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Building Competitiveness for Export Mission

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Executive Summary

In terms of static comparative advantage, a country's competitive export strengths are based on specialisation and its ability to produce certain products at lower costs than other countries. Competitiveness, on the other hand, further depends on trade policies and development strategies – tariffs, non-tariff measures, real exchange rates, export infrastructure, R&D and innovations.

To meet its potential as a US\$ 40 trillion economy by 2047, India would need to envisage exports as a major engine for growth and employment creation. Assuming exports at 25% share of GDP, total exports of goods and services for 2047 would be targeted at US\$ 10 trillion. Assuming that exports of goods and services would be equal to US\$ 5 trillion each, the compound annual growth rate (CAGR) for achieving this level of exports of goods is calculated at 10.31%.

According to the IMD World Competitiveness Rankings, among the 63 countries covered, India has improved its rank from 43 in 2021 to 37 in 2022.

The imperative of driving competitiveness of Indian industry is accentuated by the free trade agreements (FTAs) that it is entering into. With falling tariff and non-tariff barriers, Indian industry must be able to address new markets, build up export capability, and compete more effectively with potential imports.

In this context, driving scale of operations will be a key component of leveraging the new opportunities. Quality and standards adherence to meet the demands of international markets will be vital to the export endeavour.

India's share in most of the top 10 world exports stands at very low levels. In particular, for electronics, machinery and vehicle sectors, its share in world exports is well below its overall export share of 1.8%. India's revealed comparative advantage (RCA) for 6 of the top 10 world export products is below 1, showing that its competitiveness in these products faces major gaps.

India's share of imports is the highest in the US, followed by Netherlands at 1.65% and Hong Kong at 1.58%. However, in 4 of the top ten importing nations, India's share is below 1%.

Building trade competitiveness is necessary for the country to achieve its economic potential. This needs to be done at four levels:

- i. the economy-wide level with a competitive set of institutions that can support exports;
- ii. the industry level, to ensure that specific sectors are able to ramp up their external engagement;
- iii. the regional level, where all geographies of the country are able to contribute to their maximum export potential;
- iv. the firm level, so that enterprises are able to meet the stringent demands of international trade in terms of quality and delivery times as well as flexibility.

This paper outlines 10 areas to be addressed and suggests specific recommendations for Government and industry to build export competitiveness:

- i. Expanding scale of enterprises
- ii. Finalising FTAs for export growth
- iii. Ensuring higher quality management and constant improvement
- iv. Facilitating standards setting and conformity
- v. Intensifying technology adoption
- vi. Building a facilitative import duty structure
- vii. Boosting inward and outward foreign direct investments (FDI)
- viii. Cost of doing business
- ix. Promoting ease of doing business
- x. Enhancing trade facilitation

Overcoming the challenges and building an export economy will require effort from Government and industry together to build and strengthen the competitiveness of Indian industry, both in the external operating environment and within the factory gates.

Introduction

Competitiveness is a multi-level economic concept that covers national, industry, regional, and enterprise capabilities. Productivity growth is essential to sustain competitiveness, economic growth and living standards. Industries with higher productivity of labour and other factors of production enjoy the benefits of reduced cost and higher efficiency.

At the same time, technological growth, also known as total factor productivity growth (TFPG) – which reflects the level of technological growth and investments in R&D - is also a critical factor for competitiveness. Technological growth helps build capacities and scale to cater to global markets. Empirical literature has noted that gaining industries comprise more of capital-intensive technology production (Kumar & Dhar, 2020).

In terms of static comparative advantage, a country's competitive export strengths are based on specialisation and its ability to produce certain products at lower costs than other countries. Competitiveness, on the other hand, further depends on trade policies and development strategies – tariffs, non-tariff measures, real exchange rates, export infrastructure, R&D and innovations (Jain et al., 2022).

The World Economic Forum (WEF) in its Global Competitiveness Report (GCR) series defines competitiveness as the “set of institutions, policies and factors that determine the level of productivity of a country.” The 12 pillars contributing to a competitive economy identified by it are institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labour market efficiency, financial market development, technological readiness, market size, business sophistication, and innovation.

According to the IMD World Competitiveness Rankings, among the 63 countries covered, India has improved its rank from 43 in 2021 to 37 in 2022. The ranking is

topped by Denmark with the US at 10, China at 17, and Malaysia and Thailand at 32 and 33 respectively.

Over the last 5 years of the IMD rankings, Government efficiency in India has gone up from 50 to 45, while business efficiency recorded improvement from 29 to 23. Although the infrastructure ranking has improved, it remains at 49 of 63 countries.

To emerge as a global exporting nation, India must effectively synergize competitiveness at the economy, sectoral and firm levels. Both the Government and the enterprise sector must work in a coordinated manner to strengthen the operating environment, reduce costs, drive efficiencies and scale up on technology to address global markets.

The imperative of driving competitiveness of Indian industry is accentuated by the free trade agreements (FTAs) that it is entering into. India has recently finalized FTAs with Mauritius and UAE and an ECTA with Australia. It is in advanced stages of negotiations with the UK, and has commenced talks with the EU and Canada. Several other trade agreements with both advanced and emerging economies / regions are under active consideration. With falling tariff and non-tariff barriers, Indian industry must be able to address new markets, build up export capability, and compete more effectively with potential imports.

In this context, driving scale of operations will be a key component of leveraging the new opportunities. Quality and standards adherence to meet the demands of international markets will be vital to the export endeavour.

This paper looks at India's exports and its Revealed Comparative Advantage (RCA) for the world's top export products. It examines the share of imports from India in the import profiles of top importing markets.

The paper provides a set of policy recommendations that the Government can take and the business actions that enterprises must prioritize to build scale and quality for competitiveness.

At the Government level, policies must facilitate and speed up business operations on the one hand, and on the other, infrastructure to boost exports needs to be built in a coordinated and planned manner. At the same time, the underlying drivers of productivity such as a stable macroeconomic environment, high standards of human resources through education and skilling, and effective financial markets have to be addressed for optimal outcomes.

At the enterprise level, a firm must be able to strategize effectively across the managerial domains of production, marketing, human resources, organization, and

technology to succeed. Dynamic capabilities of flexibility, speed, and adaptability are increasingly sources of competitiveness in a changing global business environment.

International trade represents a huge opportunity for developing nations. No country has been able to grow without relying on export markets. Economies must build the right institutional capacity that will enable businesses to internationalize.

A. India's trade competitiveness

This section analyses India's competitiveness for the top ten exported products in the global market. For this purpose, India's shares in the world's top exported products are calculated to assess India's global performance. Using data from the International Trade Centre (ITC), a Revealed Comparative Advantage (RCA) analysis is undertaken to assess the competitiveness of the products.

The RCA analysis is performed across two time points of 2016 and 2021, to account for the competitiveness of the product during the pre-pandemic period as well as the post-pandemic period.

Key Findings

The world's top 10 exports at the HS 2-digit level are identified (Table 1, Annex), excluding mineral fuels and gems & jewellery categories. These are in the broad categories of electrical machinery and equipment (HS 85); machinery and mechanical appliances (HS 84); vehicles other than railway or tramway (HS 87); pharmaceutical products (HS 30), and iron and steel (HS 72), among others.

Share of world exports

In 2016, among the top ten world exports, India had the highest share of total world exports in the sector of organic chemicals at 3.25%, followed by pharmaceutical products at 2.61% and articles of iron and steel at 2.24%. Iron and steel also recorded a significant share of 2.13%, while the share of vehicles other than railway and tramway stood at 1.11% (Table 1).

Similar shares remained during 2021, while for some products, India's shares significantly increased. Organic chemicals again was a leader with India accounting for 4.32% of world exports, followed by iron and steel and pharmaceutical products at 3.8% and 2.36%. Articles of iron and steel recorded a share of 2.33%. Other categories with significant world shares included vehicles other than railway or tramway (1.26%), ores, slag and ash (1.19%) and plastics and articles thereof (1.06%).

It may be noted that India's share in most of the top 10 world exports stands at very low levels. In particular, for electronics, machinery and vehicle sectors, its share in world exports is well below its overall export share of 1.8%.

Revealed Comparative Advantage (RCA)

After conducting the RCA analysis (Table 1), 4 Indian products are identified with comparative advantage with RCA greater than 1, indicating competitiveness in the global market for both 2016 and 2021. These products are pharmaceutical products, iron and steel, organic chemicals, and articles of iron and steel. Organic chemicals and iron and steel saw improved RCA index in 2021 from 2016.

The RCA for 6 of the top 10 products is below 1, showing that its competitiveness in these products faces major gaps.

Import share

To further study the competitiveness of Indian exports, the share of India in the top ten importing nations is calculated (Table 2). The US is the world's largest importer, with an imported value of US\$ 2937.06 billion in 2021, followed by China with an imported value of US\$ 2675.68 billion during the same period. Germany, Japan, Hong Kong, and France are also among the top ten importers in the world, with import values exceeding US\$ 700 billion.

It is found that India's share of imports is the highest in the US, accounting for 2.43% of US imports, followed by Netherlands at 1.65% and Hong Kong at 1.58%. India's share of imports to UK, Italy and Republic of Korea are at 1.51%, 1.38% and 1.15%, respectively. However, in 4 of the top ten importing nations, India's share is below 1%.

In general, India's share in the imports of the top ten importing nations is quite minimal and not commensurate with the size of its economy, which ranks at 5th in the world, or with its share in world exports.

It may be inferred that India's exports are skewed in terms of both items exported and destinations, with significant gaps. To build its exports, India must scale up its competitiveness in terms of the top items preferred by the world and also intensively address major markets.

Table 1: India's Share and RCA in World's Top 10 Exports*, 2016 and 2021

Product code	Product label	World Exports 2016, US\$ billion	India's Exports 2016, US\$ billion	World Exports 2021, US\$ billion	India's Exports 2021, US\$ billion	India's Share in World's Top 10 Exports % (2016)	India's Share in World's Top 10 Exports % (2021)	RCA 2016	RCA 2021
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	2284.62	8.22	3414.67	18.84	0.36	0.55	0.22	0.31
84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	1872.91	13.56	2484.58	24.17	0.72	0.97	0.44	0.54
87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	1345.38	14.99	1494.13	18.9	1.11	1.26	0.68	0.70
30	Pharmaceutical products	499.91	13.04	825.65	19.46	2.61	2.36	1.59	1.31
39	Plastics and articles thereof	543.69	5.21	804.82	8.56	0.96	1.06	0.58	0.59
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical ...	535.45	2.65	682.03	3.91	0.49	0.57	0.30	0.32
72	Iron and steel	301.77	6.44	557.53	21.2	2.13	3.80	1.30	2.11
29	Organic chemicals	345.91	11.25	490.3	21.18	3.25	4.32	1.98	2.40
26	Ores, slag and ash	155.46	1.32	378.59	4.52	0.85	1.19	0.73	0.66
73	Articles of iron or steel	260.23	5.82	359.05	8.36	2.24	2.33	1.36	1.29

Source: CII calculations based on ITC data; *Excluding mineral fuels (HS 27) and gems and jewellery (HS 71)

Note: RCA index of country i for product j is defined as the product's share in the country's exports in relation to its share in world trade:

$$RCA_{ij} = (x_{ij} / X_{it}) / (x_{wj} / X_{wt})$$

Where x_{ij} and x_{wj} are the values of country i's exports of product j and world exports of product j, and where X_{it} and X_{wt} refer to the country's total exports and world total exports.

A value for the RCA index greater than 1 indicates that India has a revealed comparative advantage in the product. Similarly, a value less than 1 implies that India has a relative disadvantage for the specific commodity in the world market.

Table 2: India's Share of Imports in Imports of Top 10 Importing Nations, 2021

Top Importers	Imported value, US\$ billion	India's Exported Value, US\$ billion	Share of Imports from India in total imports, %
United States of America	2937.06	71.51	2.43
China	2675.68	23.04	0.86
Germany	1421.20	9.51	0.67
Japan	772.68	6.08	0.79
Hong Kong, China	713.97	11.29	1.58
France	701.91	6.13	0.87
United Kingdom	688.25	10.37	1.51
Netherlands	623.25	10.28	1.65
Korea, Republic of	615.03	7.10	1.15
Italy	557.23	7.70	1.38

Source: CII calculations based on ITC data

B. Challenges to competitiveness

India faces higher costs due to low competitiveness in the operating environment. Every delay in transport, administrative procedures, clearances and approvals adds to time taken and costs incurred by the enterprise.

According to NITI Aayog's export preparedness index, 2021, India's overall score was calculated at 36.52 out of 100.

Table 3: NITI Aayog Export Preparedness Index 2021

Indicator	Score
Overall	36.52
Trade support	7.64
Growth and orientation	14.86
R&D infrastructure	23.20
Export infrastructure	24.33
Export diversification	26.66
Infrastructure	29.91
Transport connectivity	38.40
Access to finance	39.62
Institutional framework	44.92
Export promotional policy	54.99
Business environment	60.65

Source: CII calculations based on ITC data

The very low score on trade support is attributed to insufficient attention by state governments to trade facilitation, export capacity building and export infrastructure construction. Growth of number of exporters is another gap that the index points out. In general, Gujarat, Maharashtra and Karnataka, which are coastal states, top the rankings and also top the tables in terms of actual exports. There is wide disparity among states in terms of export readiness.

There are also disparities in value of exports from different states. The top 6 states account for 75% of India's total exports.

i. Infrastructure bottlenecks

Energy and transport sectors suffer from infrastructure bottlenecks. This in turn affects firms' competitiveness by increasing price of exports.

While significant progress has been achieved in highways, rural roads and airport infrastructure, seaport infrastructure lags with poor trade logistics. This is a big challenge as 90% of India's external trade (by volume) is handled by ports. Lack of capability in handling large vessels and shipments results in delays and increased costs. Weak hinterland connectivity between production centres and gateway ports is another issue that suffers from inefficient regulations, leading to additional costs and delays.

Logistics costs in the Indian supply chain add up to US\$ 400 billion or 14% of GDP, as per the CII-Arthur D Little report 'Reimagining India's supply chain: A bold vision for 2030'¹ of December 2020. This may be compared to logistics costs of 8-10% of GDP in the US and Europe and 9% in China.

The findings of the report are summarised below:

- The competitiveness gap with the global average cost stood at about US\$ 180 billion.
- The CII report points out that India's modal mix is heavily skewed towards road transportation which accounts for two-thirds of transportation costs. The per-ton-km cost of transportation by road is double that of rail and waterways.
- National highways account for less than 2.7% of the total road network and only 10% of Indian truck operators have fleets with over 25 trucks. This places businesses at entry level at a cost disadvantage.
- The turnaround time for trucks in India is less than 300 km per day compared to more than 700 km per day in Europe and the US.

¹ <https://fddocuments.in/document/reimagining-india-s-supply-chain-arthur-d-little.html?page=17>

- In the rail sector, the average speed of freight trains is 24-25 kmph, compared to 38-40 kmph for US and China.
- Indirect logistics costs in India are pegged at four times the average of those in developed countries due to many layers of distribution and inventory costs. Inventory carrying costs add up to 4-6% of total logistics costs or about US\$ 120-180 billion.

According to the Logistics Performance Index of the World Bank, India ranked 44 in 2018, as compared to China at 36, South Africa at 33 and Vietnam at 39. India does not compare well on individual parameters with most of these countries.

Table 4: Logistics Performance Index, Select Economies, 2018

Indicator	India	China	Vietnam	South Africa
LPI rank	44	26	39	33
LPI score	3.18	3.61	3.27	3.38
Customs	2.96	3.29	2.95	3.17
Infrastructure	2.91	3.75	2.01	3.19
International shipments	3.21	3.54	3.16	3.51
Logistics competence	3.13	3.59	3.40	3.19
Tracking and tracing	3.32	3.65	3.45	3.41
Timeliness	3.50	3.84	3.67	3.74

Source: <https://lpi.worldbank.org/international/global>

The National Logistics Policy was announced in September 2022 to address these issues and ensure that the PM Gati Shakti program achieves its goals. It aims to reduce cost of logistics to global benchmarks by 2030, place India in the top 25 countries in the Logistics Performance Index by 2030 and create a data driven decision support mechanism for an efficient logistics ecosystem. It will be implemented through a Comprehensive Logistics Action Plan (CLAP) which will work on 8 areas of digital interface, service quality standards, and capacity building, among others. Improving export logistics and cross-border trade facilitation is part of these priorities.

With Government and industry working together on transforming the logistics sector in India and developing and modernising facilities, a decline in costs and rise in competitiveness can be envisaged.

ii. Electricity costs

India ranks low in World Economic Forum's competitiveness index for quality of electricity supply. High electricity prices result from cross-subsidisation coupled with

large technical and transmission losses. Several reforms are being implemented across states to make industrial companies in India more competitive.

Power costs are subsidised for households, with the industry sector cross-subsidizing with higher prices. End-user industrial electricity prices in India are at US\$ 99 per MWh as compared to US\$ 69 per MWh for households².

As of December 2021, electricity prices for business stood at US\$ 0.076 per kilowatt hour in Vietnam, US\$ 0.087 in Malaysia, US\$ 0.093 in China, and US\$ 0.103 in India.³

iii. Labour costs

In terms of labour costs, India at US\$178 has lower average monthly minimum wages than China (US\$ 359), Thailand (US\$ 336), Cambodia (US\$ 190) and Vietnam (US\$ 190).⁴ This offers it a distinct advantage in terms of labour-intensive manufacturing competitiveness.

iv. Tariff & non-tariff barriers

High tariffs and frequent rate adjustments affect firms' competitiveness. While import tariffs have been cut significantly since 1990s, average effective applied tariff level is still higher than most OECD countries. Also, tariffs may insulate domestic producers from the need to increase productivity.

More expensive imports of intermediate inputs owing to import duties raise input costs and penalise exports. Import tariffs on inputs are higher than on finished goods in several sectors.

Large dispersion in tariff rates also raises administrative and compliance costs. Lack of clarity on tariff rates at product level creates uncertainties.

Non-tariff measures in India including local content requirements and anti-dumping measures reduce choice of inputs, raise import prices, and add to production costs.

OECD simulations suggest that even in the absence of new bilateral or multilateral trade agreements, India would benefit from reducing trade tariffs leading to an increase in exports, domestic production and incomes.

² <https://mercomindia.com/china-india-lead-electricity-demand/>

³ https://www.globalpetrolprices.com/Vietnam/electricity_prices/ accessed on 24 August 2022

⁴ <https://qualityinspection.org/se-asia-india-wages-more-competitive-than-china-2021/>

C. Recommendations

To meet its potential as a US\$ 40 trillion economy by 2047, India would need to envisage exports as a major engine for growth and employment creation. Assuming exports at 25% share of GDP, total exports of goods and services for 2047 would be targeted at US\$ 10 trillion.

Assuming that exports of goods and services would be equal to US\$ 5 trillion each, the CAGR for achieving this level of exports of goods is calculated at 10.31%.⁵

India has all the natural and people resources that it requires to provide a range of goods and services to the world. However, currently, its export footprint is not commensurate with the size of its economy.

Building trade competitiveness is necessary for the country to achieve its economic potential. This needs to be done at four levels:

- i. the economy-wide level with a competitive set of institutions that can support exports;
- ii. the industry level, to ensure that specific sectors are able to ramp up their external engagement;
- iii. the regional level, where all geographies of the country are able to contribute to their maximum export potential;
- iv. the firm level, so that enterprises are able to meet the stringent demands of international trade in terms of quality and delivery times as well as flexibility.

This paper outlines 10 areas to be addressed:

- i. Scale
- ii. FTAs
- iii. Quality
- iv. Import duty structure
- v. Standards setting and conformity
- vi. Boosting inward and outward FDI
- vii. Technology

⁵ Exported Value in 2021, US\$ trillion (Present Value - PV) = 0.39 (as per ITC)
Target Value in 2047, US\$ trillion (Future Value - FV) = 5
Number of Periods (nper) = 26
CAGR = 10.31%

- viii. Cost of doing business
- ix. Ease of doing business
- x. Trade facilitation

I. Scale

In sector after sector, the Indian manufacturing industry is characterized by a proliferation of tiny and small units, functioning at low productivity levels in the unorganized sector. According to Annual Survey of Industries 2018-19, there were 2.42 lakh registered factories in India. The number of non-government public companies was about 11,000, while non-government private companies totalled about 66,000. Over 60,000 registered organisations were individual proprietorships, while 61.5 thousand were partnerships.⁶

About 63 million micro, small and medium enterprises (MSME) contribute about 29% to the GDP, while there are just 600 large companies (revenues higher than US\$ 500 million) that account for 48% of GDP, which is much less than in China, Malaysia and Thailand.⁷ According to McKinsey, these large firms are 2.3 times more productive than midsize firms and contribute almost 40% to exports. However, even these large firms have not reached their full productivity potential which is just about one-tenth to one-quarter of those of such companies in comparator economies.

It is well recognized that a significant share of GDP growth and job growth emanates from the growth of small companies to larger size. The McKinsey report states that the competitiveness pressure is much lower in India, leading to lower numbers of top firms being replaced over time. Only 57% of top companies were replaced over two decades, with some sectors such as automotives and chemicals coming in with lower proportions.

Thus, creating scale is essential to growth and competitiveness.

India must enable the development of at least 25 globally recognized top brands and 100 companies of global scale. Currently, India has 9 companies in the Fortune 500 top global companies list, of which 4 are private sector companies and 5 are public sector enterprises. The country should aim for having at least one in the top 10, 5 in the top 100 and 50 in the top 500 list by 2047.

⁶ <https://mospi.gov.in/web/mospi/reports-publications/-/reports/view/templateTwo/25501?q=RPCAT> Table 8

⁷ <https://www.mckinsey.com/featured-insights/india/indias-turning-point-an-economic-agenda-to-spur-growth-and-jobs>

A key deterrent to growth of MSME appears to be the structure of incentives provided for them, which, though very well-intentioned to support them, instead have the opposite effect of incentivising them to remain small. The Government provides numerous such benefits to MSME, including the earlier reservation of certain items for MSME production only, which has now been removed.

Access to finance through priority sector lending, interest subvention, benefits for technology adaptation, lower regulatory compliances in areas such as labour, and certain facilities all combine to encourage MSME to remain below the stipulated threshold. For instance, a study⁸ mentions that more than 9 of 10 manufacturing firms have fewer than 4 employees, accounting for more than half of total employment.

This fact has been pointed out by Economic Survey 2019-20 which points to dwarfs versus giants and calls for incentivising 'infant' firms rather than small firms, reorienting priority sector lending towards startups and new enterprises in high employment elastic sectors, sunset clause for incentives of about 5-7 years, and focus on high employment elastic sectors and service sectors with high spillover effects. Deregulating labour laws is critical to encouraging business growth.

Recommendations

Government

- Deregulate labour laws to provide for less compliances at the margins
- Offer priority access to credit for new firms with a sunset clause
- Create large industrial parks with incentives for large firms and their ancillaries that are small
- Provide better facilities for firms that are registered
- Offer support for going global

Industry

- Large companies to aim at global scale and explore outward opportunities
- Large companies to drive brand building at global level
- Devise business strategies for scaling up rather than remaining small
- Large companies to work with vendors to encourage them to grow
- Support suppliers with knowledge, capacity building and favorable credit terms
- Encourage suppliers to tap international markets

⁸ <https://news.yale.edu/2021/01/13/lack-managers-keeps-indias-businesses-small>

II. FTAs

India's ongoing FTAs should focus on better terms of trade for high quality imports, apart from securing greater market access. More effective FTAs based on trade complementarities are essential for enhancing export competitiveness.

While India's recent focus on bilateral FTAs with US, UK, EU and Australia is a transformational initiative in the right direction, rebalancing trade strategies is required to account for changes taking place in the global economic environment.

India's ongoing FTAs with advanced countries can include special clauses on R&D collaboration and investment promotion.

The need for rationalizing tariff and non-tariff measures must be accorded top priority under ongoing FTAs, to remove barriers to trade and enhance greater and smoother trade flows between countries.

Recommendations

Government

- Help industry to understand and gain from the FTAs. Industry must be made aware of the terms and conditions and should have access to all the information regarding potential opportunities, tariffs, standards, certifications, etc.
- The FTAs can be supplemented with capacity building of exporters, particularly small businesses. FTA Facilitation and Training Centres can be set up.
- The FTAs can be leveraged to make India a strong participant in global value chains (GVCs). Currently, 70% of global trade goes through GVCs, and India's presence in these can be greatly built up. India should look at FTAs with partners which are strongly present in the GVCs.
- Sectors which have a strong presence in India's manufacturing environment should be looked at in a stratified manner with different tariff reductions for different items.
- Sectors, where concessions are requested by the partner country but the market in India is limited, can be considered for opening up.
- In sectors where regulatory compliances and standards and certifications are important criteria and tariffs are not so relevant, regulatory harmonization and cooperation is required.
- In sectors that are sensitive, a phased tariff elimination over 7-10 years for certain items and no reductions for other items can be prioritized.

- On the investment side, bilateral investment agreements can be part of the FTA, in line with the Government's policy space availability.

Industry

- Take interest in and study opportunities arising from FTAs
- Closely explore potential products, certifications, and specifications for addressing new markets
- Ensure compliance with standards and norms
- Build competitiveness within the factory gates
- Enter into investment agreements with partner country companies

III. Quality

Insufficient awareness of the role of quality management is a gap in the overall Indian manufacturing ecosystem. On the one hand, large Indian corporates are often at the forefront of quality levels and surpass global attainments. For example, India has the most number of Deming awarded companies in the world. It is also home to more companies with Total Productivity Maintenance (TPM) awards than any country other than Japan. In terms of ISO certifications too, Indian companies have done well.

However, the large base of enterprises is not sufficiently attuned to quality standards required by international markets.

Recommendations

Government

Entrepreneurship development: Specialized entrepreneurship development courses should be offered in professional colleges and technical institutes, using step-wise upgrading of capacities with a view to linking up with global value chains.

Developing a quality culture: Entrepreneurs should be made aware of the benefits and tools of Quality Management Systems (QMS) so that haphazard and irregular operations can be minimized. Industry clusters, parks, and corridors should include institutions that propagate and disseminate QMS tailored to international trade requirements.

Training and consultancy services: Regular course work should be offered for quality, productivity, and innovation for professionals.

Financing for capacity building: Learning QMS can be expensive and enterprises in developing countries would often not be able to afford such investment. It is important to devise financing options to enable entrepreneurs to access learning courses. In addition, innovative models offering online courses, distance education, or mobile teachers can be explored.

Training of trainers: Availability of trainers is a big gap that needs to be addressed at the policy level. More courses are required in engineering and management colleges.

Industry

- Make quality a mission for the enterprise
- Work towards quality assessments and certifications on a regular basis
- Inculcate the right QMS processes through all its operations with a vision of expanding internationally.
- Upgrade capacity building of managers across the enterprise in all functions
- Study comparator enterprises in other countries
- Undertake regular evaluation and competitiveness exercises

IV. Standards setting and conformity

Conforming to international standards is essential for the export objective. India has not developed standards for most goods and therefore level of compliance and understanding about them remains low.

Funds as well as technical expertise are needed to build the requisite compliance infrastructure. As new trade standards, non-tariff measures, and private standards come into play and gain in sophistication, Indian companies find it even more challenging to conform and need additional support.

Trade standards have evolved from quality issues to environmental issues and are now moving towards social, labour, and equality areas and further, to resource sustainability issues. For exporters, such evolving standards act as barriers to market access. Costs of compliance are substantially higher due to inadequate capacity for certification, auditing, and product testing.

Standards must be a core component of India's export strategy. Schemes to support companies in increasing the level of standards so that export markets of interest can be accessed need to be considered. Additionally, exploring signing of Mutual Recognition Agreements (MRAs) with countries where Indian products can be exported should also become a key part of the new foreign trade policy.

The cost of obtaining such certifications is high, shutting out many small enterprises from export markets. Moreover, the information regarding certification is not readily available to exporters, detracting from interest in manufacturers exploring overseas markets.

Recommendations

Government

- Create a wide-ranging awareness dissemination program on standards and compliances for exports
- Set up a scheme to assist exporters in accessing certifications
- Provide loans for enabling firms to obtain certifications
- Create a robust and updated portal advising about required standards in different countries for all HS code items
- Draw up a plan for setting up certification bodies in proximity of manufacturing hubs or making their services available to firms easily
- Set up certification bodies across the country and ensure that there is awareness about them through a common portal
- Undertake mutual recognition agreements with partner countries and take their help through governmental interaction for strengthening India's standards
- Work on bringing out standards for most products to inculcate a culture of quality in the manufacturing sector
- Standards used in India should be aligned with globally accredited standards.
- Test Laboratories like CMRI, NPL, EPRI, etc. and certification agencies like PESO should be globally accredited.

Industry

- Consider standards as a normal business operation rather than a non-tariff barrier
- Invest in spending on obtaining certifications

- Encourage smaller enterprises to meet global standards
- Ensure that all production for exports complies with the requisite standards at all times
- Work with overseas buyers to meet standards
- Identify new emerging certification or standards requirements by private buyers and ensure conformity for first mover advantage

V. Technology

Although India has raised its ranking in the Global Innovation Index from 81 in 2015 to 46 in 2021 and ranks third in research publications and startups, its R&D expenditure at 0.65% of GDP is low compared to the global average of 2.3% for developed countries and 1.25% for developing countries. Second, unlike developed economies where more than 70% of investments in R&D comes from the private sector, the Indian private sector contributes just 37% to the total. Third, India ranks 7th in patent filing offices among all countries; however, only 30% of patents are filed by Indian residents as against a global average of over 60%.

Adoption of modern, advanced technology can improve a country's trade competitiveness through economies of scale, scope and speed of trade.

Adoption of advanced, digital technologies (frontier technologies such as Artificial Intelligence (AI), robotics, biotechnology and nanotechnology) is likely to drive economic development and can also improve a domestic firm's access to new export markets, while exposing domestic consumers to new products and producers. Financial and manufacturing sectors are some of the early adopters of these technologies.

India could create a digital economy of US\$ 800 billion to US\$ 1 trillion by 2025. India's high technology exports were roughly 10.3% of total manufactured exports while ICT goods exports were around 2% (Jain, 2022).

Recommendations

Government

- Role of digital platforms would be critical, especially for small and medium sized enterprises as they can gain access to global markets while improving operational and supply chain efficiencies. India's Foreign Trade Policy (FTP) needs to foster adoption of technologies.

- An International Technology Policy and Command Group may be set up. The Group should -
- release a list of priority areas in technology for country groups like G20, B20 and explore collaborations on global issues, like climate change, food security, healthcare etc.
- conceptualize and explore bilateral and multilateral MoUs and Technology Alliance with countries in areas of high priority.
- Encourage technology partnerships with overseas entities with transfer of technology. This will require building confidence of overseas players with regard to intellectual property rights and protection from copying or reverse engineering.
- Create funding sources for technology acquisitions.
- Create a Technology Fund through which the Government could fund R&D and innovation projects, with the private sector contributing 60% and 40% coming from the Technology Fund.
- It is important to protect the results of investments by securing Intellectual Property Rights and commercialization of IP. An IP revolution can be considered. Lower corporate tax rate on products with an Indian patent and which are developed in India as done in the UK would also be compliant with WTO norms.
- Banks should be encouraged to consider filed patents and registered design as collateral security with a transparent valuation process.

Industry

- Set aside dedicated funds for R&D and innovation. These should be as per global best levels as per the specific sector and products
- Prioritize technology acquisition
- Undertake joint research projects with universities and research institutions
- Stay updated on latest developments in the world
- Encourage intrapreneurship in the enterprise.

VI. Import duty structure

Imports have a critical role in raising productivity and driving exports growth. Economies can increase their GVC participation by importing cost effective foreign inputs of superior quality to produce goods and services for exports.

Composition of imports is critical in this context. India's import basket has witnessed a shift away from raw materials to intermediate and capital goods over the last two decades, though the share of capital goods in India's total imports is significantly lower than economies with high export intensity.

India's foreign trade policy going forward must incorporate the experience of firms in most competitive economies which source foreign inputs of superior quality and improve competitiveness.

Diversification of India's imports basket is also important. To reduce import dependence on a few countries, such as China, it is important to move away from a few source countries to a larger set of countries or alternative suppliers, which will help domestic firms to become more resilient to global supply chain disruptions.

There is a need to secure favourable terms of trade with the right partners for the right kind of imports that augment domestic production capacity and create a conducive environment for greater export competitiveness.

Recommendations

Government

- A graded roadmap needs to be strategized to shift duty slabs to a competitive level over a period of 3 years, with exception to a few products presently in the higher slabs.
 - i. Duty on imports of final products should be in the standard slab.
 - ii. Duty on intermediates should be placed in the lower slab.
 - iii. Duty on inputs or raw materials must stand at the lowest or nil slab.
- Review of final and intermediate products can be undertaken to ensure that inputs which are not being manufactured in India can be imported at lower duty to increase export competitiveness of final products manufactured in India.
- As the technology is fast changing, capital goods need to be replaced or upgraded accordingly. Therefore, the provisions of charging import duty on the depreciated value of capital goods should also be reviewed not to levy import duty once capital goods have been put to use for a certain period.

Industry

- Prepare for lower import tariff regime and articulate its position
- Provide continuous inputs to Government on tariff and non-tariff barriers

- Ensure that inverted duty structures are brought to Government attention
- Undertake value addition on inputs

VII. Boosting inward and outward FDI

Capital flows can support export and income growth and provide investment opportunities by bringing in technology, knowledge and skills, and boosting productivity. FDI flows also facilitate access to global markets and boost MSMEs performance and their integration into GVCs.

The Indian Government has undertaken several interventions to create a facilitative policy framework by liberalising FDI policy in many sectors.

India's FDI Regulatory Restrictiveness Index (OECD) significantly improved from 0.23 in 1997 to 0.04 in 2020 and has been remarkable for India's manufacturing sector. Nevertheless, India's inward FDI stock at 13.4% of GDP during 2010-20 remains relatively modest when compared with other EMEs such as Brazil, Chile, Thailand, etc (Jain, 2022).

Despite this, several restrictions on FDI combined with structural bottlenecks and lack of quality infrastructure act as an impediment to FDI inflows and reduce comparative advantage of Indian firms. Thus, further liberalisation and simplification of FDI policy is required to boost foreign investments.

Additionally, FDI flows remain skewed in a handful of sectors. The PLI scheme can potentially generate additional exports in targeted sectors by 2026-27 by attracting foreign companies for domestic production.

There is need to attract MNCs to set up manufacturing facilities in India that will link up with their participation in GVCs as there is a strong connection between MNC investments and GVC presence of countries. The special economic zone (SEZ) policy which is being redrafted should be made conducive to bringing in large MNC firms supported by a robust ecosystem of Indian and foreign ancillaries that are geographically in the same location. For this, a comprehensive SEZ policy that looks into infrastructure, supportive facilities, and residential requirements should be instituted.

FDI in R&D needs to be integrated with domestic innovation systems by putting in place enabling provisions in Intellectual Property laws for building supply chain resilience.

Further, FDI policy needs to incentivize adoption and transfer of cleaner technologies for domestic companies. The policy should focus on attracting FDI to sectors with domestic technology gaps.

A CII report identified the following key enablers for attracting FDI:

- i. Focus on infrastructure
- ii. Faster clearances
- iii. Labour laws and availability
- iv. R&D and innovation
- v. Tax laws
- vi. Others

On the trade side, the issues identified in the CII survey included primarily turn-around time, cargo handling facilities, trade facilitation measures, and cost of finance.

It is equally relevant to encourage Indian companies to invest overseas, particularly to enhance services exports. Expanding access to finance and setting up banking facilities overseas could help.

Recommendations

Government

- Develop SEZ Plus Model that is WTO compliant with incentives based on investments, job creation, value addition, and priority industry
- Establish a sound institutional, regulatory and legal framework for SEZs and provide protection and certainty to developers and investors in SEZs
- Provide fiscal benefits for investments and employment at par with successful manufacturing and trading economies
- Provide a level playing field for SEZs in free trade agreements with same zero or concessional import duty rates
- Service providers supporting manufacturing companies could be provided fiscal incentives on par with service based SEZs for services such as design. Logistics, skill development, R&D, etc.
- SEZs should have utilities and other facilities for units and developers at competitive rates

- Provide infrastructure status to all SEZ / Free Trade Warehousing Zone units
- Provide access to finance for overseas Indian investments
- Set up Fund for investing overseas in partnership with industry

Industry

- Act as brand ambassadors with high levels of governance and professionalism to build confidence in Indian industry system
- Consider attracting larger companies to invest in India by offering inputs as ancillaries
- Build quality and competitiveness in operations and products
- Work with MNCs to set up units in SEZ and popularize the SEZ concept to attract FDI
- Explore overseas investments aggressively
- Engage in brand building in overseas markets

VIII. Cost of doing business

As many challenges related to competitiveness arise from elevated costs of doing business (as mentioned above), addressing the key areas of higher costs would contribute to export competitiveness.

Infrastructure availability

The National Logistics Policy, PM Gati Shakti, National Infrastructure Pipeline, National Monetisation Pipeline, and National Bank for Financing Infrastructure Development have established a new base for infrastructure construction which will support lower logistics costs and higher competitiveness.

Implementation would be central to the success of these campaigns.

To raise more funds for infrastructure, the Government may consider fast-tracking privatization and disinvestment of public sector enterprises.

CII suggests the following for facilitating public-private partnerships in infrastructure:

- **Adoption of Actual TPC (Total Project Cost) for determination of termination/ Force Majeure payments:** Currently termination payments, Force Majeure payments etc. are linked to Authority TPC (or Government determined project

cost), which leads to uncovered risk for lenders and developers, as the price discovery is through competitive bidding. This makes financing of the project difficult and leads to higher risk premiums.

To address this, Actual TPC / Financial Closure TPC as per the lowest bidder should be accepted by the concerned authority and payments in case of termination, force majeure, etc may be linked with Actual TPC / Financial Closure TPC.

- **Ensuring timely payments:** The infrastructure sector is ridden with about Rs 10-12 lakh crores pending/ overdue payments across central and state agencies. The delay is on account of lengthy and complicated administrative processes or because of disputes. To address this, institute a transparent payment mechanism, a blockchain technology driven tracking and payment system that tracks the status of pending payments.
- **Swift dispute resolution:** Lingering disputes lead to increase in capex, increase in cost of funds and non-performing assets. An independent engineer should be appointed to assess the cost of delays (in line with the contract conditions which should be appropriately revised to compensate for Authority delays) and should be immediately paid by Authorities (mainly the undisputed part). Thereafter, dispute resolution (conciliation and arbitration) need to be adopted only for resolving the disputed part of the delay cost.

Immediate release of the arbitration award must be done, even if the Authority intends to challenge the award.

Electricity costs

Electricity generation, transmission and distribution has emerged as a key challenge particularly among states which set the prices for power. A lot of the state finances are in trouble as a result of pricing of power, leading to inadequate resources for other developmental purposes, while industry faces high costs of electricity, making it uncompetitive in global markets.

To address high power costs, the sector requires to be holistically addressed in terms of generation, transmission and subsidies.

Two key initiatives should be prioritized. First is the power sector reforms so that industry does not cross subsidise power to other consumer segments.

Two, all fuels and electricity duty should be brought under GST.

Trade finance

Although nearly 80 percent of international trade relies on trade finance, there still exists a gap of USD 1.5 trillion in the global trade finance market. MSMEs face the greatest hurdles in accessing trade finance, despite the fact that their growth significantly impacts the growth of the country. However, banks refrain from extending trade finance to MSMEs because of a confidence gap that exists due to their lack of credit history and limited experience of the process involving extensive paperwork. The current infrastructure of trade finance has various pain points like multiple invoice factoring and duplicative bills of lading that make keeping a check of the paperwork an onerous task for the parties involved in the contract.

Emerging technologies like blockchain can be deployed to overcome the aforementioned problems in trade finance, drive efficiencies and reduce costs. Blockchain contains a digital entry of a transaction/contract which can be viewed and updated by the parties involved. This would eliminate all the paperwork and quicken the process by allowing real-time review of the financial documents, reducing the time taken to initiate a shipment.

Labour reforms

The Central Government has developed 4 labour codes which amalgamate 29 laws. Draft rules are to be published by the state governments on each of these codes. However, since many states are yet to complete the process for all the four labour codes, the implementation has not yet taken place. Five states are yet to issue draft rules under the code for wages, nine for industrial relations code, ten for social security and 11 under the occupational safety and health code.

It is important to work with the states to introduce the labour codes throughout the country as they provide social security to unorganized sector workers and offer flexibility to employers.

IX. Ease of doing business

India has made great progress on EoDB over the last few years, with all areas being addressed, from starting a business to trade facilitation and exit of businesses. Minimizing the regulatory compliance burden, launch of National Single Window System (NSWS) and Indian Industrial Land Bank (IILB), and continued focus on digitization of regulatory compliances, among others, have been well received by

industry. The recently released Business Reform Action Plan, BRAP, promotes reforms at the state level, capturing progress on over 300 reforms.

Recommendations

Government

CII has recently brought out a report on further work on EoDB and in certain sectors for boosting the investment climate. Four key principles can be followed while developing ease of doing business policies.

1. The Government and state governments should go for deemed approvals. If an approval or clearance does not come in the stipulated time period, it may be deemed as cleared.
2. Self certification or third party certifications may be considered for as many areas as is possible.
3. Any deviation from rules and regulations should be dealt with very strictly with strong action from concerned authorities.
4. All states should follow the national single window system to make it effective for all procedures. More procedures could be placed on this portal to make it a truly single point of contact for industry and all authorities.

A few specific suggestions are given below.

- Work towards simplified, paperless, and time-bound business approval process at all levels. The newly launched National Single Window System (NSWS) is a landmark initiative in this direction, and all business approvals must mandatorily be routed through this portal, with provisions of time-bound response and deemed approval.
- Currently, land related matters are handled by multiple authorities in a state, creating issues in land acquisition. States may be encouraged to develop an Integrated Land Authority, which shall monitor and streamline Land Banks / Industrial Parks, ensure digitised and integrated land records at all levels, provide information on Disputed Land, and work in the direction of introducing titling system.
- Weak enforcing contracts mechanism and delayed resolution of commercial disputes continue to plague the industry. There is need for undertaking large-scale decriminalisation of business laws, repealing the archaic laws, developing an efficient ADR mechanism, enhancing capacity of courts for handling commercial disputes, and developing model contract templates at a pan-India level.

- Resolving insolvency is becoming increasingly easier since the enactment of IBC, 2016. Making it more effective, there is a need to create dedicated benches of NCLT for IBC cases, for NCLT accepting applications by defaulters within 30 days of filing and ensuring filling of vacant positions in NCLT.
- Codifying the 29 labour laws into 4 Labour Codes has been a great reforms initiative by Gov. It is important to now roll out the Labour Codes across the country as it will help bring down compliance burden and benefit workforce.
- Move towards decriminalization of business laws, where penalties replace criminal proceedings with exception of serious and wilful offenses.
- Government, in partnership with industry, could identify a list of factors that raise cost of doing business and work for their reduction with support from all concerned ministries and state governments. A Task Force may be set up for the purpose.

X. Trade facilitation

Despite significant progress, number of documents for importers and exporters is high and agency cooperation at the border could be improved. Time and costs for border compliance with customs and other regulations remains high. Variation and unpredictability in lead times for containers also create hidden costs for exporters and importers.

While many government measures are in place to simplify and digitalize manual processes, speedy and effective implementation of these measures are required urgently to improve export performance.

India's Trade Facilitation Action Plan was launched in 2017-2020 and aims to increase efficiency of cross-border trade by reducing border and documentary compliance time, reducing physical inspections etc.

Significantly reducing the number of documents and harmonising external formalities would enhance competitiveness.

Recommendations

Government

- Creating a paperless and faceless trading ecosystem. The practice of physical submission and assessment of documents must be completely done away with at all ports and customs.

- A single dedicated trade facilitation portal can be set up, encompassing all concerned ministries, regulators, ports, banks etc. The portal should also provide complete information related to export and import requirements and all circulars/notifications in an easy-to-search mode, applied rate of duties, fees & charges, status quo of FTAs, among others. The platform can also be used for seeking feedback from stakeholders on proposed changes in policy.
- All the key PGAs (Partner Government Agencies) must be linked with SWIFT (Single Window Interface for Trade) and they should allow for clearances of goods under the Risk Management System (RMS).
- Enhancing the effectiveness of online Grievance Redressal Mechanisms for trade facilitation related matters.
- Setting a timeline for clearances of goods requiring interdepartmental/interagency clarifications and resolution of differences of opinion.
- Standardization of customs procedures across various ports and regions.

Conclusion

India has many inherent advantages in addressing overseas markets:

- There are a range of Indian companies catering to all sections of consumers and familiarity with all income levels which, for example, businesses in the rich countries do not have.
- India's demographics with over 1 billion of workforce will be the largest in the world in another ten years.
- The spirit of entrepreneurship is a big advantage that we see in the number of new startups that are coming up. More than 75,000 are registered under the Startup portal and there are as many as 63 million MSME in the country.
- Innovations for development include the India Stack which as an open digital network with digital public goods has helped drive many innovations. UPI etc are based on this. Since a lot of services are based on cultural understanding, India has the capability to provide these solutions to low cost markets across the world.
- India's digital technology expertise is well recognized. Global capability centres are being set up here by almost all large multinationals. Its software exports are the largest in the world.

- India has become a services driven economy which helps it to slot into services in other countries as well. This is in contrast to China which had higher manufacturing capabilities.
- Finally, we saw the benefits of frugal innovation by Indian companies during the pandemic. Low cost vaccines, PPE kits and ventilators were produced. Our telecom charges are among the lowest in the world. All of these are enablers and Indian companies can replicate their business models with a little bit of tweaking rather than redesign them for overseas markets.

There are many challenges and issues in internationalization and several kinds of risks are involved.

- Risk appetite is low, given that the domestic market is so large that Indian companies do not see the need for going out.
- Lack of scale is an issue. For example, India has no bank in the top international banks list.
- Lack of access to capital deters companies from exploring outward opportunities. India does not have many bank branches overseas and overseas financial institutions do not have financial scoring for most Indian companies.
- Lack of indigenous world class technologies is an inhibiting factor and greater innovation and R&D requires higher capital outlays.
- International standards and quality norms are often not followed by Indian companies and they are unable to meet high quality standards and cost of certifications as required by overseas markets.
- Ease of doing business both in India and meeting regulatory norms in other countries is often challenging for businesses. However, the experience in India makes companies flexible and adaptable in other countries as well. Information gaps may be an issue for smaller companies.
- Political risks in emerging economies discourage Indian companies from investing in these economies as decisions can often be overturned or reversed.

Overcoming these challenges will require effort from Government and industry together to build and strengthen the competitiveness of Indian industry, both in the external operating environment and within the factory gates.

This paper highlights some of the focus areas that will drive India's export competitiveness. It is time that all stakeholders work together in a strategic export mission to raise competitiveness and enable India to reach the peaks of export performance that will make it a US\$ 40 trillion economy by 2047.

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Confederation of Indian Industry

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering Industry, Government and civil society, through advisory and consultative processes.

CII is a non-government, not-for-profit, industry-led and industry-managed organization, with around 9000 members from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 300,000 enterprises from 286 national and regional sectoral industry bodies.

For more than 125 years, CII has been engaged in shaping India's development journey and works proactively on transforming Indian Industry's engagement in national development. CII charts change by working closely with Government on policy issues, interfacing with thought leaders, and enhancing efficiency, competitiveness and business opportunities for industry through a range of specialized services and strategic global linkages. It also provides a platform for consensus-building and networking on key issues.

Extending its agenda beyond business, CII assists industry to identify and execute corporate citizenship programmes. Partnerships with civil society organizations carry forward corporate initiatives for integrated and inclusive development across diverse domains including affirmative action, livelihoods, diversity management, skill development, empowerment of women, and sustainable development, to name a few.

As India completes 75 years of Independence in 2022, it must position itself for global leadership with a long-term vision for India@100 in 2047. The role played by Indian industry will be central to the country's progress and success as a nation. CII, with the Theme for 2022-23 as **Beyond India@75: Competitiveness, Growth, Sustainability, Internationalisation** has prioritized 7 action points under these 4 sub-themes that will catalyze the journey of the country towards the vision of India@100.

With 62 offices, including 10 Centres of Excellence, in India, and 8 overseas offices in Australia, Egypt, Germany, Indonesia, Singapore, UAE, UK, and USA, as well as institutional partnerships with 350 counterpart organizations in 133 countries, CII serves as a reference point for Indian industry and the international business community.

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