How to Attract World's Top Manufacturers

India can sustain and accelerate its economic growth by focusing on labour-intensive industry for exports

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What will it take to make India a developed nation by 2047? We must not only sustain but in fact accelerate our economic growth. Growing at 8% in real terms will just about get us to a $20 trillion economy by 2047 – or a per capita income of $12,000, comparable to where China is today. Clearly, sustained and rapid growth over 8% is essential to lift millions of Indians out of poverty and create the 200 million plus high-quality jobs that India needs.

A laser-sharp focus on exports is the key to achieving and sustaining the required rate of growth. Over the past 70 years, economies have only been able to consistently raise living standards for their population by targeting high growth via exports. Taiwan, Japan, South Korea, China and now Vietnam, have all grown rapidly by taking advantage of their labour force to make goods for the world market. India's own growth story has been export-led, but as yet just in service and capital-intensive sectors.

Winning in exports requires a country to be more competitive than any other country. It is very difficult for any country to be globally competitive in every category. Hence, India must focus on its biggest strength – abundant low-cost work force. It has to take advantage of its "demographic dividend" – a large working-age population – to unlock exports in employment-intensive sectors.

The government has shown intent on promoting manufacturing for exports through schemes like PLI. Some green shoots of success are visible already, with rapid expansion of mobile phone exports from India. We must double down on expanding this success in electronics assembly to similar employment-intensive sectors like apparel, footwear, furniture, toys and hand-tools to give a boost to our growth trajectory. These sectors collectively account for almost $1 trillion of global trade and have the potential of creating more than half of the 200 Mn jobs we need, many of which will go to women and thus contribute to women's empowerment.

The issues holding up the growth of Indian exports are complex, and piecemeal reforms will not suffice in tackling them. They require a coordinated approach across state and central governments, operating in mission mode to help India get over its competitiveness hurdles.

The cornerstones of this strategy should be removing tax and tariff distortions, creating world class manufacturing clusters and attracting lead brands and anchor tenants. While this strategy is being put in place, the near-term competitiveness gap can be bridged through an incentive package targeted at employment incentive sectors.

High input cost is the biggest constraint for most of our labour-intensive sectors in the export market. This is largely due to high and, at times, inverted duty structure on critical inputs like metals, fibres, rubber – which raises their price in the domestic market. Non-tariff barriers like quality control orders (QCOs) further disrupt global supply chains by restricting access to critical inputs for our manufacturers. For labour-intensive manufacturing to flourish, it is important to align duties on inputs with those in competing countries and provide easy access to raw materials at globally competitive prices. Government will separately need to work with manufacturers of commodities to address their concerns, and ensure they can compete in a low duty environment.

India has created thousands of industrial clusters over the years, but most of them are sub-scale and provide no extra advantage to manufacturers. The central government should incentivize state governments to create large-scale manufacturing clusters for labour-intensive sectors where a highly attractive investment climate is created through plug and play infrastructure, provision for worker housing, simplified approval process and relaxations around various laws and compliances. This requires an enabling legislation that devolves authority around making rules and granting approvals to a local level, on the lines of Shenzhen in China and now GIFT city in India. Ideally the devolution of authority should extend to most of the state level rules and a few critical central rules as well.

What India's experience with Apple or Vietnam's with Samsung demonstrates is that we need large global firms to be engines of exports. Through Foxconn, Apple already has India's single largest factory with over 45,000 employees under one roof. Similarly, Samsung employs over 110,000 people in Vietnam and accounts for exports of over $65 billion. Because global brands and their contract manufacturers across electronics, apparel, footwear and toys bring the required technology and scale to be globally competitive, India needs to lay out the red carpet for them. These firms also need an ecosystem of suppliers, which can largely be local SMEs who will benefit from large assured orders as well as mentoring of global players.

Competition among countries to attract these global value chains is intense. To succeed India needs an all-in strategy coordinated at the highest level, with tailored packages to pick India as their next manufacturing destination.

Finally, we need an interim support package to bridge the competitiveness gap before the ecosystem in India scales to the required level. Ideally, this should be in the form of an employment linked incentive targeted at labour-intensive sectors to spur large-scale job creation.

India is poised to be a world leader and an economic growth nucleus over the next 25-30 years. But there could be many a slip between the cup and the lip. To realize its aspirations India needs to focus on potential high-growth sectors for exports and job growth, where it must leverage its unique advantages.