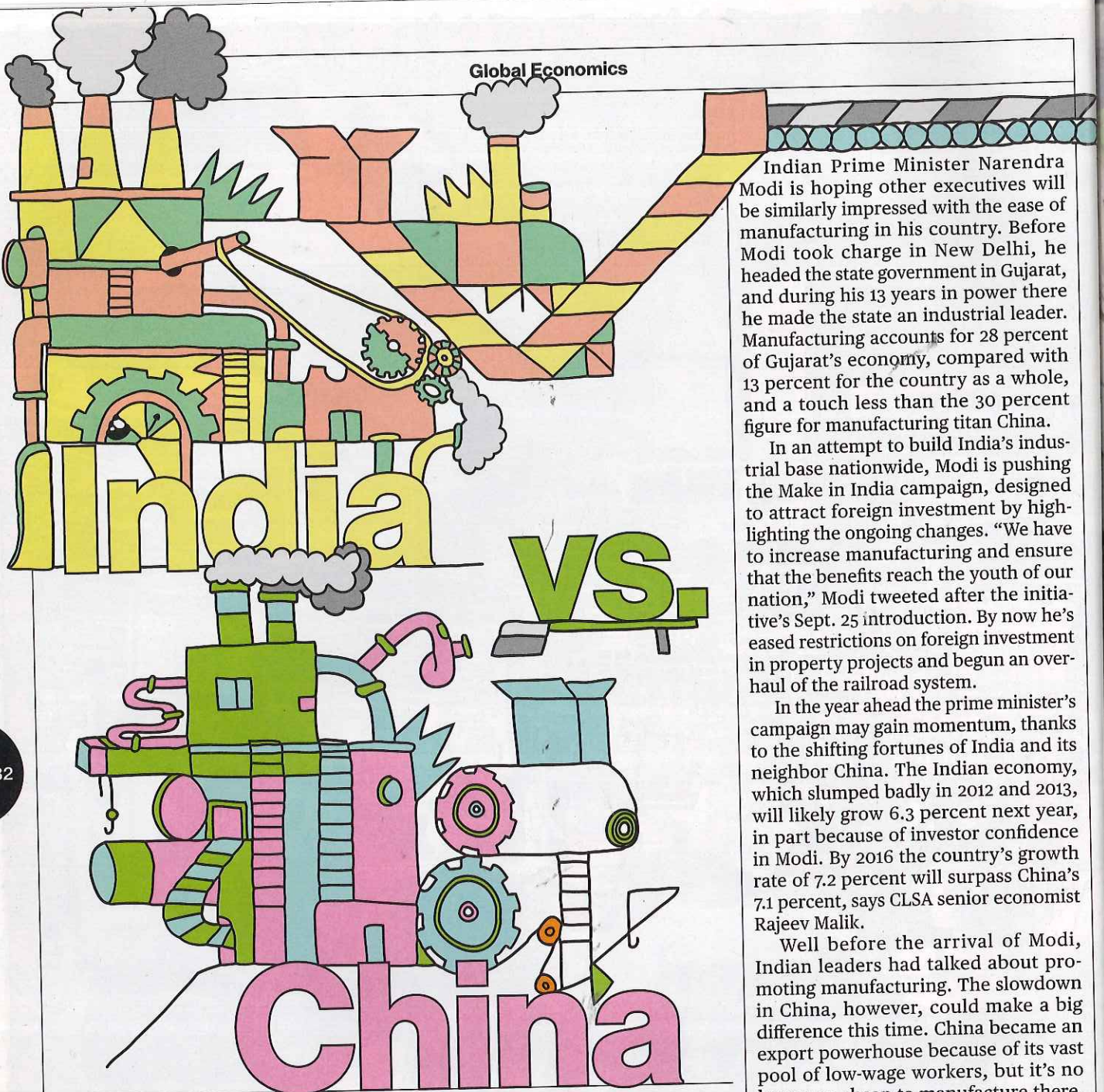


Global Economics



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Indian Prime Minister Narendra Modi is hoping other executives will be similarly impressed with the ease of manufacturing in his country. Before Modi took charge in New Delhi, he headed the state government in Gujarat, and during his 13 years in power there he made the state an industrial leader. Manufacturing accounts for 28 percent of Gujarat's economy, compared with 13 percent for the country as a whole, and a touch less than the 30 percent figure for manufacturing titan China.

In an attempt to build India's industrial base nationwide, Modi is pushing the Make in India campaign, designed to attract foreign investment by highlighting the ongoing changes. "We have to increase manufacturing and ensure that the benefits reach the youth of our nation," Modi tweeted after the initiative's Sept. 25 introduction. By now he's eased restrictions on foreign investment in property projects and begun an overhaul of the railroad system.

In the year ahead the prime minister's campaign may gain momentum, thanks to the shifting fortunes of India and its neighbor China. The Indian economy, which slumped badly in 2012 and 2013, will likely grow 6.3 percent next year, in part because of investor confidence in Modi. By 2016 the country's growth rate of 7.2 percent will surpass China's 7.1 percent, says CLSA senior economist Rajeev Malik.

Well before the arrival of Modi, Indian leaders had talked about promoting manufacturing. The slowdown in China, however, could make a big difference this time. China became an export powerhouse because of its vast pool of low-wage workers, but it's no longer so cheap to manufacture there. Pinched by double-digit increases in China's minimum wages, many companies are looking for low-cost alternatives. Southeast Asian countries such as Vietnam and Indonesia are attractive, but they lack the deep supply of workers available in India. "It's the only country that has the scale to take up where China is leaving off," says Frederic Neumann, a senior economist with HSBC. Vietnam and Indonesia? "Neither one is big enough to take up the slack," he says, leaving India with a "golden opportunity."

The hourly labor cost in India for manufacturing averages 92¢, compared with \$3.52 in China, according to 

India aims to be the next manufacturing power

With its chronic blackouts, crumbling roads, and other infrastructure woes, India should have no appeal for John Ginascol. A vice president at **Abbott Laboratories**, Ginascol is responsible for ensuring that the company's food-products factories run smoothly worldwide. He can't afford surprises when it comes to electricity, water, and other essentials. "People like me," he says, "dream of having existing, good, reliable infrastructure."

Yet Abbott has just opened its first plant in India, and Ginascol says there haven't been any nightmares so far. In

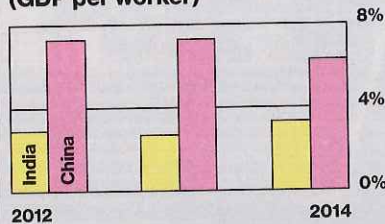
October the company began production at a \$75 million factory in an industrial park in the western state of Gujarat. The factory is producing Similac baby formula and nutritional supplement PediaSure, which Abbott plans to sell to the growing Indian middle class. The plant will employ about 400 workers by the time it's fully up and running next year. As for India's infrastructure, Ginascol has no complaints. The officials in charge of the park "were able to deliver very good, very reliable power, water, natural gas, and roads," he says. "Fundamentally, the infrastructure was in place."

Industrial Revolution

Average manufacturing labor cost per hour, 2014

India **\$0.92** China **\$3.52**

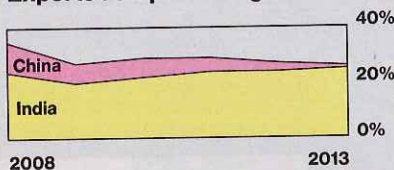
Productivity growth (GDP per worker)



Manufacturing as a percentage of GDP, 2013

India **13%** China **30%**

Exports as a percentage of GDP



Boston Consulting Group. But, says Anil Gupta, a professor at the University of Maryland's Robert H. Smith School of Business, India hasn't come close to matching China's investments in the roads, ports, and power networks that companies want. "Lousy infrastructure essentially eats up any advantage the country may have on the labor front."

Local leaders allied with Modi are trying to change that. In Madhya Pradesh the state government is creating 27 industrial areas while promising to improve infrastructure and make labor laws and land acquisition regulations more investor-friendly. Passing new labor laws that make it easier to hire and fire is especially important.

On the diplomatic front, Modi has adroitly taken advantage of the rivalry between Japan and China: After recent meetings with Japanese Prime Minister Shinzo Abe and Chinese President Xi Jinping, he won commitments for

almost \$57 billion in investments in India. China pledged \$20 billion, and Japan about 4 trillion yen (\$35.5 billion). Much of the money will be used to build a giant industrial corridor between Delhi and Mumbai featuring high-speed trains and superhighways. The goal, University of Maryland's Gupta says, is to turn the area into the equivalent of southern China's Guangdong province, which built special economic zones to transform China into an exporting power. India's leaders "have the political ducks lined up" to make that happen, he says.

That's getting some executives excited about the possibilities. "India has the land, India has the people, India has everything," says Ajit Gulabchand, chairman of **Hindustan Construction**. "Why wouldn't global manufacturers come?"

Among those making commitments is **Ford Motor**, which has one factory in the southern state of Tamil Nadu and is opening a second \$1 billion plant in Gujarat in 2015. Japanese auto parts maker **Nidec** in June announced a plan to invest 10 billion yen in a motor manufacturing plant in the northern state of Rajasthan. At the end of November, **Yamaha Motor** is scheduled to open a \$244 million factory producing motor scooters near Chennai in Tamil Nadu, an investment that's attracted shock absorber maker **KYB** and other

Japanese suppliers. **Panasonic** on Oct. 1 announced it had formed a venture with **Minda Industries**, a Delhi-based maker of auto parts; their plant is scheduled to produce 2 million car batteries a year starting in 2018.

"A lot of projects which were stuck now have been cleared," says Baba Kalyani, chairman of **Bharat Forge**, one of India's biggest makers of auto parts. Pro-reform state governments such as those in Madhya Pradesh and Gujarat, both controlled by Modi's party, "will be able to attract maximum investment," Kalyani says.

There are still plenty of reasons for companies to be wary about India. China is now the No. 1 manufacturing location for Hong Kong-based **TAL Group**, one of the world's largest producers of dress shirts for men. Because China is becoming too expensive, Chief Executive Officer Roger Lee says the company is

expanding in Vietnam. A few years ago, TAL considered moving to India but ultimately ruled it out. "Each factory could have many, many different labor unions," he recalls. "When you have many, many different unions, then it gets pretty hard to manage." To address worries about labor regulations, Modi announced reforms on Oct. 16 that allow an employer to file a single report on compliance with 16 different labor-related laws. Such streamlining "will provide enormous relief and reduce the compliance burden" according to the Confederation of Indian Industry.

Micromax is the top local smartphone brand in India, second in market share only to **Samsung**. The company takes advantage of its Indian roots to win customers, but when it comes to putting its phones together, it looks to factories in China. To produce locally, a company such as Micromax would need to have lots of its suppliers nearby; that exists in China, not in India. "You need to have cameras, screens, touch panels, chip sets. You need all that to be around you," says Chairman Sanjay Kapoor.

"If you are able to build that ecosystem, then the whole Make in India story comes true." **B**
—Bruce Einhorn, with Unni Krishnan and Bibhudatta Pradhan

Employment in manufacturing, 2013

India **9.4%** China **14.5%**

Labor force, 2013

India **487m** China **798m**

Global rank of labor force (size), 2013

India **#2** China **#1**

DATA: WORLD BANK, EUROMONITOR, THE CONFERENCE BOARD, ECONOMIST INTELLIGENCE UNIT, BUREAU OF LABOR STATISTICS AND BOSTON CONSULTING GROUP, CIA WORLD FACTBOOK