India's manufacturing competitiveness : Changing course

Global – Q3/2026

August 2026

Background

We regularly reach out to leading businesses and try to understand their orientations, concerns and interests.

This document presents an outcome of a similar assessment conducted over 2025/26 with a focus on how manufacturing competitiveness in India is evolving.

Management Summary

- India as a manufacturing destination has been a story unfolding over the last 2 decades – often with a lot of promise but little delivery. That was the case until a few years ago when two trends simultaneously started emerging. Firstly the erosion of manufacturing competitiveness due to rising labour costs (India is no longer a slam-dunk case of low cost of labour as it unfavourably competes with Eastern Europe, East Asia and parts of Africa) and structural challenges forcing 'de-shoring' or movement of whole industries away from India to other countries, coupled interestingly with a second trend of new high-value manufacturing making India a home base (e.g. electronics).
- Our analysis into this dichotomous situation reveals that India's manufacturing competitiveness is not weakening in absolute terms; rather, it is undergoing a structural transformation. While the country's traditional advantage of low-cost labor is gradually diminishing in several sectors, this has been offset by the growing importance of domestic market scale, industrial policy, engineering capability, supply-chain resilience and geopolitical diversification leading to emergence of new segments of focus and activity.
- Increasingly this trend plays out in the backdrop of the emergence of layered decision tree for manufacturing wherein labour cost is no longer the only driver of investment decisions. Productivity, quality, automation, workforce stability and supplier ecosystem maturity increasingly determine overall manufacturing economics.
- We find that whilst India is moving up the manufacturing value chain, it is also facing a situation wherein a larger volume of lower paid blue-collar jobs. Is being substituted with a smaller cohort of high-paying shopfloor jobs. For a country with the population base of India, that's as much an achievement as it is a challenge.
- The net result is that business decisions to invest are getting more complicated and require deeper more nuanced understanding. Additionally, at a policy level, the twin questions of keeping wage inflation in check as well as reinforcing the need for productivity-led rather than wage-led competitiveness take centre-stage.

"The question is no longer whether India is a low-cost manufacturing destination. In some sectors it may not be.

The question is whether India is emerging as a complete manufacturing ecosystem."

Sources : Industry estimates, Stonesbury Research

India's economic growth is mildly mirrored in manufacturing (incl. exports) exports and even more mildly in manufacturing jobs

Fig. 1. - India's current GDP growth
USD Bn, 2010-2025)

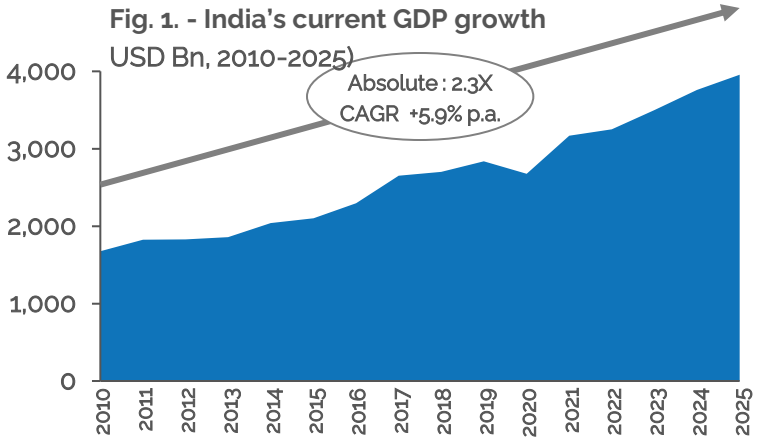


Fig 3. - India's manufacturing exports
USD Bn, 2010-2025)

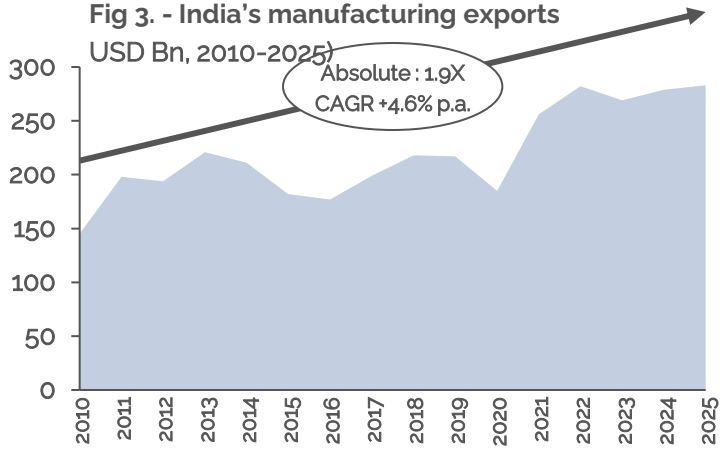


Fig 2. - India's manufacturing value added
USD Bn, 2010-2025)

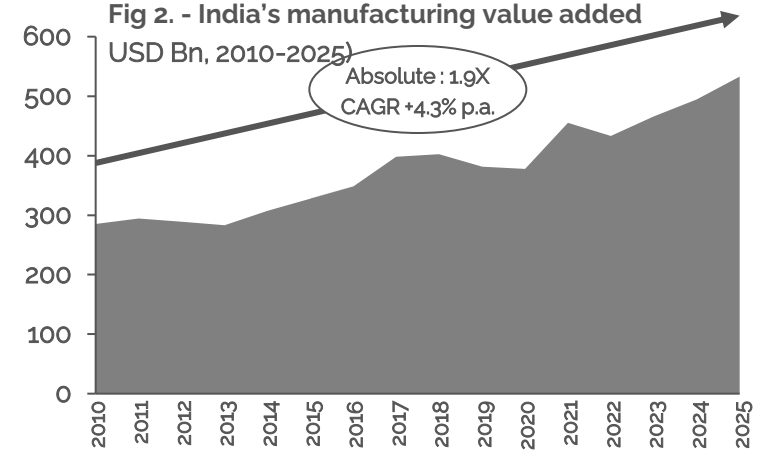
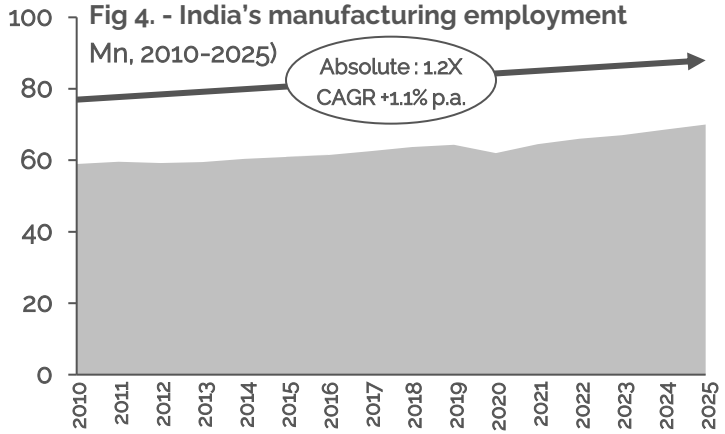


Fig 4. - India's manufacturing employment
Mn, 2010-2025)



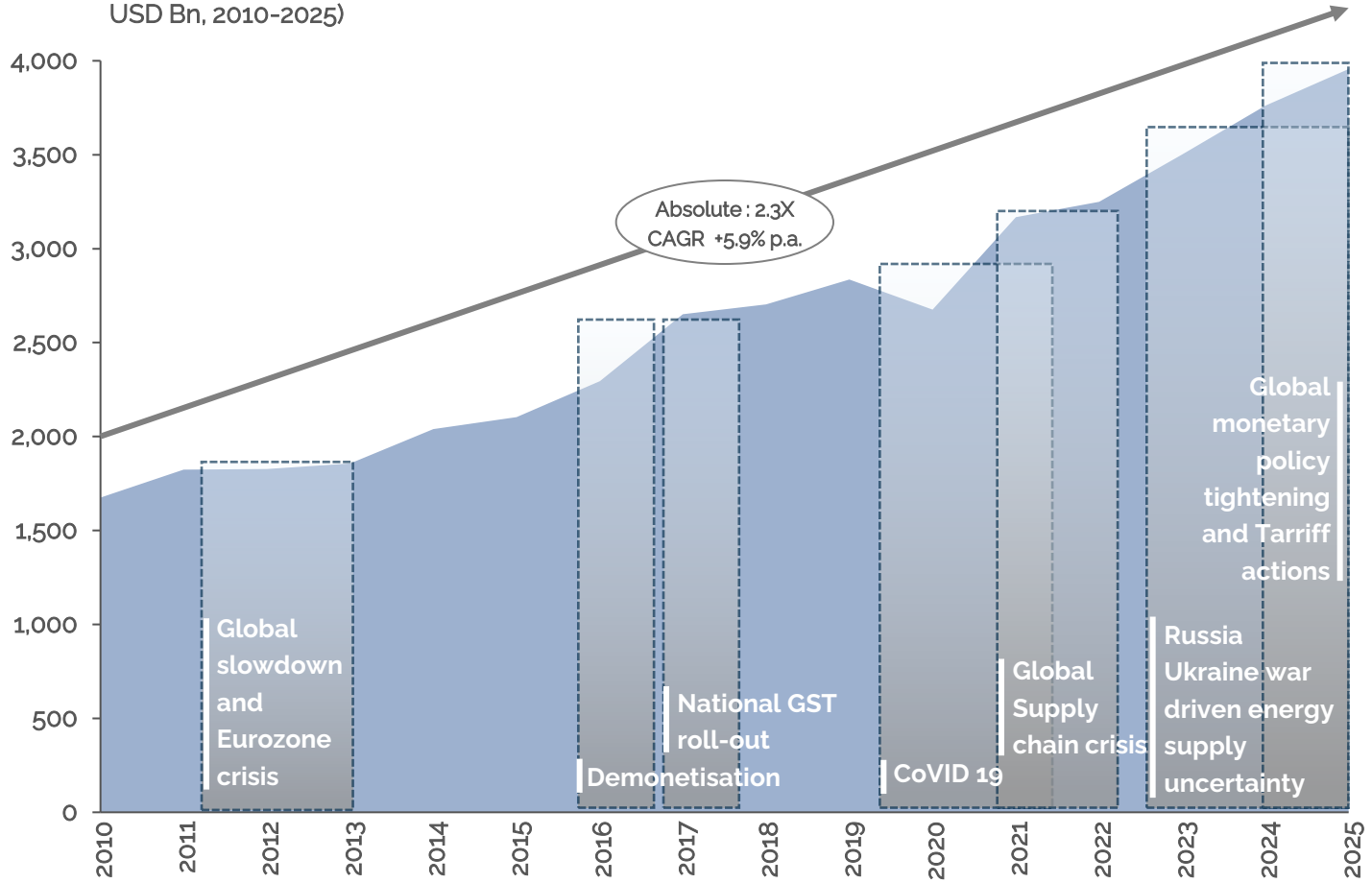
- India's manufacturing competitiveness has evolved alongside a rapidly expanding economy, with GDP growing 2.3x at a CAGR of 5.9%, outpacing manufacturing exports and manufacturing value added, which both increased by approximately 1.9x at annual growth rates of 4.6% and 4.3%, respectively. While manufacturing has continued to expand in absolute terms, its growth has been more measured relative to the broader economy.
- The data is useful to highlight a structural shift in the nature of India's manufacturing competitiveness. Manufacturing value added nearly doubled over the period, whereas manufacturing employment increased by only 1.2x, corresponding to a CAGR of just 1.1%. This divergence indicates that output growth has become increasingly decoupled from workforce expansion, with higher production achieved without proportional increases in employment. The combination of stronger value creation, sustained export growth, and relatively modest employment gains suggests a transition from predominantly labour-driven manufacturing toward a more broadly competitive manufacturing base supported by productivity and operational efficiency.

Sources : World Bank, PIB, World Bank, ILOSTAT, Annual Survey of Industries (ASI), Stonesbury Research

… however, when calling out such a journey, it is critical to point out the structural shocks seen by the economy over the last 15 yrs.

- India's GDP has demonstrated remarkable resilience over the past 15 years, expanding from approximately US$1.7 Tn. (2010) to nearly US$4.0 Tn. (2025), at a 5.9% CAGR despite facing multiple domestic and global disruptions. Temporary slowdowns or contractions did occur however, none of these shocks permanently altered India's long-term growth trajectory. Instead, the economy consistently recovered, underpinned by strong domestic consumption, structural reforms, infrastructure investment, and an expanding services sector.
- The post-pandemic period is particularly noteworthy, with GDP rebounding sharply from the 2020 contraction to reach successive record highs by 2025, demonstrating the economy's increasing ability to absorb external shocks. The steady upward trend following each disruption suggests that India's growth has become more broad-based and structurally resilient, strengthening its position as one of the locations for considering when deciding to locate manufacturing activity.

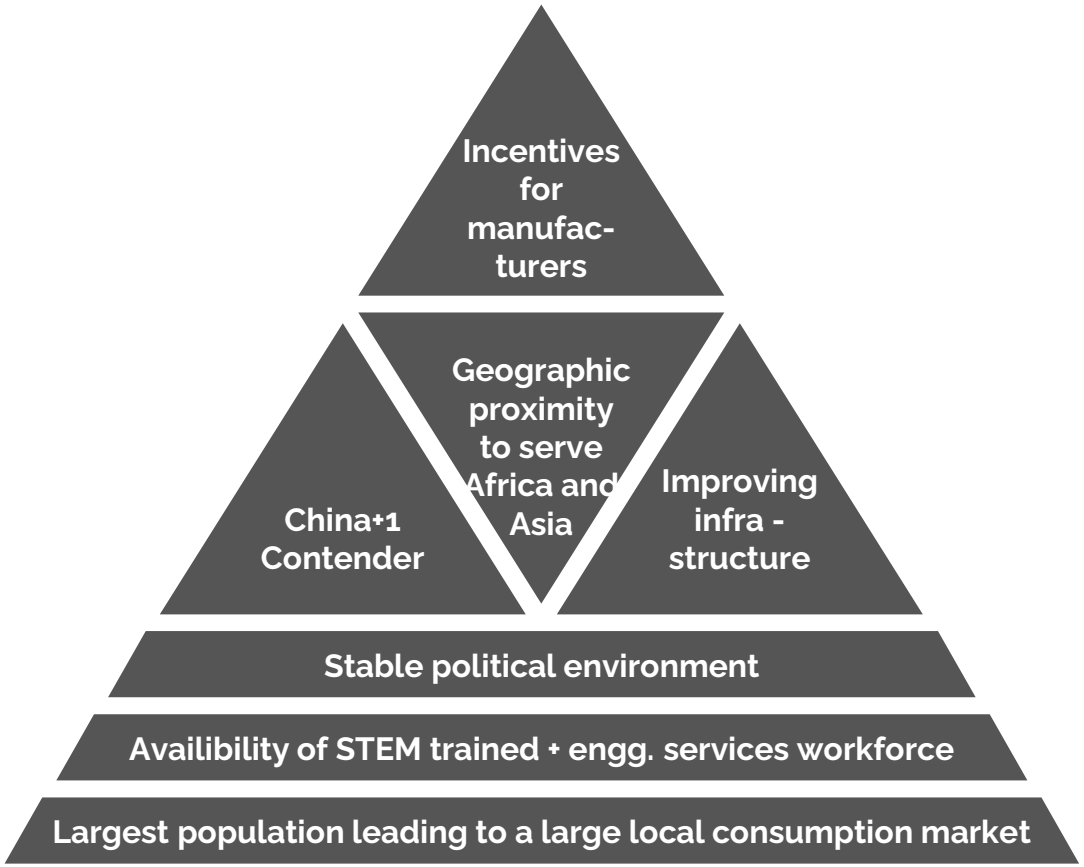
Fig 5.- India's current GDP growth and the systemic shocks it has withstood
USD Bn, 2010-2025)



Sources : Industry estimates, Stonesbury Research

India’s attractiveness as a manufacturing destination is also bolstered by a slew of structural factors

Fig 6- Hierarchy of factors that impact India as a manufacturing destination



- India's manufacturing competitiveness is anchored by a strong structural foundation comprising a large domestic market, abundant skilled talent, and a stable business environment. As the world's most populous country, India offers manufacturers immediate access to a rapidly growing consumer base while providing a workforce with a large pool of STEM[1] graduates, engineers, and technical professionals. Combined with political stability and continued economic reforms, these factors provide investors with long-term confidence and operational continuity.
- The country's strategic location and improving industrial ecosystem further strengthen its appeal as a global manufacturing hub. Situated at the crossroads of Asia, the Middle East, and Africa, India enables efficient access to high-growth export markets. Simultaneously, significant investments in highways, ports, dedicated freight corridors, logistics infrastructure, and industrial parks have enhanced supply chain efficiency and reduced logistics bottlenecks, improving the ease of manufacturing and distribution.
- India is also well positioned to benefit from the ongoing China+1 supply chain diversification strategy. Government-led initiatives, including sector-specific manufacturing incentives and the Production Linked Incentive (PLI) scheme, are attracting global manufacturers seeking to diversify production bases while improving cost competitiveness. Together, these advantages create a compelling value proposition, positioning India as a resilient, scalable, and globally competitive destination for manufacturing investments.

[1] Science, Technology, Engineering and Maths

Sources : Industry estimates, Stonesbury Research

However, despite this there are key challenges that dampen India's attractiveness as a global manufacturing destination

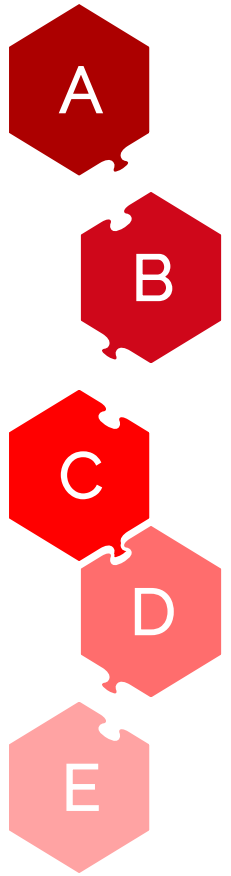
A. **Rapidly rising wage inflation** - India's labour cost advantage has narrowed as manufacturing wages have risen steadily over the past decade, driven by urbanization, skill shortages, and competition for industrial labour. Wages, depending on the location in India are increasingly comparable to countries such as Vietnam, Indonesia, and Bangladesh as well as some countries of Eastern Europe in labour-intensive sectors. Annual manufacturing wage inflation of 6-10% has spiked production costs, reducing India's attractiveness for low-value assembly and manufacturing operations where labour cost remains a key differentiator.

B. **Significant variability of infrastructure (hard infrastructure as well as skills)** - Infrastructure quality varies significantly across Indian states, While states such as Gujarat, Tamil Nadu, Maharashtra, and Karnataka offer world-class industrial ecosystems, others continue to face challenges in road connectivity, port access, power reliability, and industrial utilities. India's logistics costs remain approximately 13–14% of GDP, compared with 8–10% in many developed manufacturing economies. In addition, variability in workforce skills and vocational training across regions affects productivity, increasing onboarding costs and operational complexity for manufacturers.

C. **Variability in tax and other regulatory guidance over time** - Frequent and sometimes retro-active policy changes in import tariffs, localisation requirements, tax liabilities and environmental approvals can complicate long-term investment planning. This regulatory uncertainty increases compliance costs and makes it more challenging for multinational companies to build stable, globally integrated manufacturing operations.

D. **Manufacturing system isolation leading to supply chain issues** - India's manufacturing ecosystem is still heavily dependent on imports for inputs/raw materials especially for electronics, semiconductors, specialty chemicals, aerospace, defense and precision engineering. This dependence increases lead times, inventory requirements, and exposure to global supply chain disruptions, as demonstrated during the COVID-19 pandemic and subsequent semiconductor shortages.

E. **Limited capital account convertibility leading to restrictions in taking profits out of India and high cost of capital** - India maintains a partially convertible capital account, with regulations governing cross-border movement of capital, dividend repatriation, inter-company loans, and foreign exchange transactions making the approval processes and foreign exchange compliance framework more restrictive. These restrictions reduce financial flexibility, increase treasury management complexity, and augment the challenge that comes from relatively high cost of capital,.



Sources : Industry estimates, Stonesbury Research

Each of these is a composite challenge that plays in the foreground of multiple other issues

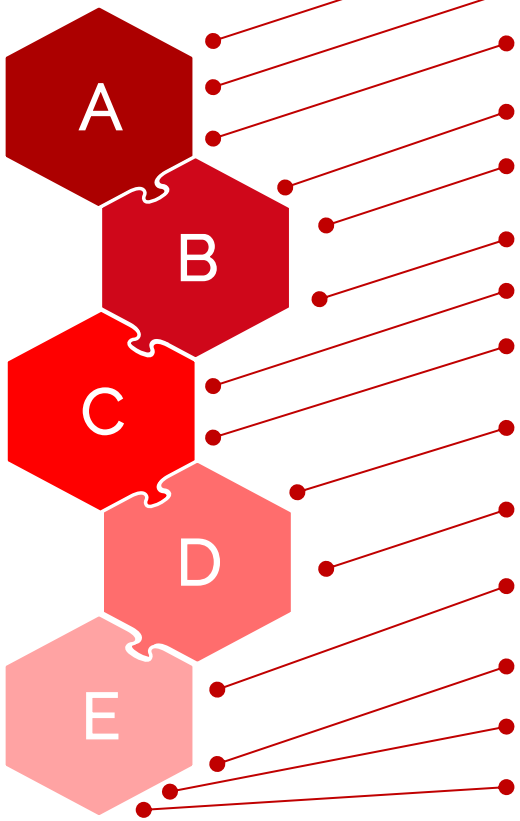
Rapidly rising wage inflation

Significant variability of infrastructure (hard infrastructure as well as skills

Variability in tax and other regulatory guidance over time

Manufacturing system isolation leading to supply chain issues

Limited capital account convertibility leading to restrictions in taking profits out of India and high cost of capital



- Lower efficiency than some traditional manufacturing locations
- High levels of average inflation leading to greater annual wage increased
- History of collective bargaining and industrial action in some locations
- Very limited standardization of trades and industrial worker quality
- Infrastructure is administered through a mix of federal, state and local municipal responsibility leading to limited accountability
- Core infrastructure is being upgraded and stability is often short-lived
- Policy is still often driven by political expediency and short-term gains
- Whilst legal coverage is strong, IP protection can be a challenge to enforce. Additionally, redressal through legal recourse is often time-consuming and inefficient
- Very limited domestic capacity and capability in core aggregates, core electronic components and specialty chemicals
- India's limited participation in multi-national FTAs can sometimes be an insurmountable disadvantage as it eliminates large market pools that could be preferentially accessible
- Complicated compliance frameworks around Tax, Labour laws and Repatriation of funds
- High-cost of capital as compared to some other regimes
- Limited capital account convertibility
- Moderate to high tax regime when considering personal and corporate tax liability

Sources : Industry estimates, Stonesbury Research

Of these, labour cost rise is significantly eliminating India's cost advantage and changing potential investor behaviour

Fig. 7 - India's manufacturing competitiveness (excluding with China) based on labour rate

Rank	Country	Approx. Labour Cost (USD/hour)	Remarks
1	Bangladesh	0.8–1.5	Lowest-cost manufacturing hub for labour intensive industries
2	Cambodia	1.2–2.0	Strong leader in low cost manufacturing
3	India (Tier 2 cities and industrial clusters)	~2.0	
4	Sri Lanka	1.5–2.5	Offering a mix of skill and low costs
5	India (Tier 1 cities and industrial clusters)	~2.4	
6	Vietnam	2.5–4.0	Relatively low costs but access to a much larger market cluster
7	Moldova	3.0–5.0	Low-cost manufacturing location with proximity to EU market
8	Belarus	3.5–5.5	Relatively low cost of labour with strong engineering and machinery manufacturing pedigree
9	Thailand	4.0–6.5	Mature manufacturing hub for diverse industries with efficient labour pricing
10	Mexico	5.0–8.0	Mature manufacturing hub for diverse industries with efficient labour pricing and proximity to North America
11	Romania	7.0–10.0	Mature manufacturing hub for diverse industries with efficient labour pricing and access to EU
12	Bulgaria	7.0–11.0	Mature manufacturing hub for diverse industries with efficient labour pricing and access to EU
13	Turkey	8.0–12.0	Mature manufacturing hub for diverse industries with efficient labour pricing and access to EU, MENA and Africa

"Decision to manufacture in India is no longer a cost driven decision – for that there are other locations.

It primarily derives from a holistic package and of-course local market size"

India's value proposition today is not defined only by labour cost but more so through its large domestic market and improving industrial ecosystem.

As manufacturing wages continue to converge across Asia, India is expected to lose the edge on labour cost factor intensive industries and may compensate the opportunity size lost through other segments that offer higher value add and greater technological intensivity

Sources : Industry estimates, Stonesbury Research

This results in clear winner and losing plays for local manufacture; careful calibration of policy becomes imperative

Potentially winning plays
(non-exhaustive)

Auto OEMs, Auto suppliers & EVs
Higher engineering content, strong domestic demand, established supplier ecosystem, and increasing automation reduce dependence on low-cost labour.

Industrial Machinery & Capital Goods
Engineering capabilities and a growing domestic industrial base outweigh labour cost considerations.

Electronics (High-value assembly)
Smartphones, consumer electronics, and EMS manufacturing benefit from PLI incentives, domestic demand, and supply chain diversification rather than labour costs alone.

Chemicals & Specialty Chemicals
Capital-intensive manufacturing where raw materials, engineering expertise, and environmental capabilities matter more than labour costs.

Ambiguous plays
(non-exhaustive)

Aerospace and Defense
Some local demand but not enough to sustain full assembly plays without exports; exports require G2G frameworks which India does not still provide. Inputs and components still dependent upon exports

Ship-building
Some local demand but not enough to sustain full builds without exports; Modularity of platforms and design engineering capabilities nascent

Power-gen equipment mfg.
Some local demand but pricing under pressure

Potentially losing plays
(non-exhaustive)

Garments & Apparel
Production has already shifted out to other countries; difficult for the sector to recoup position

Footwear & Leather Products
Difficult to replicate global scale already built

Basic Assembly Operations
Easy shifts to other countries coupled with low barriers to entry for imports

Solar and related industries
Imports are substantially impacting the market

Plastic and related products
Difficult to match the cost of global production in some parts especially China

> **It seems value substitution will happen; question is if same number of jobs will be created as those lost. Even in segments where India will gain manufacturing AI driven automation will hurt jobs.**

Sources : Industry estimates, Stonesbury Research

Futhermore, the nature of selection matrix for India as a destination is increasingly complex and extremely site specific

Historically,

Manufacturing attractiveness was a function of

I. Government incentives linked to investment
II. Labour arbitrage
III. Local management capability

Today,

Manufacturing attractiveness is a function of =

I. Negotiated market access
II. Government incentives linked to investment
III. Government incentives linked to production
IV. Supply chain resilience incl. need to build key suppliers
V. Geopolitical access for export
VI. Availability, price and price inflation for talent
VII. Labour class action risk
VIII. Infrastructure
IX. Capital availability, cost and repatriation
X. :Local management capability

- Historically, manufacturing location decisions were relatively straightforward to make. Companies evaluated a handful of variables—primarily labor cost, investment incentives and the availability of local management—and selected locations that minimized production costs. In that environment, countries competed largely on labor arbitrage, with low wages often determining investment decisions.
- Today, that decision framework has become significantly more complex. Rising geopolitical uncertainty, supply-chain disruptions, industrial policy, productivity expectations and the increasing importance of domestic markets mean that manufacturers evaluate a much broader set of variables before committing capital. Labor cost remains important, but it has become only one element of a much larger decision matrix. The corollary to this is that the industrial fabric of every country including India is evolving to reflect the new realities.
- For India, this evolution has important implications. The country no longer competes simply as a low-cost manufacturing destination. Instead, its competitiveness increasingly depends on the strength of its industrial ecosystem—including market access, supplier networks, infrastructure, engineering capability, capital availability and policy support. These factors vary considerably across states and industrial clusters, making manufacturing attractiveness highly location-specific. A location that is highly attractive for electronics or semiconductors may be significantly less attractive for garments or low-value assembly. Manufacturing strategy therefore requires a far more nuanced evaluation than traditional labor-cost comparisons.

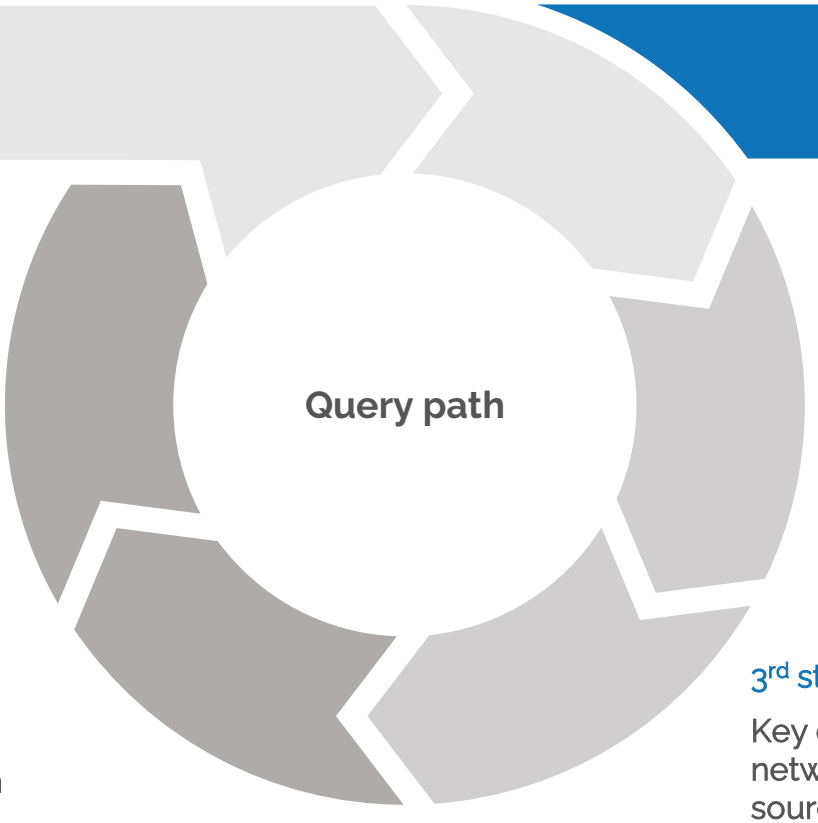
“The question is no longer whether India is competitive, but where, for which industry and under what operating model.”

Sources : Industry estimates, Stonesbury Research

…companies that successfully address this question go with a first-principles driven approach; we can assist you on this journey

India manufacturing dilemma

First principles driven decision



1st step - Evaluate strategic fit

Key question to ask - Is India the right manufacturing location for this product?

2nd step - Select the right manufacturing cluster

Key question to ask - Which state or industrial cluster offers the best economics? (Remember even within each state – different locations can offer different advantages + Negotiate, Negotiate, Negotiate

3rd step – Design a resilient supply chain

Key question to ask – How to develop local supplier networks, identify critical import dependencies, diversify sourcing, invest in supplier capability development, and evaluate logistics resilience to reduce lead times and costs?

4th step – Future-Proof Manufacturing Economics

Key question to ask – Will the investment remain competitive as wages rise & how to institutionalize progressively higher levels of automation and worker upskilling? Also how to ring-fence from labour driven disruption

5th step – Optimize for Long-Term Growth

Key question to ask – How do I not only design and plan for local market consumption but also for use as a regional/global supply hub? How do I leverage the advantage of building local capability centres?

Sources : Industry estimates, Stonesbury Research

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