Shipbuilding: Regulatory & Policy Benchmarking

Over the last few decades, the global Shipbuilding industry has witnessed a shift from European countries to Asian countries primarily South Korea, Japan and China on the back of lower labour costs. India has also emerged as an important supplier but it still accounts for less than 1% global share. Besides labour cost advantage, the competing countries have benefited from immense government support which has helped them in establishing their dominance in the world. As of now, India is a relatively nascent player in this industry but is all set to emerge as a key player in the next few decades on the back of cost competitiveness, availability of skilled manpower, locational advantage and government support. Singapore too has established prominence in shipbuilding industry on account of its quality, specialised services, skilled workforce, timely delivery and excellent project management capabilities. In this section, a comparative analysis of major shipbuilding nations is done with respect to various parameters of competitiveness including government support and policy environment.

Supportive government policies: Major factor in establishing global competitiveness

The governments in all major shipbuilding countries have laid a thrust on development of the sector through formulation of supportive policies and measures such as subsidies, financial aid, easy finance, tax benefits, preferential orders, etc. Japanese and South Korean shipbuilding industries received substantial government support during the 1970s and 80s, which helped them to emerge as top players in the world. While Korean government provided a major thrust to the industry under the HCI policy that included capital incentives, trade incentives and tax holidays, the Japanese government provided huge subsidies in the form of easy finance and loan deferments. Another example of government's commitment and support towards the sector is that of Japanese government's export promotion policies during the 1970s and 1980s, like the link system, wherein the losses caused by unprofitable orders were made up by profits from the import of raw sugar.

Over the last decade, the Chinese government has also taken several measures to foster the growth of its industry; measures include direct aid, loss reimbursements, tax subsidies, etc. Indian government too has provided various support measures to the shipbuilding industry, but these were largely directed towards the public sector entities until 2002, after which the private sector has also received the benefits. In the recent past, the state governments like Gujarat have formulated special policies for the sector, which are likely to benefit the industry over the long term.

Foreign investments have helped in building global competitiveness of competing nations

The South Korean government has taken active measures to stimulate FDI in the sector such as cutting corporate taxes, providing tax incentive packages and reducing the trademark evaluation period. The Korean government has also established eight different Foreign-Exclusive Industrial Complexes FEICs) inside national industrial complexes across the country (viz. Hyungok, Geumyui, Cheonan, Ochang, Pyungdong, Daebul, Jinsa and Kumi) to provide foreign investors with low-cost plant sites at discounted rates with government subsidies. The foreign invested company can enjoy a 50 year rent free lease in these complexes based on the level of investments. Further, the development of Free Economic Zones that host world class infrastructure including airport and 3 seaports have also attracted foreign investment in the country. The foreign investment in ship building and shipping machinery sector has helped the Korean ship building industry in receiving world class technology, which puts it at almost par with the Japanese counterparts and way ahead of China and others.

Singapore government also provides incentives schemes such as Approved International Shipping Enterprise (AIS) scheme to attract shipping companies to reside in Singapore. There are currently more than 100 international shipping companies in Singapore, forming an important anchor for the International Maritime Centre.

Most shipbuilding nations provide tax incentives and subsidies

Taxation and other subsidies have been popular instruments in fostering development of the shipbuilding industry in major competing countries. Various types of subsidies provided by leading shipbuilding nation's vis-à-vis India are illustrated in the table below.

Country	Type of subsidy
South Korea	Advance payment guarantees/ debt restructuring/ special tax concession/ soft loans
Japan	Special tax concessions/ soft loans
China	Tax concessions/ soft loans/ debt restructuring/ ship financing
EU	Cash subsidy
India	Cash subsidy

In India, the shipbuilding industry is required to pay nearly 19 types of taxes and levies, which reduces the cost competitiveness. Thus, government subsidy (30% of the sale price on all ships for foreign orders), provided from period 2002-2007 was an important relief for the industry players who compete with international companies that are heavily subsidised by their governments.. However, the subsidy scheme has been discontinued post 2007, which has reduced competitiveness of Indian players in comparison to other competing countries that continue to receive subsidies. Besides direct subsidy, the government of India has undertaken 'Sagarmala project', which has an allocation of 22 billion dollars under PPP mode for building ports and shipyards across the entire coastline of India.

Focus on skill development and R&D is a key factor for maintaining competitiveness

The major shipbuilding countries viz. Japan and South Korea have taken special efforts towards skill development and R&D of the shipbuilding industry. Japan established Shipbuilding Skill Development Centre in 2004, to develop training material and prepare necessary equipment to support training efforts. With respect to R&D and innovation, Japan's key measures include creating replacement demand by developing environmentally friendly and safer ships.

During the 1980s, the South Korean government promoted University-Industry R&D activities which resulted in several collaborative initiatives. Recently, the Ministry of Knowledge Economy of South Korea has initiated convergence of shipbuilding and IT sectors to support the Smart Ships agenda.

The Singapore government also puts a lot of emphasis on R&D to expand knowledge and capability in the maritime sector. Various R&D measures include setting up of a $100 million Maritime Innovation and Technology (MINT) Fund, and entering into Local as well as overseas Maritime R&D MOUs with various research institutions for collaborative projects.

Support to ancillary industries enhances competitiveness

Development of ancillary industries is critical for marinating cost competitiveness of shipbuilding and repairs. Both Japan and South Korea have formulated suitable industrial policy for the shipbuilding and ship repair ancillary industry. The South Korean government provides support to the ancillary industry by way of incentives, R&D support, and business to business network to increase the indigenous contents of equipment in ships built by Korean yards. Indian government can take a cue from such strategies and formulate policy measures to develop key ancillary industries.