

Can India Finally Realize Its Manufacturing Ambitions?

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This research note draws on over a month of fieldwork in India in early 2026, which involved interviews with 35 business executives, policymakers, and think tankers in Delhi, Mumbai, and Bangalore, across ten sectors: automotives, chemicals, consumer goods, electronics, furniture, medical devices, pharmaceuticals, semiconductors, shipping, and textiles.

India has long underperformed as a manufacturing hub. Despite an accelerating deregulation push and Delhi's ambitions to become a key node in global value chains, high land, labor, and regulatory barriers continue to stifle the development of dynamic industrial ecosystems. Narrow successes among large manufacturers in sectors like electronics and renewable energy, backed by direct government support, offer proof of concept for what's possible. The key question is whether India can replicate this success more broadly while deepening local value-add. Geopolitics will loom large: Trade deals with the EU and potentially the US, alongside other countries' rising barriers to Chinese goods, offer India an opportunity to capture global export share, even as its manufacturing ecosystem remains less competitive.

India's unrealized ambitions

When the US began imposing tariffs on China in 2018, it seemed likely India would be one of the main beneficiaries. The country, after all, was the only one with a labor force and, potentially, a domestic market that could match China. Many in Washington also saw India as a safer alternative: a democracy with a shared China challenge, and an economy with relatively less dependence on China (see July 11, 2024, "[India's Potential as an Alt-China Destination](#)"). By shifting supply chains to India, the US could accelerate de-risking from China, while India could create high-quality jobs for the millions of people entering its labor market each year.

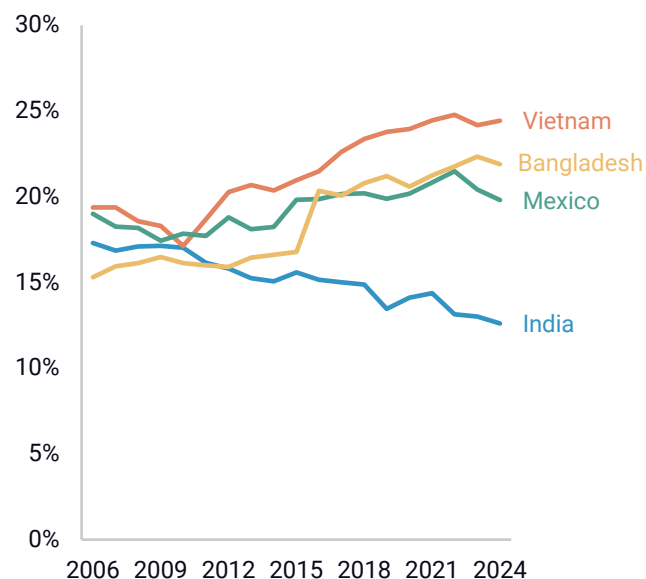
But, by most measures, India has vastly underperformed. Despite ambitions to increase manufacturing's share of GDP to 25% by 2025, it has fallen over the past decade to 12.4%. India has also lagged far behind Vietnam and Mexico in absorbing China's share of US imports, which has declined since the first US-China trade war (Figure 1). For observers who had watched India miss the East Asian manufacturing boom in the 1970s and 1980s,

and the Bangladeshi textile and garment surge of the 1990s and 2000s, the loss of “China plus one” was another missed opportunity.

FIGURE 1

Manufacturing as a share of GDP continues to decline in India

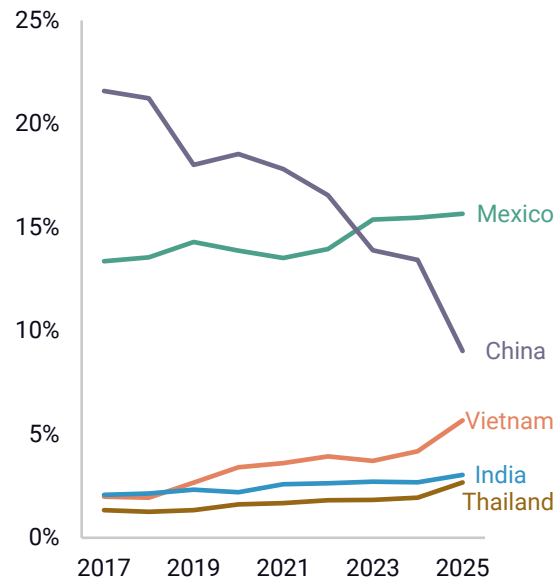
Manufacturing value added as a percent of GDP



Source: World Bank

Mexico and Vietnam capture China's share of US imports

Share of US imports by value



Source: US Census Bureau

The times they are (not) a-changin'

Over the past decade, Modi's government has sought to improve the business environment, including modernizing the country's tax system, simplifying labor codes, and streamlining regulatory approvals through the Single Window clearance system. These and other reforms have led to notable improvements in the business environment, with India rising meteorically in the World Bank's Ease of Doing Business survey from 142nd in 2014 to 63rd in 2019.

But these efforts have not been enough to mitigate the longstanding issues plaguing foreign investment. My conversations with local business executives highlighted three enduring issues with outsized impact on local business operations: difficulty acquiring serviced industrial land, obstacles to hiring and retaining skilled workers, and systemic regulatory hurdles. The stocktaking below is not to suggest these issues are novel, but to review companies' latest thinking and draw out implications for India's role in global value chains.

Land acquisition has been a longstanding frustration for business executives in India and remains a top complaint. Prime land parcels in India's urban areas are extremely difficult to come by. Even regions that have made it easier to acquire land, like Uttar Pradesh, often lack serviced industrial land with the necessary utility connections and proximity to skilled labor and inputs. And when land is available, fragmented ownership and unclear title histories increase legal risk and due diligence costs. Local-level corruption remains an issue, too. A medical device company operating a successful manufacturing site sought to

expand, only to find that the price of the neighboring land plot had tripled—a jump that clearly did not align with market dynamics.

Even though underemployment and unemployment, particularly among India's youth, remain elevated, manufacturers continue to struggle to hire and retain skilled workers. Just 4.2% of Indians aged 15 to 59 have [received](#) formal vocational training necessary for many manufacturing jobs, far below rates in emerging and advanced economies. Misaligned incentives are at play. For example, in the automotive sector, a skilled machinist typically earns only 20% to 25% more than an unskilled manual laborer. And in a society where the booming services sector offers comparable wages and greater flexibility, factory floor workers often leave for delivery services.

India's labor laws exacerbate these issues. For example, until recently, companies with more than 100 workers required government permission to close shop, and company executives could be personally held criminally liable for even minor procedural infringements. High legal and compliance risks associated with larger headcounts deterred manufacturers from adding permanent employees to their payroll, resulting in a contractor-heavy manufacturing workforce: One company reported a typical factory-floor split of 30% full-time employees and 70% contractors. Reliance on contractors has, in turn, disincentivized corporate investment in worker training, perpetuating skills gaps which undermine productivity (Table 1). My conversations with companies suggest the recent overhaul of the labor codes will only partially resolve these challenges. For example, the threshold for government approval for closures was only raised from 100 to 300 workers, and several states are falling behind on implementation.

TABLE 1
Worker productivity in India lags competing countries

Country	Production efficiency in textiles	Monthly wages in textiles
China	65% - 70%	\$548 - \$603
Vietnam	65% - 70%	\$185 - \$205
Bangladesh	45% - 55%	\$110 - \$123
India	50% - 55%	\$158 - \$185

Source: Invest India

Finally, while formal import restrictions are coming down, particularly with the implementation of new trade details, non-tariff barriers such as Quality Control Orders (QCOs) continue to cripple foreign business operations. QCOs—which require products and the factories that produce them to be certified by the Indian government—make it difficult for companies to bring their products to market. They also constrain companies' ability to onshore production by making acquiring the machinery and inputs needed to begin local manufacturing more onerous. One interviewee said roughly 80,000 pages of documentation were required to import machinery. Another company waited about 18 months to import a commonly used cosmetic ingredient not otherwise available in India, and a third estimated that compliance with a single QCO may require inspections at roughly 300 manufacturing plants across its global supply chain. While India has rolled

back QCOs over the past year, a continued desire to protect domestic manufacturers, particularly from Chinese competition, means import barriers continue to stifle manufacturing.

QCOs are just one manifestation of a regulatory environment that remains cumbersome, even amid the government's deregulation push. For example, one company estimated needing to file around 9,000 regulatory submissions to open a manufacturing facility—far more than what is required in other countries in the region. Another said they needed a dozen-person team of lawyers working around the clock for four weeks to get through building approvals, environmental clearances, tax filings, and other paperwork needed to set up a manufacturing facility. One pharmaceutical company flagged that it faced an 18-month regulatory approval process in India, compared to a 3-month timeline for local companies, weakening corporate interest in investing. Uneven policy enforcement and frequent policy reversals further complicated long-term investment planning.

Picking winners

While unable to push through large-scale reforms that would support the development of a deeper, more dynamic production ecosystem, the government of India has managed to clear hurdles for a handful of key players, paving the way for partial successes. These success stories are large companies in sectors like electronics, renewable energy, and automotives with deep pockets that could offer significant investment, job creation, and technological upgrading. Such potential commands the attention of officials, who, in turn, facilitate land acquisition, ensure easy regulatory approvals, and remove other roadblocks.

Eager to build up local production capacity, the government also ensures these companies have access to foreign talent, equipment, and inputs when needed. One company interviewed said the most successful factories they work with use imported machinery, usually from China and Taiwan, manned by a foreign engineer who trains the local staff. Another company said that approximately 15% of the factory-floor workforce at a suppliers' memory card facility in India are foreign engineers serving temporary contracts, which has been game-changing for local staff skilling.

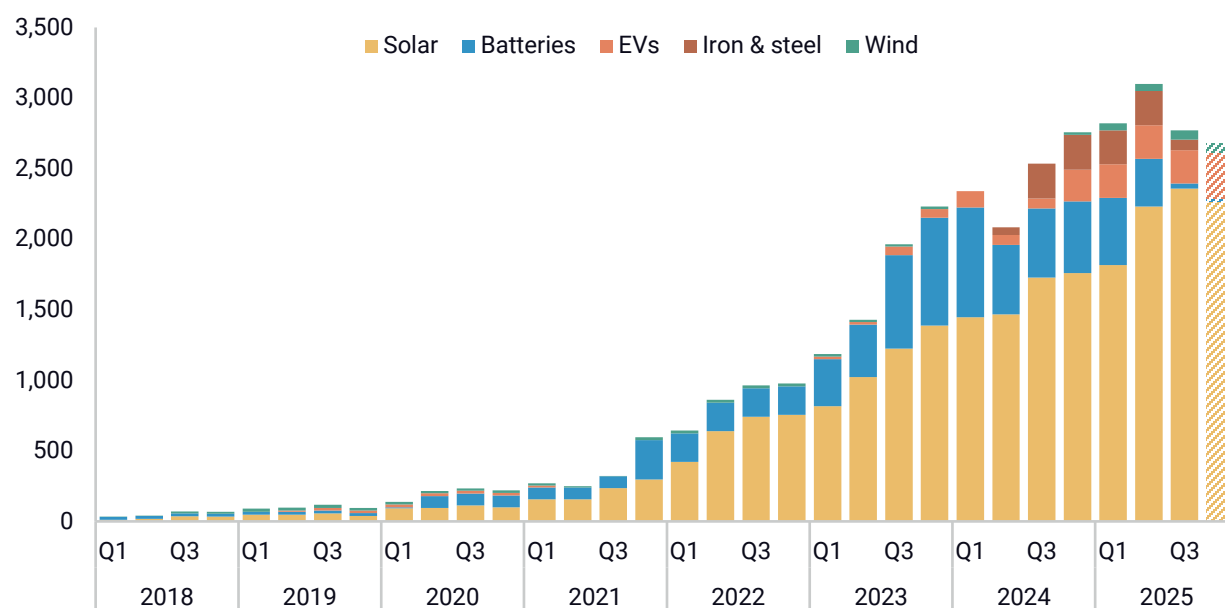
These companies typically benefit from abundant financial support, attracting investments despite India's perennial business barriers. Companies interviewed in the automotive, electronics, pharmaceutical, and medical device sectors said that India's Production-Linked Incentive (PLI) program helped them break ground on capital-intensive facilities and cut manufacturing costs, and that funds were disbursed in a timely manner, within 4 to 6 months in roughly 80% of cases.

This supportive environment created a real investment boom in these priority sectors. In the automotive sector, the approximately \$3 billion PLI outlay has drawn \$8 billion in committed investment. According to Rhodium Group's Clean Investment Monitor, capital investment in India's clean technology manufacturing and industry has similarly surged over the past five years, in part owing to the PLI scheme and related incentives (Figure 2).

FIGURE 2

India's clean industrial strategy drives rapid manufacturing and industry investment growth

Actual capital investments in clean technology manufacturing and industry in India, million 2024 USD



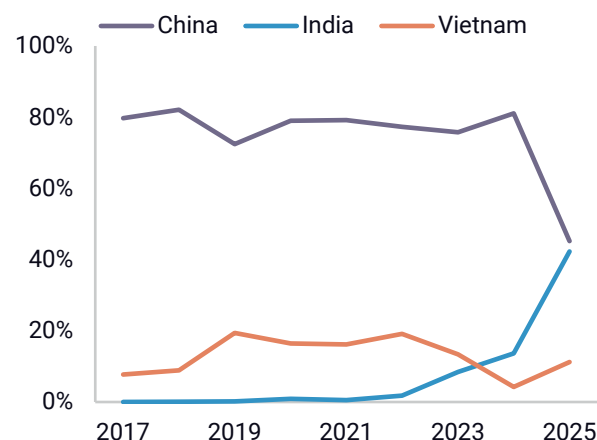
Source: Rhodium Group Clean Investment Monitor. Note: Actual investments include only investments made in that quarter. This does not include announced investments. Q4 2025 estimated.

Eventually, these companies have scaled production for the local market and for exports. For example, mobile phone production, while concentrated on final assembly, has grown from \$26 billion in output in FY 2020-2021 to over \$60 billion in FY 2024-2025. This laid the groundwork for a nearly equivalent surge in mobile phone exports over the past three years, especially to the US. Solar panels from India have seen similar growth in domestic production and in exports, particularly to the US market after it extended China-related anti-dumping duties to Southeast Asian producers (Figure 3).

FIGURE 3

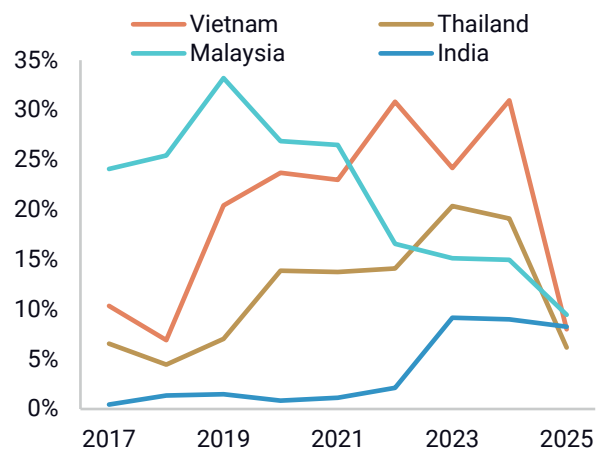
India has taken a greater share of US imports in select PLI-supported sectors

Smartphones, share of US imports



Source: ITC Trade Map. HS 851712 and 851713.

Solar panels, share of US imports



Source: ITC Trade Map. HS 854140, 854042, 854043, and 854049.

India's window of opportunity

In the latest Economic Survey, the government framed its industrial strategy as one aimed at making India “strategically indispensable” in global supply chains, with a focus on sectors crucial for de-risking, including electronics, pharmaceuticals, and renewable energy technologies. The key question looking ahead is whether India can replicate the success it has seen in sectors like electronics more broadly while increasing local value-add. Five factors will matter most here.

First is whether Delhi's reform agenda continues to gather pace and translates into concrete improvements for companies on the ground. While Modi's government has long pursued policies to improve India's business environment, the deregulation campaign has intensified recently, targeting land, labor, and regulatory issues that have, to date, limited manufacturing investment in the country. Companies I spoke to are just beginning to see the fruits of these reforms. One of them estimated that better infrastructure reduced their inventory carrying costs by between 25% and 30% per product. A business association observed that companies previously hesitant to break ground in India have started making tangible investments in local manufacturing over the past year. And the government has become marginally more focused on attracting manufacturing investment, with, for example, government officials proactively identifying suppliers for a home-appliance company weighing a move into India.

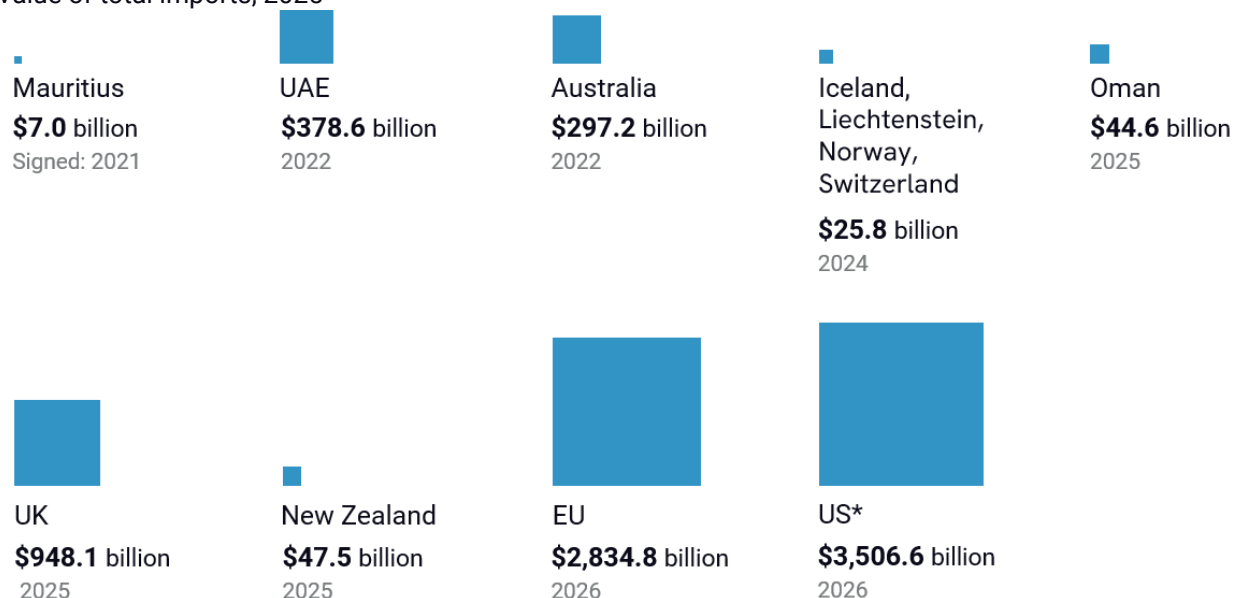
Second is whether India's course adjustments pay off. The government has been candid about its manufacturing-related shortcomings and has demonstrated an ability to tailor its policies accordingly. The advanced chemistry cell batteries PLI program, as an example of one of the most notable failures, has [seen](#) only 2.8% of target capacity commissioned, 0.12% of target jobs created, and zero of a planned \$332 million of incentives disbursed amid overly ambitious domestic value-add requirements, an aggressive two-year commissioning timeline, and visa delays for technical specialists. However, Delhi has publicly recognized these shortfalls and designed a new program to address the lack of a domestic battery cell manufacturing ecosystem. It has shown a similar instinct in the electronics sector, where the PLI has been much more effective, with the new generation of incentive programs, such as the Electronic Component Manufacturing Scheme (ECMS), explicitly aiming to move beyond final assembly by increasing local component manufacturing. Early signals are encouraging. As of December 2025, investment commitments under ECMS stand at \$12.3 billion (₹1,15,351 crore), nearly double the original target. A mixed record of industrial policies is not unusual, and while policy uncertainty is undesirable, the government's willingness to modify its approach is a positive signal.

Third is whether India can capitalize on recent trade deals and a short-term geopolitical window in its favor to expand export-oriented manufacturing. Delhi has signed eight trade agreements just in the past five years, including with the EU, UK, UAE, and Australia, and a US deal is expected to follow (Figure 4). While foreign barriers to Indian goods are coming down, they are going up for Chinese goods, with China-related trade restrictions proliferating from the US and EU to Turkey and Brazil. While India-based production is still far from as cost-competitive and efficient as China, these developments could help close some of the gap, which could enable greater export-oriented production.

FIGURE 4

Trade deals expand access for made-in-India goods abroad

Value of total imports, 2025



Source: Rhodium Group. *A framework of an interim US-India deal was released in February 2026, and negotiations toward a bilateral trade agreement are ongoing.

Some of these trade agreements will also force some hard reforms onto India, much as WTO accession did for China, which could improve the business environment (see August 7, 2024, [A Diversification Framework for China](#)). And lower tariffs on foreign goods will help foster more local competition and hence more competitiveness among India's manufacturers. The EU-India FTA, for example, will immediately eliminate tariffs on textiles, apparel, and ceramics, sectors which India has historically protected low-productivity MSMEs (micro, small, and medium-sized enterprises) at the expense of global competitiveness (Table 2). Increased competition could cull unproductive firms and force the government to address the "missing middle" issue, where regulatory burdens keep MSMEs small and unproductive.

TABLE 2

EU-India deal opens up the EU market for broad range of manufactured goods

Category	Current Tariff	Future Tariff
Chemicals	Up to 12.8%	0% for 59% of tariff lines at entry into force
Plastic and rubber	Up to 6.5%	0% for 62% of tariff lines at entry into force
Leather and footwear	Up to 17%	0% for all tariff lines at entry into force
Textiles	Up to 12%	0% for all tariff lines at entry into force
Apparel and clothing	Up to 12%	0% for all tariff lines at entry into force

Gems and jewelry	Up to 4%	0% for 97% of tariff lines at entry into force
Furniture and consumer goods	Up to 10.5%	0% for 94% of tariff lines at entry into force
Toys	Up to 4.7%	0% for all tariff lines at entry into force
Sports goods	Up to 4.7%	0% for all tariff lines at entry into force

Source: India's Ministry of Commerce

The key question is whether India can secure a trade deal with the US that offers it a lower tariff than competitor countries. India was once expected to be among the first countries to reach an agreement with the second Trump administration, in part because negotiators could build on a substantially completed draft from Trump's first term. But talks have dragged, most recently due to legal challenges to the US tariff regime. Officials on both sides report continued progress and suggest that an interim deal could take effect alongside the broader Section 301 tariff regime, with the full bilateral agreement to follow. Even so, the path is far from assured: Trump waffled and ultimately decided against signing a previously agreed deal shortly before arriving in India during his first term, a reminder that working-level agreements have not always survived at the political level.

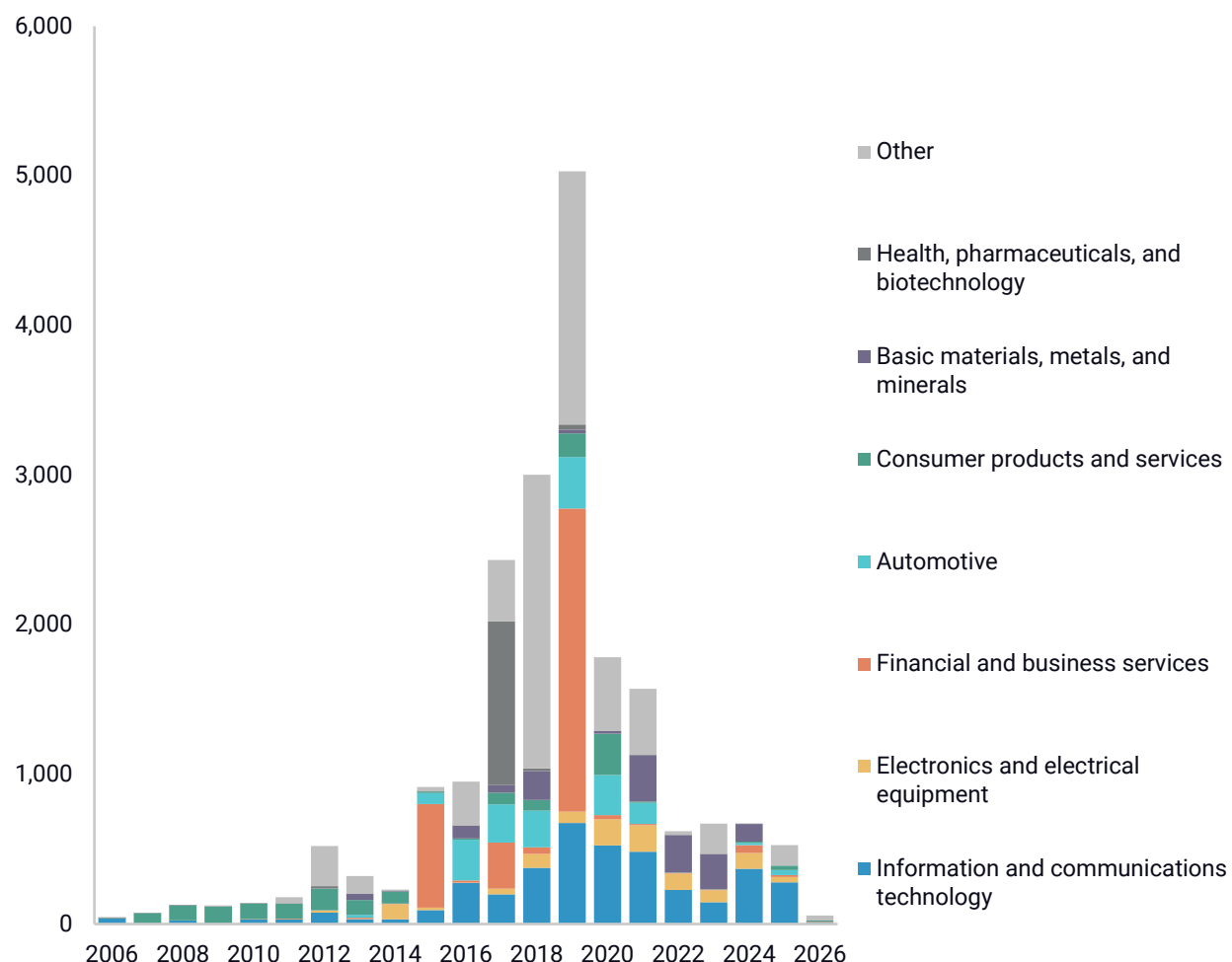
Fourth is whether India manages to walk the fine line between welcoming marginally more Chinese workers, inputs, and investment, while retaining its status as a relatively more de-risked manufacturing hub. In December, the Indian government eased visa processing for Chinese professionals and resumed direct flights after nearly five years of restrictions. In a similar sign of easing, in March, the prime minister's office lowered restrictions on investment from China and other bordering countries. Under the amended [Press Note Three](#), select Chinese investments in capital goods, electronic components, polysilicon, and ingot-wafers will be "encouraged," and transactions with up to 10% Chinese ownership will be automatically approved. The decision represents only a slight softening of the previous rule, since investments with more than 10% Chinese ownership still require government approval. But it sends an important signal to the hyper-cautious Indian bureaucracy that, according to several companies interviewed, had previously held up transactions that would have supported India's broader objectives.

This easing reflects a critical tension of de-risking: Building manufacturing capacity outside China often requires Chinese inputs, investment, and talent. Delhi is betting that with continued scrutiny and safeguards, such as requiring an Indian resident or entity to hold a majority stake and exercise operational control for expedited approval, it can manage the risks. The reward would be slight increases in Chinese investment in India, which has fallen off, which over the long run, reduce India's dependence on China (Figure 5). While Beijing is looking to prevent the outflow of manufacturing activity, some investments could still occur on the margins. For example, shortly after Press Note Three was amended, India's Dixon Technologies [announced](#) it received approval for its joint venture with China's HKC Overseas to manufacture display modules in India.

FIGURE 5

Opening to Chinese investment may deepen supply chains—and dependencies

Chinese outbound FDI in India by sector, USD million



Source: Rhodium Group Cross-Border Monitor

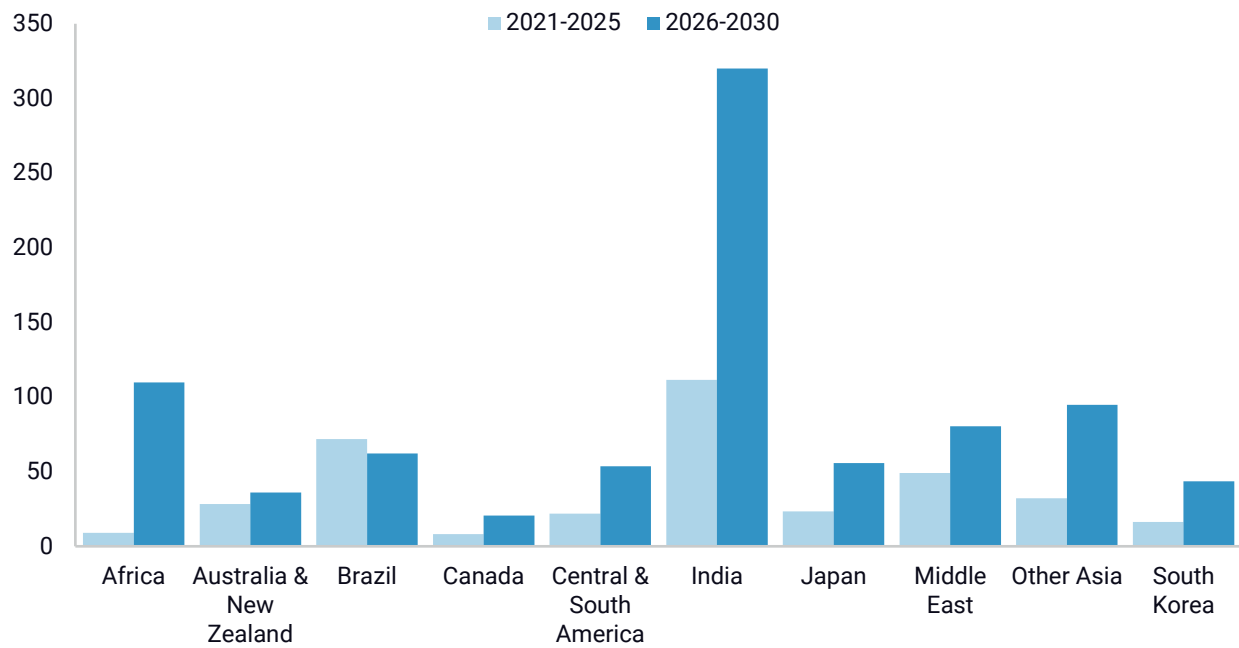
Fifth and finally is India's growth outlook. Because of India's high market access barriers, the appeal of its domestic market has been key to drawing in investment. The IMF's World Economic Outlook projects Indian real GDP growth of 6.5% in 2031, compared to 3.3% for China, 1.8% for the US, 1.4% for the EU, and 4% for emerging market and developing economies. Several companies interviewed suggested that the potential for growth in select sectors, such as clean energy, has further piqued interest in India (Figure 6).

But the near-term economic outlook is clouded by the war in Iran. The IMF recently downgraded India's 2026 growth forecast from 6.5% to 6.4%, owing to the country's reliance on imported oil and gas. The recent rebasing of India's GDP series also shows that the economy is slightly smaller in nominal terms than the data previously suggested, which could dampen investor sentiment at a time when profit repatriation and foreign investor exits are weighing on net FDI inflows. The pace of growth—which could accelerate over the long run if India pursued major reforms, such as those related to the education system and land—will also shape the demand India can generate as companies weigh India as a destination for supply chain de-risking.

FIGURE 6

Solar and wind additions in India will outpace other countries and regions

Deployment in the last 5 years vs next 5 years, GW



Source: Rhodium Climate Outlook, IRENA, Ember, EV Volumes. Note: Forward-looking values align with RCO mean projection.

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