NITI calls for reforms to treble auto parts exports in five years

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New Delhi, 11 April

KEY PROPOSALS

- Enhancement of joint ventures, free trade agreements, and enhanced quality standards to position India as a key global player
- Provide adequate incentives to bring skilled foreign nationals and retain skilled Indians
- Prioritise building a vibrant research and development ecosystem
- Fiscal support in different areas of the automotive ecosystem such as FAME, PM E-DRIVE

India must implement reforms to triple its automotive components exports to $60 billion in the next five years, according to a NITI Aayog report unveiled on Friday.

This growth would position India as a formidable player in global markets, achieving a trade surplus of nearly $25 billion and increasing its share in the global value chain of auto components from 3 per cent to 8 per cent, the report says.

Such progress is projected to generate 2-2.5 million additional large scale employment opportunities, bringing total direct employment in the sector to 3-4 million people, according to the report.

"Realising this ambitious vision will require strategic and focused policy initiatives in high-value automotive manufacturing," the Centre's official policy think tank said in its report titled Automotive Industry: Powering India's Participation in Global Value Chains.

The report envisions India advancing to approximately $145 billion in automotive component manufacturing by 2030.

The think tank suggested a production support scheme comprising two major aspects: operating expenditure support for scaling manufacturing of specific components and capital expenditure support for manufacturing tools and dyes for manufacturing those components in India.

On the non-fiscal front, the report suggested interventions such as business improvement support to enhance global competitiveness, encouragement of joint ventures, and free trade agreements to foster international collaboration and market access.

It also suggested adoption of Industry 4.0 and enhanced quality standards to improve manufacturing efficiency initiatives to position India as a key global player in the automotive components sector and adequate skilling initiatives for development of auto components, along with offering incentives to skilled foreign nationals to come to India and retain highly-skilled Indians.

The think tank, in its recommendation, said, "First, implement attractive incentives like providing the right to purchase residence in India to foreigners, streamlined visa processes, and guaranteed long-term employment opportunities mirroring China's Thousand Talents Program."

The government must prioritise building a vibrant research and development (R&D) ecosystem in auto components. The Aayog recommended that the government implement a strategic R&D support scheme with financial incentives across product categories to foster innovation and build globally competitive Indian auto component manufacturers.

With multiple government schemes currently providing fiscal support in different areas of the automotive ecosystem such as Faster Adoption and Manufacturing of Hybrid and Electric Vehicles in India (FAME), PM Electric Drive Revolution in Innovative Vehicle Enhancement (PM E-DRIVE), and the production-linked incentive for auto components, NITI Aayog Vice-Chairman Suman Bery said there is need to reflect on the returns from these schemes.

"Given our per capita income level, making sure that consumption, which is 58 per cent of the economy, is supported is important. So there will always be fiscal constraints in our country, and so we must not only think about the support, but we must also think about when we get the returns, and make sure that we are getting the return tax flow in a reasonable period of time, rather than these entities being in a continuous state," Bery said.

Citing China's example where companies compete frantically, Bery said that India doesn't have the political appetite to let those who have not succeeded to go under, partly because these are associated with different states and are local champions.

"But if we are to combine localisation with staying at the frontier, we do have to think harder about competition and competition policy than (we have) up till now. Till now, we've considered localisation an end in itself, but localisation, rather than be an end in itself, can be a dead end, unless we keep innovating, and the best way that we know to innovate is through competition," he said.