

EXPLAINED ECONOMICS

Musk set to arrive: potential win-win for Tesla and India, some challenges too

ANIL SASI

NEW DELHI, APRIL 19

ON HIS visit to India over the weekend, Tesla Inc. CEO Elon Musk could make a pledge to pump more than \$2 billion into a car manufacturing facility in the country, and make a statement on a longer-term investment commitment. He is scheduled to participate in a roundtable with India's space startups, and have a meeting with Prime Minister Narendra Modi on Monday.

Musk's India visit comes as his flagship company Tesla goes through some difficulties, with sobering sales numbers resulting in falling stock market valuations.

The promise of India

Electric passenger car sales have been strong in India, albeit on a tiny base. The government has rolled out a policy tailored for Tesla to import 8,000 electric cars annually into India at a sharply reduced 15% duty. Analysts project that around 5% of all automobiles in India will be EVs by 2030 — up

from the 2% currently, but much lower than the government's target of 30%.

Tesla setting up a manufacturing facility could be the 'Apple moment' for India's auto sector. The success of ramping up cell phone assembly by Apple suppliers in India, riding on production-linked incentives, is seen as a landmark in India's bid to move up the assembly value chain for handphones. The tariff policy break for Tesla is consistent with the government's approach to tap marquee brands and sectoral flagbearers: Apple in electronics manufacturing, Micron for semiconductor chips, and Tesla in EVs.

Ahead of Musk's visit, the first consultation meeting was held on Thursday with automobile industry players, including Tesla representatives, to evolve guidelines to operationalise the government's new EV policy released last month.

Earlier on April 16, the Finance Ministry notified amended Rules under the Foreign Exchange Management Act to operationalise its decision to allow up to 100% foreign direct investment for the space sector through three categories of liberalised entry routes.

On his two-day visit, Musk is expected to make a push for Starlink, a project by his company SpaceX, to offer high-speed Internet using a constellation of thousands of low Earth orbit satellites.

India is also an important market for Musk's other venture, social media platform X. With elections underway, X has been able to skirt around major controversies: a record that Musk is keen to keep intact — unlike in 2019, when Twitter, as X was known then, had multiple run-ins with the government.

EV sector's challenges

But the auto sector agenda is clearly the focus of Musk's visit. He is likely to market the tangential impact that Tesla's manufacturing plans can have on India's EV vendor ecosystem, and dangle the incentive of potentially using the country as a future export hub.

This is at a time when EVs in general and Tesla in particular are at a seeming fork in the road. For Musk, India's untapped market could be as important as the EV story is for India, especially at a time when Tesla has

been outsmarted by local players in China, and the industry as a whole is facing tech disruptions and a general demand slowdown.

But India poses multiple challenges — it is still a relatively small luxury car market, and Tesla is unlikely to have a mass market product anytime in the foreseeable future. The current EV leader in India, Tata Motors, has tasted success by actually moving down the value chain and by customising its internal combustion models, rather than designing EVs ground-up.

Tesla's lowest-priced car, Model 3, is learnt to have faced ground clearance issues when tested in Indian conditions. The car could need some reengineering to ensure it can negotiate speed breakers and bad roads. Plus, there is the issue of putting up charging infrastructure.

India's new EV policy

The Centre's new EV policy, which effectively lowered import duties to 15% from 100% on car models costing over \$35,000 if its manufacturer promised to invest \$500 million in setting up a local factory, marks a part reversal of the domestic manufacturing policy push, given that the duty cuts are aimed at en-

abling a carmaker to import fully built cars.

Also, the waiver is specifically for models of electric cars with combined cost, insurance, freight prices of \$35,000 or more — a landed cost of more than Rs 35 lakh, a segment that does not generally qualify for a tax sop.

While the import numbers may be limited to 8,000 units annually, the new policy does allow Tesla to test out the "market potential" before taking a full-scale plunge into manufacturing. The policy comes after the Centre turned down Tesla's demand for upfront import duty cuts less than 24 months ago.

According to the Ministry of Commerce, the new policy "is designed to attract investments in the e-vehicle space by reputed global EV manufacturers" and seeks to "provide Indian consumers with access to latest technology, boosting the Make in India initiative, strengthening the EV ecosystem by promoting healthy competition among EV players..".

However, in July last year, the Centre reportedly turned down China-based BYD's proposal to build a \$1-billion EV plant in partnership with Hyderabad-based Megha Engineering and Infrastructures Ltd.



DRISHTI JUDICIARY
दृष्टि अध्यापन की एक पहल

8010 208 000
707, मुखर्जी नगर, नई दिल्ली - 110009
drishtijudiciary.com

ज्यूडिशियरी फाउंडेशन कोर्स

प्रिलिम्स • मेन्स ऑफलाइन (हाइब्रिड मोड) लाइव ऑनलाइन दृष्टि लर्निंग ऐप द्वारा

हिंदी माध्यम 29 अप्रैल | शाम 6 बजे