

Speech by Dr. Vidhu P. Nair, Acting Consul General of India in Hamburg, on the occasion of a Symposium on “Hidden Champions” organized by, TIM/TUHH GIRT, and Hamburg Chamber of Commerce (September 10, 2013)

Dear Dr. Rajnish Tiwari, Dr. Stephan Buse and other distinguished speakers, Ladies and Gentlemen,

I am delighted to be present at this seminar organized by the German-India Round Table, Handelskammer and Technische Universitaet Hamburg-Harburg in connection with the ‘India Week’ 2013. At the outset, I would like to thank all these 3 organisations for giving me the opportunity to speak.

2. The topic for today’s discussion is “Hidden Champions – Challenges faced in India”. When I first saw the topic, I was a little sceptical as to what precisely I should speak. Whether it should be on the challenges, if any, posed by Indian market for the German companies or on the contrary, on the opportunities presented by the Indian market? I strongly believe that the so-called hidden champions, the German Mittelstand, and an increasingly globalizing Micro, Small and Medium Enterprises (MSME) sector in India could complement each other for a synergistic relationship. Therefore, I think more than challenges, the hidden champions would be welcomed with an array of opportunities in India.

3. Before I start, I would like to emphasise some aspects of India that would help shape your thinking as you enter into the Indian market. We are one of the youngest nations in the world with more than 50% of people below 25 years of age. Our Middleclass is over 350 million strong and growing, which is comparable to the population of the EU and constitutes a huge market for consumer products. With high saving rate of 35%, much of the Indian economic growth is also propelled by domestic demand. The Indian retail sector is estimated to be worth Euro 500 billion annually and is the fifth largest in the world. Our human resources potential is immense, with around 4 million graduates and 300,000 engineers passing out every year. India is also a world

leader in engineering services, Research & Development and affordable high-end technology what is commonly known as 'Frugal Innovation'.

4. We all know that the small and medium companies form the backbone of the economy of Germany. Numbering about 3.6 million, they constitute 99% of the total number of companies in Germany, providing more than 60% of all jobs in the country. They also contribute more than half of the total economic output of Germany and are a major determinant for the low level of unemployment in the country. Interestingly, many of the larger business conglomerates in Germany also function on the same spirit as the Mittelstand. The success of hidden champions are attributed to many factors like family ownership, innovativeness, long term business policies, stable client relations, strong ties to the region, sound financing models, employment of trainee workers and continuous human resources policies. It is estimated that around 1300 market leaders around the world belong to the German Mittelstand exporting goods worth nearly 200 billion euros.

4. Now let's look at the Indian scenario. The MSME sector in India is estimated to have more than 36 million enterprises and plays the important role of being the engine of economic growth and promoting equitable development. Besides employing around 80 million people, the sector accounts for more than 8% of India's GDP and contributes about 45% of the manufacturing output and 40% of India's exports. The major advantage of the sector is its employment potential at low capital cost. The labour intensity of the MSME sector is much higher than that of the large enterprises. In the post-globalization era, MSME sector has witnessed tremendous growth compared to the rest of the industrial sectors and currently churns out more than 6,000 products ranging from traditional to hi-tech items providing opportunities for both self-employment and wage employment. The MSMEs are a critical part of the supply chain in India providing assemblies and services to larger companies. They are more flexible and can perform activities that are not economically viable for larger companies, besides contributing immensely to job creation like their German counterparts. In recent years the MSME sector has consistently registered higher growth rate compared to the overall industrial sector. With its agility and dynamism, the sector has shown admirable innovativeness and adaptability to survive the recent economic downturn and recession. Some of the present private sector behemoths in India like Bharti Airtel, Hero Group of companies etc.

started once as MSME. In fact, MSMEs are more suited to developing countries like India where there exists vast talent pool of workers but limited capital. In addition, they also contribute to greater equality in income distribution.

5. The Indian Government has initiated various policies for promoting MSME sector in India. National Manufacturing Competitiveness Programme (NMCP) was initiated in 2005 for providing marketing support and technology up-gradation services, for building awareness on intellectual property rights and for promoting standards by setting up training centres with quality technology tools. The Prime Minister's Task Force on MSME initiated in 2009 deal with important areas such as credit and finance, marketing avenues, skilled manpower resources, technology and skill development, rehabilitation and exiting policies etc. The Government has gradually de-reserved products for manufacturing in the MSME sector and at present only 20 items are reserved for exclusive manufacturing in this sector. More recently, the Government announced 51% Foreign Direct Investment in the multi-brand retail sector subject to the condition that 30% of procurements would have to come from MSME sector.

6. There is tremendous scope for cooperation between India and Germany in the SME sector. The Indian Government has been encouraging setting up of SME clusters specialized in various areas in major cities in the country. Germany's hidden champions, with access to advanced manufacturing technology, including clean and green technology could certainly find sundry of avenues for cooperation with their Indian counterparts. In order to promote investment into the country, the government has recently relaxed norms for FDI in sectors like multi brand retail, civil aviation, broadcasting, insurance, pension etc. Some of the sectors where Indian MSMEs are involved like retail, machinery and equipment, metal products, automobile repair and maintenance are also areas where some of the hidden champions in Germany are also active. Again, India with its rich pool of skilled workers could address the shortage of such workers in Germany. A recent study by Ernst and Young has reported that many German Mittelstand companies are struggling to find skilled workers. According to the study, 75% of the 700 companies especially in the construction and energy, trade services and investment sectors employing about 30 to 200 workers informed that it was difficult to find enough qualified workers.

Perhaps this could be a new area where both countries could work together for mutual advantage. Other opportunities include infrastructure sector where India requires around \$ 1 billion investment over the next 5 years to build roads, ports, airports etc. where the hidden champions could contribute significantly.

8. As we celebrate the India Week 2013 in Hamburg, it is highly befitting that GIRT, HKK and TUHH have come forward to organise such an event. Some of the success stories of German companies are being deliberated in this seminar. I sincerely hope that even as the Hidden Champions venture into the Indian market, they would pave way for new vistas of cooperation with their Indian counterparts. Wish you all the best!!