



Programme for Development of Semiconductors and Display Manufacturing Ecosystem

For Prelims: Production Linked Incentives, Self Reliance, Scheme for Promotion of Manufacturing of electronic Components and semiconductors, semiconductors and its use.

For mains: Significance of semiconducting device in Indian economy, Need of promoting electronic and semiconductor industry, role of electronic industry in making India self-reliant.

Why in News

Recently, the Ministry of Electronics and Information Technology (MeitY) has approved a comprehensive **Program for the Development of [Semiconductors](#) and Display Manufacturing Ecosystems** in the country.

- The government proposes to provide **incentives worth Rs 76,000 crore for the development of semiconductors and display manufacturing ecosystems over the next six years.**

Semiconductors

- Any of a class of crystalline solids **intermediate in electrical conductivity between a conductor and an insulator.**
- Semiconductors are employed in the manufacture of various kinds of electronic devices, **including diodes, transistors, and integrated circuits.** Such devices have found wide application **because of their compactness, reliability, power efficiency, and low cost.**
- As discrete components, **they have found use in power devices, optical sensors, and light emitters, including solid-state lasers.**

Key Points

- **Incentives Under the Programme**
 - **Semiconductor Fabs and Display Fabs:**
 - It would provide **fiscal support of up to 50% of the project cost** for setting up semiconductor and display fabrication units.
 - The Union government will work with the States to **set up high-tech clusters with the required infrastructure** such as land and semiconductor-grade water.
 - **Semi-conductor Laboratory (SCL):**
 - MeitY **will take requisite steps for modernization and commercialization of Semi-conductor Laboratory (SCL).**
 - MeitY will explore the possibility **for the Joint Venture of SCL with a commercial fab partner** to modernise the brownfield fab facility.
 - **Compound Semiconductors:**

- It will support fiscal support of **30% of capital expenditure to approved units.**
- At Least **15 such units** of Compound Semiconductors and Semiconductor Packaging **are expected to be established** with Government support under this scheme.
- **Semiconductor Design Companies:**
 - The **Design Linked Incentive (DLI) Scheme shall extend product design linked incentive of up to 50%** of eligible expenditure and product deployment linked incentive of 6% - 4% on net sales for five years.
 - **Support will be provided to 100 domestic companies** of semiconductor design for Integrated Circuits (ICs), Chipsets, System on Chips (SoCs), Systems & IP Cores and semiconductor linked design.
- **India Semiconductor Mission:**
 - In order to drive the long-term strategies for developing a sustainable semiconductors and display ecosystem, a **specialised and independent India Semiconductor Mission (ISM) will be set up.**
 - ISM will be **led by global experts in the semiconductor and display industry.** It will act as the nodal agency for efficient and smooth implementation of the schemes on Semiconductors and Display ecosystem.
- **Production Linked Incentives:**
 - Incentive support to the tune of Rs.55,392 crore (7.5 billion USD) have been approved under **PLI** for Largest Scale Electronics Manufacturing, PLI for IT Hardware, SPECS Scheme and **Modified [Electronics Manufacturing Clusters \(EMC 2.0\) Scheme.](#)**
 - In addition, PLI incentives to the quantum of Rs.98,000 crore (USD 13 billion) are approved for allied **sectors comprising ACC battery, auto components, telecom & networking products, solar PV modules and white goods.**
- **Significance:**
 - **Strategic Importance:** In the current geopolitical scenario, **trusted sources of semiconductors and displays hold strategic importance** and are key to the security of critical information infrastructure.
 - **Employment:** It will also create **highly skilled employment opportunities** to harness the demographic dividend of the country.
 - **Multiplier Effect:** Development of the semiconductor and display ecosystem will have a multiplier effect across different sectors of the economy with deeper integration to the global value chain.
 - **Boost to Electronic Sector:** The program will **usher in a new era in electronics manufacturing** by providing a globally competitive incentive package to companies in semiconductors and display manufacturing as well as design.
 - **Self Reliance:** This shall **pave the way for India's technological leadership** in these areas of strategic importance and economic self-reliance.

Indian Electronic Sector

- **About:**
 - The Indian electronics sector is **tremendously growing** with the demand expected to cross **USD 400 billion by 2023-24.**
 - Domestic production has grown from USD 29 billion in 2014-15 to nearly **USD 70 billion in 2019-20 ([Compounded Annual Growth Rate of 25%](#)).**
 - Most of this production takes place in the final assembly units (last-mile industries) located in India and focussing on them will **help develop deep backward linkages, thus inducing industrialisation.**
- **Need:**
 - **National Security Considerations:**
 - Most of the chips, as well as components used in Indian communication and critical systems, are imported.
 - This **could hamper national security and sovereignty** as backdoors could be programmed in chips during manufacturing, which could compromise networks and **[cyber-security.](#)**
 - **Increasing Imports:**

- It is expected that **electronics imports will soon overtake crude oil** as India's largest import commodity which will result in assembly units ending up as little more than mere packaging units.
- **Increased Demand and Shortage Amid Covid:**
 - The [Covid-19 pandemic](#) and the subsequent [lockdowns](#) across the world that **forced shut crucial chip-making facilities in countries including Japan, South Korea, China and the US.**
 - Its shortage causes cascading effects, given that the first one creates pent-up demand that becomes the cause for the follow-up famine.
- **Profiting from Anti-Chinese Sentiments:**
 - Due to the [USA's allegations on China](#) for worsening [Covid-19](#) and [India-China conflict](#) and [recent developments as a result of it](#), numerous multinational companies (MNCs) are shifting their production out of China.
- **Pushing Make in India:**
 - There is **a need to promote semiconductor manufacturing alongside assembly units** in India.
 - This will induce greater local production of components and also fuel the growth of the industry as a whole, making [Make in India](#) successful.
 - In 2019, the Union Cabinet gave its approval to the [National Policy on Electronics 2019](#) which envisions positioning India as a global hub for Electronics System Design and Manufacturing.
- **Challenges:**
 - **Missing Profits:**
 - Despite the impressive growth of electronic production in India, **the net value added by production units is very low.**
 - The net value addition ranges between 5% and 15%, as most components are imported rather than locally sourced.
 - It implies that local value addition is a mere USD 7-10 billion out of a global market of USD 2.1 trillion.
 - **Limited Indigenous Capability in Upstream Industries:**
 - In the era of [global supply chains](#), the **value addition at the final stages of production is very low**, especially in electronics because the more complicated processes, involving greater value addition, occur prior to assembly, in 'upstream' industries.
 - These include the production of processors, display panels, memory chips, cameras, etc.
 - **Absence of Foundries:**
 - In the absence of **foundries (semiconductor fabrication plants where microchips are produced)**, India has to **rely on foreign contractors** to produce microchips.
 - Set-up of Foundries requires **massive capital expenditure** to the tune of USD 2 billion and more.
 - Foundries are also required to adopt newer technologies and processes almost every 18 months to ensure competitiveness which means high capital depreciation and often accounts for 50-60% of the production cost.

Way Forward

- Semiconductors and displays are the **foundation of modern electronics** driving the next phase of digital transformation under [Industry 4.0](#).
- The new mission **should focus fiscal support**, at least for now, on other parts of the chip-making chain including design centres, testing facilities, packaging etc.
 - The total outlay of [Scheme for Promotion of Manufacturing of Electronic Components and Semiconductors \(SPecs\)](#) must be increased from the current Rs. 3300 crore, to attract the microchip giants.
- India's PSEs such as Bharat Electronics Ltd or Hindustan Aeronautics Ltd can be **used to set up a semiconductor fab foundry with the help of a global major.**
- India needs to drop the dream of swadeshi semiconductors. Instead, **it should aim to become a key player in a trusted, plurilateral semiconductor ecosystem** that keeps key adversaries

out.

- **Favourable trade policies** are critical for building a plurilateral semiconductor ecosystem.

Source: PIB

PDF Reference URL: <https://www.drishtiias.com/printpdf/programme-for-development-of-semiconductors-and-display-manufacturing-ecosystem>

