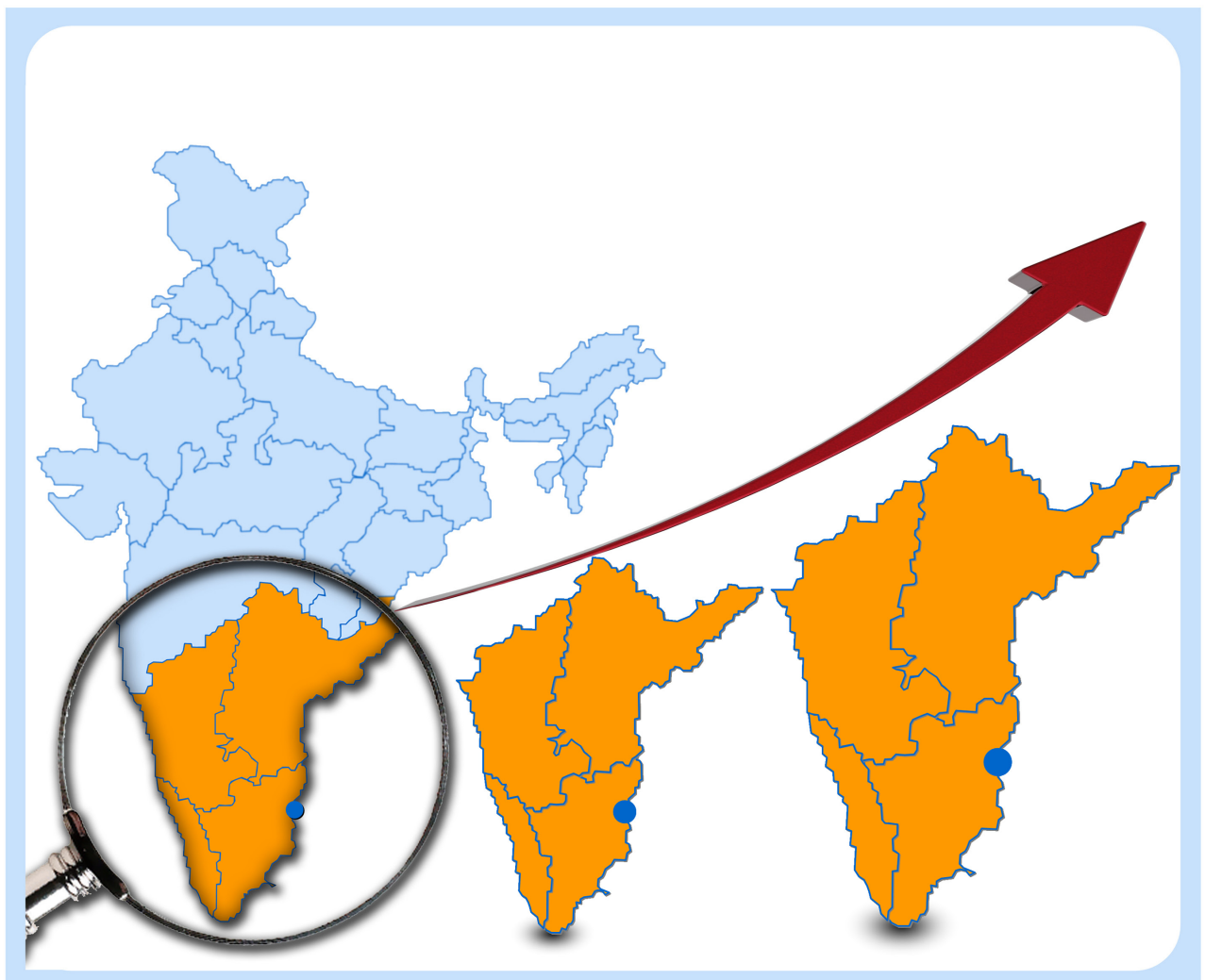


Retaining the Edge: Sustaining South India's Growth Momentum

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Executive summary

South India has been a major driver of growth for India from 2000 to 2010, contributing to over 22 per cent of India's GDP and 28 per cent of its employment. While the region begins this next decade on a sound footing, a slowdown in its recent growth and growing competition from other states mean that South India must act now to retain its edge. A realistic assessment of the challenges and an actionable strategy for growth are key to ensuring that the region remains at the forefront of India's growth story. Our approach focuses on 14 high-priority sectors across six industry categories that significantly contribute to India's GDP and employment.

Leading the race

Comprising Andhra Pradesh, Karnataka, Kerala, Pondicherry, and Tamil Nadu, South India has been an economic powerhouse over the past two decades. Together, these states score higher than the national average across several social and economic indicators, with Tamil Nadu, Andhra Pradesh and Karnataka leading the fray. This outstanding performance in the decade of 2000 to 2010 – across manufacturing and services sectors – places the region in a strong position for further growth.

As we step into the next decade, South India starts off on a sound footing. While its GDP growth rate over the past decade has been at par with the all-India average, its growth in skill-intensive industries such as automotive manufacturing and sunrise sectors such as IT, ITES and biotech has outpaced the all-India average.

Despite its strong overall position, recent years have seen South India's GDP growth rate slowing down, and in the case of Tamil Nadu and Andhra Pradesh, falling below the national average.

Declining recent growth compared to other states

Industry leaders attribute several factors to the recent slump in South India's growth, in addition to the effect of a larger base – rising land prices; significant shortage in the availability of labour; infrastructural bottlenecks including port capacity and growing urban congestion in Bangalore, Chennai and Hyderabad; and the concerted efforts that other states in the country have taken to attract investments in recent years.

Taking note of this decline, South India needs to drive and sustain a growth path for the future.

Mapping future growth

India is on its way to becoming a USD 2.8 trillion economy by 2020. Its share of services will be the highest at 70 per cent, followed by industry at 20 per cent and agriculture at 10 per cent. As a result, the country will be in the top five economies globally by 2020, and in the top three by 2030.

Setting the pace for all-India development

South India can lead the growth of the country. Urbanisation rates in the region are higher than in the rest of India, and will further sustain high growth for the region to reach around USD 500 billion by 2016, and approximately USD 650 billion by 2020. This is a robust, long-term growth opportunity. However, there are some obstacles standing in the way of this progress.

Overcoming challenges to realising potential

Industry and state governments in South India must act together to conquer various challenges dampening the next phase of growth. This involves doing the following:

- Increasing physical infrastructure (power, roads, ports, logistics and housing), which in recent years has not kept pace with demand.
- Managing talent and its availability – the primary concern across manufacturing and services sectors pertains to availability and skill levels of labour.

- Further strengthening policy-making and implementation to bridge two key areas of concern: time-consuming approval processes and slow implementation of policies and projects.
- Building capability in industry to move up the value chain across sectors, from low-end services to higher levels of sophistication.

Creating a platform for growth

Successfully implementing these initiatives requires a systematic approach, built around four elements: a focused approach to sector selection, policy initiatives to support growth in the chosen sectors, provision of adequate physical infrastructure, and finally, ensuring environmentally sustainable growth.

Visualising South India's industry growth

Examples from India and elsewhere reveal that focusing on a select number of sectors or themes pays rich dividends, and an opportunity to get to global scale and quality in the chosen areas. It follows, therefore, that each state in South India should create a vision across three themes: aspiring for global scale in one or two sectors; achieving a dominant domestic position in one or two sectors; and investing for the future in one or two sunrise sectors. Based on current performance, project pipeline, and capabilities, each state in South India can select a set of industry sectors for differential emphasis. For example, Karnataka should focus on innovation and products in IT.

Making the South India vision work

Executing this vision for South India will require four critical enablers to be in place – cluster-based economic development, physical infrastructure, social infrastructure, and sustainable growth. Clear policy direction, rigorous execution, and a sustainable funding plan are essential to facilitating such growth. A comprehensive implementation plan, jointly monitored by the respective governments and industry through an association like CII, should foster this growth.

Ensuring effective implementation

The identification of clusters and needs on hard and soft infrastructure will have to be followed by a rigorous implementation plan with robust tracking systems in place to ensure speedy and efficient delivery. Towards this, the state governments and CII should follow a six-step agenda:

- Create a steering committee comprising the state's principal secretaries, chief secretary and industry leaders to monitor the progress periodically
- Define aspiration and chart a roadmap for growth in industries of focus; the use of delivery labs is an effective way to achieve this
- Create a project team comprising government/PSU heads and a CII project team in order to ensure continuity of initiatives
- Create a control room where independent analysts e.g. from CII will track progress across initiatives
- Publish scorecards to be circulated internally and to be presented before the steering committee
- Revise plans based on feedback and outcomes.

Prioritising areas for growth: Our approach

The rest of this document discusses South India's starting position, its growth potential in the coming decade, the challenges to capturing growth, and the enablers required to realise this potential. For this effort, we have

prioritised 14 sectors across six industry clusters – discrete manufacturing, process manufacturing, services, infrastructure, retail and agro-products (Exhibit 1). Our rationale for choosing these sectors for evaluation is three-fold: all represent the secondary or tertiary part of the economy, with considerable value-addition. A majority of the GDP contribution here comes from organised sectors, present in most of the states across the country, without any strong regional bias. We have excluded from this computation primary sectors such as agriculture, mining, government spending on administration and defence, and finally, services in the unorganised sector.

Exhibit 1

Several categories were examined as part of the effort

Category	Sectors	Sub-sectors
Discrete manufacturing	▪ Automobile and auto components	▪ Passenger cars, two/three wheelers, HCVs; Auto components
	▪ ICT Manufacturing	▪ Communication equipment; Computer and office machinery; Medical devices
	▪ Advanced industries	▪ Construction equipment; Aerospace & defence – Aircrafts, spacecrafts, and defence manufacturing
Process manufacturing	▪ Chemicals and fertilisers	▪ Basic and specialty chemicals; Fertilisers and agrochemicals; Petrochemicals
	▪ Textiles	▪ Textile and apparel manufacturing; Leather and related products
	▪ Biotech/ pharmaceuticals	▪ Drugs, vaccines and biotechnology
Services	▪ Financial services	▪ Banking and insurance
	▪ Healthcare	▪ Health insurance; Hospitals
	▪ IT / ITES	▪ IT services; BPO services
Infrastructure	▪ Infrastructure	▪ Road transport; Water transport (ports)
	▪ Real estate	▪ Residential and commercial construction
	▪ Power	▪ Electricity, gas, and water supply
Retail	▪ Retail	▪ Motor vehicle and gasoline; Food and beverage; Apparel; Consumer durables
Agro-products	▪ Food and beverages	▪ Processed food and beverages

Together, these 14 sectors contribute approximately 25 to 30 per cent of India's total GDP and 30 to 35 per cent of South India's GDP. For each of these sectors, we have estimated current size as well as state-wise growth potential based on past growth rate, and industry expectations on growth. Subsequently, we have computed the contribution of each sector to the state GDP, and to job creation, based on sector-wise cost structure and productivity. To understand challenges to achieving this potential, and enablers required to overcome them, we spoke to industry leaders, government officials and external experts in each state. Finally, we have brought our Firm's thinking and global expertise to bear, to synthesise findings, showcase success stories from around the world, and define a vision and roadmap for South India.

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South India stands at a critical juncture – its advantages in economic and social development indices give it the potential to sustain accelerated growth over the next decade, and create global scale in select sectors. However, infrastructure bottlenecks, lack of skilled manpower, and challenges in governance threaten this growth. Industry and respective state governments should adopt a cluster-based growth approach, bridge physical and social infrastructure gaps, and work towards environmental sustainability to ensure the region's rich potential is well capitalised.