Scheme on Enhancement of Competitiveness in the Indian Capital Goods Sector- Phase-II

For Prelims: Capital Goods, Foreign Direct Investment, Free Trade Agreement.

For Mains: Significance of Capital Good Sector in Indian Economy, Government Policies and Interventions.

Why in News

The **Ministry of Heavy Industries (MHI)** has notified the **Scheme on Enhancement of Competitiveness in the Indian Capital Goods Sector- Phase-II** for providing assistance to Common Technology Development and Services Infrastructure.

Key Points

- **About**:
  - The objective of Phase II of the Scheme is **to expand and enlarge the impact created by the Phase I pilot scheme,** thereby providing greater impetus through creation of a strong and globally competitive capital goods sector that contributes at least 25% to the manufacturing sector.
    - The scheme on 'Enhancement of competitiveness in the Indian Capital Goods Sector' was notified in November, 2014 to **encourage technology development and infrastructure creation.**
- **Financial Outlay:**
  - The scheme has a financial outlay of Rs. 1207 crores with Budgetary support of Rs.975 crore and Industry Contribution of Rs. 232 crore .
- **Components:**
  - Identification of Technologies through **Technology Innovation Portals.**
  - Setting up of four **New Advanced Centers of Excellence** and augmentation of Existing Centers of Excellence.
  - **Promotion of skilling in the Capital Goods Sector**–creation of Qualification packages for skill levels 6 and above.
  - Setting up of four **Common Engineering Facility Centers (CEFCs)** and augmentation of existing CEFCs.
  - Augmentation of Existing **Testing and Certification Centers.**
  - Setting up of ten **Industry Accelerators for Technology Development.**

Indian Capital Goods Sector

- **Capital Goods:**
  - Capital goods are **physical assets that a company uses in the production process to manufacture products and services** that consumers will later use.
  - Capital goods include **buildings, machinery, equipment, vehicles, and tools.**
  - Capital goods are **not finished goods**, instead, they are used **to make finished goods.**

    - The Capital Goods sector has a multiplier effect and has bearing on the growth of the user industries as it provides critical input, i.e., machinery and equipment to the remaining sectors covered under the manufacturing activity.
- **Scenario:**
    - The capital goods industry **contributes 12% to the total manufacturing activity** which translates to about **1.8% of GDP.**
    - It provides **approximately 1.4 mn direct and 7 mn indirect jobs.**
- **Related Policies:**
    - **No industrial license** is required for the sector.
    - **FDI (Foreign Direct Investment) up to 100% permitted** on automatic route (through RBI).
    - Quantum of payment for technology transfer, design & drawing, royalty etc. to the foreign collaborator has no limit.
    - The **maximum basic customs duty rate is generally 7.5-10%**.
    - India has entered many **FTAs (Free Trade Agreements)**, in which the duty rates are even lower. Lower duty rates are also available under the Project Imports facility.
    - Exports are promoted by allowing duty free imports of raw materials, consumables, components and subassemblies through various schemes of DGFT (Directorate General of Foreign Trade), Ministry of Commerce and Industry.

Source: PIB

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