FDI in India: Now, Next and Beyond

Reforms and opportunities

November 2020
Executive summary

NOW
India’s reforms focus has resulted in consistent rise in FDI

NEXT
Multiple investment opportunities for foreign investors to create vibrant value chains

BEYOND
Further reforms will strengthen India’s competitiveness
India has consistently focused on reforms for attracting investments and encourage manufacturing in India. The last few months have been tumultuous. Trade wars, followed by the COVID impact, have changed global trade dynamics. In such an unprecedented economic environment, many businesses have been reassessing their risks and exploring new opportunities for investments.

It is in this context that the CII-EY Survey was conceptualized to gather response from key decision makers for those MNCs seeking to relocate investments or making fresh investments in India if they find it as an attractive destination for investments. We also wanted to explore how India can raise its game for the purpose. In this report, you will see insights from some of the leading minds in EY and the industry, as well as the results of the survey.

From a global perspective, the future investment outlook of the respondents is encouraging, with more than 80% of them planning to make investments in the next 2-3 years. Encouragingly, for the respondents, India is amongst the top 3 choices for future investments in next 2-3 years. While choosing India as their favoured destination, market potential, skilled workforce and political stability are the three biggest attractions.

The survey assessed the industry view on what more should India focus on, to maintain its attractiveness in an environment where competition for FDI will further intensify. MNCs feel that going forward, government should renew its emphasis on infrastructure development and faster clearances. In terms of trade policy reforms, investors would like to see a faster turnaround time for value added production in regional / global supply chains, improved cargo handling and trade facilitation measures.

The report highlights the newer factors that shall determine global FDI inflows post the COVID-19 disruption. These factors will have implications - and also opportunities - for India.

We end this report by providing recommendations that we believe India should keep in mind while planning its next reform measures.

We hope you find the report interesting and thought-provoking. As ever, we welcome your feedback.
Executive Summary

India has the potential to attract annual FDI between $120 billion and $160 billion by 2025

NOW

Uptick in FDI inflow

India has seen consistent increase in FDI inflows over the last 8 years.

- As per the OECD FDI restrictiveness index, India’s FDI restriction levels have come down from 0.42 to 0.21 in the last 16 years
- Four Indian states— Maharashtra (28%), Karnataka (19%), Delhi (16%) and Gujarat (10%) – attracted around 3/4th of the FDI inflows in the country (from October 2019 to June 2020), highlighting areas of opportunity going forward for the rest of the Indian states
- Only 11% of total FDI in the last 19 years was in low skill manufacturing, highlighting the potential for India to attract large FDI in low-skilled manufacturing

Source: FDI Statistics, Department for Promotion of Industry and Internal Trade
FDI in India: Now, Next and Beyond: CII-EY Survey

The survey reveals that approx. 80% of the respondents are planning investment globally in the next 2-3 years. India is among the top three attractive destinations for them in terms of capacity expansion, digital transformation and research and development.

Compared to competing jurisdictions, India has strengths of a strong GDP, unparalleled market access, labour force (demographic dividend), reform-oriented government and resource-richness. These provide multiple investment opportunities to the foreign investors and they can create vibrant value chains with their own backward and forward linkages within India only.

India will be among the top 3 global FDI destinations

Corporate tax cuts and simplification of labour laws are key drivers for FDI

42% attributed recent government reforms lowering of corporate tax rates, streamlining the labour codes made India a preferred investment destination. This is closely followed by ease of doing business measures.

<table>
<thead>
<tr>
<th>Significance of recent reforms by the Indian Government in attracting FDI</th>
</tr>
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<tbody>
<tr>
<td>Corporate tax rate reduction:</td>
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<tr>
<td>Simplification of labour laws:</td>
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</tr>
<tr>
<td>Financial Inclusion and Digital India:</td>
</tr>
</tbody>
</table>

Source: CII-EY Survey
Focus on infrastructure and effective trade policy reforms, among others, can make India more competitive

Renewed focus on infrastructure and faster clearances are important for investors. From the trade policy perspective, 26% of the companies recommend that faster turnaround time for value added production for regional/global supply chains is crucial, while 24% feel that cargo handling facilities at ports/airports/land custom stations need improvement.

### Factors from trade policy influencing the investment decision

<table>
<thead>
<tr>
<th>Factor</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turn-around time</td>
<td>26%</td>
</tr>
<tr>
<td>Cargo handling facilities</td>
<td>24%</td>
</tr>
<tr>
<td>Trade facilitation measures</td>
<td>22%</td>
</tr>
<tr>
<td>Finance costs</td>
<td>12%</td>
</tr>
<tr>
<td>Free trade agreements</td>
<td>8%</td>
</tr>
<tr>
<td>Other form government support</td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: CII-EY Survey

**Reforms that can strengthen India's competitiveness:**

- Focus on setting up Coastal Economic Zones/manufacturing clusters
- Continue improving ease of doing business
- Continue financial sector reforms
- Incentivize R&D and innovation, bring certainty in taxation
- Continue planned spend on National Infrastructure Pipeline by the Centre
- Power sector reforms important to improve manufacturing competitiveness
- Focus on Environment, Social and Governance sectors
India’s reforms focus has resulted in consistent rise in FDI
How was Indian FDI performing prior to COVID-19?

The COVID-19 pandemic has led to a reset in the economic strategy of many countries across the world. India too is going through such a phase, and Foreign Direct Investment (FDI) will play a significant role in this economic strategy as an important source of non-debt finance for economic development.

The Government has taken determined measures over the years to provide an enabling and investor friendly FDI policy. The FDI reforms have borne positive results, as is evident from the fact that total FDI inflows\(^1\) grew by 55%, i.e. from US$ 231.4 billion in 2008-14 to US$ 358.3 billion in 2014-20. India’s commitment to attracting FDI can be evidenced from the following.

**Consistently dropping FDI restrictiveness and rising attractiveness**

As per the OECD FDI restrictiveness index\(^2\), India’s overall FDI restriction levels have come down from 0.42 to 0.21 in the last 16 years. The country has made considerable progress in opening up different sectors of the economy including mining, manufacturing, construction, electricity and services. It ranks ahead of other emerging markets in Asia such as Indonesia, Malaysia, Philippines and Vietnam and even scores better than New Zealand and China.

At the same time, it is yet to reach the FDI openness levels of OECD countries (OECD average is at 0.06) or even Vietnam (0.13) or Brazil (0.08). Given the relentless focus of the Government on FDI and other economic reforms - for instance, the major structural reforms kickstarted in agriculture in 2020 - should further improve India’s score in FDI attractiveness.

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1. PIB Press Release dated 20 October 2020
2. The OECD FDI Restrictiveness Index was developed in 2003 and measures the openness of a country towards foreign investment inflows. It takes into consideration limits on foreign equity, screening and approval mechanisms, restrictions on the employment of foreign personnel and other operational restrictions.
An increasing FDI inflow, with further room for more

India has seen consistent increase in FDI inflows over the last 8 years with cumulative FDI doubling from USD 36 billion in 2013-14 to USD 74.4 billion in 2019-20. Mauritius and Singapore have been the steady sources of FDI for India.

However, India may have further room to achieve higher FDI to GDP ratios like its peer group. The ratio has been 1.8% in the last 11 years (2009-2019).

This is lower than the levels achieved by countries like Vietnam in the same period. China’s FDI to GDP ratio was around 4% when it was achieving double digit GDP growth in 2000s. This suggests that India has further room to attract more FDI.

Despite the COVID-19 shock, during April to September 2020 – H1 of FY21, India received total equity FDI Inflows of US$ 30.1 billion, 15.4% higher as compared to H1 of FY20 (US$ 26.1 billion).

Source: FDI Statistics, Department for Promotion of Industry and Internal Trade

Source: WDI, World Bank

India witnessed the highest ever FDI inflow in the first six months of any financial year

USD$30.1 billion
A large untapped opportunity beyond four major states remains to be explored

Four Indian states—Maharashtra (28%), Karnataka (19%), Delhi (16%) and Gujarat (10%)—attracted around 3/4th of the FDI inflows\(^4\) in the country (From October 2019 to June 2020). The top ten states attract 97% of total FDI inflows coming into India. These highlight areas of opportunity going forward, as rest of the Indian states are larger - in terms of population and GDP—than many large countries in the world.

Sizeable opportunity in low-skill labour intensive sectors

India has been able to attract FDI in its Services Sector and high-skill manufacturing\(^5\) sectors—Automobile manufacturing, Chemicals, Drugs and Pharmaceuticals—constituting 89% of FDI inflow. However, it has had limited success, in comparison to its peers, in attracting FDI in low-skill manufacturing sectors—textiles and apparel, leather, footwear and furniture. This has been reflected in India’s exports performance as well. This correlation again alludes to a possible strategy going forward where India may have to take steps to attract FDI in low-skill labour intensive sectors to become part of the global value chains and provide employment to its large labour force.

\(^4\) FDI Statistics, Department for Promotion of Industry and Internal Trade

\(^5\) High skill manufacturing includes defence, scientific instruments, office equipment, automotive, chemicals, drugs and pharmaceuticals, power, fertilizers, machine tools, electrical equipment, electronics, photo paper, boilers and similar industries. Classification as per Chatterjee and Subramanian(2020) India's Export-Led Growth: Exemplar and Exception
What do India’s growth projections indicate?

World Economic Outlook⁶ released by the International Monetary Fund (IMF) highlights differential growth prospects in the pandemic year for different countries. India’s growth is projected at (-)10.3% for the year 2020, making it one among the four notable countries where contraction is predicted to be more than (-)10.0% in 2020—the other countries being Argentina, Italy, and Venezuela. While these other countries have often experienced severe economic crisis, India has joined their ranks for the first time. This differential in comparative growth performance may be explained by respective sizes of stimulus packages, differences in the pre-crisis conditions, and other country-specific factors. However, it is noteworthy that IMF further projects a growth of 8.8% for India in 2021.

The recent estimates by Goldman Sachs, present an optimistic growth scenario. The revised FY21 growth forecast projects a contraction of 10.3% vis-a-via 14.8% projected earlier⁷.

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⁶ World Economic Outlook, IMF

Source: IMF's world economic outlook database - October 2020
India is a strategic high growth market for Honeywell globally. Prior to the COVID-induced crisis, we consistently clocked growth twice the country's GDP for over two decades. Driven by Government of India’s initiatives such as Make in India, Digital India, 100 Smart Cities, and the latest Production Linked Incentive (PLI) plan, India will continue to be an attractive destination for strategic investments.

In the latest World Economic Outlook, published in October 2020, the International Monetary Fund (IMF) projected a growth of 8.8% in 2021 for India, to become the fastest growing economy. With a rising middle class driving consumption, the forecasted growth in consumer spending is 42 per cent between 2020 and 2025, measured in US$ terms at constant prices, per an IHS Markit projection. This makes India a favorable destination for FDI.

Despite the pandemic, FDI by technology firms in the first seven months of 2020 has already reached around US$ 17 billion. Honeywell too set up a production line for manufacture of N95 face masks at our Pune plant - this was achieved in record time and under lockdown conditions - to help India's frontline workers battle the pandemic. We also see opportunity in leveraging our portfolio and capabilities to support the development of smart cities, infrastructure development projects for building new airports, and expand our digital and automation solutions to boost production across industries.

In the defense sector, specifically, the Government's Make in India policy has further opened up opportunities to partner with companies in-country for joint development, co-production, transfer of technology programs. Honeywell has been a front runner in such initiatives, starting from licensing aircraft engine manufacturing to HAL in 1983, licensing environment control systems to HAL for indigenous aircraft and helicopter platforms, co-production of mission grade navigation equipment with Tata Advanced System Ltd.

The Government has taken some key measures in the defense sector recently - the new DAP2020 with key changes from DPP2016, the new import embargo list, and increase in FDI to 74 per cent via automatic route. In due course, this is expected to bring in both high technology as well as capital for further investments. It will also lead to increase in manufacturing of components, subsystems, and software.

Honeywell continues to look out for strategic partnerships in shaping India's ambition to be a global manufacturing base. Industry 4.0 will be a key enabler in India's journey to becoming self-reliant, and we are committed to be the partner of choice for the Government.

Views expressed are personal.
**India's manufacturing sector growth indicates early signs of overall recovery**

The Indian economy is steadily recovering as is evident from the growth in services and consumer non-durables industries.

Where the manufacturing PMI declined by 47% between March and April 2020, it has since steadily increased, and it recorded y-o-y growth of 16.4% in October 2020. Services PMI have since March 2020 recovered significantly and have reached pre-COVID levels. The improved overall PMI reflects modest recovery in the confidence of these sectors. Similar V-shape recovery is also observed in the power sector, where the consumption levels reached the pre-COVID levels by July 2020.

The easing of lockdown since June 2020 has further pushed economic activity in the country as indicated by the GST collections, which in October 2020 have been the highest in this financial year.

Further, in October 2020, the passenger vehicles segment recorded a y-o-y growth of ~14% and tractor registrations continue to grow tremendously at ~56%.

These indicators give the hope that the economy is witnessing early signs of revival.

16.4%

PMI y-o-y growth in October 2020
Multiple investment opportunities for foreign investors to create vibrant value chains
India likely to be one of the most preferred FDI destinations

India’s GDP is expected to recover in 2021 alongside the global GDP

COVID-19 has caused major economic disruption and the shock is even deeper than the shock experienced during the 2008-09 Financial Crisis. During the Great Financial Crisis (GFC) in 2008-09, world GDP fell by -0.1% in 2009 whereas it is expected to fall by -4.4% in 2020. In 2009, 90 (47%) countries experienced negative growth rates. In 2020, 168 (87%) countries are expected to experience negative growth rates. During GFC both India and China contributed in the economic recovery by growing at a sizeable scale despite a severe economic recession. In 2020, the situation is very different, as India has been hit severely because of the pandemic and China may barely manage to stay in the positive growth territory. All signs point to the fact that acuteness of the COVID-19 pandemic shock is going to be larger than the GFC.

However, estimates also show a recovery in the global GDP to 5.2% in 2021, which will partially be due to the base effect.

Source: IMF Database

Figure 6: GDP Growth: the COVID-19 Crisis versus the Global Financial Crisis

Global GDP 5.2% in 2021
**Competition to attract FDI will intensify**

The COVID-19 shock is going to have a severe consequence on the Global trade and Global outward FDI. IMF estimates global trade to fall by -10.7% in 2020.

Both IMF and UNCTAD expect a sharp decrease in the FDI going forward as many advanced countries may go for reshoring of their essential commodity value chains to build resilience against global shocks like pandemics going forward. UNCTAD expects the FDI inflows to hit their bottom of around US$ 800 billion by 2021. This will be 60% lower than the 2015 peak of US$ 2 trillion.

IMF data shows that the Global FDI outflows to GDP ratio has been falling since the GFC—between 3% and 5% to between 2% and 3%. The pandemic is going to lead to a further slide in this ratio going forward and the ratio is going to settle between 0.9% to 1.4%.

The decline in global trade in 2020 is expected to be close to that in the 2008 Global Financial Crisis.

All this data suggests that the total pool of global FDI available is going to shrink going forward. At the same time, the demand for Global FDI may rise, especially by the developing countries to help in funding their investment needs. Therefore, the competition between different geographies to attract FDI may further intensify.

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**Figure 7: Global Trade Volume and Global Outward FDI**

![Graph showing global trade volume and global outward FDI](image1.png)

Source: IMF Database

**Figure 8: Global FDI Inflows**

![Graph showing global FDI inflows](image2.png)

Source: UNCTAD Database
India will be among the top 3 global FDI destinations

The CII-EY FDI survey reveals an optimistic picture in the mind of the investors as roughly 80% of them confirm their plan of investing in the next 2-3 years. They also rank India among the top three countries confirming the point that the investors find India an attractive destination in terms of the capacity expansion, digital transformation and research and development. Almost a quarter of respondents are planning to invest a large amount i.e. more than US$500 million.

**Figure 9: Do you plan on expansion in the next 2-3 years?**

- Yes: 82%
- Can’t say: 18%

**Figure 10: Size of investments being planned globally**

- $$$$$ More than USD 2 bn: 13.9%
- $$$ USD 501 mn - USD 2 bn: 16.7%
- $$ USD 201 mn - USD 500 mn: 25%
- $ USD 1 - USD 200 mn: 38.9%
- Can’t say: 5.5%

**Figure 11: India among top 3 choices to invest in next 3 years**

- India: 34%
- North America: 19%
- Rest of Asia Pacific: 16%
- Europe: 14%
- China: 10%
- Middle East: 3%
- Latin America: 3%
- Africa: 2%

*Source: CII-EY Survey*
Indian will reap the benefits of a China plus one FDI destination

India continues to see a surge in FDI inflows despite the pandemic and its economic impact. While the country presents an attractive consumer market for global multinationals and a well-regulated equity and growing debt market, the recent global attention is also a result of India emerging as an important part of the global supply chain and key initiatives undertaken by the Government such as ‘Make-in-India’ and ‘Atmanirbhar Bharat’.

The 46 foreign banks present in India, represent a total capital invested of Rs. 1.6 Lakh Cr. in India, contribute in excess of Rs. 1.2 Lakh Cr. to Priority Sector Lending, represent 6.4 per cent of the total Indian banking industry and continue to support MSME lending along with significant CSR contributions. They employ more than 25,000 people in banking and 140,000 people in shared services, with indirect and outsourcing arrangements employing a similar number. A majority of cross-border trade, FPI and FDI investments are routed and enabled through foreign banks as they utilize their networks to assist Indian borrowers and promote the India story.

J.P. Morgan's growth in India is in conjunction with the growth envisaged by our MNC clients in India. Our market leading positions in corporate banking, investment banking and wholesale payments enable us to leverage our competitiveness to provide our clients with holistic solutions. In line with increased FDI inflow, we have expanded our branch presence in India from one to four branches over the past five years, launched Virtual Branch, entered into fintech partnerships and increased our on-shore capital over that time. These are direct indicators of how our MNC clients continue to grow and expand in India.

As global interest in India as one of the top destinations for FDI grows, this could be an opportune time for the government to push for further economic reforms for foreign banks including the much-needed level playing field in tax structure for domestic and foreign banks, relaxation around local governance structure for foreign banks operating in India taking into account foreign banks legal structure and bringing in parity between domestic and foreign banks on well-intentioned regulatory circulars (e.g. current accounts). Widening the definition of Priority Sector Lending sectors will enable foreign banks to more deeply engage with MNC clients which in turn will make it more attractive for them to expand in India. Internationalization of domestic debt markets by driving reforms that enable Indian bonds to be added to global indices will attract significant FDI.

We also see GIFT City as a key enabler across capital infusion and foreign currency loans for MNC clients and the recent announcements from the IFSC regulator will bring additional buoyancy to India as an FDI destination.
The Make-in-India program combined with ease of doing business has resulted in MNCs taking positive steps to harness the potential of the program by moving from solely importing to setting up assembly facilities in India. Additionally, the Government has made a conscious effort to shift policy focus from Make in India for India to an export-driven framework of Make in India for the World, that rewards production in exports, ensures policy predictability and ease of execution. India is also set to be a long-term beneficiary of the China Plus One narrative as global companies re-evaluate their global trade and manufacturing dependencies and establish broader supply chains across more countries to reduce single country exposure. At the recent J.P. Morgan India Investor Summit, global investors saw potential in India’s manufacturing abilities given its capability to produce export-ready goods at large scale and provide a large consumption market through its domestic needs. Indeed, India continues to attract a significant number of US companies for setting up their manufacturing base.

In summary, the current set of structural reforms across the financial sector and ease of doing business will make India a very attractive destination for FDI as a China Plus One destination.

Views expressed are personal.
India's attractive market size, skilled workforce and political stability continue to be the three biggest attractions for investors

COVID-19 had put the brakes on various economies, primarily because of the disruptions to the global supply chains as the governments across the world resorted to stringent lockdowns. The uncertainty that this pandemic brought, forced a lot of manufacturing and services firms to reconsider their decisions regarding investments in other countries. This will have a direct impact on FDI since COVID-19's effect will vary significantly from sector-to-sector.

The initiatives by the government and factors like attractive Indian markets, presence of skilled workforce, stable political environment have been favourable to the investors, inclining them towards investing in India. Cheap labour availability and policy reforms in India help the firms in cutting their financial costs, thereby making the Indian markets attractive. Most respondents believe that attractive market, skilled workforce and the political stability have influenced the decisions of their firms to enter and invest in India.

### Figure 12: Biggest attractions for investors

<table>
<thead>
<tr>
<th>Factor</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Attractive market</td>
<td>23%</td>
</tr>
<tr>
<td>Skilled workforce</td>
<td>18%</td>
</tr>
<tr>
<td>Political stability</td>
<td>12%</td>
</tr>
<tr>
<td>Cheap labour availability</td>
<td>11%</td>
</tr>
<tr>
<td>Policy reforms</td>
<td>11%</td>
</tr>
<tr>
<td>Raw material availability</td>
<td>9%</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>6%</td>
</tr>
<tr>
<td>Land availability</td>
<td>4%</td>
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<tr>
<td>Labour laws</td>
<td>3%</td>
</tr>
<tr>
<td>Credit availability</td>
<td>2%</td>
</tr>
<tr>
<td>Others</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: CII-EY Survey
Factors that shall determine FDI inflow post COVID-19

**Reshoring**
Reshoring entails relocating the production process to the country of origin of demand. Reshoring process will come through disinvestment of the existing value chains and shrinking of efficiency seeking FDI. This may be adopted by firms where new technologies are anyway disrupting old technologies and global value chains have not been established yet for such technologies.

India can adopt this approach in Electric Vehicle manufacturing and high-end machinery manufacturing.

**Regionalization**
COVID-19 highlighted the problems with global value chains where their geographic spread, complexity and distance became major barriers to restarting value chains in the pandemic. The current policy environment (regional economic cooperation, need for regional self-reliance post-pandemic, build-up and protection of industrial capacity) will encourage greater regionalization of some of the global value chains.

India might have to adopt this approach with respect to cotton textiles, mining and other industries where there is an opportunity to create a regional value chain.

**Diversification**
Diversification and redundancy will imply that a company will utilize already existing multiple suppliers, across different geographies, in the global value chains. Diversification will help the companies in responding to pandemic-like contingencies in the future.

This will provide an opportunity to India in expanding low skill manufacturing as developed countries may go for further diversification. Also, India’s service sector has been a leader in the world, and it will need to protect its lead going forward.

**Replication**
The key idea is to have maximum amount of redundancy possible where multiple companies within a country can produce the goods required, leading to disruption in the extent value chains and concentration within a country or its sub-region.

India has already started adopting this approach in essential pharmaceuticals and medical instruments sector to increase its scope of FDI post COVID-19.

Source: World Investment Report, 2020, UNCTAD
CII-EY Survey

Corporate tax cuts, ease of doing business measures, simplification of labour laws, and FDI reforms are the key drivers of FDI

According to approximately 40% of investors, steps taken by the government towards lowering of corporate tax rates, streamlining labour codes, and reforms for ease of doing business have been important for attracting Foreign Investments into the country. Out of all the companies surveyed, 30% find FDI Reforms and the focus of the government on skilling and healthcare of people lucrative.

![Image of hands holding colorful candies]

**Figure 13: Significance of recent reforms by the Indian Government in attracting FDI**

<table>
<thead>
<tr>
<th>Reform Category</th>
<th>Very Significant</th>
<th>Somewhat Significant</th>
<th>Not Very Significant</th>
<th>Can't Say</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate tax rate reduction</td>
<td>42%</td>
<td>39%</td>
<td>18%</td>
<td></td>
</tr>
<tr>
<td>Simplification of labour laws</td>
<td>42%</td>
<td>32%</td>
<td>24%</td>
<td>3%</td>
</tr>
<tr>
<td>Ease of Doing Business</td>
<td>41%</td>
<td>27%</td>
<td>32%</td>
<td></td>
</tr>
<tr>
<td>Focus on human capital, skilling and healthcare</td>
<td>29%</td>
<td>29%</td>
<td>34%</td>
<td>8%</td>
</tr>
<tr>
<td>FDI reforms</td>
<td>29%</td>
<td>42%</td>
<td>24%</td>
<td>5%</td>
</tr>
<tr>
<td>Major investment in infrastructure and 100 smart cities</td>
<td>16%</td>
<td>59%</td>
<td>24%</td>
<td></td>
</tr>
<tr>
<td>Financial sector reforms</td>
<td>8%</td>
<td>49%</td>
<td>43%</td>
<td></td>
</tr>
<tr>
<td>Financial Inclusion and Digital India</td>
<td>8%</td>
<td>51%</td>
<td>35%</td>
<td>5%</td>
</tr>
</tbody>
</table>

*Source: CII-EY Survey*
India’s development journey over the last few decades has been marked by significant milestones and reforms that have enabled it to achieve tremendous progress, both in terms of income levels and standards of living. India is well on its course to becoming the 3rd largest economy in the world by 2050, powered by strong economic initiatives by the Government, like ‘Make in India’ and ‘Atmanirbhar’ Bharat. Owing the geographic advantages and availability of raw materials and a trained workforce along with a large domestic market, India becomes a natural choice for becoming a manufacturing hub for the whole world.

Toshiba has been an intrinsic part of India’s growth story for more than 60 years and has established itself as a major player in India’s energy and social infrastructure fields. Toshiba has identified India as a manufacturing base and an export hub with a vision to Make-in-India and Export-from-India. Toshiba is on track with the Rs. 3000 crore (over 400 mn US$) investment since 2013 generating employment for around 9,000 people. Toshiba is already manufacturing high-quality products in India including power generation equipment, Transmission & Distribution equipment, Air Conditioners and electrical components for Railways.

The unmatched pace of economic development has put India at the centre stage of urbanization resulting in severe air and water pollution. Government of India is encouraging the uptake of Electric Vehicles (EVs) with a goal of reaching 30% EV penetration by 2030. Considering this emerging opportunity, Toshiba, Suzuki Motor Corporation and Denso Corporation have established a joint venture to set up India’s first automotive lithium-ion battery manufacturing factory in Gujarat. In line with Government’s water policy and Clean Ganges initiative, Toshiba is also focusing on water treatment solutions, with an aim to provide access to clean water. Toshiba acquired an Indian water treatment company in 2018 to establish Toshiba Water Solutions, a company headquartered in India with a focus on providing water treatment solutions across the world.

With India’s surge towards industrialization, it becomes important to implement new digital technologies like IoT and AI and integrate them into physical operations. At Toshiba, we believe we are perfectly positioned to play a major role in this new CPS (Cyber Physical Systems) archetype, a framework that creates value by collecting data from product operations and systems in the physical world, recognizing and analyzing them with digital technologies like artificial intelligence (AI), and giving feedback to the physical world. That’s where the new big opportunity lies for India and the world.

At Toshiba we stand committed for the sustainable development of India through our technologies and expertise FOR A NEW DAY.
Key measures taken by India to attract FDI

The Government has undertaken several structural reforms with a focus on land, labor, liquidity and law that will globally position India as an attractive investment destination. Since the onset of the pandemic, it has injected over \text{Rs.} 20 \text{lakh} crores stimulus for the economy. The sectors covered include power, manufacturing, defence, land, education, mining and minerals.

Some of the important reforms that have been put in motion are:

- Corporate tax rate for new manufacturing facilities at 15% to make it competitive vis-à-vis ASEAN countries
- Abolition of Dividend Distribution tax on companies
- Phased and graded duty structure to incentivize indigenous manufacturing of intermediate and final goods e.g., Electric Vehicles
- Production linked incentives of \text{Rs.} 197 thousand crores for 13 sectors
- Monetary incentives on incremental sales for a period of five years to offset disability manufacturing in India. Initial focus on high import items (cell phones) and healthcare related products
- Increase in FDI limit for defence production under automatic route from 49% to 74%
- Expanded the definition (turnover and investment thresh holds) of MSMEs to encourage MSMEs to grow
- Consolidating over 100 labour laws into 4 codes with higher exemptions for retrenchment and fewer registrations
- Implementing a GIS system to provide information on industrial land include plot-level information
- Enabling ease of doing business through faceless e-assessment for taxation, decriminalization of companies’ law and allowing for netting of qualified Financial Contracts
- Opening of commercial mining of coal and integrated licensing regime for minerals mining
- Airport Authority of India (AAI) has awarded 3 airports out of 6 bids for Operation and Maintenance on Public Private Partnership (PPP) Basis
- Power Departments/ Utilities in Union Territories to be privatized. This will improve operations and financial efficiency in Distribution and provide a model for emulation by other utilities across the country
- New Public Sector and Enterprises Policy where all sectors are open to private sector while public sector enterprises will play a role in defined areas
- “Atmanirbhar Bharat Rozgar Yojana” launched to incentivize creation of new employment opportunities during the COVID recovery phase

The reforms related to corporate tax cuts, labour, agriculture, PLI & PMP, MSME, coal and mining etc. were the long-pending demands of the industry and multilateral agencies. These reforms will help in increasing not just the productive capacity of the economy, they will also make the economy more efficient in use of the resources available.

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8 Mobile manufacturing and specified electronics components, critical Key Starting Materials (KSM), drug intermediates and Active Pharmaceutical Ingredients (API), medical devices, Advance Cell Chemistry Battery, Electronic/Technology Products, Automobiles & Auto Components, Pharmaceuticals Drugs, Telecom & Networking Products, Textile Products, Food Products, High Efficiency Solar PV Modules, White Goods (ACs & LED) and Specialty Steel
New agricultural reforms will facilitate larger scale food processing

Corporate tax cut to make India competitive vis-à-vis ASEAN countries

Faceless e-assessment for taxation & decriminalization of companies’ law

Definition of MSMEs expanded by increasing turnover & investment thresh holds

Consolidation of over 100 labour laws into 4 codes

Privatization of Discoms in Union Territories

Power Tariff Policy Reform

Airports through PPP

Quality standards being notified by BIS for products to be sold

Opening of commercial mining of coal

Atmanirbhar Bharat Rozgar Yojana

Integrated licensing regime for minerals mining

Increase in FDI limit for Defence production

Phased and graded duty structure to incentivize indigenous manufacturing

New public enterprises policy

New education policy

Privatization of Discoms in Union Territories

Time bound defence procurement process and faster decision

Preference for domestic manufacture in Government purchases

New GIS system to provide information on industrial land include plot level information

Atmanirbhar Bharat Rozgar Yojana

Atmanirbhar Bharat Rozgar Yojana

Production linked incentive scheme for 13 sectors

Atmanirbhar Bharat Rozgar Yojana

New public enterprises policy

New education policy

Integrated licensing regime for minerals mining

New education policy

New education policy

New education policy

New education policy

New education policy

New education policy

New education policy

Atmanirbhar Bharat Rozgar Yojana

Atmanirbhar Bharat Rozgar Yojana

Atmanirbhar Bharat Rozgar Yojana

Atmanirbhar Bharat Rozgar Yojana

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Atmanirbhar Bharat Rozgar Yojana

Atmanirbhar Bharat Rozgar Yojana

Atmanirbhar Bharat Rozgar Yojana
Indian economy: on the cusp of a major change

The India growth story in the last three decades is a story of constant renewal and finding new purpose to meet the goals and aspirations of a billion people.

The Indian economy has evolved and made significant progress from a closed economy until the 90s to a vibrant economy of today.

India stands at a critical juncture in the post pandemic world. Despite the headline news of 23.9% GDP contraction, Bank of America Research estimates that India’s FY21 GDP is likely to contract by 7.5% and then roar back, in a U shape recovery, to 9% in FY22. We believe that India will become the world’s third largest economy by 2028, overtaking Japan in nominal USD terms.

Over the years, systematic reforms have helped the Indian economy withstand many a crisis.

A few points on the Indian economy will illustrate the robustness of our economy.

- India is confidently sitting on its highest foreign exchange reserves of US$ 573 billion.
- India has the world’s most liberal FDI rules with sectors like insurance, defence, single brand retail, food processing, smart cities and space technology opening up for foreign investment.
- India now ranks 63rd out of 190 countries in World Bank’s Ease of Doing business 2020 report.

This has been possible as the government has continued to regularly review FDI norms, basis the changing economic landscape and geopolitical environment. All these proactive steps have borne fruit, as is evident from the ever increasing volumes of FDI inflows and first five months of fiscal 2021 witnessed highest ever inflow of US$35.7 billion, a 13% increase from last year.

The post-COVID business environment presents much wider and deeper opportunities for interplay of foreign capital and Indian consumer markets. The grounds have already been set up, as a result of the Government’s concerted drive towards greater digitization. Perhaps India has been ahead of the global curve both in terms of digital penetration and access to mobile first technologies. Even during the lockdown Reliance Jio raised US$20 billion in tech FDI, attracting the Godzillas of global tech – FB, Google, Intel, Qualcomm, apart from financial investors like Silver Lake, General Atlantic, KKR and several sovereign wealth funds.

We must also take note of the vastly improved regulatory/policy environment in India. Only recently the government announced an ambitious performance linked incentive scheme (PLI), which received a great response from 22 mobile
manufacturers and 40 electronic component manufacturers. The selected companies will produce mobile phones worth US$153 billion in India over the next five years, of which US$93 billion will be exported.

Buoyed by the success of this scheme, the government expanded the PLI scheme in 10 more sectors, with a cumulative outlay of US$20 billion over five years.

India is taking a holistic approach to address other historical issues: for instance, it has already announced labour reforms to allow more flexible labour related practices; power reforms (addressing high industrial power tariffs) and port-linked industrial cluster policy (to resolve the issue of scarcity of industrial land). Other structural reforms within the Agricultural sector, along with US$13 billion Agri infra fund will be enablers to attract FDI in our view.

I believe with these recent reforms, India will fire on all three engines of its economy: Agriculture, Manufacturing and Services and that will enable the country achieve Prime Minister Mr. Narendra Modi’s vision of a US$5 trillion economy.

Views expressed are personal.
Further reforms will strengthen India’s competitiveness
CII-EY Survey

Industry bullish about India’s long term prospects

The businesses surveyed continue to be bullish about India’s long-term prospects and see India among the top three growing economies in the world and/or among the top three destinations for manufacturing.

<table>
<thead>
<tr>
<th>Figure 14: Outlook for India in 2025</th>
</tr>
</thead>
<tbody>
<tr>
<td>Among top 3 growing economies in the world</td>
</tr>
<tr>
<td>Among the leading 3 destinations for manufacturing</td>
</tr>
<tr>
<td>Surpassed by strong competition</td>
</tr>
<tr>
<td>Improved infrastructure</td>
</tr>
<tr>
<td>Among the leading 3 destinations for shared services</td>
</tr>
<tr>
<td>Regional and global hub for operations</td>
</tr>
<tr>
<td>Hub for R&amp;D &amp; innovation</td>
</tr>
<tr>
<td>Competing with developed economies</td>
</tr>
<tr>
<td>Can't say</td>
</tr>
</tbody>
</table>

Source: CII-EY Survey
CII-EY Survey

Renewed focus on infrastructure is needed to attract investments

According to the companies surveyed, the government, in order to increase the FDI Inflows needs to address the following primary focus areas.

17% of companies believe that the focus should be on building of new logistics infrastructure to cut costs and time delays for transportation of goods, expanding port capacity, etc. 13% voted for development of a world-class custom clearance system. Although there has been a lot of development in the clearance process, but, a system where parallel clearances from multiple departments are possible rather than a sequential way would make it far easier for businesses to get clearances expeditiously.

Apart from this, the survey shows that there is a need to maintain focus on effective implementation of the new labour laws, focus on the availability of labour, research and development related reforms, tax reforms and the raw material supply system. Collective focus on the above-mentioned areas would cater to issues of around 65% of the respondents, thus providing a better experience to the foreign investors in the country.

From the perspective of trade policy, 26% of companies are of the view that the turnaround time for value added production for regional/global supply chains is crucial, while 24% feel that cargo handling facilities at ports/airports/land custom stations need improvement. Trade facilitation measures are important to almost an equal percentage of companies. Collectively, these three focus areas along with finance costs address the concerns of most (72%) respondents.

Figure 15: Suggested focus areas for the Government

<table>
<thead>
<tr>
<th>Focus Area</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Focus on Infrastructure</td>
<td>17%</td>
</tr>
<tr>
<td>Faster clearances</td>
<td>10%</td>
</tr>
<tr>
<td>Labour laws and availability</td>
<td>9%</td>
</tr>
<tr>
<td>R&amp;D and Innovation</td>
<td>8%</td>
</tr>
<tr>
<td>Tax reforms</td>
<td>8%</td>
</tr>
<tr>
<td>Raw materials supply</td>
<td>6%</td>
</tr>
<tr>
<td>IP protection regime</td>
<td>5%</td>
</tr>
<tr>
<td>Feeder industry and technology</td>
<td>5%</td>
</tr>
<tr>
<td>Contract enforcement</td>
<td>4%</td>
</tr>
<tr>
<td>Other investment incentives</td>
<td>4%</td>
</tr>
<tr>
<td>Cost of credit</td>
<td>4%</td>
</tr>
<tr>
<td>Consumer and market base</td>
<td>4%</td>
</tr>
<tr>
<td>FDI reforms</td>
<td>3%</td>
</tr>
<tr>
<td>Land availability</td>
<td>3%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
</tr>
</tbody>
</table>

Source: CII-EY Survey

Figure 16: Investment decision factors from trade policy perspective

<table>
<thead>
<tr>
<th>Factor</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turn-around time</td>
<td>26%</td>
</tr>
<tr>
<td>Cargo handling facilities</td>
<td>24%</td>
</tr>
<tr>
<td>Trade facilitation measures</td>
<td>22%</td>
</tr>
<tr>
<td>Finance costs</td>
<td>12%</td>
</tr>
<tr>
<td>Free trade agreements</td>
<td>8%</td>
</tr>
<tr>
<td>Other form government support</td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: CII-EY Survey
What are the other competing jurisdictions doing to attract investments?

The economic consequences of the pandemic will continue to reverberate through the global economy in the near future. The pandemic has laid bare the problems of relying on a single country for the manufacturing needs of the global economy. This has led to a scramble by many developed countries to diversify their supply chains and reduce their dependence on one country and create redundancies in their manufacturing value chains going forward.

Traditionally, India’s comparative advantage has lied in services and high-skill manufacturing, whereas its competitors like China had advantage in manufacturing but not services; Vietnam, Indonesia in low-skill manufacturing and Bangladesh in textiles.

In manufacturing, going forward, the developed countries are looking at a China+1 strategy where the new investment destination will be decided on multiple factors discussed earlier.

As India is trying to take advantage of this opportunity to attract investments, other developing countries are also trying to do the same. As highlighted earlier, India has undertaken a series of historic structural reforms to improve its attractiveness vis-à-vis other countries.

India’s key competitors—Vietnam, Thailand, Indonesia and Bangladesh (for Textiles)— have focused on policy options such as -investment subsidies (in the form of taxation), attracting Outward Direct Investments (ODI) from China, Free Trade Agreements (FTAs) and Investment agreements with key supplier and importer countries, structural reforms in labour (Indonesia) and ease of doing business reforms similar to what India has done. Given their development levels, they have relatively cheap labour compared to China, which quickly wants to move to the higher complexity parts of the global value chains.

<table>
<thead>
<tr>
<th>Countries</th>
<th>Recent reforms to attract FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vietnam</td>
<td>Streamlined taxation and administrative rules to speed up the investment approval process</td>
</tr>
<tr>
<td></td>
<td>Revamped the Anti-corruption law in 2018 to enhance the legal framework for combating corruption</td>
</tr>
<tr>
<td></td>
<td>Lifted restrictions on foreign ownership limits for companies in various sectors</td>
</tr>
<tr>
<td></td>
<td>Removed limitations on setting up a foreign university in the country and simplified procedures for FDI related to vocational training</td>
</tr>
<tr>
<td></td>
<td>Abolished a mandatory carry forward tax for VAT and introduced an e-filing system</td>
</tr>
<tr>
<td></td>
<td>The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) came into force in Vietnam (January 14, 2019), the EU-Vietnam Free Trade Agreement and the EU-Vietnam Investor Protection Agreement (which will come in effect in late 2020), to facilitate FDI inflows into Vietnam, provide better market access for Vietnamese exports, and encourage reforms that will help all foreign investors.</td>
</tr>
<tr>
<td></td>
<td>Eased cross-border trade by upgrading its automated cargo clearance system and digitized approval mechanism</td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>Countries</th>
<th>Recent reforms to attract FDI</th>
</tr>
</thead>
</table>
| Indonesia | • Online platform for business licensing and online processing of export custom duties  
• Improved access to credit information by distributing data from retailers and utility companies  
• Paying taxes made easier by introducing e-filling  
• Electronic Case Management System for easier enforcement of contracts  
• Omnibus Law for Job Creation: A step towards labour market flexibility |
| Bangladesh | • Improved access to credit information due to expanded coverage by Credit Information Bureau  
• One Stop Service Centre: A single window for all investor services  
• Setting up of a new business became less expensive with reduced registration and name clearance fees and removal of the certifying fee for digital certificates.  
• An exhaustive entrepreneurship development program aiming at developing 300,000 entrepreneurs over a period of three years with 100,000 every year on average\(^{10}\) |
| Thailand | • Incentives for Agricultural Investment if the value added of the project is at least 10% of the revenues, modern production processes are implemented, and new machinery is utilised  
• Abolished three ministerial regulations on minimum capital for foreign companies |

**Important factors which give India an edge**

- India's GDP in 2019 was $2.9 trillion and the GDP for the competitor countries (Malaysia, Indonesia, Thailand, Bangladesh, Vietnam) combined stands at $2.6 trillion, 10% lower than India. This highlights the unparalleled market access which is available to the investors if they invest in India.
- India has labour force of 500.9 million and the labour force for all the countries (Malaysia, Indonesia, Thailand, Bangladesh, Vietnam) combined stands at 320.6 million, 36% lower than India. India's demographic dividend is going to continue even after 2050 and provides a long-term opportunity for the investors without worrying about the increasing wage pressures.
- After all the reforms undertaken by the government so far, India now stands stronger in terms of the key parameters for investment attractiveness.
- Lastly, India is resource rich and unlike small developing countries has large industry presence across the value chains. E.g. starting from growing of cotton to the manufacture of apparels, mining of coal and iron-ore, aluminium & other metals to manufacture of cars and other metal goods. This provides multiple investment opportunities to the foreign investors and they can create vibrant value chains with their own backward and forward linkages within India only.

India is perhaps the only large developing country which is a viable alternative for investors who want to diversify their supply chains.

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\(^{10}\) [http://bida.gov.bd/?page_id=2530](http://bida.gov.bd/?page_id=2530)

*Source: World Bank; World Investment Report, UNCTAD; IMF; OECD*
COVID-19: A “Carpe Diem” moment for India: seizing the global opportunity

The geopolitics of a post-COVID-19 world has led to tectonic shifts in global supply chains, with companies relocating or expanding outside China. In this backdrop, the Indian Government is undertaking multiple efforts to seize the global opportunity and position India as an attractive investment destination. The continued focus on reform efforts over the years led to sharp improvement in ease of doing business (EoDB) ranks and attract record FDI flows. In particular, the introduction of Production Linked Incentive (PLI) scheme echoes the objective of self-reliance coupled with an attempt to promote deeper economic integration with global supply chains. It positions India as a key destination to attract (greenfield) FDI flows in the manufacturing sector and also foster a shift in FDI composition away from services.

The initial success of PLI scheme exemplifies its capacity to boost large-scale domestic manufacturing of goods to bring about import substitution and increase global market penetration. The government estimates that the US$7 bn worth PLI scheme in electronics would help scale up production to approx. US$14 bn of which US$60 bn for exports in next five years, create more than 0.8mn direct and indirect jobs and enhance domestic supply chains via local sourcing from MSMEs. Experts suggest that effective implementation of the scheme initial phase itself may make India compete with China and Vietnam in global mobile phone exports.

The industry benefited from high-speed internet connectivity enabling integration into the U.S. market and the duty-free import of hardware and software. Most importantly it truly utilised the low-cost, high-value human capital created by public investments earlier in technical education. Without these, the IT success story would not have occurred. It is time now to leverage this deep and diverse human capital base towards making India a global manufacturing force - at the cutting edge of technology.

While the reform measures are the right direction, in my view, the Government could consider implementing policy measures to further improve EoDB. Most importantly, a clear and stable policy environment, with coordinated actions across line ministries and across the centre, state and local authorities, is crucial to provide comfort to long term investors. We need to ensure that “Rule of law” prevails, with no retrospective changes to policies or regulations and enshrine in law where appropriate. The recent landmark changes in labour laws are laudable and similar attempt to facilitate land acquisition and clearance would be welcome. We could also borrow a leaf or two from Vietnam's FDI reforms, which provides extremely competitive financial incentives, a one-stop shop for regulatory approvals and engages companies via a Business Forum, a platform for policy consultation between the country chambers, business forums and Government ministers/functionaries.

It is India's time to shine and as an MNC Bank CEO, I am geared up to reap this opportunity.

Views expressed are personal.
How much FDI can India attract?

FDI inflows and GDP growth of a country are positively correlated. In China, in 2000’s GDP grew at average of ~10%, with FDI to GDP ratio at ~4%. However, as China’s growth has declined over past decade to ~6%, the FDI to GDP ratio has also reduced to 2%. Vietnam as well has recorded average GDP growth of 6.2% with a high FDI to GDP ratio of around 6%.

India has observed a GDP growth of 6.8% in the current decade, with FDI to GDP at ~1.8%.

With the recent structural reforms, raising of the FDI limits in multiple sectors and the Atmanirbhar Bharat strategy of the government the FDI to GDP ratio can be expected to increase significantly by 2025. India can expect to attract USD 120 billion to USD 160 billion of FDI annually by 2025 if it manages to increase the FDI to GDP\(^\text{11}\) ratio between 3% to 4% range by 2025. This can aid in bringing back India’s GDP growth rate to 7%-8% range.

\[\text{Note: EY estimates based on IMF projection on India's GDP}\]

\[^{11}\text{Assuming the GDP will grow as per IMF calculation at CAGR of 7\% over next 5 years to reach $4 trillion}\]
Policy reforms can enable attracting more FDI for the automobile sector

In view of focused long-term carbon emission targets and human safety, many FDI opportunities have opened up in emission, electrification, connected and vehicle safety technologies in India. In addition, consumption-driven demand, including infrastructure, has opened up opportunities in mechanization, white goods and industrial technology domains.

India can play a pivotal role especially as countries and companies work towards de-risking their supply chains and decouple out of China. India is looked as a neutral country in the global landscape and hence it is important for the government that we continue to be seen as a nation that is bridging world powers and shape our foreign policy accordingly. Furthermore, work needs to be done to make India more export-competitive at the global stage by providing subsidies to target segments with a clear sun-set clause. Detail sector wise study need to be done for target industries’ current capabilities (technically and economically) and resource availability on possibility of “giocalization”. Some of the long standing Free Trade Agreement (FTA), Preferential Trade Agreements (PTAs) with enhanced trade relationship with European Union need to be executed. Long term sustainable reforms which should be reliable and without changes at the future date. Adopting best practices and focusing on EoDB, especially in areas where we are still ranking above 100.

GST reduction for a limited period for defined sectors would go a long way in reviving demand. India is on the threshold of a leap frogging transition in mobility, driven by the needs of energy security, greenhouse commitments and the consumer requirement of a clean, safe, connected and affordable mobility. The consistent and aggressive policy outlook concerning CAFÉ norms, emission standards, ABS fitment, multi-modality, mobility as a service etc. has caught the attention of the global automotive industry. It is vital to plan a transition road map which enables the mobility industry to rapidly and appropriately evolve in all the appropriate areas of propulsion (with a mix of powertrain options including electrification), safety, connectivity and personalized/shared mobility. The Government should propose techno-agnostic policies in this regard, which will attract investments towards development of a diverse range of technologies. In addition, there is potential risk of shared mobility due to hygiene factor and it is necessary to develop strategies to support sustained shared mobility.

The COVID-19 pandemic could prompt people to be reluctant to use public transport or shared mobility, thus bringing more vehicles on road. Though emissions of newer vehicles are much lower, the total emission will not reduce significantly as older vehicles plying on road would continue to pollute the air.
Hence, a clear ‘scrapage’ policy needs to be set in place, to replace older, more polluting vehicles. Scrapage policy would open new economic avenues, attracting investments for setting up of Scrap Units and pave the way for Recycling and Reuse of parts. Scraping could boost the automobile industry turnover over 4 times to US$ 274 billion in the next 5 years from present US$ 61 billion, as per Bosch Internal Estimates. The Government should encourage scrapage via Tax and Registration fee incentives.

Promoting concession on import of second hand / used machinery for technology parts would also contribute to reviving demand. This would especially help when MNCs are looking to relocate to India. The provision to import second-hand capital goods under Export promotion capital goods scheme (EPCG) should be enabled. Auto component manufacturers are investing heavily on the new technology viz., BS-VI, safety features and electro-mobility etc. These technologies are already available in developed countries viz., EU, US etc. Auto component industries should be allowed to import second-hand machinery and parts (falling under HS code 84, 85 & 90) under EPCG scheme to reduce cost impact on local manufacture and exports.

For the auto sector to attract more FDI, the following reforms would help:

- Land reforms
- PLI scheme for Auto Electronic Components
- Skill development - Introduction of the “Dual Education” system of Europe and vocational training to be a mandatory part of curriculum
- Provide world-class plug and play infrastructure

Views expressed are personal.
India is a land of opportunities and will remain so for many years. The present Government is aiming to make India a 5 trillion dollar economy in the coming decade and are taking a series of measures in this direction. These measures are expected to introduce more FDI into the country and increase domestic consumption and exports. Undoubtedly, the MNCs and automotive sector in India would be an integral part of this growth story and vision of ‘Make in India’ and ‘Atmanibhar Bharat’. The luxury car segment in India is niche comprising only 1.2% of the entire PV segment, but it contributes to 10% revenues from new cars sales. It has opportunities to introduce newer technologies offering safe driving, environmentally sustainable cutting-edge combustion engine technologies, and hybrid vehicles. It also has the opportunity to develop and grow the Electric Vehicle segment and take the industry forward. Exports offer further opportunities and if a conducive environment is provided.

For MNCs in the automobile segments to grow their operations in India, they need minimum trade restrictions for doing business. The recent introduction of BIS Quality Control Orders (QCO) towards import of vital parts viz. windshields, wheel rims, tyres, brake parts have adversely and severely affected the luxury car segment. We welcome the intent that aims to improve quality standards and increase local manufacturing. However, the luxury car segment being niche and combined with a variety of models, it is not feasible to manufacture these parts locally due to lower economies of scale. Also, the implementation timeline for QCO is very short and it is very difficult to meet them in view of rigorous test cycles and certification requirements of global manufacturing in different parts of the world.

Despite high potential, the luxury car segment is not growing in recent years as per expectations, in fact, the segment has de-grown. Over-all, for demand revival, its high time that Government boosts the luxury car segment. The support needs to be urgent, significant and impactful. We request and would welcome the following reforms for reviving demand and increasing investments.

- Harmonization of vehicle regulations and working on international trade agreements (e.g. EU) to promote export and import of parts and vehicles.
- Eliminate CESS levied on GST for luxury cars. Treat luxury cars similar to other passenger cars, instead of viewing them as sin good.
- Exempt luxury car segment from QCOs in view of low economies of scale.
- Ease filing of GST returns for the assesses doing business through their offices/ business places from various states. Under GST Act, for each assesse registration, around 37 returns need to be filed per year. Assesse needs to have separate registration for each state. Thus, compliance activity in respect of filing of the various returns from each state is a herculean task. Government should provide IT solutions whereby Assesse having business in multiple locations in different states can file the returns of each state under one registration.
- Allow availment of ITC without restrictions of time limit and / or type of inputs or services. This will help companies to have efficient cash flow.

We are confident that the finance ministry will look at the luxury car segment in a positive manner and give it the long-awaited boost.

Views expressed are personal.
The Government’s focused reforms to enhance India’s global competitiveness will start showing visible results as investors use this opportunity to expand their operations in India. The journey of economic reforms needs to continue further. India should aspire to increase the level of FDI from 1.8% (achieved in the last few years) to 4% of the GDP as was the case with some of the economies in Asia that grew at a fast pace in the 1990s.

In this spirit, we highlight a few more areas of focus for the government in the near future.

**Set up Coastal Economic Zones (CEZs / SEZs)/ manufacturing clusters**

According to a World Bank study the economic growth in the SEZs monitored by it was 14.7% against a global average of 3.14% due to the infrastructural advantages they enjoy.

Baba Kalyani Committee, setup by the government to review the SEZ policy in the country, made a plethora of suggestions on multiple aspects—WTO compliant SEZ policy, increasing manufacturing from SEZs, international comparison and other related policies of the government—of the SEZ policy in the country. Government has been implementing these suggestions in a phased manner.

Going forward, India should focus on setting up CEZs with world class infrastructure and entire supply chain present in the zones to enable reduction in transit times and making the entire chain competitive, with minimal compliances. It is suggested that:

- Government should set up 4-5 Coastal Economic Zones which are large, with good logistics facilities. At least one of them can be part of the Delhi-Mumbai industrial corridor.
- The CEZs should be focused on competitiveness of manufacturing rather than being exclusive to exporters
- Allow domestic supplies in Rupee/ payments to be made in rupee when enclaves deal with areas outside the zone and move away from incentive linkages from exports so that the condition of Net Foreign Exchange (NFE) is not required.
- Permit External Commercial Borrowings (ECBs) for investments made in the CEZs to enable easy access to capital.
- Government to provide indirect benefits to manufacturers in such zones in the form of Government investment in common infrastructure, utilizing schemes like PMAY and Ayushman Bharat to create low-cost housing/dormitories and low-cost healthcare provision for workers.
- It is important that the government continues to fix the overall infrastructure across the different geographies in the country as it is a public good. One further area of reforms is related to efficiency of the customs and port clearances. Use of the latest technology and streamlining of the processes can go a long way in cutting down the clearance time for inbound and outbound goods.

**Further improve ease of doing business in India**

The Government’s relentless focus on improving ease of doing business (EODB) has helped India jump up in the World Bank rankings on EODB from 142nd to 63rd among 190 nations. On certain parameters like contract enforcement, starting a business, registering a property and ease of paying taxes, India’s ranking is still low.
Some of the areas that the Government could consider are as follows:

- **Contract enforcement** - Despite being one of the largest economies in the world, India scores 163rd on contract enforcement. Delayed contract enforcement discourages investments as the investors prefer certainty and timely execution of projects. Economic Survey, 2018, estimated the value of stayed projects in 6 infrastructure ministries close to Rs 52,000 Crores.

  Government will need to actively engage with the judiciary and increase the case clearance rate to 100% to reduce the pendency and cases piling up. There is an urgent need to both increase the number of judges and their efficiency using improved processes and technology. Government’s economic survey 2018-19 highlights the multiplier from the investments in judiciary, not just in the form of economic gains but also in social domain with improved culture across due to enforcement of rule of law.

- **Decriminalisation of the economic laws** - In June 2020, Government of India proposed to amend 19 statutes. In addition, there has been a constant demand and MNCs in India have made several representations e.g., decriminalisation of the legal metrology law. This exercise needs to be conducted in a detailed fashion. It is recommended that the Government of India should examine all the economic laws and re-evaluate the offences that attract criminal penalties.

### Implement financial sector reforms

Along with Atmanirbhar Bharat initiative, the Government needs to urgently reform the Indian financial sector. Some of the possible areas for Government to consider are:

- Restructure and recapitalize the public sector banks to make the Indian banking sector more efficient and reduce the spread between deposit rates and lending rates. This should help in monetary policy transmission and increasing the credit uptake, thus kickstarting the investment cycle in the economy.

- Establish a nationalised Public Credit Registry (PCR) for centralization of credit information, as recommended by RBI Task Force. This would result in more symmetry of data and greater efficiencies in comparison to the current systems with credit information disbursed throughout the financial market.

### Tax initiatives

- **Tax incentives for promoting R&D and innovation**

  India should continue to incentivize R&D and innovation by way of weighted deductions / tax credits. Incentivizing investments in research and development (R&D) by businesses ranks high in the innovation policy agenda of many jurisdictions. OECD notes that over time, there has been a shift in the policy mix towards a more intensive use of R&D tax incentives to deliver support for business R&D.

  As countries formulate plans to reinvigorate their economies in the wake of COVID-19 but are constrained by the BEPS requirements, many are implementing new, expanded or specially-focused research and development (R&D) incentive programs. Many countries are incentivizing wider business investment via improved capital and other incentives and allowances, depreciation and amortization. For instance, Finland, Germany, Indonesia, Japan, Korea, Malaysia, New Zealand, Poland, Slovakia, Switzerland and the United Kingdom are reducing the tax burden on companies by both creating or improving R&D incentives and other business incentives simultaneously.

- **Certainty in taxation**

  The government’s bold move to slash the corporate tax rates to 22% for all companies and 15% for new manufacturing companies catapulted India into a very competitive position against many of the OECD and BRICS countries and neighbours like China, Indonesia and Philippines. Over a medium term, the lower rates will reduce the cost of capital and catalyse investments.

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13 Report of the High-Level Task Force on Public Credit Registry for India

14 OECD Corporate Tax Statistics, 2020

15 EY Worldwide R&D Incentives Reference Guide 2020
Coupled with the above, the focus on honest taxpayer and transparent tax administration is a step in the right direction. Faceless E-assessment Scheme (FAS), Faceless Appeals and the Taxpayers’ Charter are transformational initiatives, which will bring in greater efficiency, transparency and accountability in tax administration.

The government now needs to focus on bringing certainty in law and improving mechanisms for avoiding and resolving disputes. The mechanism of Authority for Advance Rulings (AAR) in India, with more than 470 cases pending resolution, has had limited success in reducing litigation due to structural and administrative reasons. Although there has been some progress in the functioning of the benches, more needs to be done to make the mechanism effective. The Advance Pricing Agreements (APA) have also been successful as a means of minimising litigation. The Department has already signed 320 APAs (as on 20 December 2019)\(^{16}\), despite it being a complex exercise. However, more than 760 cases are still pending conclusion. Capacity building for both AARs and APAs, will help the taxpayers immensely. Measures such as permitting e-site visits for APAs can help expedite the process.

The government should also continue its initiative of issuing clarifications in response to the taxpayers’ ask for clarity in provisions. New mechanisms like private ruling and tax mediation may also be examined to minimise disputes.

**Centre’s spend on NIP and its effective implementation will be important to attract private investments**

The National Infrastructure Pipeline (NIP) envisages an investment of over INR 111 lakh crore over the period FY20 to FY25. The position of the central government is pivotal in ensuring effective implementation of the NIP investments plan. Any shortfall in the Centre’s contribution (Centre’s budget + CPSEs) in any one year, may result in a fall in investment from the other contributors, including private contributors.

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\(^{16}\) Annual Report 2019-20, Ministry of Finance
NIP had envisaged a sharp upsurge in construction and non-construction infrastructure investment in FY21 before COVID-19. Within the overall NIP, priority may be accorded to construction sector and social infrastructure including health infrastructure.

In the forthcoming budget for FY22, a major infrastructure push should be planned with a view to covering not only the planned investment in NIP for FY22 but also makeup for the shortfall in the planned investment in FY21. This shortfall should also be estimated.

A major push should be given to build-up health infrastructure so as to cope with ongoing health related challenges as well as those in future.

**Accelerate power sector reforms**

Reforming the power sector has been on the Government agenda. However, even now, a large part of the state government revenues are utilized in funding subsidies and losses, thus limiting the funds to other areas such as infrastructure, education and healthcare. The industry continues to bear high cost of electricity and the high level of NPAs in the power sector have impacted the banking sector.

To improve India’s manufacturing competitiveness, shore up the government finances and make Indian power sector attractive for foreign and private investments, the government should focus on completing the proposed power sector reforms by passing the new Electricity (Amendment) Bill, 2020, implementing the new Tariff policy and encouraging franchisee model or privatization of distribution companies.

**Focus on Environment Social & Governance (ESG) Investments**

Global supply chains may see a churn because of the deficiencies identified due to the pandemic and the geo-strategic considerations. Many of the investors will be making new investment decisions. Along with the standard considerations related to the FDI investments, ESG standards are a new parameter which are being used to measure the success of investors.

Like renewable energy, India has an opportunity to leap from its competition and become the country of choice for ESG conscious companies. This will require that India focuses on having world-class laws and regulations in recycling and management of e-waste, plastics and other pollutants.
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With the Theme for 2020-21 as Building India for a New World: Lives, Livelihood, Growth, CII will work with Government and industry to bring back growth to the economy and mitigate the enormous human cost of the pandemic by protecting jobs and livelihoods.

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