BOOSTING INDIA'S MANUFACTURING EXPORTS
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EXECUTIVE SUMMARY

Manufacturing has been a key component of India’s merchandise exports. In fact, India’s manufacturing exports have outpaced growth in total merchandise exports over the past five years. While engineering goods, gems and jewellery, chemicals, and textiles are the major export items from the sector, the main destinations are the US, Western Europe, and the Middle East. But, despite its impressive performance and high global standards, India’s manufacturing exports are much lower compared to peers in Asia. India’s share in global manufacturing exports is a miniscule 1.4 per cent, far behind China’s 14.8 per cent. Some of the key factors that have restrained growth in manufacturing in India include:

- **Poor infrastructure:** In India, infrastructure is key bottleneck restraining industrial growth. In the 2011 International Institute for Management Development rankings, India was ranked 50th (among 59 countries) in the infrastructure criterion.

- **Low FDI inflows:** FDI is critical for funding as well as technical and managerial expertise. In this, India lags behind peers like China. In 2011, India recorded inflows of USD27.6 billion, way below China’s figure of USD116.0 billion.

- **Low R&D spending:** Productivity is a function of innovations and technology. India’s R&D spending as a share of GDP is low relative to advanced economies and China. India also lags behind in innovation; in the Global Innovation Index India is ranked 62nd.

- **Government policies:** Analysts often point towards India’s tax regime as an impediment to growth in manufacturing. Firms face a swathe of double taxation policies in addition to import duties on raw materials.

- **Rising input costs:** Of late, Indian manufacturers have been suffering from higher production costs (raw material and energy). On the demand side, they have been hit by RBI’s restrictive monetary policy as the central bank goes about curtailting inflation.

In order to get over the above bottlenecks and make Indian manufacturing a global leader, there are a number of things that can be done by both the government and private firms.

**Better implementation of projects:** The government, taking cognizance of the need to boost infrastructure, plans to raise the sector’s share in GDP to 10 per cent by 2017 from the current 6 per cent. However, the key challenge is implementation. Coordination between different agencies needs to be spruced up while increasing private sector involvement. Successes of the PPP model should encourage the government to do so.
**Boosting education and training:** In order to increase the supply of employable skilled labour, the government needs to address the wide disparities in the quality of education in the country. It is also important to improve attractiveness, availability and feasibility of vocational education for school drop-outs.

**Flexible labour laws:** There is a need to remove the multitude of labour laws prevalent in India and harmonise them into a single set. These rigid labour laws have been an impediment to industrial growth and hurt the very workers they are meant to protect. Rigidity in labour laws has forced firms to resort to outsourcing and contracting of labour.

**Think global, act local:** In order to be successful in the global arena, Indian manufacturers need to adopt a global mindset to build scale and achieve cost excellence. In addition, they need to acquire market access rapidly, strengthen innovation, build a global footprint, and master the ability to manage a world-class talent pool and organisation.

**Bridge the gap left by China’s policy shift:** China has recently signalled a move away from export oriented growth to a more domestic consumption driven one. Indian manufacturing companies can take advantage of this and fill the void left by China.

**Diversification of exports markets:** India’s main export destinations are Western Europe and the US. However, growth centres in the coming decades are expected to be in Africa, Asia, and Latin America. It is important for Indian firms to diversify into these markets.

**Augmenting technology:** Indian firms need to increase collaboration with foreign one to boost R&D. Global acquisitions may be a good way to do so. A good example is the Tata-Corus acquisition which brought with it more than 80 patents and 1,000 researchers.
1. INDIA’S MANUFACTURING SECTOR: AN OVERVIEW

1.1 Role of manufacturing in the Indian economy

Manufacturing holds a key position in the Indian economy, accounting for nearly 15.4 per cent of real GDP in FY12 and employing about 12.0 per cent of India’s labour force. Growth in the sector has been strong, outpacing overall GDP growth over the past few years. For example, while real GDP expanded at a CAGR of 8.4 per cent over FY05-FY12, growth in the manufacturing sector was higher at around 8.5 per cent over the same period. Consequently, its share in the economy has increased during this time – to 15.4 per cent from 15.3 per cent. Growth however has remained below that of services, an issue that has not escaped the attention of policy makers in the country.

Strong growth has been accompanied by a change in the nature of the sector – evolving from a public sector dominated set-up to a more private enterprise-driven one with global ambitions. In fact, according to UNIDO, India (with the exception of China) is currently the largest producer of textiles, chemical products, pharmaceuticals, basic metals, general machinery and equipment, and electrical machinery. In the coming year, the sector’s importance to the domestic and global economy is set to increase even further as a combination of supply-side advantages, policy initiatives, and private sector efforts set India on the path to a global manufacturing hub.

Exhibit 1
Size of the manufacturing sector in India

Source: RBI, Aranca Research
1.2 Manufacturing sector’s growth spurt

Manufacturing accounts for a large chunk of India’s industrial production, a fact borne out by the sector’s 75.4 per cent share in the Index of Industrial Production (IIP). With CAGR of 8.8 per cent during FY05-FY10, the sector helped the overall industrial sector get over low growth in the other two sub-segments (of IIP).
On an even more encouraging note, the manufacturing sector has strengthened in FY11 compared to the previous fiscal – an analysis of 121 sub-sectors by the Confederation of Indian Industry (CII) reveals that only 5 of them recorded declines in FY11 compared to 25 in FY10. At the same time, key sub-sectors like machine tools, ball and roller bearings, textile machinery, and utility vehicles recorded either excellent (above 20 per cent) or high (10-20 per cent) growth, thereby adding to value creation in manufacturing.
2. **MADE IN INDIA: EXPORT TRENDS**

2.1 Manufacturing goods exports

Apart from domestic consumption, manufacturing also contributes significantly to India’s international trade. Over the past five years, manufacturing exports increased at a CAGR of 20 per cent, outpacing the corresponding growth in merchandise exports. During FY11, the total manufacturing exports stood at USD 168.1 billion, higher than the FY10 figure of USD 115.2 billion. Of the total value, engineering goods accounted for the highest share (40.4 per cent) followed by gems and jewellery (24.3 per cent) and chemical and related products (17.2 per cent). Another notable contributor is textiles with a share of 13.9 per cent.

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**Exhibit 6**  
Key sectors fall in ‘excellent’ and ‘high’ growth areas

<table>
<thead>
<tr>
<th>Sector</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machine Tools</td>
<td>51.0%</td>
</tr>
<tr>
<td>Ball and roller bearings</td>
<td>33.0%</td>
</tr>
<tr>
<td>Air conditioners</td>
<td>29.4%</td>
</tr>
<tr>
<td>Vehicle industry</td>
<td>28.2%</td>
</tr>
<tr>
<td>Textile Machinery</td>
<td>25.0%</td>
</tr>
<tr>
<td>Tractors</td>
<td>25.0%</td>
</tr>
<tr>
<td>Tyre Industry</td>
<td>24.0%</td>
</tr>
<tr>
<td>Utility vehicles</td>
<td>17.6%</td>
</tr>
<tr>
<td>Home and Personal care</td>
<td>12.0%</td>
</tr>
</tbody>
</table>

Source: Confederation of Indian Industry (CII)

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**Exhibit 7**  
Manufactured Goods Exports (USD billion)

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports (USD billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY03</td>
<td></td>
</tr>
<tr>
<td>FY04</td>
<td></td>
</tr>
<tr>
<td>FY05</td>
<td></td>
</tr>
<tr>
<td>FY06</td>
<td></td>
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<tr>
<td>FY07</td>
<td></td>
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<tr>
<td>FY08</td>
<td></td>
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<tr>
<td>FY09</td>
<td></td>
</tr>
<tr>
<td>FY10</td>
<td></td>
</tr>
<tr>
<td>FY11</td>
<td></td>
</tr>
</tbody>
</table>

CAGR: 19.6%

Source: Directorate General of Commercial Intelligence and Statistics, Aranca Research
2.2 Growth rates of various sub-categories: Engineering goods lead the way

Within manufacturing exports, engineering goods was one of the fastest growing – the segment recorded a CAGR of 26.0 per cent during the period FY01-FY11. Other sub-sectors with high growth rates include gems and jewellery and chemicals, which grew at a rate of 18.6 per cent and 17.3 per cent respectively. Within engineering goods, transport equipment led the field with a CAGR of 34 per cent (FY01-FY10), followed by electronic goods (24 per cent) and machinery and instruments (22 per cent). In the chemicals sub-sector, growth in exports was primarily led by pharmaceuticals – exports rose 18.0 per cent during the stated period.

The exhibits in the following page highlight growth trends in notable manufacturing sub-sectors.
Boosting India’s Manufacturing Exports

Exhibit 9
Engineering goods exports

Source: Directorate General of Commercial Intelligence and Statistics, Aranca Research

Exhibit 10
Chemicals exports

Source: Directorate General of Commercial Intelligence and Statistics, Aranca Research
Exhibit 11
Gems and jewellery exports

Source: Directorate General of Commercial Intelligence and Statistics, Gem & Jewellery Export Promotion Council, Aranca Research

Exhibit 12
Textile exports

Source: Directorate General of Commercial Intelligence and Statistics, Aranca Research
2.3 India’s manufacturing export destinations

The US and Western Europe are the main export market. The Middle East also finds mention with UAE in particular a key market for Indian manufactured goods. The exhibits below show shares of key markets in Indian manufacturing exports for FY11.
Exhibit 15
Leather and leather products (per cent)-FY11

Source: Directorate General of Commercial Intelligence and Statistics, Aranca Research

Exhibit 16
Chemicals and allied sectors (per cent)-FY11

Source: Directorate General of Commercial Intelligence and Statistics, Aranca Research
Exhibit 17
Engineering goods (per cent)-FY11

- U.S.A: 10.0%
- U.A.E.: 5.9%
- Singapore: 4.3%
- Germany: 3.5%
- U.K.: 2.9%
- Sri Lanka: 2.8%
- Malaysia: 2.7%
- Italy: 2.5%
- Bangladesh: 2.0%
- Hong Kong: 0.9%
- Others: 63.7%

Source: Directorate General of Commercial Intelligence and Statistics, Aranca Research

Exhibit 18
Gems and jewellery (per cent)-FY11

- U.A.E.: 43.3%
- Hong Kong: 24.0%
- U.S.A: 13.3%
- Belgium: 6.2%
- Israel: 0.8%
- Singapore: 0.8%
- Thailand: 0.4%
- U.K.: 0.8%
- Japan: 0.4%
- Switzerland: 0.4%
- Others: 6.6%

Source: Directorate General of Commercial Intelligence and Statistics, Aranca Research
Exhibit 19
Readymade garments (per cent)-FY11

Source: Directorate General of Commercial Intelligence and Statistics, Aranca Research

Exhibit 20
Jute and jute products (per cent)-FY11

Source: Directorate General of Commercial Intelligence and Statistics, Aranca Research
3. GLOBAL BENCHMARKING

3.1 India’s global competence

India ranks second in the world as per the 2010 Global Manufacturing Competitiveness Index [GMCI], prepared by the US Council on Competitiveness, and Deloitte. The index factors in market dynamics as well as policy issues influencing the sector. India is ahead of major developed and emerging economies like the US, South Korea, Brazil and Japan. Looking ahead, India’s competitiveness will increase further with its index score set to improve to 9.01 (out of 10) in the next five years from the 2010 figure of 8.15. In terms of rank, the country is set to maintain its global second rank over the same period. Given below are the segments of the GMCI and the ranks assigned to nations in 2010.

<table>
<thead>
<tr>
<th>Exhibit 21</th>
<th>Drivers of the GMCI in descending order of weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Talent-driven innovation</td>
<td></td>
</tr>
<tr>
<td>Cost of labour and materials</td>
<td></td>
</tr>
<tr>
<td>Energy cost of policies</td>
<td></td>
</tr>
<tr>
<td>Economic, trade, financial and tax systems</td>
<td></td>
</tr>
<tr>
<td>Quality of physical infrastructure</td>
<td></td>
</tr>
<tr>
<td>Government investments in manufacturing and innovation</td>
<td></td>
</tr>
<tr>
<td>Legal and regulatory system</td>
<td></td>
</tr>
<tr>
<td>Supplier network</td>
<td></td>
</tr>
<tr>
<td>Local business dynamics</td>
<td></td>
</tr>
<tr>
<td>Quality and availability of healthcare</td>
<td></td>
</tr>
</tbody>
</table>

Source: Deloitte and US Council on Competitiveness, Aranca Research
3.2 Where we stand globally

Indian manufacturing has performed strongly over the last decade. However, a look at the performance of other economies in Asia reveals that there is still a long way to go for India’s manufacturing sector. Despite growing at a higher growth rate in recent years, the share of manufacturing in India’s GDP has increased only marginally. In comparison, for some of the key East Asian economies, the share of manufacturing in economic activity falls within the range of 25-35 per cent.
Similarly India’s share in global manufacturing exports is a miniscule 1.4 per cent, far behind that of China which accounts for a massive 14.8 per cent. In fact, a number of South East Asian economies have a lead over India. Most prominent among them are South Korea, Malaysia, Singapore, Taiwan, and Thailand.

The exhibit in the next page lists the CAGR (2000 to 2009) in manufacturing exports of major economies. It is evident from the figures that India has been displaying higher growth than most other major exporting counties for a number of manufacturing products. However, except pharmaceuticals, the country has been behind China for all manufacturing categories.
## Exhibit 25
### CAGR (2000-09) of manufacturing exports for major economies

<table>
<thead>
<tr>
<th>Country</th>
<th>Leather</th>
<th>Chemicals and allied products</th>
<th>Pharmaceuticals</th>
<th>Textiles</th>
<th>Clothing</th>
<th>Automobiles</th>
</tr>
</thead>
<tbody>
<tr>
<td>EU</td>
<td>-11</td>
<td>17</td>
<td>2</td>
<td>6</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>12.1</td>
<td>20</td>
<td>19</td>
<td>16</td>
<td>13</td>
<td>32</td>
</tr>
<tr>
<td>US</td>
<td>-5.4</td>
<td>8</td>
<td>14</td>
<td>-1</td>
<td>-8</td>
<td>1</td>
</tr>
<tr>
<td>Japan</td>
<td>-7.6</td>
<td>6</td>
<td>5</td>
<td>-2</td>
<td>-1</td>
<td>2</td>
</tr>
<tr>
<td>South Korea</td>
<td>-13.6</td>
<td>12</td>
<td>15</td>
<td>-4</td>
<td>-13</td>
<td>10</td>
</tr>
<tr>
<td>Singapore</td>
<td>8.8</td>
<td>14</td>
<td>21</td>
<td>-2.9</td>
<td>-6.1</td>
<td>18</td>
</tr>
<tr>
<td>Taiwan</td>
<td>-11.1</td>
<td>12</td>
<td>-5</td>
<td>-8</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>-3.6</td>
<td>6</td>
<td>20</td>
<td>-3</td>
<td>-8</td>
<td>-6</td>
</tr>
<tr>
<td>Canada</td>
<td>-1.9</td>
<td>7</td>
<td>20</td>
<td>11.5</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Switzerland</td>
<td>4.9</td>
<td>13</td>
<td>18</td>
<td>-0.9</td>
<td>11.5</td>
<td>8</td>
</tr>
<tr>
<td>Malaysia</td>
<td>6.8</td>
<td>0.75</td>
<td>4</td>
<td>13</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thailand</td>
<td>-3.7</td>
<td>13</td>
<td>5</td>
<td>0</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>India</td>
<td>7.6</td>
<td>17</td>
<td>20</td>
<td>6</td>
<td>8</td>
<td>26</td>
</tr>
<tr>
<td>UAE</td>
<td></td>
<td></td>
<td>2</td>
<td>14</td>
<td>24</td>
<td></td>
</tr>
</tbody>
</table>

**Colour Coding**

- [ ] In competition with India;
- [ ] Less competitive than India;
- [ ] At par with India;
- [ ] Data not available

**Source:** World Trade Organisation (WTO)

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To arrive at the major competitors for India, the authors have looked at the top fifteen exporters of manufacturing goods. For these fifteen countries, the authors looked at the Compound Annual Growth Rate (CAGR) for the period from 2000 to 2009 [latest available data] for various manufacturing sub-sectors. The countries which have shown growth rates higher than India, during this period, have been assumed to be more competitive than India and those which have shown lower growth rates have been assumed to be less competitive.
4. GETTING OVER THE BOTTLENECKS

Manufacturing is crucial to the Indian economy. Any impact on the sector goes far beyond the goods provided by it. Manufacturing sells goods to other sectors and in turn buys materials and services from them for its growth and development. It spurs demand for everything from raw materials to intermediate goods. Its area of influence includes sectors like software, health, and transportation. If India is to achieve its stated goals on GDP growth and employment generation for a growing young population, the manufacturing sector has to lead the way. However, for this the country needs to put a check on factors which restrict its growth in manufacturing. Towards this end it could draw important lessons from East Asian economies, primarily its emerging market peer – China.

- **Poor infrastructure facilities:** Quality of infrastructure has a direct impact on competitiveness of the manufacturing sector of a country. Unfortunately, in India, infrastructure has been a key bottleneck restraining industrial growth and thereby restraining potential real GDP growth. Whether it is power, telecom or transportation, India remains a laggard. For example, energy shortfall for FY12 is expected to be around 10.3 per cent. A brief comparison highlights India’s problems in infrastructure relative to others. In the 2011 International Institute for Management Development (IMD) rankings, the country was in the 50th position (among 59 countries) in the infrastructure criterion. In comparison, Korea was ranked 20th and China was ranked 28th.

- **Lower FDI inflows in India:** Foreign Direct Investment (FDI) is one of the major factors influencing growth in developing economies. FDI brings with it not only much-required capital, but also improved technology and management expertise, thereby leading to improved productivity. Although FDI inflows have grown over the years, volumes do not seem high relative to emerging market peers like China. In 2011, for example, total FDI inflows into India stood at USD27.6 billion, way below the corresponding USD116.0 billion figure for China.

- **Low R&D spending:** High productivity is a function of innovations and technology. This relates to inventions as well as improvement in products and processes. India’s R&D spending as a share of GDP is very low (0.9 per cent in 2010) compared to 3.3 per cent for Japan, 2.7 per cent for the US, 1.6 per cent for Europe, and 1.4 per cent for China. At the same time, India’s share in global R&D spending was much lower at 2.9 per cent (in 2010) as compared to China’s 12.9 per cent. India also lags behind other countries in the Global Innovation Index (62nd in 2011). In comparison, China ranks 29th.
Government policies: Analysts often point towards India’s tax regime as an impediment to the development of the manufacturing sector. Manufacturers in the country are charged with double taxation policies like sales tax on cenvat, sales tax on central sales tax, entry tax on sales tax, and income tax on service tax. To add to these, higher import duties on raw materials, and lower incentives and subsidies on export of manufactured goods make the sector less competitive in the global market. However the Indian government has begun to realize the pitfalls of not encouraging the manufacturing sector. Towards this end it has been working on the National Manufacturing Policy, which aims at making India a manufacturing hub.

Rising input costs: Over the past few years, Indian manufacturers have been suffering from higher production costs (raw material and energy). This has hit profit margins of Indian companies. The impact of high commodity prices has also been felt on the demand side. With higher commodity costs percolating into headline inflation, the Reserve Bank of India (RBI) has been forced to restrict credit growth by raising interest rates. In fact, the RBI has hiked interest rates 11 times since March 2010. Although, challenges on the demand side are of a cyclical nature, higher energy and raw material prices seem to be a more structural trend and hence pose a greater challenge in the middle to long term.

5. BOOSTING MANUFACTURING EXPORTS: AGENDA FOR ACTION

There is no denying that India possesses a comparative advantage in many respects. With an experienced workforce, large pool of scientists, engineers and managers, reasonable endowment of natural resources, and a large domestic market, India has the potential to emerge as a major manufacturing hub for the global economy. Several countries have successfully used outsourcing to build their economies. Taiwan is the world’s leading source for semi-conductor manufacturing. China today produces 30 per cent of all air conditioners, 24 per cent of all washing machines, and 16 per cent of all refrigerators sold in the US. Indeed, as much as 60 per cent of the USD 250 billion FDI into China was to build capacity for outsourcing.

Despite its slow start, India can aspire to become one of largest exporters of manufactured goods among low cost countries (LCCs) by 2015. India has several advantages in skill-intensive industries such as automotives, auto components, and pharmaceuticals, where the next set of off shoring opportunities will arise. Apart from low wage rates, other advantages that India has are engineering skills (process, product and capital engineering), established raw material bases, a mature supply base and a growing domestic demand.
India can achieve these goals provided both the government and the industry work together. For Indian manufacturing to enter into a new growth orbit, some key issues that need to be addressed are –

- **World class physical infrastructure:** India’s power sector is a key to growth – both in manufacturing and overall GDP. The current power demand-supply gap is around 60 billion kWh. At the present rate of investment in the sector, the gap is not expected to be bridged even by 2020\(^2\). India’s per capita electricity consumption of 0.5 MWh/capita is nearly one-fourth that of China and less than 5 per cent that of USA\(^3\). Transportation should be the other key focus area for the government. An example is ports. With India’s ports almost at saturation point (container capacities of 43 million tonnes are fully utilised), container capacity requirements for exports alone will have to be hiked to anything between 120-150 million tonnes by 2015\(^4\).

On the positive front, though the Government of India has recognised the need for infrastructure investments. The 11\(^{th}\) and 12\(^{th}\) Five-Year Plans have infrastructure as a key component of overall development strategy. However, the challenge facing India’s infrastructure is not lack of intent or plans, but failure of execution. This is true for most infrastructure improvement plans. Most projects run significantly behind schedule—delays caused both in the initial planning as well as in the execution of the project. Estimates by the Ministry of Programme Implementation estimates indicate that over 50 per cent\(^5\) of road projects in India are running behind schedule. In terms of cost overruns, Indian Railways accounts for 115 of 207 defaulting infrastructure projects.

Four reasons contribute to these delays—poor planning, long lead times in land acquisitions, delays in getting environmental clearances and poor performance management\(^6\). To address these challenges, it is important to have better coordination between various agencies and improved project execution and monitoring of projects. The private sector, especially foreign investor should be allowed to play a greater role in execution of infrastructure projects. One success story that should inspire the government to shed its inhibitions is the Delhi Metro.

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\(^2\) IEA Statistics
\(^3\) Indian Manufacturing: The next growth orbit, Aspiration and roadmap for Indian manufacturing, A CII – BCG Report, January 2010
\(^4\) Made in India: The Next big manufacturing export story, A CII-McKinsey Report
\(^6\) Indian Manufacturing: The next growth orbit, Aspiration and roadmap for Indian manufacturing, A CII – BCG Report, January 2010
Strong human capital: India’s ‘demographic dividend’ of a young population is as much an opportunity as it is a challenge. According to the International Labour Organisation (ILO), by the middle of the 21st century, the share of people above the age of 65 years will be 39 per cent in the U.S, 53 per cent in Germany and 67 per cent in Japan. India, by contrast will have only 19 per cent of its population above the age of 60.

This abundant supply of working age population has the potential to drive manufacturing growth. However, the challenge before the government is to boost education and skill development. According to estimates by various agencies, despite an abundant supply of labour, India may be actually facing a shortfall in availability of qualified workforce. The other challenge is employability - according to CII estimates, only 39.5 per cent of graduates are employable in the country. Another study by Nasscom puts this figure at 25 per cent.

On a positive note, the government has set up a National Skills Development Council to encourage private participation/ management of Industrial Training Institutes (ITI’s). Given the wide disparities in quality of education across different institutes in India there is an urgent need to improve the quality of teaching imparted in schools and colleges. It is also important to improve attractiveness, availability and feasibility of vocational education for school drop-outs.

Flexible labour laws: There are a multitude of labour laws in India. There are 45 Central Acts and 16 associated rules that directly deal with labour. In addition, there are other acts that deal indirectly with labour issues. A number of these prohibit companies with more than 100 employees from making positions redundant and firing people for any cause other than criminal misconduct. An additional 45 national laws intersect or derive from the Industrial Disputes Act of 1948, and about 200 state laws control the relationships between employees and employers. These rigid labour laws are potentially holding the country’s industrial growth and are hurting the very workers they are meant to protect. The rigidity in labour laws has led companies to increasingly resort to outsourcing and contracting of labour. Hence it is important to harmonise rules across all these acts and make labour laws more flexible.

Apart from creating a world class enabling infrastructure it is also important for Indian industry to be more proactive. Given below are a few of the suggestions that India Inc, may look at –

Think Global, act Local: While a few Indian companies are taking the initiative to grow globally, a significant majority of Indian manufacturing companies still continue to be domestic market-focused and pursue

\[\text{Ministry of Labour & Employment, Government of India}\]
mostly undifferentiated business models. In order to be successful in the global arena, Indian companies need to adopt a global mindset to build scale and achieve cost excellence. In addition, they need to acquire market access rapidly (through inorganic routes where required), strengthen design and innovation skills, build a global or regional operating footprint, and master the ability to manage a world-class talent pool and organisation. These actions will form the foundation for ambitious global growth and will need to be supported by a judicious choice of market segments and business models.

- **Bridge the gap left by China’s policy shift:** Under its 12th Five Year Plan, the Government of China has signalled a move away from its three decade old policy of export oriented growth towards higher domestic consumption. This focus will get particularly reinforced as advanced economies, the key market for Chinese products, remain bogged down in sluggish growth. Indian companies can take advantage of this and boost manufacturing exports, especially in sectors like textiles and leather.

- **Diversification of Exports Markets:** A bulk of India’s exports is destined to countries in Western Europe and North America. However, growth centres in the coming decades are expected to be economies of Africa and Latin America. It is important for Indian manufacturing companies to grab the first mover’s advantage and look at tapping these markets, more aggressively.

- **Increase focus on R&D:** India intends to increase its R&D spending in order to have better innovative products and technology. The government is intent to improve the ratio of R&D to GDP to 1.2 per cent by 2012 from 0.9 per cent in 2010. India’s 11th Five-Year Plan (2007-12) stipulates a 220% increase for science and technology investments, compared to the 10th Plan. For accomplishing this, India needs to take a leaf from China. The country is already joining hands with established R&D leaders globally. For example, India and Russia have been in a partnership for military hardware where the later would be making 12 nuclear power plants over the next 10 years for India. Also India is in talks with US for technology to collaborate on various issues like counterterrorism, climate change, clean energy, civilian space, and defence. Indian companies also need to augment technological know-how from global acquisitions. A good example is the Tata-Corus acquisition which brought with it more than 80 patents and 1,000 researchers.
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