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The Manufacturing Revolution in India

November 2022

A Losing Game for China or a Remarkable Opportunity for India?

The resurgence of COVID-19 and a zero-COVID policy is leading to direct economic repercussions for China, thus severely compromising its longstanding supply chains—and indirectly offering a compelling opportunity to India to establish itself as an alternative global manufacturing and industrial hub.

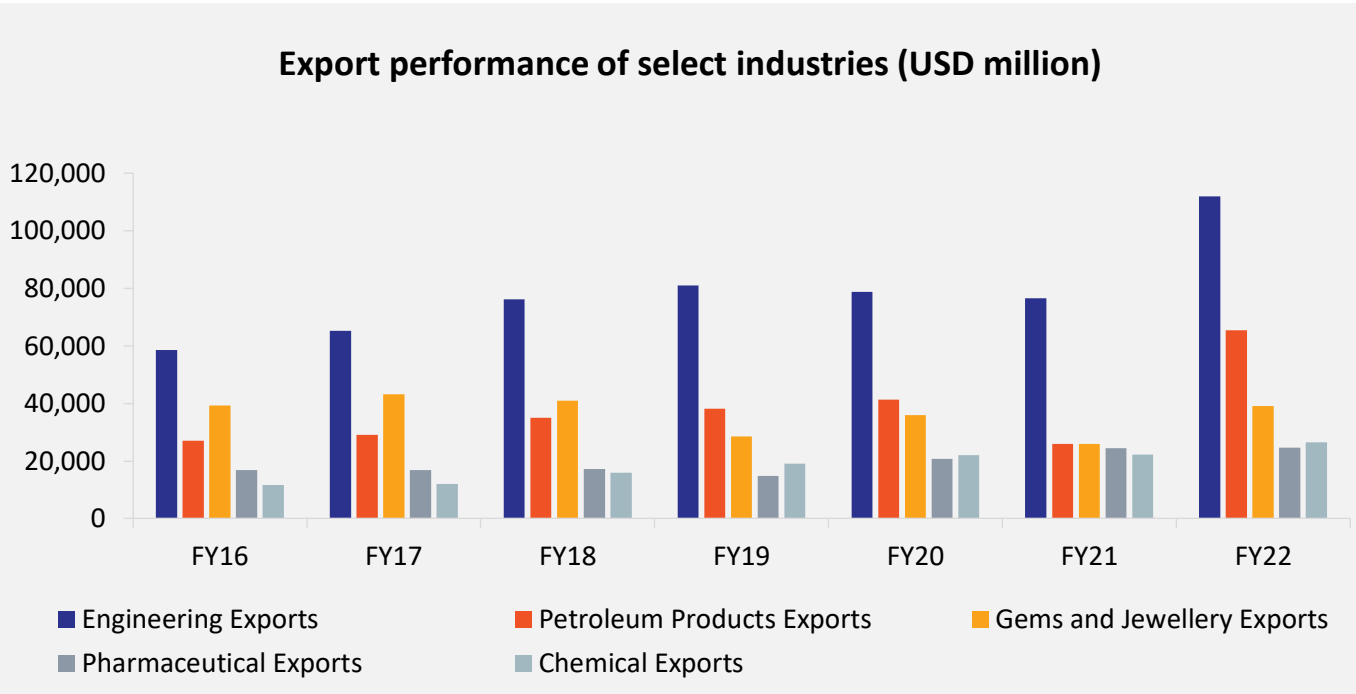
India's current GDP at USD 3.5 trillion appears promising with a projection to get more than doubled to USD 7.5 trillion by 2031. While India has continued to perform well in sectors such as chemicals, pharmaceuticals, plastics, textiles, apparel, and steel, it is now trying to up its game in sectors and product categories that are typical of Chinese manufacturing. These include mobile phones, semiconductors, automobile parts, batteries, telecom equipment, medical devices and supplies, food products, white goods, defence production, electronics, solar panels, and toys.

What Makes Manufacturing One of India's High-Growth Sectors

India is perfectly poised to gain from China's fractured economy, supported strongly by its own economic growth projections, infrastructure development, availability of skilled talent, improved ease of doing business, and long-term employment opportunities.

The internationally competitive manufacturing industry is India's biggest potential to promote economic progress. In 2021, the total exports from India accounted for USD 420 billion and the estimates predict that by 2030, India could export items worth USD 1 trillion, making it the third most sought-after global location for manufacturing.

Several factors contribute to India's growth potential in exports such as the value chains which are well-positioned to benefit from the availability of raw materials, industrial expertise, and entrepreneurship. Other factors such as import localization, contract manufacturing, and high domestic demand for goods have made manufacturing one of the high-growth sectors in India.



Frontline industries and use cases

01 In September 2022, Apple Inc. announced the shifting of its assembling plant for its flagship iPhone 14 to India as the US technology giant looks to shift some production away from China

02 In January 2022, Apple and Samsung gave a USD 5 billion thrust to India's PLI scheme. They are expected to manufacture/assemble smartphones worth ~USD 5 billion during FY 2021-22

03 In 2021-22, defence exports from India reached USD 1.59 billion. By 2025, the Government of India has set a target to reach USD 5 billion

04 On November 19, 2021, PM Narendra Modi laid the foundation for the Uttar Pradesh Defence Industrial Corridor project worth INR 400 crores (USD 53.73 million) in Jhansi

How the Government is Architecting India's Manufacturing Revolution

Through diverse policy measures and incentives for specific manufacturing sectors, the government is focused on catapulting India as a global manufacturing hub. According to the Indian Brand Equity Foundation (IBEF), the manufacturing sector recorded 39,539 business registrations in FY21 compared with 26,406 in FY20—a growth of 50% within one financial year.

The Production Linked Incentive (PLI) scheme was launched in 2022 to develop the core manufacturing sector and incentivize large-scale manufacturing and supply chain development. Under this, the government plans to create global manufacturing champions across sectors that includes medical devices and supplies, automobile parts, batteries, telecom equipment, defence, and more—and has already allocated approximately INR 1.97 lakh crore (USD 27.13 billion) over the next five years (starting FY22) towards this goal.

In addition, in May 2021, the government approved a PLI scheme worth INR 18,000 crores (USD 2.47 billion) for the production of Advanced Chemical Cell (ACC) batteries, which is, in-turn expected to attract investments worth INR 45,000 crores (USD 6.18 billion) in the country, and further boost capacity in core component technology and make India a clean energy global hub.

The Strategy and Roadmap to Industry 4.0

The finance ministry, in its pre-budget 2023, indicated upcoming schemes that push for local manufacturing and how exports offering various support measures will get priority in fund allocation. Moreover, in July 2021, India introduced the following six technology innovation platforms to boost the domestic manufacturing sector through an exchange of knowledge and expertise and develop innovative, indigenous technologies in the field of automotive, smart manufacturing, engineering, and technology:

01 **ASPIRE** (Automotive Solutions Portal for Industry Research & Education) developed by the International Centre for Automotive Technology (ICAT)

02 **TechNovuus:** Automotive Research Association of India (ARAI)

03 **SanRachna:** Bharat Heavy Electricals Limited (BHEL)

04 **HMT TechPort:** Hindustan Machine Tools Limited (HMT)

05 **KITE** (Knowledge Integration for Technology Enrichment): IIT-Madras

06 **SanRachna:** DRISHTI (Design, Research and Innovation by Harvesting Science and Technology for Industries) Central Manufacturing Technology Institute (CMTI)

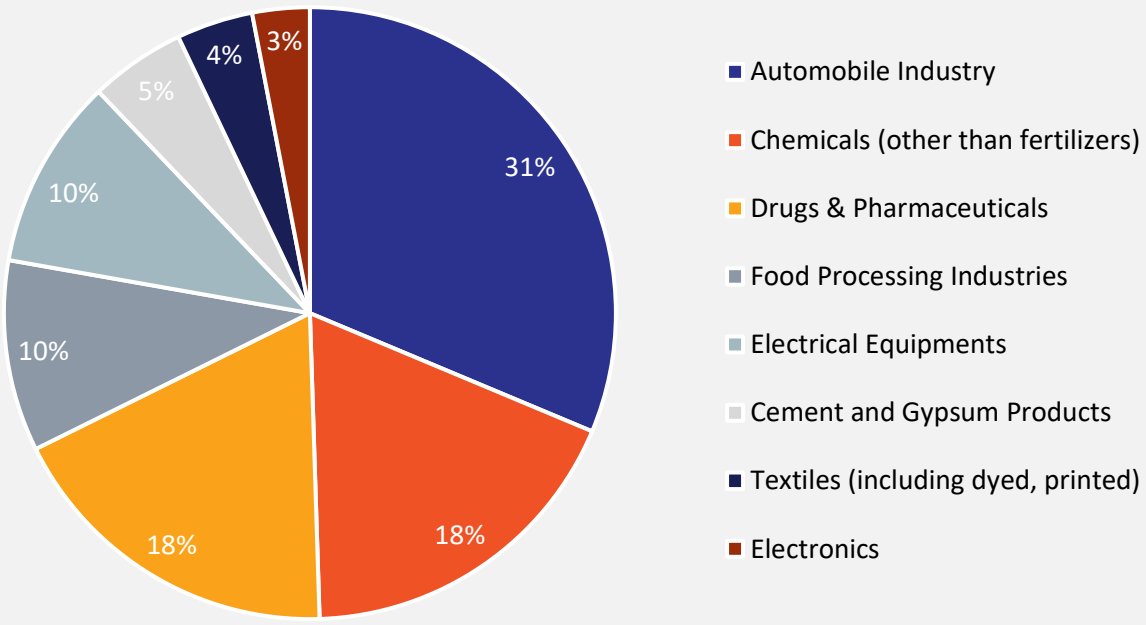
India is gradually progressing on the road to Industry 4.0 through government initiatives like the National Manufacturing Policy which aims to increase the share of manufacturing in GDP to 25% by 2025 from the current ~14.5%.

How Foreign Direct Investments (FDI) are Assisting India's Manufacturing Revolution

According to the United Nations Conference on Trade and Development (UNCTAD), India ranks among the top 10 recipients of FDI in South Asia. In FY22, India received the highest annual FDI inflow of USD 83.57 billion, with the manufacturing sector accounting for a 76% rise in FDI equity inflows (USD 21.34 billion) compared to the previous year (USD 12.09 billion).

Multinational companies are now optimistic about the possibilities of investing in India, and the government is helping their cause by investing in their infrastructure as well as supplying land for building factories.

FDI equity inflow in the manufacturing subsectors between April 2000-March 2022 (USD 106.6 billion)



FDI between April 2000-March 2022 includes:

- USD 32.84 billion for the Indian automotive sector
- USD 19.45 billion for the chemical manufacturing sector (excluding the fertilizers sector)
- USD 19.41 billion for the drug and pharmaceutical manufacturing sector

Core Challenges Impeding India's Industry 4.0 Goals

In 2021 the total imports by India accounted for USD 612 billion. Oil, gems, precious metals, electronics, machines, engines, pumps, pharmaceutical APIs, and organic chemicals were the top imported commodities.

India being the world's largest pharmaceutical giant, is still importing 70-80% of the Active Pharmaceutical Ingredients (APIs) from China. The Indian government has attached high priority to electronics hardware manufacturing, and it is one of the important pillars of the "Make in India" program. And yet, with the increase in demand, India imported semiconductor chips worth USD 25.94 billion from China in 2021 alone. Similarly, even though the Indian toys industry is estimated at USD 1.5 billion making up 0.5% of the global market share, China alone accounted for 70% of India's toy imports in 2022.

The major challenges faced by the manufacturing sector in India include intellectual property protection and enforcement, and the absence of a disciplined workforce at the factory level who can work consistently towards the enhancement of their own professional life, their company and the country. Other challenges include the need for adequate infrastructure of roads, ports, electricity and other similar services.

India's Potential for Becoming the Next Global Manufacturing Hub

Recently declared by the IMF as the world's fifth largest economy and projected to soon become the third largest, India's true potential is coming to realisation. As major world economies continue to experience whirlwinds, India's sustained growth over many decades, including but not limited to infrastructure, talent, FDIs, and employment opportunities, places it in a unique position to hurtle faster towards its Industry 4.0 goals and become a global manufacturing hub.

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