing/ supporting export hubs in the sectors:

While the policy considerations mentioned above for export hubs are relevant across the board, individual sectors differ in terms of the kind of lead firms, product differentiation, technological requirements, key markets, need for the public sector to fill any gaps that would otherwise not be addressed, and so on. To the extent the export hub is to be part of an initiative to improve export performance in a major way, it is necessary to conduct a strategic analysis of the approach that could best facilitate the achievement of the export objective. Based on that, while the general features mentioned above remain relevant, the details of the policies may differ across different sectors. Based on a discussion of the sector-specific issues relating to the selected sectors the discussion uses a set of questions to illustrate such possible differences in the relevant policies. This section thus also points out the questions which are useful in deciding the policies that enable the establishment and operation of export hubs in specific sectors.

4.2 Important Issues Affecting Policy for Export Hubs Across Different Sectors

Differences across sectors can be illustrated based on a number of considerations. These are discussed below, after considering a conceptual framework on the kinds of policies and measures that may support the creation of export hubs.

(4.2.i) Which sector/ product is a priority for creating an export hub

When enabling the establishment and operation of an export hub, it is not possible to have a wide-ranging effort covering a large number of sectors or the entire manufacturing or agricultural sector as a whole. A limited number of specific sectors have to be identified. These sectors should be selected taking account of factors such as:

- The potential increase in exports in the next five years
- A sector that is significant for achieving specific national objectives, such as employment generation. It could also be a technology intensive sector or a strategically important sector.

Examples of sectors based on these criteria include mobile phones, auto components and automobiles, pharmaceuticals, textiles and apparel, and gems and jewellery. To facilitate this discussion, it is important to consider the various activities managed by lead firms. These activities require consistency of quality and standards between domestic and foreign markets.

(4.2.ii) Is there an existing export hub within the country, or is a new export hub with large export capacity to be established?

There may be an existing export hub in the country. In that case, the focus of policies is different- the need is not to create a hub but to elevate exports to a high level. The focus should be to ensure that the existing hub functions smoothly. In other situations, a new export hub would have to be created, with a large investment from existing or new global lead firms.

Table 3 below provides information on selected sectors and illustrates the possible differences that will determine the strategic approaches for these sectors. The relevant factors include the areas in which India has a prominent share in global markets, the presence of large firms in India (of domestic or foreign origin), and whether India's exports are increasing or decreasing in global markets.

Combining these factors with the requirements of the value chains that create further opportunities for exports, and the strategies adopted by the successful competing countries in global markets (see Table 4), will provide a good basis for devising an approach which increases export performance and scale of export hubs in India.

It is also relevant to keep in mind the stated objectives of the Government with respect to exports. For example, for the auto components and automobile sector the aim is to increase the current share of exports in domestic production from the present 15% to 35- 40% by 2026. For mobile phones, the Government's aspiration is to increase exports to USD 110 billion by 2025, i.e. an increase in exports of about USD 107 billion from the present level of less than USD 3 billion.

Table 3. Export Rankings and Presence of Large Domestic/Foreign Firms in India for Selected Sectors

Sector	Product Is Among Top 20 Export Items from India	Globally Ranked (Top 10) Company Present in India	Major Global Exporting Company of Indian Origin in India	India Is Among Top Ten Global Exporting Countries	Global Export Share of India Rising/Falling compared to Last 5 Years
Automotive products (Auto components and Automobiles)	Yes	Auto component - No Automobile - Yes	Auto component - Yes Automobile - Yes	Yes	Rising
Gems and Jewellery	Yes	Yes	Yes	Yes	Stable
Mobile Phones	No	Yes	No	No	Rising
Textiles and Apparel	Yes	No	Textiles – Yes Apparel - No	Yes	Textiles – Rising Apparel - Stable
Pharmaceuticals	Yes	Yes	Yes	Yes	Rising

Table 4. Share of India and Some Competing Countries in Global Exports of Selected Products (%)

Product	Countries (global export rank)	Global Share % 2005	Global Share % 2010	Global Share % 2018
Apparel	**India (5th rank)**	3.1	3.2	3.2
	Bangladesh	2.5	4.2	6.4
	Vietnam	1.7	2.9	6.2
Textiles	**India (3rd rank)**	4.1	5.1	5.8
	Vietnam	0.4	1.2	2.6
	China	20.2	30.4	37.6
Automotive Products	**India (10th rank)**	0.3	0.7	1.0
	Thailand	0.9	1.7	2.0
	China	1.1	2.6	3.9
	Turkey	1.0	1.3	1.7
Mobile Phone	**India (17th rank)**		1.2 (2012)	0.4
	Vietnam		5 (2012)	13
	China		40.2 (2012)	49

Source:https://www.wto.org/english/res_e/statis_e/wts2019_e/wts2019_e.pdf,
http://www.worldstopexports.com/cellphone-exports-by-country/,
https://industrialin.com/news/cellphone-exports-country and

Note: (1) For global ranking, the EU is considered as asingle economy. (2) The Indian export share in 2012 was due to exports from Nokia. With the Nokia plant shutting down the exports became negligible. They are now increasing again.

(4.2.iii) Which Firms are the Likely Lead Firms – Domestic or Foreign; Present in India or Not?

The main questions regarding the relevant lead firm are whether it is:

- A domestic firm
- A foreign firm that is present in India
- A foreign firm not yet present in India

Based on Table 3, it is not possible to have a domestic firm as a lead firm for the mobile phones sector. For the other sectors, the situation is different. Consider the diverse situations, for instance, among the mobile phone sector, apparel and textiles, and the auto components and automobiles sector.

1. In the mobile phone sector, the lead firms for establishing the main export hub have to be of foreign origin, i.e. a global large firm. The potential global lead firms are few, and all the major firms are present in India. For mobile phones, therefore, the global firms present in India have to be incentivised to increase their investment within India and, to create a large capacity with a hub that would serve global markets.

In addition to the global firm establishing an export hub, the efficient operation of that hub as a basis for increasing domestic capacities requires the development of a domestic eco-system for the mobile phone value chain. This implies a focus on building the capacities and competitiveness of the large domestic lead firms which are operational in the low value mobile phone market. The global and Indian firms will help establish their suppliers of parts and components in the ecosystem.

2. Textiles and apparel:

2(a) For apparel, there is no large foreign firm present in India. The main exporting firms are Indian. India's export share has stayed stable while shares of the main competing countries from developing economies (Bangladesh and Vietnam) have increased very significantly. Indian exporters need support systems similar to those provided by the main competing economies.

2(b) For textiles, India is ranked as the third largest global exporter. There is no major global firm present in this sector in India. Indian firms have a prominent global position as textiles exporters. Therefore, Indian firms could be lead firms for a significant initiative seeking to expand the export hub for textiles.

For both textiles and apparel, export hubs are different from those for mobile phones.

(i) Two kinds of export hubs: Textiles and clothing have a significant presence of merchant exporters, i.e. those who co-ordinate and manage the export value chain. This involves several decentralised informal sector small producers, as well as formal sector firms producing textiles and apparel products. This results in two kinds of export hubs: those managed by merchant exporters; and the conventional export hubs managed by large firms or a Special Purpose Vehicle, in which the concerned State Government may also have a stake. The Scheme for Integrated Textile Parks (SITP) is an examples of such SPVs. There are 59 sanctioned Textile Parks at present, out of which 36 also have apparel units. Importantly, very few of the SITPs have a clear export orientation though some units among them are catering to both the domestic as well as the export market.

(ii) The potential number of export hubs for textiles and clothing far exceeds those for mobile phones: Compared to mobile phones which will have a few lead firms for export hubs, an established dispersed sector such as textiles and clothing has many more functioning export hubs. It has been estimated that there are more than 50 textile clusters in India, producing fabrics, though not all of them produce for the export market. In such a case, it becomes difficult to identify and give major support to a limited number of lead firms.

The policy framework for textiles and apparel will thus have to focus on exporters in general rather than on export hubs. However, if certain criteria are specified in terms of a high level of investment and/or employment generation, then such mega-firms could be given more targeted support. Additionally, if a mega-firm or state government takes the initiative in setting up an integrated Mega Textile Park with an export thrust, which will have vertical integration from yarn to clothing, such an initiative could lead to the creation of a new export hub. Such Mega Textile Parks/Export Hubs need to be encouraged through appropriate policies because they would provide synergies and reduce transportation costs, make the raw materials for downstream units easily available and accessible and attract foreign buyers, who can source all their requirements from a single geographical location.

3. Auto components and automobiles sector:

3(a) For auto components, Indian companies have achieved high export levels and the sector also has significant Indian companies with a global presence. These could be strong choices for support as lead firm.

Importantly, **for auto components, many Indian companies** have become suppliers for key components such as engines, radiators, brake linings and other critical elements besides the non-critical components like seat covers and some other accessories. Many of the auto component manufacturers built their expertise in the sector by first becoming a joint venture partner with a global conglomerate that was the Tier 1 supplier to a global automobile manufacturer with investment in India. Over the years, these Indian companies have moved away from the joint ventures and become suppliers on their own. They have also managed to go beyond the companies they started supplying components to and have found new OEMs to service.

In the auto component sector, there are a number of significant exporting firms, similar to the textiles and apparel sector. Thus, the industry could itself be treated as the focus of attention, with the possibility that a limited number of mega-firms be provided more targeted support/incentives.

3(b) **For automobiles,** prominent firms in India include **both Indian firms and foreign firms.** The situation, however, differs for its segments, namely two-wheelers, four-wheelers and commercial vehicles.

3(b.i) Among automobiles, the highest export growth has been registered in the area of two- wheelers. Given the fact that India is the largest manufacturer of two- wheelers in the world, the country has also become the largest global exporter of two-wheelers. Most Indian companies have parted ways from the original joint ventures they had with Japanese manufacturers and have become exporters on their own. Indian companies export to over 120 countries globally and the top 10 markets account for over USD 1800 million worth of exports. Therefore, for two-wheelers, the Indian firms are viable lead firms for export hubs.

In the two- wheeler segment, there are only a few lead firms for exports, similar to the mobile phone sector. The difference is that all these firms are of Indian origin. A special focus on this limited number of lead firms could help create additional export opportunities.

3(b.ii) **For four-wheelers,** large firms in India include both Indian and foreign firms. In this background, the focus has to be on improving the operational conditions of the industry and supporting a transition to new and innovative products.

Thus, for four-wheelers, the situation is similar to textiles and apparel. The industry as a whole could be treated as an export hub. Certain firms which meet the threshold levels of investment and/or employment could be given more specific support as prominent lead firms.

3(b.iii) **For commercial vehicles,** the lead firms are of Indian origin and are few in number. Thus, the situation is similar to that of the mobile phone sector.

Table 5 below summarises the key features regarding lead firms for the main sectors this Chapter has discussed. This classification also suggests the kinds of support/incentive policies for these sectors.

Table 5. Some Important Features of Lead Firms for Exports from Selected Sectors

Sector	Few/ Many	Foreign	Indian	Merchant Exporters as Export Hub (Indian)
Mobile phones				
- Lead Firms (LFs)	Few	√		
- LFs For Domestic Ecosystem	Few	√	√	
Textiles	Many	See note	√	√
Apparel	Many	See note	√	√
Auto components	Many		√	
Automobiles				
- Two- wheelers	Few		√	
- Four- wheelers	Many	√	√	
- Commercial vehicles	Few		√	

Note: As discussed in the following sub-section, it may be useful to discuss with foreign lead firms the possibility of investing in India, with a much larger capacity established in India, oriented towards exports in a manner similar to Bangladesh and Vietnam.

(4.2.iv) What are the support/incentive policies implemented by the major competing countries? What are the lessons for India? How can they be combined with the ongoing initiatives such as those addressed by the National Committee on Trade Facilitation?

Indian exporters have to compete with exporters from other nations for global market share. Therefore, the policies implemented by the competing countries can provide an insight for the Indian Government to determine its own efforts to support Indian exporters. Recognising this, the Government of India has announced certain support policies for three sectors (see, Annex 2 for an illustration of the scheme for the electronics sector).[11] In its statements, the Government has taken account of disabilities (i.e. comparative disadvantage relative to competing countries), as follows: **"Disability Compensation:** The schemes, along with other initiatives of the Government and ease of doing business measures, are expected to have a combined impact of overcoming around 6%-10% of disability in electronics manufacturing and bring the country on par with other competing nations." [12]

(a) Mobile phones: For the major global firms in this sector, the policy package to support and incentivise additional large investment in India must keep in mind the alternatives provided by the competing countries, i.e. the policies mentioned in the discussion on Vietnam and China in Chapter 3 above.

Discussions with exporters were held keeping in mind the support policies provided by other competing countries. The policies emphasised by domestic exporters include:

- Rapid clearances provided to those with investment levels above a specified threshold, or those in highly employment-intensive sectors;

[11] The separate press releases for three interlinked schemes for the electronics sector are at https://pib.gov.in/PressReleasePage.aspx?PRID=1607487, https://pib.gov.in/PressReleasePage.aspx?PRID=1607489, and https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1607491.

[12] For reference to disabilities, in a Hindi statement by the Minister, see the web- link https://www.youtube.com/watch?v=WYXihjdc7u8, at 10 minutes to 10 minutes 20 seconds in the statement.

- The Government could expedite procedural and timely action in areas such as those identified in Table 2 for the "trade chill/freeze" factors[13] and those policy areas which have a relatively high weightage in the context of competitiveness.[14]
- Feedback from the industry suggests that the special package to incentivise the export hub should include support for capital (access and costs), logistics, key inputs like power (quality and price), and assured timely implementation of the support policies.

The Government has taken an important step with some major support schemes announced on 21st March 2020 (see Annex 2 for details of the schemes for the electronics sector).[15] In this context, an important feedback from discussions with exporters is that the Government's policy support measures have continued to suffer from poor implementation. An example of this is the problem faced in implementation of major policies announced in 2012 and 2019 for the electronics sectors.[16] Furthermore, feedback from the other sectors being discussed here shows that exporters still continue to face problems in several areas despite the policies implemented by the Government to address their concerns. A specific and targeted focus must be given to ensure timely and effective implementation of support and incentive policies for firms selected as export hubs.

To effectively implement the Government's policy initiatives, a smaller sub-set of policies could be selected as priority areas for special focus, i.e. those:

- Policy concerns which are given the highest priority by exporters, e.g. the top five areas of concern mentioned by the industry/exporters. Examples include GST refunds and inverted GST duties, Customs' practices which result in additional costs or delays, and financial support for technology upgradation;
- Policy concerns which adversely affect exporters and could be addressed within a relatively short period (e.g. one year). Examples include the duplication of information sought by different documents, the overlap of regulatory requirements, or certain Customs' practices which are inconsistent or lead to operational problems. Certain other issues such as multiple regulatory agencies overseeing a sector may require time to address, but with focused intent, these issues too could be handled within about a year or so;
- Government initiatives that have been in place for more than one year which the industry continues to report as an area of concern that has not been addressed.

One way to co-ordinate quick implementation could be through special investment zones, with rapid procedures and dedicated freight corridors. Lessons from the example of Nokia in Box 1 above are of particular relevance in this context.

Furthermore, the feedback suggests that a monitoring and consultation process must be established by the Government for periodic interactions with exporters/ industry, to review implementation, identify measures which have not been properly implemented, identify the cause for poor implementation, and address it with priority action.

[13] These are: Tax Policies and Administration, State Bureaucracy and Administration (approach towards ease of doing business and stability and timeliness of policy response), Infrastructure (regular supply of adequate power, water, transport, quick clearances, efficient ports/airports).
[14] These are: Tax Policies and Administration, Attractiveness and Credibility of Special Package, and Logistics.
[15] In addition to three schemes for the electronics sector mentioned in footnote 11 above, the other schemes are at https://pib.gov.in/Pressreleaseshare.aspx?PRID=1607483 and https://pib.gov.in/PressReleasePage.aspx?PRID=1607485
[16] See for example, NPE 2012 and NPE 2019, respectively, in https://meity.gov.in/writereaddata/files/NPE_Notification.pdf and https://meity.gov.in/writereaddata/files/eGazette_Notification_NPE%202019_dated%2025022019.pdf.

(b) Textiles and apparel: Textiles and apparel are part of a common value chain. Both textiles and apparel have several exporters, exporting from firms or through merchant exporters. A distinct feature is the much smaller scale of average investment and employment per unit compared to the competing countries.

Promoting exports from the smaller producers requires a focus on merchant exporters, who create their own export hub, co-ordinating widespread informal production activities. The merchant exporters use agents abroad to seek market access and create export opportunities. The GST paid on expenses for these services from abroad is not refundable, creating a cost burden for merchant exporters. Other support policies for the industry are similar to those relevant for firms in general.

In countries like Bangladesh, China and Vietnam, successful exporters have expanded their market presence through large orders which keep capacity occupied for a considerable time period. This requires, inter alia, a large production capacity.

Employment levels in the largest factories and the average employment per factory in India are lower than the corresponding estimates for Bangladesh, China and Vietnam. In India, the size of the factory is linked mainly to the large presence of the informal powerloom sector and the conditions of operation for the formal sector. These include factors such as limitations on overtime, certain labour related conditions which reduce the flexibility of operations, and focused support given by competing countries (which is not available in India), and easier market access at lower tariffs for exporters from Bangladesh and Vietnam on account of preferential tariffs for their exports.

Any support policy focused on promoting scale could provide incentives based on mega enterprises that meet threshold levels for incremental or new investments, together with employment level thresholds. While a number of States have such incentive policies in place, the threshold levels could be increased for incentivising larger investment and/or employment thresholds similar to those in major competing economies. In addition, it would be worthwhile to consider two different options.

One, address the policies which limit the operational size of Indian major exporting firms. Two, discuss with large foreign buyers the possibility of co-ordinating their demand with large investment and production similar to that in Bangladesh and Vietnam. This could include establishing a lead firm of foreign origin as well.

Comparative disadvantage of Indian exporters: The largest competitive advantage for exporters from competing economies is the tariff preferences they receive in their export markets. Even without considering this disadvantage, the operational disability faced by Indian textiles and apparel exporters is about 7% to 10% relative to the exporters in competing economies.[17] Some of these disadvantages are mitigated by the support policies and incentives provided by the Government of India. However, more structured support is needed with an increase in the incentives provided.

Support policies similar to those in the main competing economies can energise the export effort. The main support provided by competing economies is through financial incentives, better logistics, facilitation of trade-related processes, and ease of business linked to the provision of land,

[17] For some detail, see Chart 3 on page 26 of IKDHVAJ Advisers LLP, op. cit.

infrastructure and power. Indian industry could thus be supported with efficient plug and play facilities[18] and financial assistance with labour costs. Feedback from exporters has also mentioned the importance of reducing design costs. Design activity is a form of low-level R&D, which is essential to help create new products and designs that enable the expansion of export markets.[19]

Tariffs faced by exports: Both Vietnam and Bangladesh face lower tariffs on their exports to the EU (the largest import market in the world for both textiles and apparel). For Bangladesh, it is because of zero duty on exports from a Least Developed Country (LDC), and for Vietnam the preferential tariffs that would phase-in due to their Free Trade Agreement with the EU. India has been negotiating its FTA with the EU for several years. A serious effort is required to conclude the negotiation and improve export opportunities for Indian textiles and apparel exporters.

The specific case of textiles: India has maintained a high position in the world exports of textiles despite facing some large disadvantages due to policy related constraints and logistics. While the Merchandise Export from India Scheme (MEIS) provided an export subsidy of 4% to apparel, there was zero subsidy for yarn and 2% for fabrics under MEIS. These rates are much lower than the support levels provided by the competing countries mentioned in Table 4 above.

A noteworthy feature of the Indian textiles sector is its ability to stay competitive and maintain its global ranking in the face of strong competition. This was achieved significantly due to the installation of new technologies, assisted by subsidy scheme for equipment upgradation, e.g. the Amended Technology Upgradation Fund Scheme (ATUFS). Such a scheme helps improve domestic competitiveness in a sustained manner, for each area which is selected as part of the export hub scheme.

(c) Auto components and automobiles: The Indian automobile sector is the fourth largest automotive industry globally. The auto components and automobiles sectors are mainly concentrated across three states of India: Haryana, Maharashtra and Tamil Nadu. Given the focus on very significantly improving export capability in the five or so years ahead, the existing policies need to be adjusted and some new policies are needed to increase productivity and export market penetration. These policies need to be combined with assessments of the appropriate strategy to build the competitive abilities of the industry.

Though the industry is facing difficult conditions today, it has been vibrant for several years and has exported to a large number of markets across the world. The Government provides a number of support policies and incentives for the auto component and automobile sector. However, a close examination of the evolving conditions in the next ten years is required because the industry is changing in major ways with the ongoing evolution of markets, products and technologies.

In view of these changes, it is important to formulate a structured approach to give momentum to the export initiative. It is advisable to establish an Auto Exports Policy Group (AEPG) as a single window policy group. Composed of members from the Centre, the States and the private sector, the

[18] The scheme for Electronics Manufacturing Clusters 2.0 is such a support policy. Effective implementation needs to be ensured for success.
[19] China is today moving away from apparel, but in the phase when it focused on the sector, it had focused on supporting design activity and reducing costs of other operations as well. See pages 35 and 36 of IKDHVAJ Advisers LLP, 2018, "Replacing WTO disputed subsidies with Smart Subsidies. Final Report Prepared for AEPC".

AEPG would continuously monitor ground level problems and function as a single-window solution provider. Thus, it could coordinate with various agencies and stakeholders to identify support policies and create solutions for an effective response in a timely manner.

However, the AEPG is a medium-term response for strengthening the export hub. The present concern of the industry is an existential one. Its production is falling and prospects do not seem very bright at the moment because domestic demand is low. The industry seeks measures to increase demand to support improved capacity utilization by the industry.[20]

The growth of the industry is characterized by some important features:

- Adjustments in the coming years will mainly require the efforts of the industry. Government support will contribute to, but will not be the main driver for, the firms to emerge stronger over time. However, without Government support the industry will not be able to implement its own plans as well. Thus, there is a deep synergy between the efforts required from the government and industry;[21]
- The Government does provide a number of support/incentive policies. These need to be better structured for sustained growth and competitiveness;
- For example, in view of the ongoing technological changes, the industry has expressed a need for a Technology Upgradation Fund to help upgrade operations;
- The industry relies in a major way on the domestic market for sustaining itself. Though the export markets are not the primary focus, the aim is to increase exports significantly so that by 2026 the share of exports in domestic production more than doubles to 35% to 40% of production, from the present level of 15%;
- The main focus of the industry's efforts to increase exports is to get a reduction in tariffs and non-tariff barriers faced by them in their markets abroad, i.e. in the countries to which they export;
- The key areas of domestic policy emphasized by the industry are improving the ease of doing business, support for R&D, and support to meet the changing regulatory requirements;
- In the context of improving the ease of doing business, the main domestic policy constraints on exports identified by the industry include:
  (a) Infrastructure bottlenecks at ports (including on the approach roads to reach the port or roads between the storage/parking area and loading area),
  (b) Very high port calling charges (about five times or more than the charges in other important international ports),
  (c) Procedural delays by Government Departments which give approvals,
  (d) Delays in receiving the subsidy support which has been granted based on performance,
  (e) Long lead time and the relatively high cost of documentation and processing at customs/ports.

The automotive industry is a major example of a value chain-based production and export systems. Therefore, with respect to domestic operational conditions, a key emphasis of exporters is to have physical infrastructure and processes that help the companies achieve a just-in-time manufacturing process. In addition, the exporters seek a process to continuously monitor trade facilitation issues at

[20] The current focus of policy support favours electric vehicles. However, it is noteworthy that this will take time: "By 2030, various estimates expect that the share of EVs in global markets could be upwards of 30 percent of all new vehicle sales, edging into the market share of traditional vehicles." See page 12 of McKinsey & Company, "The auto component industry in India: Preparing for the Future, September 2018.
[21] See for example, the discussion in McKinsey & Company, 2015, 'Make in India' – Making it Happen, September 2015. For the role of the Government, see pages 44 to 46 of this document.

ports so that imports of raw materials and intermediates, and the exports of cars or components are not held up beyond 48 hours.

This would require improved port infrastructure, dedicated storage space for automobiles at ports, the streamlining of verification and documentation processes for loaded containers, simplified procedures for claiming benefits from DGFT or other relevant agencies, and fast processing of export documentation.

The auto components and automobile sector exports to a wide range of markets,[22] with some markets more prominent for two- wheelers[23], others for four-wheelers[24], and yet others for commercial vehicles.[25] The different categories of auto components also have a varying set of countries for their exports.[26] While the US and EU are important markets for auto components, other markets such as Latin America, ASEAN, South Asia, Mexico, Turkey, Japan, China, Egypt, and some others also represent a significant share of the sector's exports from India.

In this background, the exporters suggest that India should negotiate a number of Free Trade Agreements with various markets. These need not necessarily be developed economies, and therefore, India would find it easier to conclude such Agreements. In this context, in addition to tariff reduction, a major improvement for export opportunities could be to establish a bilateral mechanism with other countries to quickly address difficulties faced by exports due to non-tariff measures in a timely manner.[27]

(4.2.v) Is There Product Differentiation Within the Sector Selected? Does That Imply Different Support Policies?

The simple answer to this question is: yes. The details depend on the features of the product, markets to which exports take place, whether technological change needs to be assisted (and if so, whether it should be done for the industry as a whole or only for the domestic firms), and so on.

Table 6 provides a stylized illustration of the differences and similarities due to product differences and the export markets for these products. Being stylized, the information is more a general impression based on industry feedback, rather than a picture based on detailed assessment, in particular for the non-tariff measures faced by the products. The specific details vary for each individual export market, and need to be addressed either individually or as part of some regional initiative.

Table 6 shows that some policy concerns are of high importance irrespective of the product concerned (e.g. cost increase due to delays), while some others may be more specific to the product exported or the market to which the export is made.

[22] See, for example, SIAM, "Study of Automobile Export Opportunities. Volume I", May 2017.
[23] For two- wheelers, while exports go to many markets, the largest shares are accounted by Africa, Latin, America, South Asia and ASEAN.
[24] The European Union and North America are the largest markets for passenger vehicles (four- wheelers), with Africa also accounting for a significant share of exports.
[25] South Asia and Africa are the most significant markets for commercial vehicles and three- wheelers. For buses, the significant markets are the Middle East, Africa and South Asia.
[26] See for example, pages 57 to 63 of EXIM Bank of India, 2017, "The Indian Automotive Industry: An International Trade Perspective", Working Paper No. 59, February 2017
[27] Various Free Trade Agreements, such as the CPTPP, have provisions to create a basis for discussions to address trade concerns arising due to non-tariff barriers.

Table 6. Some Important Features of Lead Firms for Exports from Selected Sectors

	Main markets	Range of Potential Markets	Technical complexity	Import content	Domestic R&D	Impact of delays (approvals, transport) on costs	Non-Tariff Measures (NTMs)
Mobile Phones							
High value phones	US and EU	Large Range – all continents	High	Very High	Company does it	Very high	Standards, Labelling, Marking
Low value phones	Developing economies	Large number – mostly developing countries	Medium	High	Domestic firms need support	High	As above, additional NTMs in certain markets
Auto components	US, EU	Many – all continents	Medium to High	Low	Need additional support	High	As above, ad hoc policy changes
Two-wheelers	Africa, South Asia, ASEAN, Guatemala, Mexico, Austria	Large number	Medium to High	Low	Need additional support	High	As above
Passenger vehicles (four-wheelers)	Africa, Latin America, ASEAN, South Asia,	Many, including EU, US, Mexico, UK, Australia	Medium to High	Low	Need additional support	High	As above
Commercial vehicles	South Asia, Africa, Middle East	Same areas as main markets	Medium to High	Low	Need additional support	High	As above

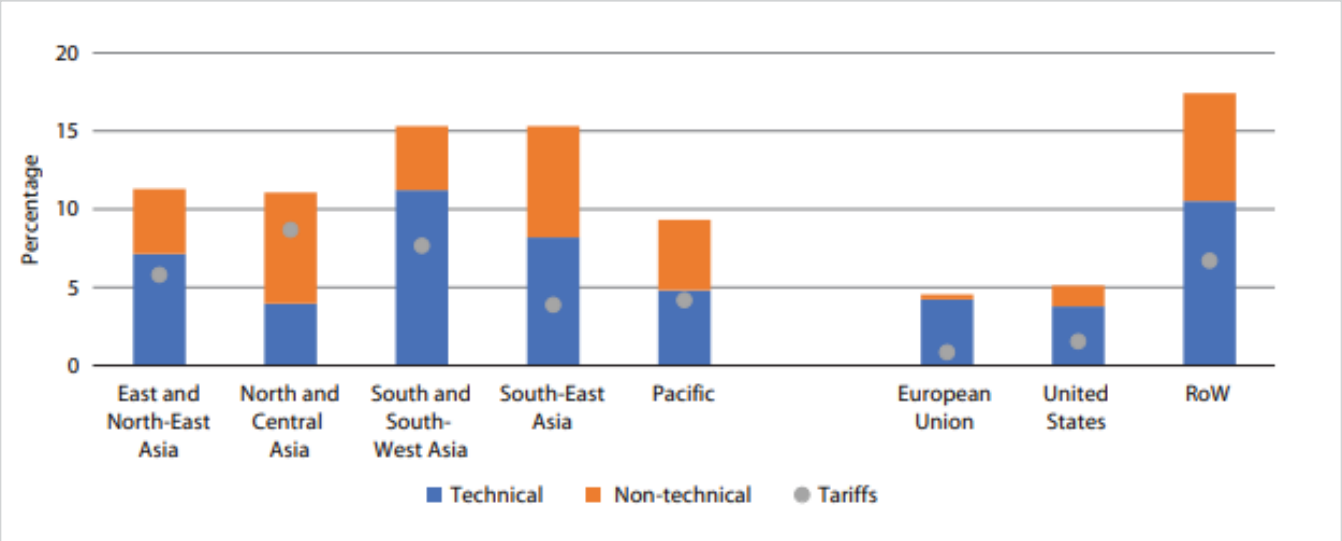
4.3 Implications of Differences in Major Markets for Exports

The main difference arises due to the export markets being either developed or developing economies. The standards related requirements and other non-tariff measures differ across these markets. Likewise, the possibility of India negotiating Free Trade Agreements (FTAs) also differs, with a higher likelihood of FTAs with developing economies. The focus of FTAs could be much more on tariffs in certain cases, but the non-tariff measures will always be an important area to address because of the uncertain operating environment created due to their impact. In this context, it is useful to also try and develop a bilateral discussion platform to address restrictions faced by exporters in key markets of interest.[28]

[28] See for example, pages 21 to 24 of Harsha Vardhana Singh, 2017, "TPP and India: Lessons for Future Gains", Brookings India Working Paper 03, June 2017.

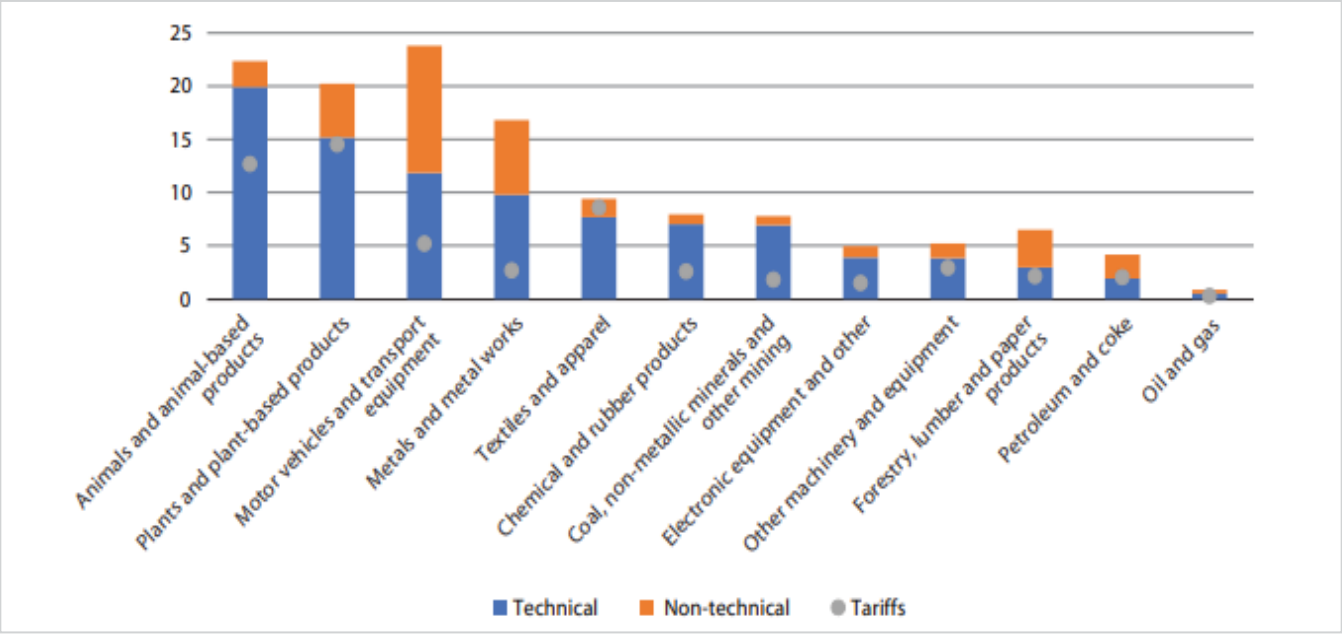
The significance of tariffs and non-tariff measures faced by exports in various markets is shown in Figure 1. Similarly, Figure 2 illustrates the difference in the incidence of tariffs and non-tariff measures faced by global exports of various products. Figure 1 shows that for most of the markets of the products mentioned in Table 6, the incidence of both tariffs and non-tariff measures is high. For automotive products, this is compounded by the fact that global markets for this product face much higher tariffs and non-tariff measures than, for instance, exports of electronic products (Figure 2). Support policy for export hubs for different products will thus have to take account of such differences.

Figure 1. Import-Weighted Tariffs and Ad-Valorem Tariff Equivalents of NTMs imposed by economies in Different Subregions



Source: Figure 2.3 on page 42 of https://www.unescap.org/sites/default/files/publications/APTIR2019_0.pdf

Figure 2. Import-weighted Tariffs and Ad-Valorem Tariff Equivalents of NTMs, By Sector



Source: Figure 2.5 on page 43 of https://www.unescap.org/sites/default/files/publications/APTIR2019_0.pdf

4.4 If More Than One Type of Export Market (Developed Country/Developing Country) is the Focus of Exports, Can a Common Support Strategy Work?

The types of support policies could vary across different markets depending on:

1. The product being exported;
2. Conditions specified in the export market (or by the importers) for acceptance of the product for sales or further processing (e.g. standards, need for export credit guarantees);
3. The conditions specified by lead firms, and the implied support policies for building the domestic ecosystem;
4. Quality, turn-around time and other requirements of the value chain for the product in the export market;
5. The competition faced by Indian firms from other exporters to that market;
6. Engagement needed with other Governments, for example, to reduce the impact of tariffs and non-tariff measures, and mutual agreements to facilitate: (a) the acceptability of exported products, and (b) facilitation of the payment system;[29]
   An example of engagement to increase acceptability of Indian exports is to discuss with countries to get recognition of Indian pharmacopoeia in African and LAC Countries (Ghana, Nigeria, Guatemala, Panama etc.) to help increase the acceptability of Indian Pharma products. Regarding the facilitation of the payment system, one of the suggestions from the automobile industry is to improve the process of remittance from the external market to India through reliable financial instruments and mutual recognition of instruments issued by domestic banks.
7. Membership of an international Agreement or Arrangement to improve access by Indian products in several markets linked to the Agreement/Arrangement. An example is the possibility of improving Indian exports of pharmaceuticals to several countries by India becoming a member of the Pharmaceutical Inspection Convention (PIC) and Pharmaceutical Inspection Co-operation Scheme (PIC/S).

In addition to the domestic policy support highlighted ahead, the Government must develop a strategy for FTAs which reduce tariffs and non-tariff measures, or bilateral arrangements to address non-tariff measures against exports.[30] The experience with RCEP, where the concerns were largely due to the threat of imports from China, and dairy imports, should not deter the effort to devise a much larger FTA strategy to improve market access for Indian exports.

4.5 Are the domestic requirements for standards, labelling and marking inconsistent with those required for the major export for the lead firm?

The situation varies for different product categories.

For the auto components sector, India's standards are comparable to the best in the world and therefore, exports of these products should not face barriers due to lack of standards. However, country- specific barriers imposed in some markets to protect the domestic industry need special attention.

[29] See SIAM, 2017, op. cit.

[30] In countries like Libya or Algeria, the auto sector feels that barter trade may also help.

The situation is different for electronics. For certain electronics products, the domestic standards, or labelling or marking requirements, are different from those in major markets. In one feedback from exporters, it was pointed out that the domestic requirement for labelling results in the label being put on a particular part of the product/packaging, but this domestic labelling requirement is different from that required for sales to certain major markets. In this case, when clearing the Indian Customs, the exported product has a label in a particular place but its position needs to be changed before the product reaches the export market. This change in labelling is done at high seas, under very special conditions because of the technical sophistication of the product, adding to costs and complications in the value chain. Such inconsistencies and anomalies should be quickly identified and addressed.

4.6 How many of the inputs are locally sourced and how many are to be imported? How can the domestic ecosystem be developed to support the export hub initiative and the transfer of technology?

The product categories vary in terms of import content. For instance, auto components, automobiles, and textiles and apparel have a very high domestic content, i.e. relatively low import content. However, mobile phones have a very high import content. In the case of pharmaceuticals, even if import content is low, certain crucial inputs are provided largely by one nation (China). This creates a trade-related uncertainty, especially with trade disruption such as at present due to COVID-19.

Therefore, different strategies will be needed in terms of the treatment of imports for different products. The conventional method used by India is the Phased Manufacturing Programme (PMP). This encourages investment in India to reduce the import content by increasing Basic Customs Duties (BCD). Examples of PMP include automobiles in the 1980s, and mobile phones in recent years.

Four aspects regarding PMP are important.

A. PMP is a policy for promoting import competing investment. It is not a policy to achieve export expansion. Additional support measures and incentives are required to give an export orientation to the products manufactured based on PMP.
B. It is possible that some of the products protected by a BCD increase are skill intensive and may not be easily manufactured within India because of the technical requirements. For instance, in the case of smart phones, even after several years of experience, China's domestic content is not much above 50%. In the case of India, the importance of skills and technical competence is evident if we consider the experience of different phases of the PMP for mobile phones (Table 7 below).
C. Building domestic capacity requires absorption and generation of technology by domestic firms. The feedback from Indian firms shows that they need support to improve R&D and design capabilities. In particular, they emphasised the need to develop a design ecosystem.
D. The increase in BCD under PMP is implemented by Customs. The orientation of Customs is to earn revenue, without necessarily examining the impact of its practices on exports. For mobile phones, industry feedback shows that Customs practices have led to multiple problems,[31] creating delays, uncertainty and increases in costs, leading to lower competitiveness.

[31] See for example, the section on electronics with a focus on mobile phones in EXIM Bank, 2020, "Domestic Constraints on Exports of Selected Sectors".

Table 7. Mobile Phones - PMP Products and the Success or Lack of It in Producing Them in India

BCD Imposed In:	Parts/ Components	Status	BCD Imposed In:	Parts/ Components	Status
2015	APTP	Successful	2017	USB Cable	**Not Successful**
2015	Gift Box	Successful	2017	Key Pad	**Not Successful**
2016	Charger/Adapter	Successful	2018	PCBA	Successful
2016	Battery Pack	Successful	2018	Camera Module	**Not Successful**
2016	Wired Headset	**Not Successful**	2018	Connectors	**Not Successful**
2017	Die Cut Parts	Undecided	Deferred	LCD Module Assembly	Not yet implemented
2017	Mechanics	**Not Successful**	Deferred	Touch Module Assembly	Not yet implemented
2017	Mic and Receiver	**Not Successful**	Deferred	Vibration Motor/ Ringer	Not yet implemented

Source: Page 7, "Make In India 2.0 Revisiting Mobile Manufacturing", Internet and Mobile Association of India, 2019.

Note: Some items such as Mechanics comprise a long list of items, and therefore the classification of "Not successful" may apply to only a part of the product category.

4.7 Does the lead firm need time to locally develop the inputs that are acceptable in their export markets? What are the implications for competitiveness and value chains?

The answer to the first question is: yes. Both time and technical skills and equipment are needed to locally develop the inputs that go into the value chain. This has implications for competitiveness.

When the global lead firm shifts its production to India, its global buyers would be hesitant to accept the quality of a product sourced from India. For easy acceptance, the quality should be similar to that of the previous inputs (i.e. foreign inputs which are substituted by the Indian product).

According to industry feedback for the electronics sector, the process of developing within India the product of a quality that is acceptable in the GVC, could take up to three years. Therefore, a strategy for transition and quality improvement needs to be put in place. During the transition period, special attention should be given to the fact that conditions that make it difficult for the firm to maintain its global buyers are not imposed.

4.8 The Value Chain for Investment/Exports by Lead Firms Includes Factors Additional to those Conventionally Considered to be a Part of the GVC.

Usually, a GVC is considered in terms of goods, services and technologies. In the case of a Policy Chain, for the establishment and efficient functioning of export hubs, the chain is much longer than the conventional supply chain approach, particularly if foreign lead firms and major buyers are involved in the process.

At one end of this Policy Chain is the ease of getting visas for those who wish to visit India and examine the place for investment or to increase the production/export capacity of the firm. Feedback

from exporters has shown problems faced by their senior executives in getting visas to visit India. The visa process, especially for mega-investors could be facilitated. This aspect could be made a part of an expanded consideration of the factors important for the ease of doing business.

Yet another addition to the Policy Chain would be to consider support provided by Indian Missions/ Embassies abroad as part of the policy effort to enhance export opportunities. The Indian Missions need to be given targeted tasks to help expand potential markets. They could, for example, be part of the single-window agency for specific sectors, and work closely with the industry associations.

The Missions could collect information on the most important factors determining the import of specific products by the country where they are stationed, link up with potential buyers or associations to develop commercial opportunities for Indian products and discuss possibilities of Joint Ventures for Indian firms with major firms abroad. They could also collect information on the support/incentive policies provided by the country concerned for different sectors in their jurisdictions and share it with policy makers in India.

These efforts would help increase both export opportunities and provide a good basis for the Government to devise its own policies and improve domestic competitiveness.

4.9 Is there a major constraint which cannot be addressed without direct intervention by the Government, including public investment?

The Government needs to invest in at least two situations. One, when a strategically important input in the value chain is not being produced, or an inadequate level is being produced by the private sector (for example, Key Starting Material (KSM) and Active Pharmaceutical Ingredients (API) for pharmaceuticals). Two, when the Government needs to invest on its own or together with private investors to create facilities and infrastructure (e.g. plug and play facilities, roads). The latter links up with efforts to improve the conditions for the ease of doing business. An example of this is the "Electronics Manufacturing Clusters (EMC) 2.0" recently announced by the Government (see Annex 2).

5. Conclusions

This Report has introduced some key concepts for the establishment of export hubs, and the policies that help promote them. It begins by pointing out the importance of lead firms for successful operation of an export hub. These hubs involve GVCs, i.e. an over-arching firm that manages the different parts of the value chain, and connects the product to global markets. Lead firms could be global or domestic firms.

The requirements for each sector need to be understood in the specific context of each individual sector. A strategy should be developed based on that understanding, and policies be implemented to effectively achieve the objectives of the strategy. Since the situation for different sectors is not the same, the strategy and policies may also differ across sectors. However, a number of the policies are common across sectors, for example, avoiding policy-generated delays, arbitrary changes in policy, or policies with retrospective effect.

This Report has discussed the relevant issues in the context of six different sectors: auto components and automobiles, gems and jewellery, textiles, apparel, electronics with a focus on mobile phones, and pharmaceuticals.

The policies that are required to establish or sustain export hubs in different sectors combine policy measures common across sectors, and other policies which are specific to the sector concerned. This combination depends inter alia on whether or not a domestic ecosystem already exists or whether it needs to be developed and strengthened. Without a domestic ecosystem, it is not easy to sustain an export hub. In a competitive global market, the domestic ecosystem is essential to improve domestic value added or sustain technology generation, two essential factors for creating competitiveness and climbing up the value chain.

Attracting lead firms may involve two situations. One, to make new investment, and the other to add to existing investment to reach larger parts of the global markets. The Report explains that the policies which are conventionally seen as important to improve competitiveness can be considered in terms of two conceptual categories: one is a shorter list of policies addressing concerns of investors which are important for them to consider whether to make new or additional investment. These are the possible "chill" or "freeze" factors for investment. Addressing the concerns in these policy areas is essential to generate new investment from lead firms. The other policies (which include the trade "chill/ freeze" factors, but extend beyond them) aim to improve competitiveness in global markets.

In this background, the Report discusses the strategic framework of support/ incentive policies used by two major economies that compete with India for investment and global market shares, i.e. Vietnam and China. This provides insights into some of the key policy initiatives relevant for export hubs, namely a need for single-window and co-ordination among policies. Thus, promotion of export hubs actually requires a focus on two hubs, an export hub and a policy hub, with consistency and co-ordination between these two. The policy hub could be the Ministry or Department that deals with the sector at the Centre.

The policy framework must combine support/ incentives/ facilitation policies. Since an export hub requires a large level of investment, a specifically targeted package of policies could be devised for firms making investment above a specified very high investment level. This implies a need to alter the current approach, which either specifies a comparatively lower level of investment threshold for mega-firms[32] or at times focuses on criteria which prioritises other factors such as the land area used and not the level of investment.

A discussion of the sector-specific steps for export hubs considers a number of leading questions or issues which could help guide the appropriate policy response. These include:

- Identify the sector/ product that is a priority area for creating an export hub;
- Is there an existing export hub within the country for that sector, or is a new export hub with large export capacity to be established?
- Which firms are the likely lead firms – domestic or foreign; whether present in India or not?

[32] The comparison can be with the threshold levels in competing economies, e.g. Vietnam, or with the levels required for a major lead firm investing for export hubs.

- Lessons from the support/incentive policies implemented by the major competing countries?
- Is it possible to combine the required policies with the ongoing initiatives in India, such as those addressed by the National Committee on Trade Facilitation?
- Does the product or selected sector have product differentiation within the sector? Does such product differentiation imply different support combinations of policies for a given sector?
- What are the main export markets for a selected sector? If more than one type of export market (e.g. developed country/developing country) is the focus of exports, can a common support strategy work?
- Are the domestic requirements for standards, labelling and marking inconsistent with those required for the major export for the lead firm?
- How many of the inputs are locally sourced and how many are to be imported?
- How can the domestic ecosystem be developed to support the export hub initiative and the transfer of technology?
- Does the lead firm need time to locally develop the inputs that are acceptable in the export markets? What are the implications for competitiveness and value chains?
- Is there a major constraint which cannot be addressed without direct intervention by the government, including public investment?
- The value chain for investment/exports by lead firms includes factors additional to those conventionally considered as part of the GVC.

The last point is explained in terms of the importance of investment (FDI), and facilitation of visa and stay of foreign experts. This implies that one of the important policy priorities has to be to facilitate the conditions for visas and travel into the country of executives responsible for establishing or efficiently running the export hub. Another important part of the GVC is the value that could be added by Indian Embassies or Missions abroad, and enabling them to be part of the single- window system within India.

The discussion of these different aspects shows that the situation among the six sectors covered in this Report is not the same. Domestic lead firms are present in some (e.g., auto components) while global lead firms have to be the main entities in another sector (mobile phone). In certain cases, both domestic and foreign firms are present (automobile). Likewise, in certain cases, the policy focus has to be on a limited set of lead firms (mobile phones), while in others the whole sector should be treated as the recipient of special policy support (textiles and apparel). Even in this context, however, a specific category could be considered for greater support, linked to a significantly high investment threshold.

Yet another insight is that the export hubs are not only those operated by formal sector firms as such; they may be operated by the so-called merchant exporters who co-ordinate their exports from the production of a large number of informal producers or small scale/ medium scale firms (e.g. textiles and apparel). They operate their export hub involving different operational conditions than those relevant for large formal firms.

The Report discusses the strategies and policies required to establish and sustain export hubs in a number of sectors. In this background, it highlights the common approaches as well as key sectoral issues and initiatives required for creating an effective operational framework for export hubs in India.

Annex 1

Some Important Conceptual Considerations Relevant for Policy to Establish Export Hubs

Both the Budget and the Economic Survey give importance to creating export hubs in India. However, the two concepts of export hubs discussed in the Budget and the Economic Survey are not the same. The one which envisages each district developing as an export hub combines the concept of export promotion and export hub. The reason for this is that the export hub is usually characterised by considering the linkages from "hub to spoke" and not from "spoke to hub". In this situation, each village cannot be an export hub but it could very much be part of the extensive linkages of an export hub. Therefore, the objective in the Budget document is an aspirational one, which connects each village with exports, producing their own specific products which are part of the inputs needed by an export hub or is a product exported abroad without such a connection to a hub. In the Economic Survey, the concept emphasised is an export hub, with lead firms and connections to GVCs.

Achieving this larger level of export hub operations at an efficient scale requires a policy framework that takes account of several key elements. These are discussed below.

1. A Value Web and Major Significance of Inventory Planning and Costs

To understand the policies relevant for export hubs, it is significant to recognise the nature of the value chain/supply chain which underpins the hub. For example, if a nation is exporting a product "C", its value chain could be:

A------B----D-----Z----C---- Export,

where A, B and D are inputs provided by domestic producers, and Z is an imported input. These inputs could be goods and services that are parts of the supply chain for inputs into C. This product C is exported and could also be sold domestically.

For each domestic input that goes into C, there is its own value chain. For example, A----B, or A being an input into B, is a result of: E------F----G-----A----B.

This means that products (goods/services) E, F and G are parts of the value chain for A, which in turn is a part of the value chain for B, which in turn is an input into the process of producing the product which is exported.[33]

Similarly, other inputs in the value chain have their own individual inputs and value chains. In effect, this process results in a **Value Web, and not only a Value Chain.** However, since conventionally the activity is referred to as "value chain", we continue to use this term in this Report to denote an "value web".

[33] In addition, each of the input product could also be a product exported individually without being used within a domestic value chain.

The implication of the value chain described above is that there are multiple interconnected decisions on production and inventories planning that get affected if the policies change in an ad hoc manner, or create obstacles with delays or requirements that add to costs related to exports. There is a close link between policies, inventory planning and costs, and competitiveness in global markets.

Thus, mitigating the adverse effects of policies that affect inventory planning and operational costs is very important for improving the possibility of growth of GVCs. Policies that cause delays and create difficulty in implementation, or result in ad hoc changes or uncertainty in the expected operational conditions are among the key areas to focus on for improving operations and growth of GVCs. Since value chains are an essential part of export hubs, these aspects are very important for efficient operations of export hubs as well.

2. The Value Chain Process Shows a Need for Co-ordination Amongst Different Policy Areas

The value chain shows that there is a need for co-ordinating various policies needed to support or incentivise export hubs. India has adopted a co-ordinated approach in the context of a policy such as trade facilitation, through its National Committee on Trade Facilitation. Facilitation of trade is an initiative with an impact across several sectors. However, if an export hub is to be developed, then even for a single sector for which export hub is the objective, a co-ordinated approach is essential. A **Real and Effective Single Window is needed,** which enables quick decisions and avoids arbitrary or discordant policy responses for the export hub.

3. Timely Response/Quick Turnaround and Consistent Quality of Inputs Within the Value Chain Are Essential for Successfully Competing in the Global Markets

The global market is intensely competitive, with private standards, quality considerations and timely deliveries to create cost-reduction and revenue opportunities in a highly competitive competitive environment with multiple suppliers vying for global market share. This again shows the importance of policies that reduce delays and provide certainty and stability through a facilitating policy regime.

In addition, the domestic policies relating to quality, standards, labelling and marking relevant for exports should be consistent with those required in the export market. In the same way, the inputs which are imported must have quality etc. consistent with the other products that combine together in the value chain to produce an exported product.

These factors highlight an important consideration which is often overlooked in policy formulation. **Products under the same nomenclature or category are not necessarily of the same quality or technological complexity.** Relevant policies for a higher quality product under a specific category (e.g. display panels or cameras) would in certain cases require policy measures different from those relevant for a lower quality product.

Likewise, if domestic requirements for standards, labelling etc. are different from those required in major export markets, they should be harmonised unless there is a major reason for maintaining a difference between domestic and international standards.

4. The Appropriate Way to Consider the Global Value Chain is from the Export Market Backwards and Not from Domestic Activities Forward to the Export Market

When export hubs or export-related value chains are being considered, the relevant requirements are those prevailing in the export market. Therefore, a consideration of the various policy requirements and management of supply chain requirements flow from the export market backwards into the domestic sectors. In this context, it is noteworthy that the requirements in specific major export markets may differ. Thus, the policy should be flexible enough to allow lead firms overseeing the export hubs to manage these aspects as required, while maintaining the key domestic objectives that are embodied in the various standards established for the specific sector.

Annex 2

Key Features of the Support Scheme Announced by the Government of India: For Electronics, Including Mobile Phones, on 21st March 2020

Note: Parts of the statement have been shown in bold to emphasise the point.

1. Under the leadership of Prime Minister Narendra Modi and due to his visionary initiatives like Digital India and Make in India schemes, India has witnessed an unprecedented growth in electronics manufacturing in last five years. Some salient achievements of this growth are as follows:

- Value of electronics produced in India has reached Rs. 4,58,006 Crore (USD 70 Billion) in 2018-19 from Rs. 1,90,366 Crore (USD 29 Billion) in 2014-15 at a Compound Annual Growth Rate (CAGR) of about 25%.
- **India's share in global electronics manufacturing has grown almost 2.5 times in 6 years** i.e. from around 1.3% in 2012 to 3.0% in 2018.
- Export of electronic goods have also increased substantially from INR 41,220 Crore (USD 6.4 Billion) in 2017-18 to INR 61,908 Crore (USD 8.8 Billion) in 2018-19.
- In volume terms, India has emerged **as the second largest manufacturer of mobile phones in the world in 2018. Over 260 units are manufacturing cellular mobile phones and parts/ components** thereof in the country, up from only 2 units in 2014. The production of mobile phones in the country has gone up 8 times in last 4 years i.e. from around INR 18,900 Crore (USD 3 Billion) in 2014-15 to INR 1,70,000 Crore (USD 24 Billion) in 2018-19 and the domestic demand is almost completely being met out of domestic production.
- As per industry estimates, **electronics manufacturing has generated employment for over 20 lakh persons across the country.**

2. To further realize the potential of electronics manufacturing sector in India, the Government notified the National Policy on Electronics in 2019. This policy sought to provide incentives to the electronics sector for further attracting investments, diversification of electronics manufacturing into sectors like medical, automobile, defense etc., increase domestic value addition and encourage exports. Keeping in view the objective of the Policy, the Union Cabinet on 20th March, 2020 approved three major schemes. Details of these schemes are given in following paragraphs.

3. Production Linked Incentive Scheme (PLI)[34] :

- The scheme is proposed to offer a production linked incentive to boost domestic manufacturing and attract large investments in mobile phone manufacturing and specified electronic components, including Assembly, Testing, Marking and Packaging (ATMP) units.
- The scheme shall extend an **incentive of 4% to 6% on incremental sales** (over base year) of goods manufactured in India and covered under target segments, to eligible companies, for a period of five years subsequent to the base year as defined.

[34] The final notification is at https://meity.gov.in/writereaddata/files/production_linked_incentive_scheme.pdf

- Government of India has earmarked a **budgetary outlay of INR 40,995 crore** for 5 years under this scheme.
- Due to this the domestic value addition for mobile phones is expected to rise to 35%-40% by 2025 from the current level of 20%-25%. **Total employment (direct and indirect) potential** of the scheme is approximately **8,00,000 jobs.**

4. Scheme for Promotion of Manufacturing of Electronics Components and Semiconductors (SPECS)[35]:

- The scheme will provide financial incentive of 25% on capital expenditure for the identified list of electronic goods that comprise downstream value chain of electronic products, i.e., electronic components, semiconductor/ display fabrication units, ATMP units, specialized sub-assemblies and capital goods for manufacture of aforesaid goods, all of which involve high value added manufacturing.
- The scheme will be applicable to investments in new units and expansion of capacity/ modernization and diversification of existing units.
- The scheme will be open for applications initially for 3 years from the date of its notification. The incentives will be available for investment made within 5 years from the date of acknowledgement of application.
- Government has earmarked a **budget outlay of Rs. 3,285 Crore over a period of 8 years.** The scheme is expected to create around **6 Lakh (direct and indirect) jobs.**

5. Electronics Manufacturing Clusters (EMC) 2.0[36]:

- EMC 2.0 scheme envisages to create quality infrastructure (with minimum area of 200 acres) along with industry specific facilities like Common Facility Centers, Ready Built Factory Sheds/Plug and Play facilities etc.
- The scheme will provide financial assistance upto 50% of the project cost subject to ceiling of Rs.70 crore per 100 acres of land for setting up of Electronics Manufacturing Cluster projects.
- For Common Facility Centre (CFC), financial assistance of 75% of the project cost subject to a ceiling of Rs.75 crore will be provided.
- Projects will be implemented in consultation with Anchor Unit(s) / Industry (ies) for encouraging development of supply chain and ecosystem for the electronics industry.
- Government has earmarked **a budgetary outlay of Rs. 3,762.25 crore for this scheme over a period of 8 years.** The scheme is expected to create around **10 Lakh (direct and indirect) jobs.**

6. The three schemes together will **enable large scale electronics manufacturing, a domestic supply chain ecosystem of components and state-of-the-art infrastructure and common facilities** for ***large anchor units and their supply chain partners.*** It will contribute significantly to achieving a USD 1 Trillion digital economy and a USD 5 Trillion GDP by 2025.

[35] The final notification is at https://meity.gov.in/writereaddata/files/scheme_for_promotion_of_manufacturing_of_electronic_components_and_semiconductors.pdf

[36] The final notification is at https://meity.gov.in/writereaddata/files/modified_electronics_manufacturing_clusters_scheme.pdfcomponents_and_semiconductors.pdf

- **Production:** The schemes are expected to increase production of mobile phones and components to around **INR 10,00,000 crore** by 2025.
- **Investments:** The Schemes will attract new investments in electronics manufacturing to the tune of at least **INR 50,000 crore.** The scheme will contribute significantly to direct and indirect tax revenues.
- **Employment:** The combined impact of the proposed Schemes in terms of employment generation will be around **5,00,000 direct jobs and 15,00,000 indirect jobs.**
- **Value Addition:** Domestic value addition for mobile phones is expected to rise **to 35% - 40% by 2025** from the current level of 20% - 25% due to the impetus provided by the scheme.
- **Disability Compensation:** The schemes, along with other initiatives of the government and ease of doing business measures, are expected to **have a combined impact of overcoming around 6%-10% of disability in electronics manufacturing** and bring the country on par with other competing nations.

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