5. India

Key statistics	India	Peer average
Manufacturing GDP CAGR (2010-13)	1.4%	2.3%
Manufacturing GDP percentage of total GDP (2013)	12.9%	16.7%
Labor costs (US dollars per hour) (2015)	$1.7	$18.7
Manufacturing exports percentage of total exports (2014)	54.9%	60.2%
Highest corporate tax rate (2015)	34.6%	25.3%
Researchers per million population (UNESCO 2013)	157	2,852
Per capita personal disposable income (US dollars, 2015)	$1,154	$14,910
Per capita personal disposable income (US dollars) CAGR (2005-2015)	9.2%	3.8%

Supplemental analysis India – Competitiveness at a glance

Manufacturing highlights

- India's manufacturing as percentage of GDP stood at 12.9 percent in in 2013.
- India contributed 2.1 percent to the global manufacturing output in 2013.
- India's manufacturing output grew at 1.4 percent CAGR post-recession i.e., over 2010-2013 period, reaching US$203.3 billion in 2013.
- India's manufacturing exports grew by 14.4 percent CAGR over 2010-2013 period and were at US$172 billion in 2013.

Advantages to manufacturers

Skilled, low-cost labor force:

- India has a rich talent pool of scientists and researchers offering cost-efficient R&D.
- India has an abundant availability of engineers and English-speaking workforce aid in the growth of services as well as manufacturing industry.
- Manufacturing labor costs in India (estimated at US$1.72/hour in 2015) are among the lowest in the world.

Higher economic growth:

- Real GDP grew 7.3 percent in 2014 and 2015 and is likely to continue to grow at 7.5 percent rate in 2016 and 2017, making India one of the fastest growing economies in the world. On the other hand, Chinese economy slowed down from 7.3 percent growth in 2014 to 6.9 percent in 2015 and will likely moderate further to 6.3 percent and 6 percent in 2016 and 2017, respectively.
- India has set an ambitious target of increasing the contribution of manufacturing output to 25 percent of GDP by 2025.
- High economic growth provides a vast domestic market for manufacturers. To tap this opportunity, global manufacturers are setting up plants in India, bringing the latest technology, and competing with the local manufacturers. Competition between the foreign multinationals and local companies pushes companies to improve productivity and also encourages them to invest more in innovation.

Government support to boost manufacturing:
The new government under Prime Minister Narendra Modi that came to power in May 2014 with a thumping majority started "Make in India" campaign to attract manufacturing investments. As part of this program, the government plans to ease doing business in India by doing away with unnecessary approvals, developing industrial corridors and smart cities, and by allowing higher FDI.

Supplemental analysis India – Competitiveness at a glance		
Challenges	**Poor infrastructure and governance issues:** • Huge investments are needed to improve the transport network and power supply in the country. Logistics and transportation cost in India is high at 14.4 percent of GDP compared to less than 8 percent spent by the other emerging countries. • Indian government is facing headwinds in passing Land Acquisition Act of 2015, which makes land acquisition easier. Delays in land acquisition and environmental clearances have stalled more than 270 projects across the country. • Labor reforms is another contentious issue which the Indian government needs to tackle to attract investments. India has one of the most rigid labor markets in the world, according to World Bank.	**High non-performing assets (NPA) stalling credit growth:** Gross NPA's in the Indian banking system could jump up to 5.9 percent in FY 2016 from 4.4 percent in FY 2015, as restructured loans turn bad. Banks have become more cautious in granting new loans with non-food credit growth slowing down to just 10.4 percent for the fortnight ended March 06, 2015 from a high of more than 30 percent witnessed in 2006. In addition, many infrastructure projects that were commissioned in the heydays of boom were struggling to repay the loans, depriving the sector of more bank funds. All these are leading to a vicious cycle of poor credit offtake, low manufacturing growth, and muted investments in infrastructure.
Things to watch out	**Passage of GST bill:** Goods and Services Tax (GST) unifies the country by having a single taxation system for all goods and services. GST will eliminate multiple indirect taxes, such as octroi, central sales tax, state sales tax, etc., thus simplifying the taxation process. Having a GST instead of multiple taxes is likely to result in lower costs for manufacturing products, making them internationally competitive.	**Demographic dividend:** India's share of global working age population is expected to increase from 17.8 percent in 2015 to 18.8 percent by 2050, occupying the top spot. However, employability has become a concern as only 5 percent of workers have formal skills training compared to 96 percent in South Korea. The Indian government has started the 'Skill India Initiative' to address the skills shortage and equip 400 million workers by 2022.

Source: Deloitte Touche Tohmatsu Limited analysis [XXVI]