Manufacturing for Growth
Strategies for Driving Growth and Employment

Executive Summary
A World Economic Forum Report
in collaboration with Deloitte Touche Tohmatsu Limited
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Introduction

The Future of Manufacturing report (April 2012) identified a number of factors that will shape the future of competition between countries and companies. Three areas rose to the top as the most critical: human capital and talent development; innovation and technology advancement; and strategic use of public policy emphasizing collaboration between policy-makers and business leaders. This series of Manufacturing for Growth reports addresses these key competitive factors and defines ways to drive economic growth and high-value job creation through manufacturing industry sectors.

The Manufacturing for Growth series comprises three volumes:

- **Volume 1: Globally Competitive Policy** seeks to define the features of effective, comprehensive national industrial policy. This volume focuses on six countries chosen to represent both historic manufacturing giants and new and emerging manufacturing powerhouses. This cross-section was selected as representative of developed and emerging economy nations to showcase the unique aspects of each and, more often than not, the similarities in what manufacturing executives recommend to policy-makers. Volume 1 was informed by discussions with over 70 chief executives of multinational manufacturing companies, which resulted in:
  - **Policy recommendations common across all interviews conducted in support of this project**
  - **Specific country policy recommendations for:**
    - Emerging economies – China, Brazil and India
    - Developed economies – Germany, Japan and the United States
  - An outline of various policy instruments that are available to policy-makers and significantly influence competitiveness
  - An analysis of some critical policy areas most frequently cited by chief executives around the world as having a direct impact on their companies’ ability to compete

In addition, an appendix comparing tax, energy and environmental policy instruments for the six focus countries discussed in Volume 1 is available for download at www.deloitte.com/us/policy/framework.

- **Volume 2: Partnering for Competitiveness** examines case studies of public-private collaboration from around the world that enable innovation and technology advancement and promote talent development.

- **Volume 3: Manufacturing Value Chains Driving Growth** illustrates the value and jobs created by specific industry sectors – aerospace, automotive and chemicals – from a global macro-view as well as a micro-view of the impact that a single product value chain or single production facility can have on a location.

To access the entire series electronically, visit http://wef.ch/mfgla13

Project Methodology

During the World Economic Forum Annual Meeting 2012, the Forum-Deloitte LLP project team presented key findings from The Future of Manufacturing report, the culmination of a one-year project that explores why manufacturing is a key driver of economic growth, how the global manufacturing ecosystem has changed and continues to change, and what the key factors for both companies and countries will be to compete in the future.

In a largely unified response, project stakeholders – senior manufacturing executives, policy-makers and civil society leaders – directed the Forum-Deloitte team to continue the project by defining specific, effective, near-term ways to react to these future competitive factors. The resulting project, Manufacturing for Growth, defines key strategies for driving growth and high-value job creation through manufacturing industry sectors, and provides best practice examples for reacting to universal challenges in the area of talent development and innovation.

The Manufacturing for Growth project brings together extensive primary and secondary research from industry, academic and policy leaders. The extended global project team conducted face-to-face interviews around the world with over 70 chief executives of multinational manufacturing companies. Insights from these interviews were supplemented with input collected during workshops hosting senior manufacturing leaders, including members of the Project Consultative Group, in the following locations:

- **World Economic Forum private session in Tokyo, Japan:** 24 April 2012
- **Manufacturing & Society in the 21st Century, in collaboration with the Aspen Institute, Aspen, USA:** 17 August 2012
- **World Economic Forum private session in Berlin, Germany:** 17 October 2012
- **World Economic Forum private session in New Delhi, India:** 6 November 2012
- **Talent-Driven Innovation Symposium, in collaboration with the Manufacturing Institute and Alcoa Foundation, Washington DC, USA:** 28 November 2012
- **World Economic Forum private session in Davos, Switzerland:** 24 January 2013

The project team also gleaned findings from the Forum’s official sessions on manufacturing during the Annual Meeting of the New Champions in Tianjin, People’s Republic of China, in September 2012 and the World Economic Forum on India in Gurgaon, India, in November 2012.

Additionally, this effort benefited from the invaluable time and content developed with a number of experts in the areas of policy, value chain analysis, human capital and specific manufacturing sectors: Deloitte Tax LLP; Deloitte Consulting’s Energy Practice; the National Association of Manufacturers; Duke’s Center on Globalization, Governance & Competitiveness; The Dow Chemical Company; and Nissan.
Executive Summary

In today’s global economy, government actions and public policy play a critical role in shaping the competitiveness of both nations and the individual companies that operate within their borders. The impact that government policies can have across a number of competitiveness drivers – including trade; financial, monetary, tax and legal systems; infrastructure; education; labour markets; and science and technology – are significant. They can directly create both advantages and disadvantages relative to other nations. As the strategic use of public policy intensifies, collaboration between policy-makers and business leaders to create win-win outcomes becomes more essential.

In Davos in January 2012, business leaders gathered to review and discuss the output of The Future of Manufacturing project, which focused on the question: How are global value chains evolving? The follow-up Manufacturing for Growth initiative focuses on the key question: What should be done? The objective of the Manufacturing for Growth initiative is to foster constructive dialogue and collaboration between business leaders and public policy-makers and, therefore, to facilitate better public policy.

Globally Competitive Public Policy

Face-to-face discussions with more than 70 chief executives and other senior executives around the world were conducted from August 2012 through early January 2013 to collect insights into policy recommendations for six focus countries – three developed economy nations (Germany, Japan and the United States) to serve as surrogates for the developed world, and three emerging economy nations (Brazil, China and India) to serve as surrogates for the emerging world.

In addition, workshops were conducted around the world soliciting additional input from business executives and subject matter experts. Executives participating in the working sessions and one-on-one interviews were both passionate and clear when sharing their perspectives and recommendations on altering key aspects of current government policies to drive manufacturing and economic growth. While the CEO recommendations vary based on industry sector and the unique circumstances of each country, several common and recurring themes emerged regarding what constitutes effective public policy.

Effective public policy characteristics

- Consistency, stability and certainty
- Globally competitive, fair and enforced
- Developed through dialogue and collaboration
- Creates institutional legitimacy, credibility and market confidence
- Harmony and alignment
- Financially prudent; balances costs versus benefits

In addition, there were five specific public policy areas where common messages emerged from executives around the world.

Special Acknowledgement

Special thanks go to Andrew Liveris, Chairman, President and Chief Executive Officer of The Dow Chemical Company, for his leadership and insights while serving as the Global CEO Champion for the “Manufacturing for Growth” project effort.
Common Policy Recommendations

1. Competitive tax policy applied within simplified tax systems: Executives participating in the discussions consistently expressed concern with both business tax policy and complex national tax systems that negatively impact competitiveness. While specific country tax systems vary from country to country, executives broadly said that the countries that could offer competitive advantages in lowering an organization’s overall effective tax rate, as well as remove resource and cost burdens often associated with compliance, would be the winners.

2. Policy that promotes and protects free and fair trade: Trade was frequently and passionately mentioned by almost all of the executives participating in the discussions. Executives consistently called for policy-makers to increase both the number of free trade agreements and the pace at which new agreements are formed and ratified. Business leaders also suggested that policy-makers need to consider non-tariff trade barriers, such as border administration and complex regulatory hurdles.

3. Energy policy promoting efficiency, security, strong infrastructure and low cost: Executives broadly expressed that countries that could provide clean and sustainable sources of energy at a competitive cost would offer a significant advantage over other nations. They also said it was incumbent on policy-makers to develop comprehensive national energy policies that effectively and responsibly build a portfolio of strategic sources of energy, ensure efficient delivery through world-class infrastructure, and support appropriate R&D efforts in alternative sources of clean energy.

4. Education and workforce policy that develops superior talent: The ability to develop and attract the world’s most talented workers was critical to every executive participating in the discussions, regardless of geography. Executives consistently said that their ability to drive innovation is directly linked to their ability to access highly educated workers. While STEM (science, technology, engineering and mathematics) literacy is important, executives consistently said STEM is not, by itself, sufficient. Many commented that creativity and imagination are key ingredients to producing great innovation. As a result, they stressed manufacturers need STEM educated, multidisciplinary thinkers who are also creative and imagination are key ingredients to producing great innovation.

5. Science, technology and innovation policy which promotes advanced manufacturing: Finally, executives conveyed that a talented workforce with strong STEM and creativity skills combined with policies that consistently promote superior science and technology research and development through to commercialization – including the development of advanced manufacturing processes – are essential to national competitiveness.

Partnering for Competitiveness

The reality of today’s global competitiveness environment requires a team effort to succeed. Increasingly, businesses, government and academia are partnering to make strategic choices about how to develop and sustain the knowledge and capabilities necessary to be leaders in the advanced manufacturing economy.

Almost universally, the executives interviewed for this effort expressed concern about attracting, training and retaining the most qualified talent and driving the innovation agendas of their organizations. Business executives emphasized the need for the public and private sectors to collaborate, with each other and with universities, national laboratories, research centres and other non-profits to create environments that breed both talent and innovation. The examples of leading public-private partnership organizations provided by executives varied widely by sector, funding mechanics, tenure, exact focus of mission and geographic reach – from the Agency for Science, Technology and Research in Singapore to Fraunhofer-Gesellschaft in Germany and to the Manufacturing Institute in the United States. Despite differences in location and mission, these leading examples demonstrate a common set of best practices.

Best practices of public-private partnerships

- Demand-driven and highly responsive to specific needs of industry and society: The most effective public-private partnership organizations are demand-driven and have a mission focused on specific market needs, both from an industry and societal perspective. These organizations address relevant, timely and current issues while anticipating future demands and trends.

- Offers a differentiated value proposition that transcends traditional business barriers: Each of the organizations identified has a distinct and differentiated value proposition essential to its market success. Further, they all excel at creating bridges between groups that would otherwise operate in different spheres, extracting latent value from the collaboration.

- Long-term horizon and flexible in measuring success: Like well-managed businesses, leading public-private partnership organizations establish metrics for success and track themselves by those metrics. What differs are the type of metrics and the time horizon for success. A public-private partnership organization is not measured in quarterly earnings and may even use metrics other than monetary value.

- Seeks revenue streams beyond government or public funding: Leading organizations derive a much more significant portion of their revenue and funding from private sources than from public sources. In virtually all cases, they have multiple funding sources.

- Core structural integrity: Leading public-private partnership organizations display unapproachable integrity when it comes to intellectual property protection and creating trust and credibility. They establish a track record of trust and respect with a nation, with industry and with customers.
Comparative Economic and Related Data

2011 manufacturing export competitiveness by size, skill and technology

Source: Deloitte Touche Tohmatsu Limited and US Council on Competitiveness, 2013 Global Manufacturing Competitiveness Index

Key:
- Exports of manufactured goods with high skill and technology intensity
- Exports of manufactured goods with medium skill and technology intensity
- Exports of manufactured goods with low skill and technology intensity; and labour-intensive and resource-based manufactured goods

Note: The classification of goods into different degrees is based on Standard International Trade Classification (SITC) codes, UNCTAD. (%) Percentages in these bubbles are for 2011

Source: Deloitte Touche Tohmatsu Limited and US Council on Competitiveness, 2013 Global Manufacturing Competitiveness Index
Comparative Economic and Related Data

Movement and levels of manufacturing products to and from top manufacturing economies and their trading partners, by product type

Source: Deloitte Touche Tohmatsu Limited and US Council on Competitiveness, 2013 Global Manufacturing Competitiveness Index

Notes:
- The classification of goods into different degrees is based on Standard International Trade Classification (SITC) codes, UNCTAD.  
- Shaded grey countries represent export trade partners of top 10 GMCI competitive nations

Source: Deloitte Touche Tohmatsu Limited and US Council on Competitiveness, 2013 Global Manufacturing Competitiveness Index
Manufacturing Value Chains Driving Growth

Today’s manufacturing value chains are complex, highly interconnected, and rapidly changing. Policy-makers and business leaders face competing objectives and challenges to navigate this environment. Policy-makers strive to create more high-value jobs and improve the quality of life for their citizens. Manufacturing leaders are increasingly responding to competitiveness pressures to attract the best from a global pool of talent, along with the capital, capabilities, and the global customers and revenues necessary to maintain their competitiveness and viability. As explained by Gary Gereffi and Joonkoo Lee (in their essay adapted from their article Why the World Suddenly Cares about Global Supply Chains1), the ability of a country to prosper today depends on its participation in the global economy and its role in global supply chains. But understanding its role – much less changing its role – can be complicated at best.

Key concepts and trends in understanding today’s global value chains

- Shift from “trade in goods” to “trade in value-added”: Over the past 20 years, with an emphasis on East Asia, global supply chains have grown exponentially, covering not only finished goods but also sub-assemblies and components. This has resulted in more intermediate goods than finished goods traded across borders, and more parts and components imported for use in exports. In 2009, the world exports of intermediate goods exceeded the combined export values of final and capital goods. This new pattern of global trade is referred to as a shift from “trade in goods” to “trade in value-added” and “trade in tasks”.

While most intermediate goods are still traded within large regional economic blocks such as the European Union rather than across them, Asia’s linkages to the European Union and North America represented the two highest inter-regional import flows of intermediate goods in 2008. Asia imported more intermediate goods than it exported, indicating the region’s high level of integration with global supply chains. Increasingly, China’s ability to excel at scale-driven specialization and develop “supply chain cities” has become a source of persistent competitive advantage.

- Top-down versus bottom-up: The Global Value Chain (GVC) framework analyses “the full range of activities that firms and workers perform to bring a product from its conception to its end use and beyond”. This holistic view provides two contrasting vantage points: a top-down “governance view” of supply chains focuses mainly on lead firms and the organization of global industries, and a bottom-up “upgrading” perspective which focuses on strategies used by countries and regions to maintain or improve their positions in the global economy.

- The new math of value-added: Interestingly, China does not create or capture most of the value generated through its value chain exports. As more types of intermediate goods are traded within global supply chains, the discrepancy is growing between where final goods are produced and exported and where value is created and captured. Domestic content only accounts for about half of China’s manufacturing exports.


- Shifting end markets: As world trade is bouncing back from the economic crisis of 2008-2009, emerging economy nations are becoming the main growth engine of world economic recovery. Stagnant growth in demand in the global North since the mid-1980s was exacerbated by the recent economic crisis, whereas demand is quickly growing in the global South, particularly in emerging economies like China, India and Brazil. From 2005 to 2010, the merchandise imports of the European Union increased by 27%, while they increased in the US by 14%. Over the same time period, emerging economies expanded their merchandise imports much faster: Brazil, 147%; India, 129%; China, 111%; and South Africa, 51%.

To better inform this dialogue on global value chains, the report illustrates and analyses the value and jobs created in three manufacturing sectors: aerospace, automotive, and chemicals. Each of these sectors is representative of several broader themes: globalization, including shifting consumer and production markets; spread of free trade; rise of the global middle class; increasing use of technology, digitization and advanced processes; and the skilled and talented workforce required in today’s manufacturing. An understanding of how manufacturing and value chains work in a globalized world is critical to developing and implementing effective policies to enable the advancement of manufacturing.

Policy recommendations from chief executives and senior business executives, best practices of leading public-private partnerships with an emphasis on talent and innovation, and new perspectives on today’s complex global value chains are the key elements of the Manufacturing for Growth report. The hope is that this report serves as a primer for informed and spirited dialogue and debate, and that the Manufacturing for Growth effort has helped to provide a foundation for constructive collaboration among business, government and civil society.
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- Thomas Bauer, Chief Executive Officer, Bauer Aktiengesellschaft, Germany
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- Ronald Bullock, Chairman, Bison Gear and Engineering Corp., USA
- Raul Calfat, Chief Executive Officer, Votorantim, Brazil
- Carlos Cardoso, Chairman, President and Chief Executive Officer, Kennametal Inc., USA
- Marcelo Strufaldi Castelli, Chief Executive Officer, Fibria Celulose SA, Brazil
- Wolfgang Colberg, Chief Financial Officer, Evonik Industries AG, Germany
- Frederick Pinheiro Fleury Curado, Chief Executive Officer, Embraer SA, Brazil
- Vinod K. Dasari, Managing Director, Ashok Leyland Limited, India
- Luiz Tarquinio Sardinha Ferro, Chief Executive Officer, Tupy SA, Brazil
- José Edson Barros Franco, Chief Executive Officer, InterCement Brasil S/A, Brazil
- Ralf-Michael Franke, Chief Executive Officer, Drive Technology Division Industry Sector, Siemens AG, Germany
- Wu Gang, Chairman and Chief Executive Officer, Goldwind Science & Technology Co. Ltd, China
- Jürgen M. Geißinger, Chief Executive Officer, Schaeffler Technologies AG & Co. KG, Germany
- Carlos Ghosn, Chairman and Chief Executive Officer, Renault-Nissan Alliance, France
- S. Gopalakrishnan, Executive Co-Chairman, Infosys Technologies Limited, India
- José Carlos Grubisich, Chief Executive Officer, Eldorado Brazil Celulose, Brazil
- Liang Haishan, Executive Vice-President, Haier Group Company, China
- Masaki Imai, Senior Vice-President and Executive Officer, General Executive of Strategic Corporate Planning Division, JVC Kenwood Corporation, Japan
- Noriyuki Inoue, Chairman and Chief Executive Officer, Daikin Industries Ltd, Japan
- V. G. Jaganathan, President, Sundaram, India
- Kellie Johnson, President and Chief Executive Officer, Ace Clearwater Enterprises Inc., USA
- Dirk Kaliebe, Chief Financial Officer, Heidelberger Druckmaschinen AG, Germany
- Kazuaki Kama, President and Chief Executive Officer, IHI Corporation, Japan
- Neeraj Kanwar, Vice-Chairman and Managing Director, Apollo Tyres Limited, India
- Taro Kato, President, NGK Insulators Ltd, Japan
- Haruo Kawahara, Chairman, JVC Kenwood Corporation, Japan
- Makoto Kimura, President, Nikon Corporation, Japan
- Klaus Kleinfeld, Chairman and Chief Executive Officer, Alcoa Inc., USA
Yoshimitsu Kobayashi  
President and Chief Executive Officer  
Mitsubishi Chemical Holdings Corporation  
Japan

Masahiro Koezuka  
Executive Vice-President and Director  
Fujitsu Ltd  
Japan

Kazuhiko Kurihara  
Vice-President and Executive Officer  
Hitachi Ltd  
Japan

Tom Linebarger  
Chairman and Chief Executive Officer  
Cummins Inc.  
USA

Andrew Liveris  
Chairman, President and Chief Executive Officer  
The Dow Chemical Company  
USA

Geraldo Lopes  
Chief Executive Officer  
Ferba  
Brazil

Marcos A. de Marchi  
Chief Executive Officer  
Elekeiroz SA  
Brazil

Sergio Marchionne  
Chairman and Chief Executive Officer  
Fiat/Chrysler Group  
USA

Robert McDonald  
Chairman, President and Chief Executive Officer  
The Procter & Gamble Company  
USA

John McGlade  
Chairman, President and Chief Executive Officer  
Air Products and Chemicals Inc.  
USA

Shunichi Miyanaga  
Senior Executive Vice-President  
Mitsubishi Heavy Industries Ltd  
Japan

Alexandre Monteiro  
Chief Executive Officer  
Lupatech SA  
Brazil

Jan Mrosik  
Chief Executive Officer Smart Grid Division Infrastructure and Cities Sector  
Siemens AG  
Germany

Hiroaki Nakanishi  
Representative Executive Officer and President  
Hitachi Ltd  
Japan

Atsutoshi Nishida  
Chairman  
Toshiba Corporation  
Japan

Keith Nobusch  
Chairman and Chief Executive Officer  
Rockwell Automation Inc.  
USA

Gregory Page  
Chairman and Chief Executive Officer  
Cargill Incorporated  
USA

Olof Persson  
Chief Executive Officer  
AB Volvo  
Sweden

Nicholas Pinchuk  
Chairman, President and Chief Executive Officer  
Snap-on Incorporated  
USA

Wolfgang Reitzle  
Chief Executive Officer  
Linde AG  
Germany

Gordon Riske  
Chief Executive Officer  
KION Group GmbH  
Germany

Siegfried Russwurm  
Chief Executive Officer Industry Sector  
Siemens AG  
Germany

Harry Schmelzer Jr  
Chief Executive Officer  
WEG Industrias SA  
Brazil

Winfried Seitz  
Chief Technology Officer  
BSH Bosch und Siemens Hausgeräte GmbH  
Germany

Hideaki Shindo  
General Manager, Corporate Strategy  
NGK Insulators Ltd  
Japan

Mohsen Sohi  
Chief Executive Officer  
Freudenberg & Co. KG  
Germany

Carlos José Fadigas de Souza Filho  
Chief Executive Officer  
Braskem SA  
Brazil

Michael Splinter  
Chairman and Chief Executive Officer  
Applied Materials Inc.  
USA

K. Sridharan  
Chief Financial Officer  
Ashok Leyland Limited  
India

John Surma  
Chairman and Chief Executive Officer  
United States Steel Corporation  
USA

Kazuhiko Takechi  
General Manager, Corporate Planning Center, Management Planning Office  
Hitachi Ltd  
Japan

Luiz Eduardo Tailliberti  
Chief Executive Officer  
Ecoverd Participacoes S/A  
Brazil

Stephan B. Tanda  
Member of the Board  
Royal DSM NV  
Netherlands

Todd Teske  
Chairman and Chief Executive Officer  
Briggs & Stratton Corporation  
USA

Atsushi Tsurumi  
General Manager, Financing Department, Financing and Accounting Headquarters  
Nikon Corporation  
Japan

K. Venkataramanan  
Chief Executive Officer and Managing Director  
Larsen and Toubro Limited  
India

John Weber  
President and Chief Executive Officer  
Remy International Inc.  
USA

Jin Wei  
Chief Executive Officer  
Suntech Power Holdings Co. Ltd  
China

Roger Wood  
President and Chief Executive Officer  
Dana Holding Corporation  
USA

Yoshitake Yamaguchi  
Senior Manager, Corporate Government and External Relations Division  
Toshiba Corporation  
Japan

Junji Yasui  
Senior Executive Vice-President and Chief Supply Chain Officer  
NEC Corporation  
Japan
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Manufacturing for Growth Task Force
Peter Bosch  
Head of Strategy, Production and Logistics  
Volkswagen AG
Frederic Daubas  
Chief Marketing Officer  
Safran Group
Michael Hildinger  
Head of Corporate Strategy  
Schaeffler AG
Vijay Kaira  
Head of Manufacturing, Automotive  
Mahindra & Mahindra Ltd
Michael Kamel  
Director, Strategy and Business Development  
Bombardier Aerospace
Sanjay Jalona  
Senior Vice-President and US Head of Manufacturing  
Infosys Ltd
Jock-Mendoza Wilson  
Director, International and Investor Relations  
System Capital Management
Trevor Mann  
Head of Supply Chain and Chairman of the Operating Committee for Africa, Middle East and India  
Renault-Nissan BV
Edward Rogers  
Global Strategy Manager, Corporate Strategy  
UPS
Rodolfo Sabonge  
Vice-President, Market Research and Analysis  
Panama Canal Authority
Lisa Schroeter  
Director, International Policy  
The Dow Chemical Company
Francisco Soares Neto  
Vice-President, Manufacturing Engineering  
Embraer SA

Subodh Tandale  
Executive Director, Head of International Business  
Bharat Forge Ltd
Andrew Weinberg  
Chairman, Strategy  
Brightstar Corp.
Urban Wass  
Director, Head of Product and Road Safety  
AB Volvo
Jeff Wilcox  
Vice-President, Engineering, Corporate Engineering and Technology  
Lockheed Martin Corporation
Serge Yoccoz  
Vice-President, Corporate and Strategic Planning  
Renault

Global Agenda Council on Advanced Manufacturing
Arindam Bhattacharya  
Partner and Managing Director  
The Boston Consulting Group
Fadi Farra  
Adviser to the Prime Minister of Kazakhstan
João Carlos Ferraz  
Vice-President  
Brazilian Development Bank (BNDES)
Gary Gereffi  
Professor of Sociology and Director, Center on Globalization, Governance & Competitiveness  
Duke University
Llyr Jones  
Head, Group Strategy  
BAE Systems Plc
Kevin Kolevar  
Vice-President, International Government Affairs and Public Policy  
The Dow Chemical Company
Yasushi Konno  
General Manager and Senior Consultant  
Nomura Research Institute Ltd
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- Paul Ballonoff, Energy Policy and Regulatory Specialist, Deloitte United States (Deloitte Consulting LLP)
- André Argenton, Global Senior R&D Director of Corporate Research, Dow Chemical
- Ken Dewoskin, Chairman, Deloitte China Research and Insight Centre (CRIC), Deloitte China
- Gary Gereffi, Center on Globalization, Governance & Competitiveness, Duke University
- Doug Gish, Principal, Deloitte United States (Deloitte Consulting LLP)
- Michael Goldbas, Principal, Deloitte United States (Deloitte Consulting LLP)
- Kevin Kolevar, Vice-President, International Government Affairs and Public Policy, The Dow Chemical Company
- Ellen MacNeil, Partner, Deloitte United States (Deloitte Tax LLP)
- Rebecca Ranich, Director, Deloitte United States (Deloitte Consulting LLP)
- Lisa M. Schroeter, Director of International Policy, The Dow Chemical Company
- Guy W. Wagner, Director, Purchasing Administration, Strategy and Cost Management, Nissan, North America
- Priscilla Zhang, R&D Tax and Government Incentives Expert, Deloitte United States (Deloitte Tax LLP)

**Advanced Materials Systems**

- Tom Aldred, Senior Manager, Deloitte United States (Deloitte Consulting LLP)
- Jeff Carbeck, Massachusetts Institute of Technology, Materials Science and Engineering
- Duane Dickson, Principal, Deloitte United States (Deloitte Consulting LLP)

**Global Aerospace and Defence Outlook**

- Pauline Biddle, Partner, Deloitte UK
- Tom Captain, Global A&D Sector Leader, Deloitte Touche Tohmatsu Limited
- Gianluca Di Cicco, Partner, Deloitte Italy
- Gilbert Fayol, Partner, Deloitte France
- Nidhi Goyal, Director, Deloitte India
- Dan Haynes, Principal, Deloitte United States (Deloitte Consulting LLP)
- Michael Hessenbruch, Partner, Deloitte Germany
- John Hung, Partner, Deloitte China
<table>
<thead>
<tr>
<th>Country</th>
<th>Name</th>
<th>Position and Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>Kyoko Fujikawa,</td>
<td>Chief Staff, General Administration Group, Deloitte Japan</td>
</tr>
<tr>
<td></td>
<td>Yasutoki Ishiguro,</td>
<td>Partner, Process Sector Leader, Deloitte Japan</td>
</tr>
<tr>
<td></td>
<td>Akira Kondo,</td>
<td>Managing Partner, Deloitte Japan</td>
</tr>
<tr>
<td></td>
<td>Yuki Kuboshima,</td>
<td>Partner, Asia Pacific Manufacturing Leader, Deloitte Japan; Executive Director, South East Asia Deloitte Consulting Pte Ltd</td>
</tr>
<tr>
<td></td>
<td>Koichi Kuse,</td>
<td>Partner, Clients &amp; Industries, Deloitte Japan</td>
</tr>
<tr>
<td></td>
<td>Tomoko Matsumoto,</td>
<td>Manager, Research &amp; Knowledge Management, Manufacturing, Deloitte Japan</td>
</tr>
<tr>
<td></td>
<td>Koji Miwa,</td>
<td>Partner, Aerospace &amp; Defense Sector Leader, Deloitte Japan</td>
</tr>
<tr>
<td></td>
<td>Yoichiro Ogawa,</td>
<td>Vice-Chairman of Global Board, Deloitte Touche Tohmatsu Limited; Managing Partner, Practice Development &amp; International Affairs, Deloitte Japan</td>
</tr>
<tr>
<td></td>
<td>Masato Sase,</td>
<td>Partner, Automotive Sector Leader, Deloitte Japan</td>
</tr>
<tr>
<td></td>
<td>Joe Vitale,</td>
<td>Global Automotive Sector Leader, Deloitte Touche Tohmatsu Limited</td>
</tr>
<tr>
<td></td>
<td>Tomonori Yako,</td>
<td>Partner, Technology, Media &amp; Telecommunications Leader, Deloitte Japan</td>
</tr>
<tr>
<td>United States</td>
<td>Jodi Benkarski,</td>
<td>Deloitte United States (Deloitte Services LP)</td>
</tr>
<tr>
<td></td>
<td>Lilly Chung,</td>
<td>Principal, Deloitte United States (Deloitte Consulting LLP)</td>
</tr>
<tr>
<td></td>
<td>Michelle Collins,</td>
<td>Partner, Deloitte United States (Deloitte &amp; Touche LLP)</td>
</tr>
<tr>
<td></td>
<td>Bob Denove,</td>
<td>Partner, Deloitte United States (Deloitte &amp; Touche LLP)</td>
</tr>
<tr>
<td></td>
<td>Duane Dickson,</td>
<td>Principal, Deloitte United States (Deloitte Consulting LLP)</td>
</tr>
<tr>
<td></td>
<td>Craig A. Giffi,</td>
<td>Vice-Chairman and US Leader, Consumer &amp; Industrial Products, Deloitte United States LLP (Deloitte LLP)</td>
</tr>
<tr>
<td></td>
<td>Tim Hanley,</td>
<td>Global Manufacturing Leader, Deloitte Touche Tohmatsu Limited</td>
</tr>
<tr>
<td></td>
<td>Sharafat Khan,</td>
<td>Principal, Deloitte United States (Deloitte Consulting LLP)</td>
</tr>
<tr>
<td></td>
<td>Paul Maynard,</td>
<td>Partner, Deloitte United States (Deloitte &amp; Touche LLP)</td>
</tr>
<tr>
<td></td>
<td>John Moavenzadeh,</td>
<td>Senior Director, Head of Mobility Industries, World Economic Forum USA</td>
</tr>
<tr>
<td></td>
<td>Sarita Nayyar,</td>
<td>Managing Director, Head of Consumer Industries, World Economic Forum USA</td>
</tr>
<tr>
<td></td>
<td>Rob Parkins,</td>
<td>Director, Deloitte United States (Deloitte Services LP)</td>
</tr>
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<td></td>
<td>Dorothy Powers,</td>
<td>Manager and Project Manager, Manufacturing for Growth, Deloitte United States (Deloitte Consulting LLP)</td>
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<tr>
<td></td>
<td>Jack Russi,</td>
<td>Management Partner, Deloitte United States (Deloitte LLP)</td>
</tr>
<tr>
<td></td>
<td>Dmitri Shiry,</td>
<td>Deloitte United States (Deloitte Tax LLP)</td>
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<tr>
<td></td>
<td>Nick Sowar,</td>
<td>Partner, Deloitte United States (Deloitte &amp; Touche LLP)</td>
</tr>
<tr>
<td>Brazil</td>
<td>José Othon Tavares de Almeida,</td>
<td>Partner, Brazil Manufacturing Leader, Deloitte Brazil</td>
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<tr>
<td></td>
<td>Suellen Yuri Higashi,</td>
<td>Senior, Brazil Manufacturing Practice, Deloitte Brazil</td>
</tr>
<tr>
<td>China</td>
<td>Ricky Tung,</td>
<td>Partner, China Manufacturing Leader, Deloitte China</td>
</tr>
<tr>
<td></td>
<td>Tracy Wang,</td>
<td>Senior Manager, National Industry Program, Deloitte China</td>
</tr>
<tr>
<td>Germany</td>
<td>Alexander Börsch,</td>
<td>Director, Clients &amp; Markets – Research, Deloitte Germany</td>
</tr>
<tr>
<td></td>
<td>Susan Schleicher,</td>
<td>Senior Manager, Clients &amp; Markets, Industry Manufacturing, Deloitte Germany</td>
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<tr>
<td></td>
<td>Jan Stratmann,</td>
<td>Managing Partner, Clients &amp; Markets, Deloitte Germany</td>
</tr>
<tr>
<td></td>
<td>Thomas Döbler,</td>
<td>Partner, Manufacturing Industry Leader, Deloitte Germany</td>
</tr>
<tr>
<td>India</td>
<td>Alka Gupta,</td>
<td>Senior Manager, Strategic Targets Group, Clients and Markets, Deloitte India</td>
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<td></td>
<td>Lolita Joseph,</td>
<td>Manager, Strategic Targets Group, Clients and Markets, Deloitte India</td>
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<td></td>
<td>Kumar Kandaswami,</td>
<td>Senior Director, Deloitte India</td>
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<tr>
<td></td>
<td>Harsh Srivastava,</td>
<td>Manager, Strategic Clients Group, Clients &amp; Markets, Deloitte India</td>
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<td>Senior Director, Deloitte India</td>
</tr>
<tr>
<td></td>
<td>Harsh Srivastava,</td>
<td>Manager, Strategic Clients Group, Clients &amp; Markets, Deloitte India</td>
</tr>
</tbody>
</table>
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- Craig A. Giffi, Vice-Chairman and US Leader, Consumer & Industrial Products, Deloitte United States (Deloitte LLP)
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- Jennifer McNelly, President, Manufacturing Institute
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Dennis Dio Parker, Assistant Manager, Toyota North America Production Support Center
Bob Paton, Chief Executive Officer, Manufacturing Skills Australia
Joseph M. Pietrantonio, Vice-President, Environmental, Health, Safety and Quality, and Corporate Chief Engineer, Air Products and Chemicals Inc.
Dan Swinney, Executive Director, Chicago Manufacturing Renaissance Council
Peter Zierhut, Vice-President, European Operations, Haas Automation

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Rodney Brooks, Chairman, Founder and Chief Technical Officer, Rethink Robotics Inc.
William D. Budinger, Founder, Former Chairman and Chief Executive Officer, Rodel Inc.
Ronald D. Bullock, Chairman and Chief Executive Officer, Bison Gear and Manufacturing Corporation; Chairman, Board of Trustees, The Manufacturing Institute
Gregory W. Cappelli, Co-Chief Executive Officer, The Apollo Group
Carlos M. Cardoso, Chairman, President and Chief Executive Officer, Kennametal Inc.
David Chavern, Executive Vice-President and Chief Operating Officer, US Chamber of Commerce
Thomas J. Duesterberg, Executive Director, Manufacturing & Society in the 21st Century, The Aspen Institute
John F. Fiedler, Chairman of the Board (Emeritus), BorgWarner Inc.
Craig A. Giffi, Vice-Chairman and US Leader, Consumer & Industrial Products, Deloitte United States (Deloitte LLP)
Stephen V. Gold, President and Chief Executive Officer, Manufacturers Alliance for Productivity and, Innovation (MAPI)

Drew Greenblatt, President, Marlin Steel Wire Products, LLC
Lawrence D. Kingsley, President and Chief Executive Officer, Pall Corporation
Lawrence Ladin, Chairman Emeritus, Compressor Controls Corporation
Michael C. Maibach, President and Chief Executive Officer, European-American Business Council
Steven H. McKnight, Director, Civil, Mechanical and Manufacturing Innovation Division (CMMI), National Science Foundation
Keith D. Nosbusch, Chairman, President and Chief Executive Officer, Rockwell Automation Inc.
Timothy H. Powers, Chairman, President and Chief Executive Officer, Hubbell Incorporated
Timothy T. Tevens, President and Chief Executive Officer, Columbus McKinnon Corporation
Jay Timmons, President and Chief Executive Officer, National Association of Manufacturers
Franklin J. Vargo, Former Vice-President, International Economic Affairs, National Association of Manufacturers
Jane L. Warner, Executive Vice-President, Illinois Tool Works
John H. Weber, President and Chief Executive Officer, Remy International Inc.
Tim Welsh, Senior Vice-President, National Industry Strategy Group, University of Phoenix

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Philippe Advani, Vice-President, Global Sourcing Network, EADS
Vineet Agarwal, Joint Managing Director, Transport Corporation of India Ltd
Sachin Arolkar, Vice-President, Commercial and Business Planning and International Operations, Mahindra & Mahindra Ltd
Yogesh Bangur, Director, LNB Group
Rajeev Batra, Group Head, Corporate Affairs, Hindustan Unilever Ltd
Ankur Bhatnagar, Vice-President, Reputation.com
Robin Braeutigam, Director, Technical Representative, Volkswagen Group Japan Kk
Antonio Campello, Vice-President, Corporate Strategy and New Business Development, EMBRAER
Marcelo O. Cerqueira, Vice-President, Vinlys, Braskem
Christian Charnaux, Vice-President Strategy and Innovation, Hilton Worldwide
Atul Dhawan, Partner, National Leader Clients and Markets, Deloitte Touche Tohmatsu India Private Limited
Frederic Daubas, Chief Marketing Officer, Safran
Christopher Emerson, Senior Vice-President, Future Programmes and Market Strategy, Airbus
Kyouji Funatsumaru, Senior Vice-President, Group Truck Technology APAC Cab and Vehicle Assembly, Volvo Nippon KK
Anshoo Gaur, Head, Amdocs India
Mark A. Gottfredson, Partner, Bain & Company
Magnus Granström, Director Research and Public Funding EU, Advanced Technology and Research, Volvo
Peter Hanna,
Manager, Strategy and Business Development, Bombardier Aerospace

Peter Haynes,
Senior Director, Advanced Strategies and Research, Microsoft Corporation

Michael Hildinger,
Head of Corporate Strategy, Schaeffler AG

Hidetoshi Imazu,
Member of the Board, Executive Vice-President, Nissan Motor Co. Limited

Christian Koitzsch,
Corporate Affairs, Technical Planning, Robert Bosch, Germany

Carsten Larsen,
New Business Development Director, DOW DEUTSCHLAND INC.

Takahisa Miyachi,
Executive Vice-President and Group Chief Executive Officer, Chemicals, Mitsubishi Corporation

Jan Mueller,
Senior Vice-President, Communications Strategy and PR Programmes, Deutsche Post DHL

S. Ananda Murali,
Sales Director, HCL Japan Ltd

Keisuke Nishimura,
Director, Kirin Holdings Company Limited

Ralf Oehl,
Senior Vice-President, Corporate Strategy and Development, M+W Group

Henning Oeljjenbruns,
Head of Strategy Daimler Trucks, Buses and Vans, Daimler

Devdip Purkayastha,
President, CHEP India

Jackson Schneider,
Executive Vice-President of People, Institutional Relations and Sustainability, Embraer

Seo Bo Shin,
Managing Director and Chief Executive Officer, Hyundai Motor India Ltd, India

Antônio Cesar da Silva,
Marketing Director, WEG

Yo Takeuchi,
Chief Financial Officer, Development Bank of Japan Inc.

Urban Wass,
Director, Volvo

Elisabeth Werner,
Head of Unit, European Commission

Serge Yoccoz,
Vice-President, Corporate and Strategic Planning, Renault SAS

Ulhas Yargop,
President, IT Sector, Group Chief Technology Officer and Member, Group Executive Board, Mahindra & Mahindra Ltd

Judith Zielke,
Head of Division, Enterprise Connect, Department of Industry, Innovation, Science, Research and Tertiary Education, Australia

Core project team

From the World Economic Forum (in alphabetical order)

Stefano Ammirati,
Associate Director, Head of Automotive Industry, World Economic Forum

Maxime Bernard,
Senior Manager, Aviation & Travel Services Industries, Global Leadership Fellow, World Economic Forum USA; Project Manager, Manufacturing for Growth

John Moavenzadeh,
Senior Director, Head of Mobility Industries, World Economic Forum USA

Dorothy Powers,
Manager and Project Manager, Manufacturing for Growth, Deloitte United States (Deloitte Consulting LLP)

From Deloitte LLP (in alphabetical order)

Jodi Benkarski,
Deloitte United States (Deloitte Services LP)

Michelle Drew,
Deloitte United States (Deloitte Services LP)

Bharath Gangula,
Deloitte United States (Deloitte Services LP)

Jonathan Holdowsky,
Deloitte United States (Deloitte Services LP)

Craig A. Giffi,
Vice-Chairman and US Leader, Consumer & Industrial Products, Deloitte United States (Deloitte LLP)

Pandarinath Illinda,
Deloitte United States (Deloitte Services LP)

Melodie Munoz-Sidun,
Deloitte United States (Deloitte Services LP)

Tripp Parran,
Deloitte United States (Deloitte Consulting LLP)

Khushi Shah,
Deloitte United States (Deloitte Services LP)

Contributors

From Deloitte LLP (in alphabetical order)

Mimi Lee,
Deloitte Touche Tohmatsu Limited

Scott Sopher,
Principal, Deloitte United States (Deloitte Consulting LLP)

Special thanks also to Jeffrey Callahan, Justin Howard, Mike Lui, John Martin, Nic Perfetti, and Amish Thakker, Deloitte United States (Deloitte Consulting LLP)

Production

From Deloitte LLP

Editor and Creative Design: Steve Schmith, Deloitte United States (Deloitte Services LP)