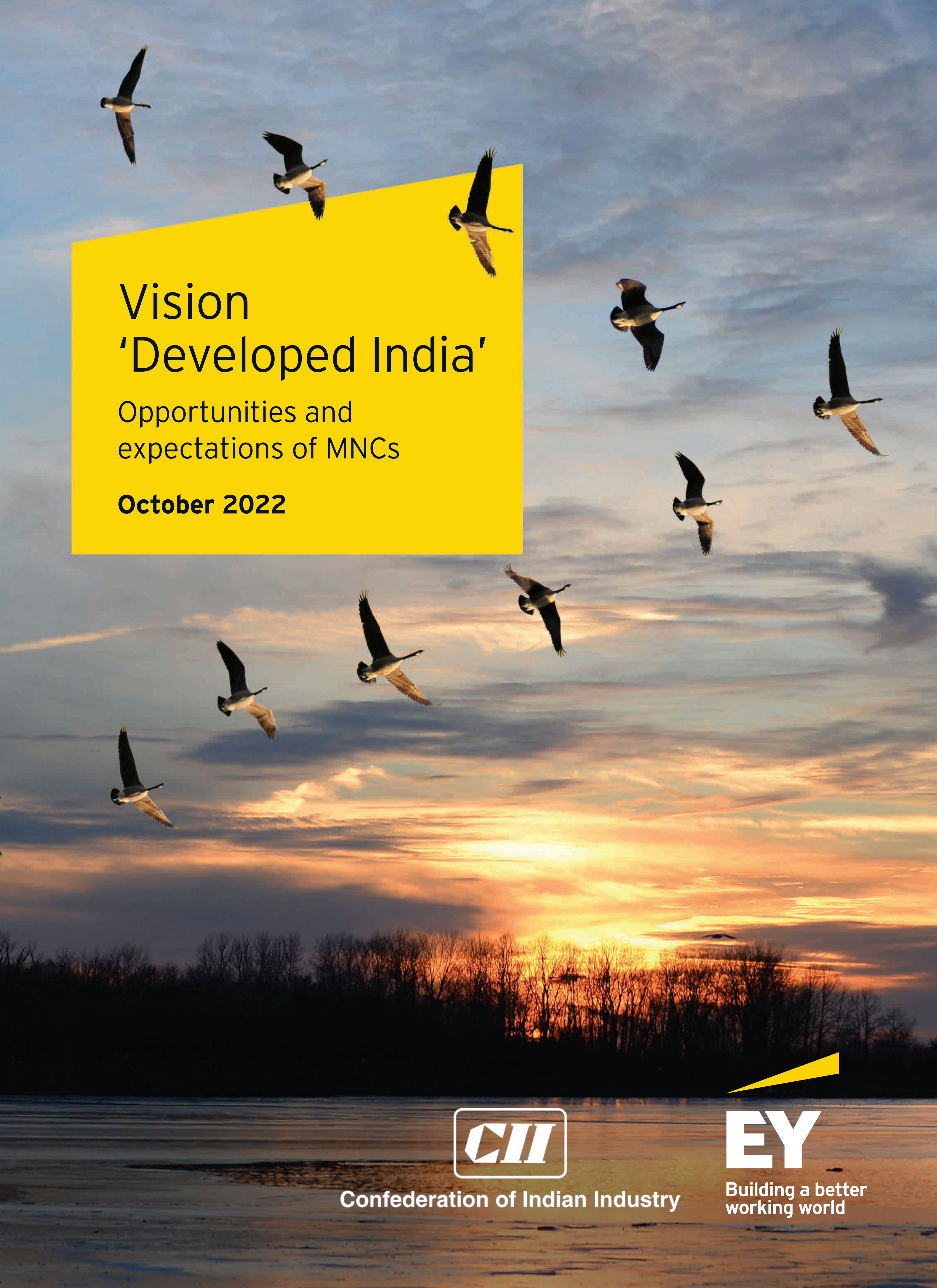


Vision 'Developed India'

Opportunities and expectations of MNCs

October 2022

CII
Confederation of Indian Industry

EY
Building a better working world

Foreword

The global environment for international investment is currently witnessing many pressures that are impacting investment flows. Even as economies were recovering from the pandemic, the geo-political conflict has had a reverberating effect and has resulted in investor uncertainty. These disruptions are forcing businesses to take a fresh look at the global business landscape and potential fault lines.

In this tumultuous backdrop, it is reassuring to note that multinational investors continue to consider India as a stable partner as well as an attractive investment destination. The CII-EY MNC Survey 2022 seeks to gauge the shape of this perception and level of interest that decision-makers at MNCs have in India. At the same time, the survey points the spotlight on the factors that are attracting investors and what more needs to be done to maintain this momentum.

India has consistently taken steps to improve the ease of doing business (EoDB). Now, it is in a position to take a leap forward by leveraging its strengths to enhance its role in the global economy while meeting the aspirations of its large and mostly young population. It has maintained a fast and consistent pace of reforms that has greatly improved the business and investment climate in the country.

The survey reveals that India has the potential to attract Foreign Direct Investment (FDI) flows of US$ 475 billion in just the next 5 years. Besides the fact that India is among the fastest growing large economies in the world (OECD), the confidence in India's potential stems from strong consumption trends, digitization and a growing services sector, along with government's strong focus on infrastructure and manufacturing. The Indian government's consistent efforts to reduce regulatory barriers is also stoking the positive perception among MNCs.

The survey finds that as many as 71% respondents plan to invest in India in the next 3-5 years with almost all (approximately 96%) being optimistic about India's growth prospects. The country's thrust on structuring modern Free Trade Agreements (FTAs) to boost trade and create cross-border investment opportunities also finds favour with MNCs with 82% supporting the trade initiatives as they expect these initiatives to create new opportunities.

The bigger attraction, however, is India's growing domestic consumption base and digital economy. The estimated real growth in consumption is the 3rd highest behind only the US and China while the fast-expanding digital economy is expected to reach US$ 1 trillion by 2025.

The survey assesses the industry view on what more should India focus on, to maintain its attractiveness in an uncertain environment marked with new-generation, geo-strategic regional economic agreements. MNCs consider EoDB as their first preference in terms of continuing the ongoing reform exercise. A large majority of businesses laud the government's consistent efforts for enhancing ease of doing business and over 60% feel that the business environment has improved for them in last three years.

Going forward, the survey suggests that government should focus on implementing the infrastructure projects and project preparation timelines, especially for Public-Private Partnership (PPP projects). MNCs would like to see the development of competitive business clusters through DESH initiative. Continuation of financial sector and power sector reforms would also be important. Finally, to provide a fillip to India's efforts to achieve its Environmental, Social and Governance (ESG) targets, India needs to develop market-based mechanisms to incentivise decarbonization of its economy. 93% of the survey respondents feel that investment in the Sustainable Development Goals and in climate change mitigation and adaptation is essential,

We hope you find the report interesting and useful. As always, we welcome your comments and feedback.

Soumitra Bhattacharya
Chairman, CII National Committee on MNCs and Managing Director, Bosch India

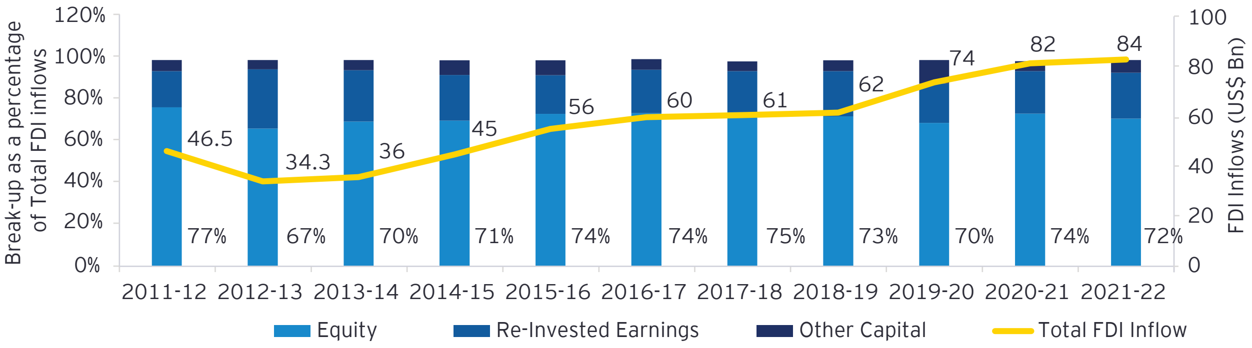
Sudhir Kapadia
Partner, Tax & Regulatory Services, EY India

Executive summary

India's reforms focus and economic growth gives rise to FDI opportunity of US$ 475 billion[1] in the next 5 years

FDI in India has seen a consistent rise in the last decade, with FY2021-22 receiving FDI inflow of US$ 84.8 billion despite the impact of the pandemic and geo-political developments on investment sentiment.

FDI Inflows



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

- At US$ 847.4 billion of cumulative FDI inflows between April 2000 and March 2022, India's FDI inflows have increased 20 times between 2000-01 and 2021-22.
- The current concentration of FDI in 5 states highlights the scope and opportunity going forward. Several other Indian states are larger in population and GDP potential.
- 71% of MNCs surveyed considered India as a significant part of their global expansion.

MNCs' optimism is driven by both the short-term prospects – a majority of MNCs feel that the Indian economy will perform significantly better in 3-5 years and in the long term, with 96% survey respondents being positive overall about India's potential.

India is seen as an emerging manufacturing hub in global value chains, as a growing consumer market and as a hub for ongoing digital transformation. In addition, in a rapidly changing geopolitical environment, India's large and stable democracy and consistent reform measures are recognized by the MNCs.

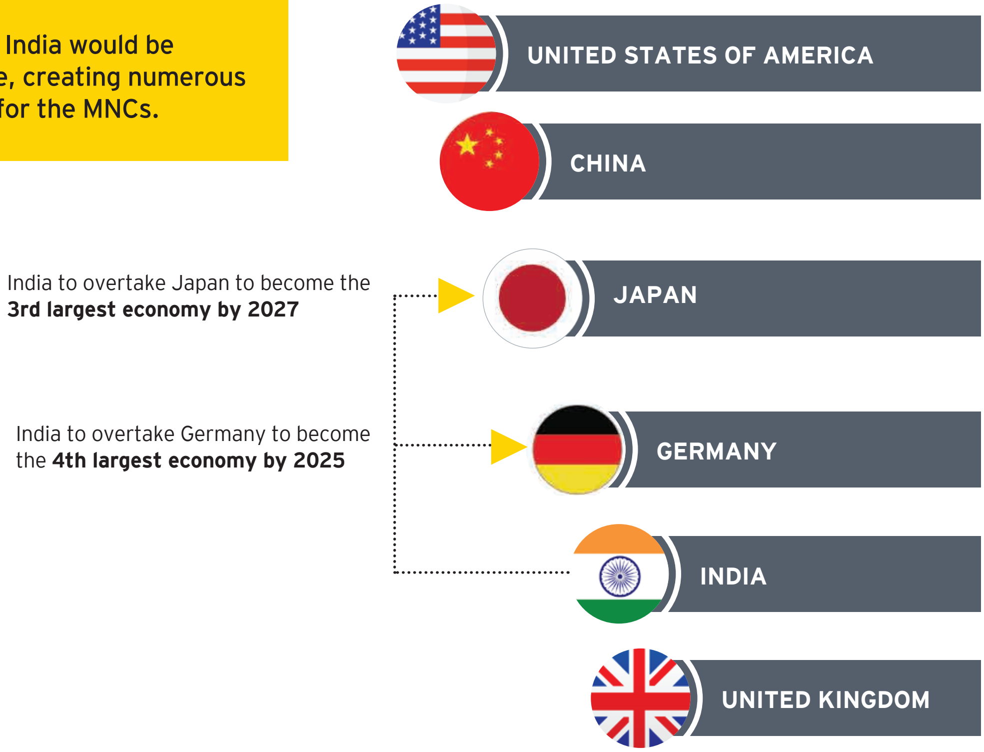
1. EY Analysis- Estimated basis the past trends of FDI inflows. Regression equation fit over FDI inflows as dependent variable and time trend, square of time trend as independent variables used for the extrapolation of FDI inflows in the next 5 years.

What is driving the Indian FDI story?

Fast paced growth

India has recently emerged as the fifth largest economy in the world and with the fast pace of economic growth, it is projected to grow and become the fourth largest economy by overtaking Germany in 2025 and third largest in 2027 by overtaking Japan. On the basis of an adjusted purchasing power parity, India is only behind the US and China.

> **This growth in India would be transformative, creating numerous opportunities for the MNCs.**



India's projected position in largest economies is based on nominal GDP

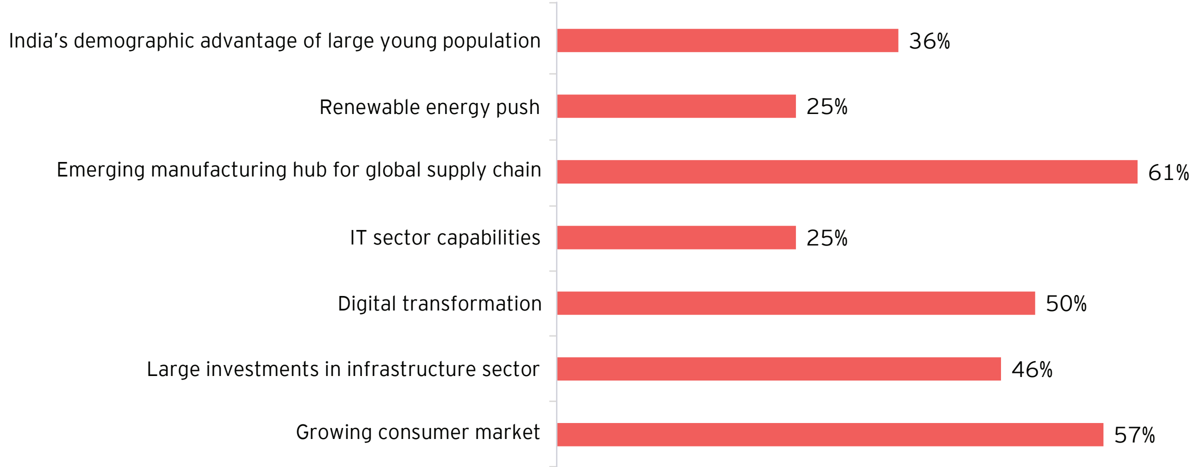
Source: OECD, EY analysis, Ministry of Statistics and Programme Implementation (MOSPI)

Determined policy reforms

The direction of India's growth is being determined by the strong momentum in domestic consumption, services, digital economy and infrastructure.

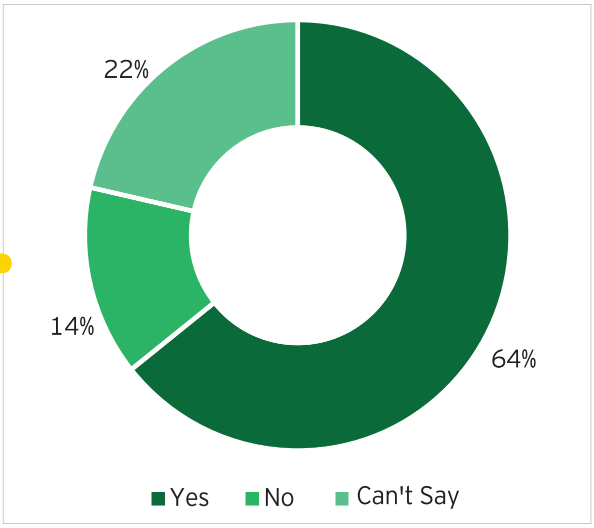
In the survey, 82% of the respondents support India's Free Trade Agreement (FTA) initiative and are confident that these will create further trade and investment opportunities.

Attractive features of the Indian economy



The survey also provides a large vote of confidence to Government's efforts to improve ease of doing business with 64% respondents reporting an improvement at the ground level. In particular, MNCs are enthused by the impact of GST, government's digital push in various spheres, transparency in taxation, amongst other reforms.

Improvement in business environment due to consistent efforts of government



Large and growing consumption base

The large domestic consumption base and rapid growth are expected to lead to real growth in consumption spending of about US$ 1.7 trillion during the period of 2019-2030. This would be the third highest growth in demand across economies behind only the US and China. The share of health, education and other services has increased in the total basket of consumption, spelling new investment opportunities.

Increase in consumption spending between 2019-2030 (US$ trillion) (measured in 2021 prices)

Source: OECD and World Bank; EY calculations

Demographic advantage and rising share of services sector

Robust demand, increasing investments and higher exports have made the services sector a significant contributor to India's GDP growth. Notably, the services sector's share in Gross Value Added (GVA) is expected to grow from 55.3% in 2019-20 to 63.8% in 2030-31. It is therefore, not surprising that an increasing number of people work in the services sector, an essential factor in a country like India where the working age population is expected to peak in 2033 at 68.5%.

Consistent focus on manufacturing sector

As India's flagship programme "Make in India" completes eight years this year, various reforms undertaken by the government to make India competitive have begun showing results sending a strong signal to the world about India as a manufacturing hub.

The great digital drive

The value of India's digital economy is expected to reach US$ 1 trillion by 2025 on the basis of digital transformation and technology-led growth, which also presents attractive investment opportunities for MNCs. Increase in the number of smartphone users, internet users and real-time payment transactions is expanding digitization in India and leading to the emergence of new consumption patterns. The growth in e-commerce has positive implications for MNCs.

The infrastructure push

The large infrastructure spend comprising overall infrastructure pipeline of US$ 1.3 trillion in 5 years, public capex increase from 1.6% of GDP in 2018-19 to 2.9% in 2022-23, the National Monetization Pipeline (NMP) with aggregate monetisation potential of INR 6.0 lakh crore through sale of core assets of the Central Government and Gati Shakti offer immense potential for investments by private sector as well.

India's geo-political stability and constructive engagement with the world

At a time when the world is going through turbulent geopolitical and economic period, India offers a relative stability compared to other emerging market economies across a range of parameters including macroeconomic stability and robustness to geopolitical shocks. India's political stability and relentless economic policy reforms add to the attractiveness.

Building with sustainability

India's sustainability targets present opportunities for sustainability-linked investments for MNCs, especially in the three segments of renewable energy, real estate and transport. India has seen US$ 18 billion capital flows in global green bond issuances. In addition, India's Green Hydrogen Mission will make the country a hub for the production and export of green hydrogen, where the demand is projected to be 15-20 MT by 2030.

A large majority of the CII-EY MNC survey respondents (82%) agree that investing in Sustainable Development Goals (SDGs) is essential.

What will power the next level of economic growth?

The time is ripe for India to take the leap to the next level of economic development. Adopting some measures will power this shift.

According to the survey, the top expectations and recommendations from MNCs include:

Continue reforms to enhance ease of doing business:
Strengthening of National Single Window for clearances; improving tax certainty; expeditious contract enforcement and decriminalisation of economic laws are some of the areas where MNC would like to see continued reforms.

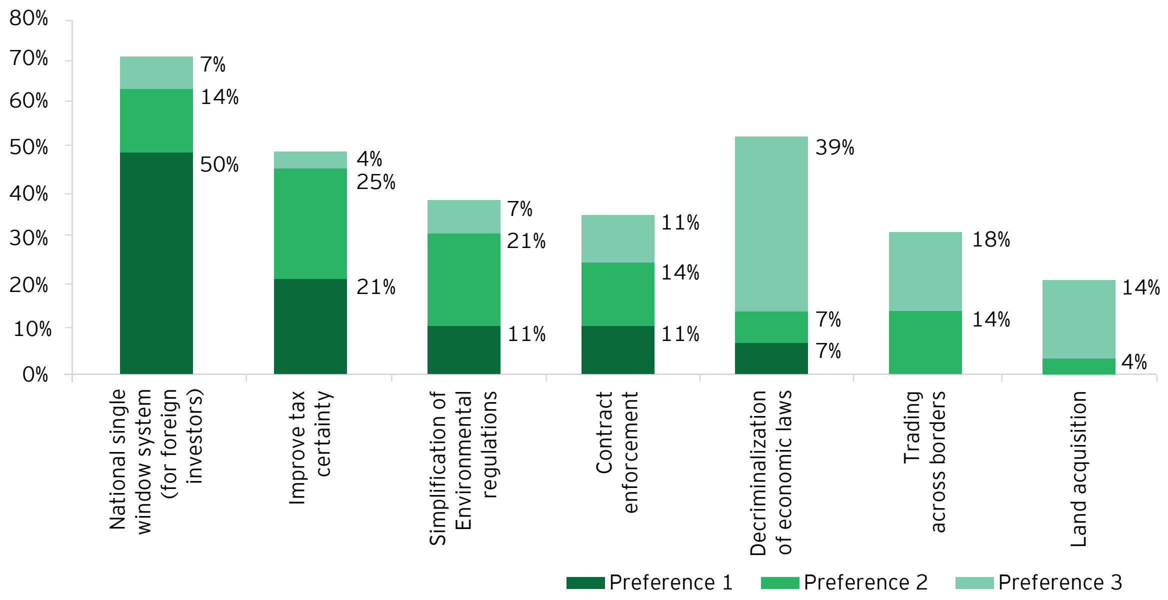
Faster implementation of infrastructure projects:
To achieve scale of infrastructure development envisaged in the NIP, it is important to focus on implementation issues, which would also make the projects more attractive for the private sector.

Early closure of Free Trade Agreements:
FTAs with other economies would be very beneficial towards opening up of trade and services sectors, regulatory cooperation in standards, alignment on data and technology issues, investment agreements, sustainable trade, government procurement, gender and trade. India must also improve efficiency of ports, shipping and customs via automation.

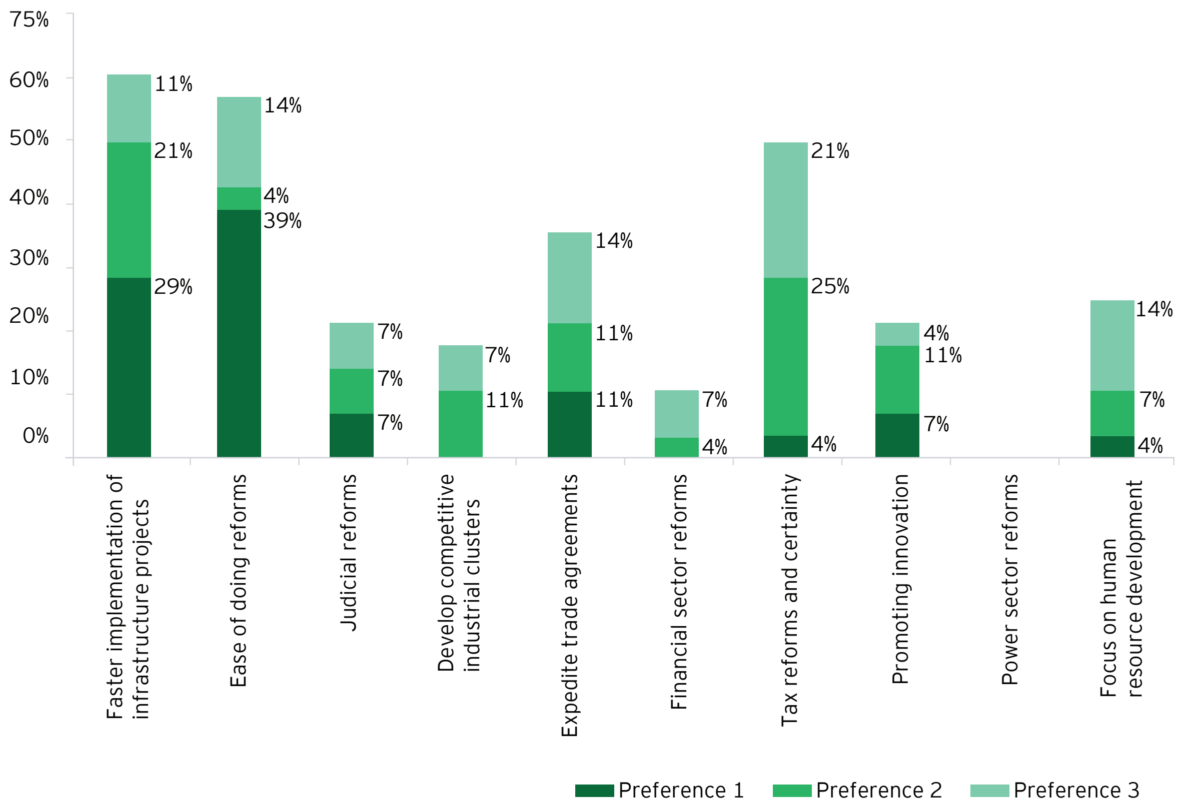
GST reforms
Further reforms are needed towards credit rationalisation, dispute minimisation rationalisation of audit and assessment and broadening the base.

Other reform areas:
Other reform areas identified by the MNCs are power sector reforms, developing competitive business clusters through DESH initiative and investment in health and education sectors.

Ease of doing business: next steps



Reforms to propel India towards potential growth



Growing FDI in India

Optimistic prospects for foreign investments in India

India has a FDI opportunity of

US$ 475 billion

in the next 5 years

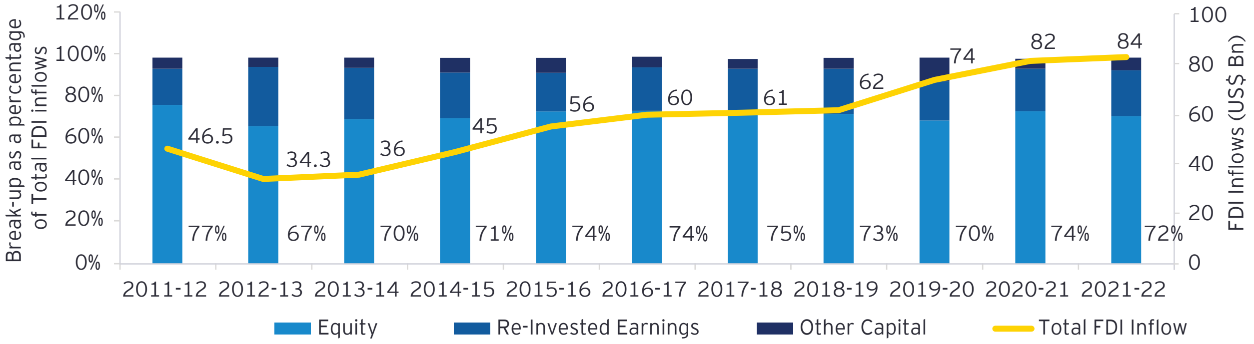
The focused and transformative reforms undertaken by the Indian Government to attract investments have resulted in a positive response from investors. Investment restrictions are being continuously liberalized across sectors, and steps have been taken to minimise regulatory barriers, constructively engage with the world and establish new international relations. Also notable is the overall emphasis on improving business environment in India.

In response to the measures taken by the government and India's strong economic growth prospects, FDI inflows in India have grown rapidly. India's FDI inflows as a share of GDP (2020) were higher than that of China and several other emerging economies. In fact, India received the highest annual FDI inflows of US$ 84.8 billion in FY2021-22 despite the impact of the pandemic and geo-political developments on investment sentiment.

At US$ 847.4 billion of cumulative FDI inflows between April 2000 and March 2022, India's FDI inflows have increased 20 times between 2000-01 and 2021-22.

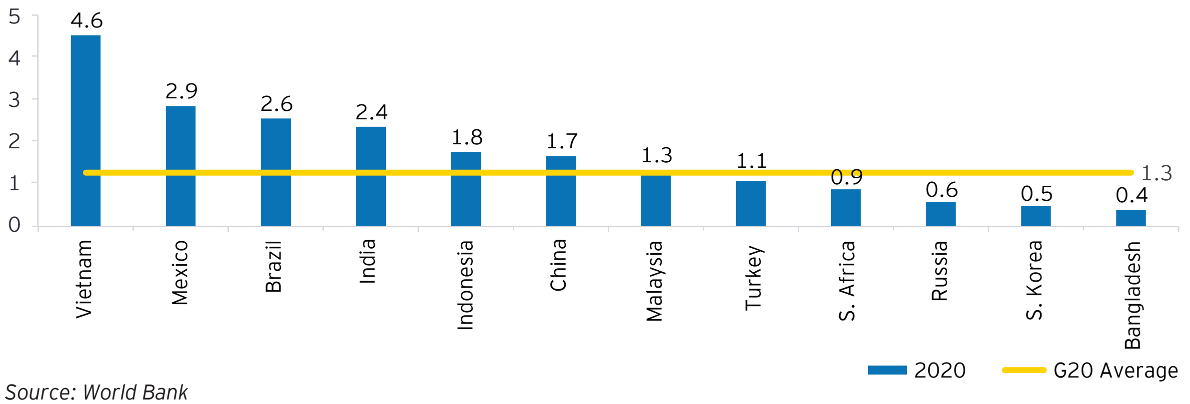
Going by the rate of growth achieved in the past, India could attract total FDI of US$ 475 billion in the next 5 years (2022-27)[1].

Figure 1. FDI Inflows



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

Figure 2. Foreign direct investment, net inflows (% of GDP), 2020

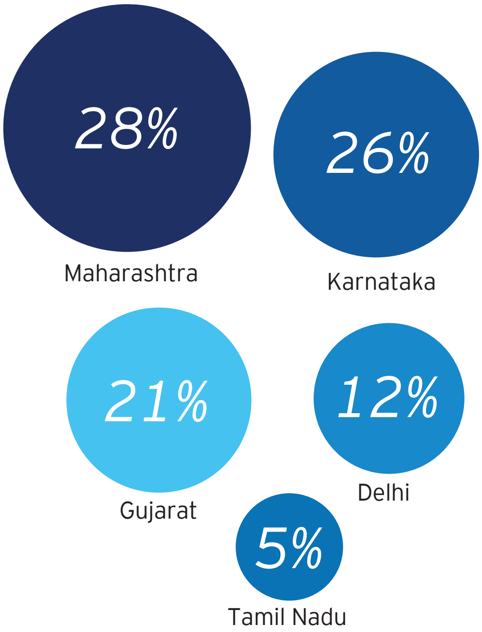


Source: World Bank

1. Estimated basis the past trends of FDI inflows. Regression equation fit over FDI inflows as dependent variable and time trend, square of time trend as independent variables used for the extrapolation of FDI inflows in the next 5 years.

FDI inflow continues to grow

Figure 3. Five Indian states - percentage share in FDI



Source: DPIIT (Apr-Mar 2020-21, Apr-Mar 2021-22)

Five Indian states as mentioned above have attracted more than 90% of the of the FDI inflows in the years 2020-2022. Karnataka has led in FDI in the computer hardware and software sector. FDI in Maharashtra remains the highest in services and construction.

The current concentration of FDI in 5 states, highlights the scope and opportunity going forward. Several other Indian states are larger in population and GDP potential. Various states are pushing for growth and aiming to become bigger economies.

To attract foreign investments, the Government of India has put in place liberal and transparent policies wherein most sectors are open to FDI under the automatic route and steps have been taken to improve the country's ranking in ease of doing business.

India has been able to attract high FDI in its manufacturing and services sector particularly computer services, bolstered by initiatives such as Make in India and Digital India, with further room for growth. This has been reflected in India's exports performance as well.

Figure 4. Sectors - percentage share in FDI

2016-17 to 2021-22 (P)

Source: RBI

CII-EY Survey

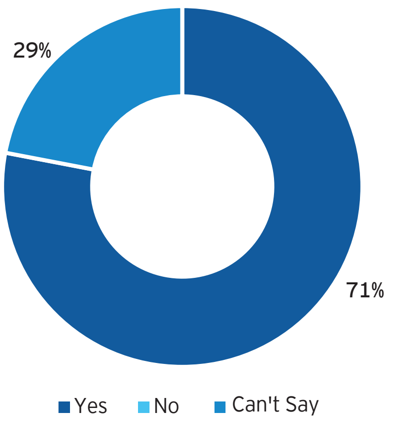
About 71% respondents plan to invest in India in next 3-5 years

India will play a significant role in MNCs' global expansion plans in 3-5 years

The September 2022 CII-EY survey reveals that approximately 71% of the respondents are planning global expansions in the next 3-5 years and India will be a significant part of their expansion plans.

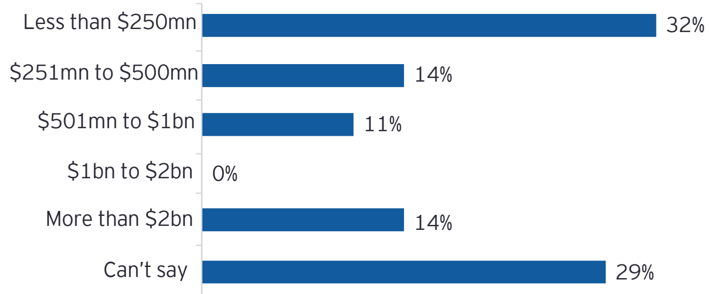
While 32% of the respondents plan to invest up to US$ 250 million in India in the next three to five years, an equal proportion of respondents are likely to invest more than US$ 250 million. 14% of the total respondents estimate that the size of investments being planned by them will be more than US$ 2 billion.

Figure 5. India will be a significant part of global expansion plans



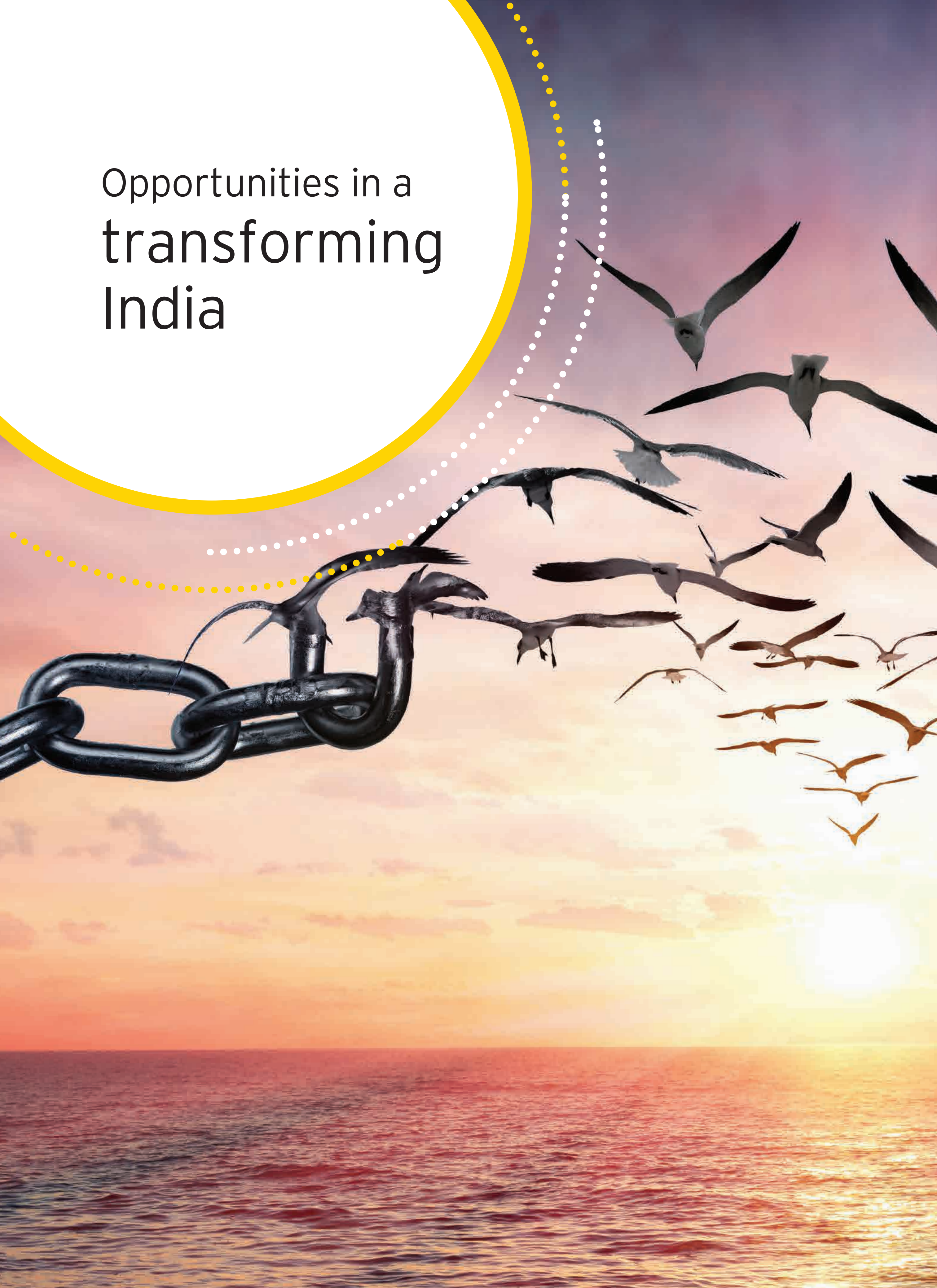
Do you consider that India will be a significant part of your company's global expansion in coming years?

Figure 6. Size of investments planned in India



What is the size of investments being planned?

Opportunities in a transforming India



1

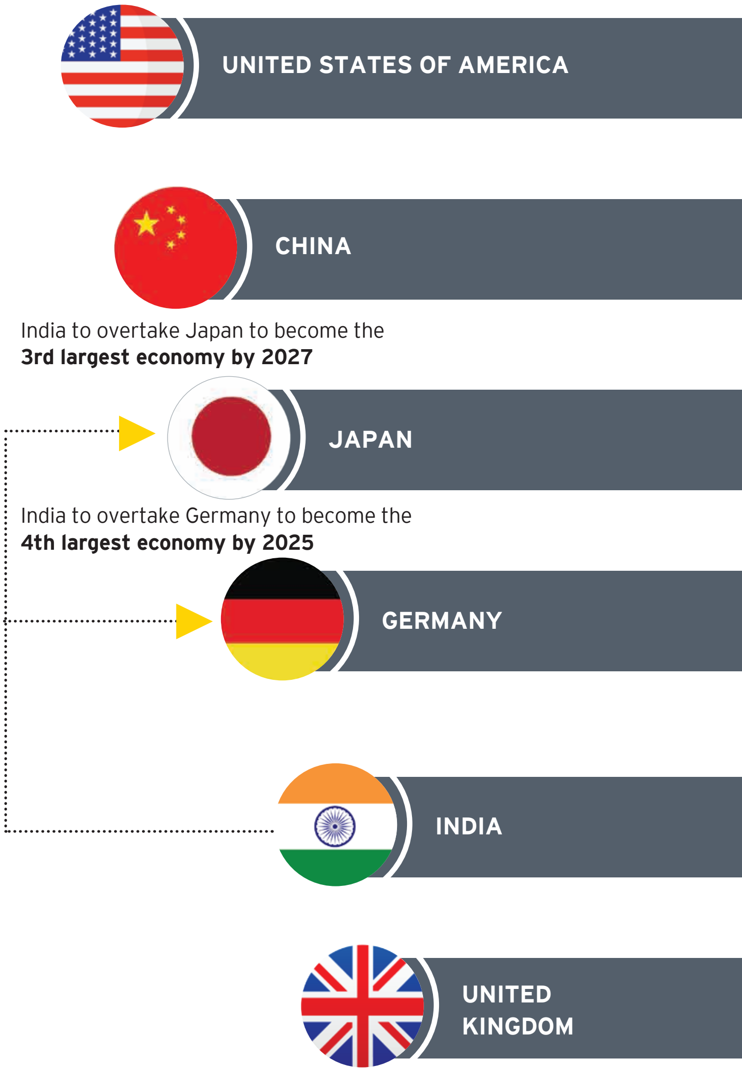
India offers a unique growth story amongst large economies in the world

India's higher growth rate would positively impact the global economy

Indian economy has exhibited a growth of about 6.5% over the last pre-pandemic decade, and is poised to enter a similar, if not higher, medium-term growth path. As a result, India is expected to remain the "fastest growing major economy" in the world over the medium-term.

The key engines of growth, viz., domestic consumption demand, investment rates and Government spending have supported the economy's successful recovery from the COVID-19 shock. The Indian economy is showing signs of acceleration which will have a positive impact for the regional and global economy as well.

India has recently emerged as the 5th largest economy in the world, overtaking the United Kingdom (UK). Owing to its fast growth, India is projected (OECD) to emerge as the 4th largest economy by overtaking Germany in 2025 and the 3rd largest in 2027 by overtaking Japan. If adjusted for purchasing power parity, India is already the 3rd largest economy in the world behind the United States (US) and China. By 2047, the year when India marks 100 years of independence, it is projected to overtake the US into becoming the 2nd largest economy in the world in terms of purchasing power.



India's projected position in largest economies is based on nominal GDP

Source: OECD, EY analysis, Ministry of Statistics and Programme Implementation (MOSPI)

CII-EY Survey

What makes Indian economy attractive to MNCs

Investors are optimistic about the Indian economy in the near term

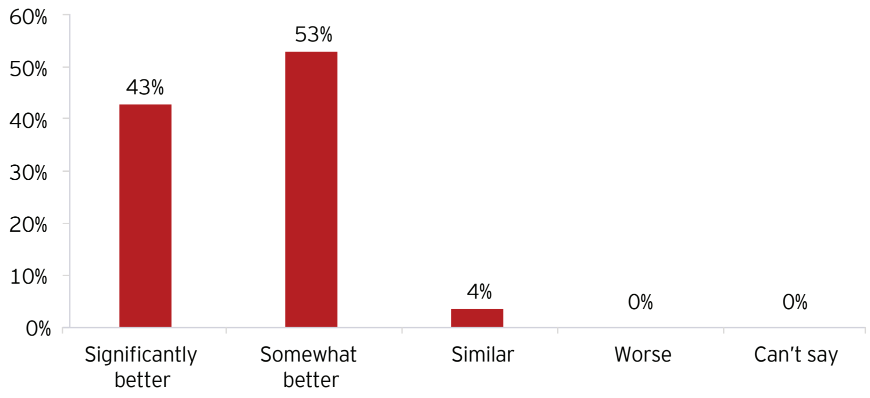
An overwhelming 96% of the survey respondents are optimistic about India's growth prospects and expect it to perform even better in the short to medium term (3 to 5 years). 43% of the respondents consider that the Indian economy would perform significantly better.

India has been making relentless endeavours to become a manufacturing hub, particularly in the wake of the COVID-19 pandemic and the recent geo-political unrest, that have resulted in global supply-chain disruptions. The survey respondents find India attractive as an emerging manufacturing hub for global supply chain. Further, the respondents reaffirm that domestic consumption and India's growing consumer market, which have traditionally been one of the key drivers of India's economic growth remain important for investments. This is supplemented by India's demographic advantage of large young population that is attractive both from a consumer and a talent pool perspective.

On 22nd June 2022, Hon'ble Prime Minister highlighted that the value of Indian digital economy will reach US$1 trillion by 2025. The investors also note India's significant and unprecedented digital transformation and technology-led growth as among the top three attractive opportunities that India currently presents.

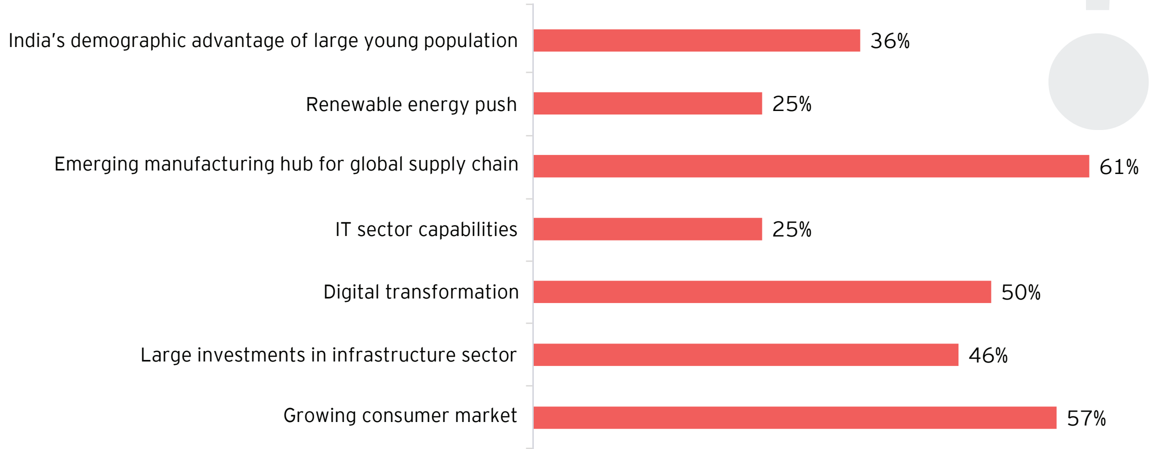
In FY21, infrastructure activities accounted for about 10% share of the total FDI inflows of US$ 81.9 billion (DPIIT). The commitments for investments in the infrastructure sector offers assurance about India's serious aspirations for providing best-in-class infrastructure and new opportunities for investments.

Figure 7. Prospects for Indian economy



In short to medium term (3 to 5 years), how do you expect the Indian economy to change keeping in mind the current economic conditions?

Figure 8. Attractive feature of Indian economy



Option for selecting multiple choices were given to the respondents therefore, the cumulative percentage of charts is exceeding 100%

2

While the world is ageing, India's growing young workforce is a driver of economic growth

The world's working age population (population between 15 to 64 years) peaked as a percentage of total population during 2012-14 and has subsequently been declining. Similar trends are mirrored in the G20, representing the largest economies of the world.

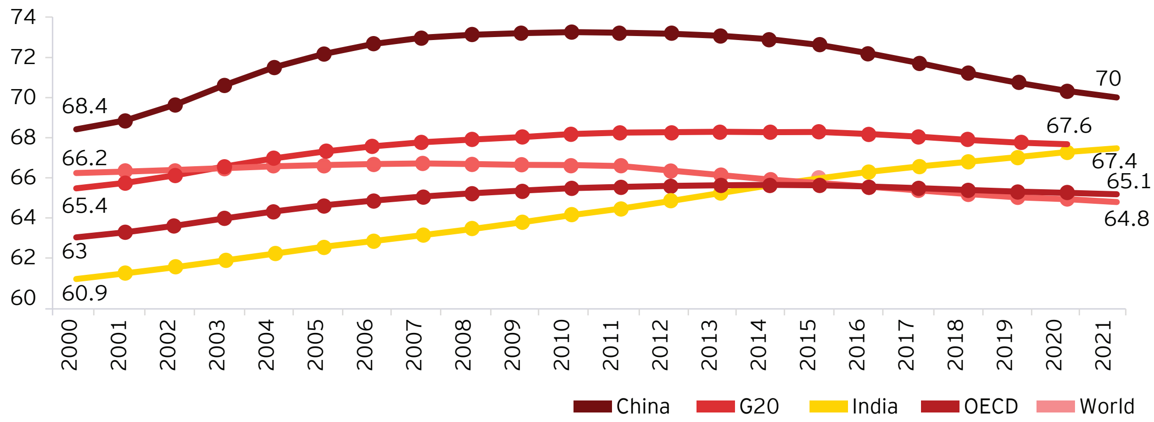
China, which had developed rapidly on the back of a large demographic dividend arising from rising worker age population, has also started ageing.

India remains a big exception to the global story, as its population continues to be younger in profile. As a result, its working age population is growing. From 61% in 2000, it grew to over 67% in 2021.

Interestingly, India's working age population share will surpass that of China in 2028 and is expected to peak in 2033 at 68.5%.

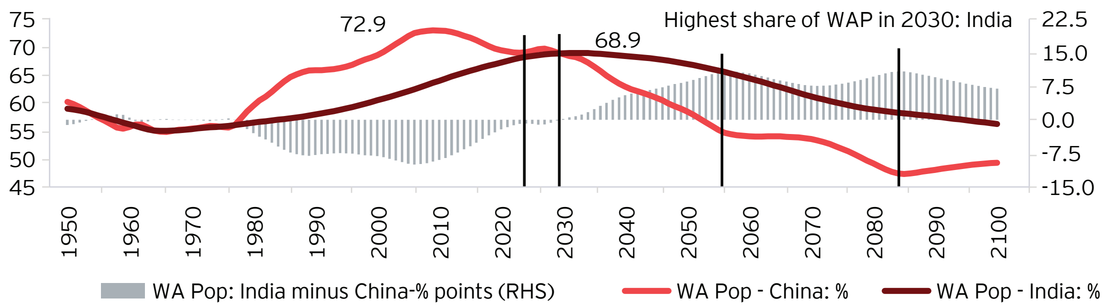
Globally, and in India, experience shows that the above demographic dividend is a large driver of economic growth. Since a greater proportion of the population is in working age, that earns more than it consumes, it results in higher savings and investments, and overall demand arising from having greater worker population.

Figure 9. Working age population in total population (%)



Source: OECD Population statistics

Figure 10. Share of working age population in total population (%) : India and China



Source: UN Population statistics 2019

3

India is a large and growing consumption market

India's US$ 1.7 trillion consumption growth will place it amongst top 3 in demand growth for the decade

India is a consumption driven economy driven by its young population. Domestic consumption's share in GDP is relatively high compared to other emerging economy peers.

Due to a large domestic consumption base and rapid growth, India is projected to experience real growth in consumption spending of about US$ 1.7 trillion during the period of 2019-2030. This would be the 3rd highest growth in demand across economies behind only the US and China.

Given that the US and China are large but relatively saturated markets with relatively lower growth, India is a uniquely placed opportunity for MNCs looking for growth avenues in the coming decade.

Figure 11. Increase in consumption spending between 2019-2030 (US$ trillion) (measured in 2021 prices)

Source: OECD and World Bank; EY calculations

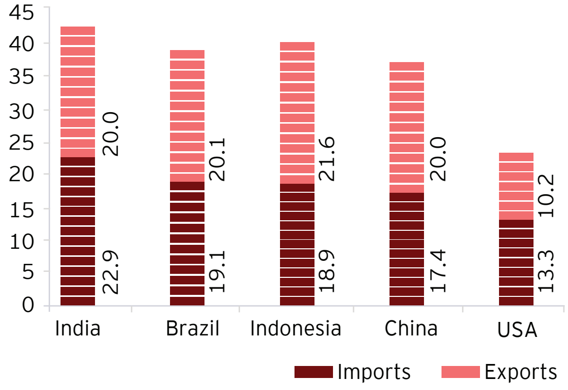
India has been nurturing its global relations and adopting investor friendly policies. One of the areas that investors feel attention is the tariff structure, particularly in its importance of growing the consumption market.

United Nations Conference on Trade and Development (UNCTAD's) World Investment Report, 2022 notes that tax policy is being used around the world to promote international investment. Tax breaks for indirect taxes and duties, such as VAT or import tariffs, accounted for about 30 per cent of all tax incentives introduced in Asia and in Latin America and the Caribbean.

A majority of the survey respondents would like to see India rationalize its tariff structure. They feel that the high tariffs send a mixed signal to investors and could be moderated. 22% of the respondents are of the view that even though the tariffs imposed by India are higher than the other countries, these are justified, given India's focus on developing indigenous manufacturing capabilities.

However, it needs to be noted that India is still trading more than other large markets. India's overall trade and imports of goods and services relative to GDP is higher than that of US, China, Brazil and Indonesia.

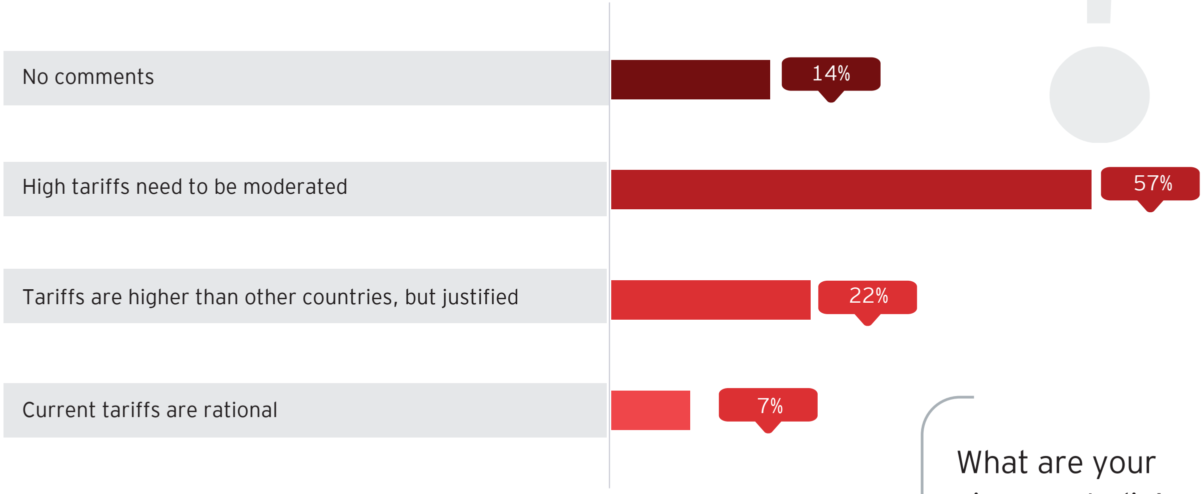
Figure 12. Imports and exports of goods and services (% of GDP), 2021



Source: World Bank

CII-EY Survey

Figure 13. India's current import policy



What are your views on India's import tariffs?

4

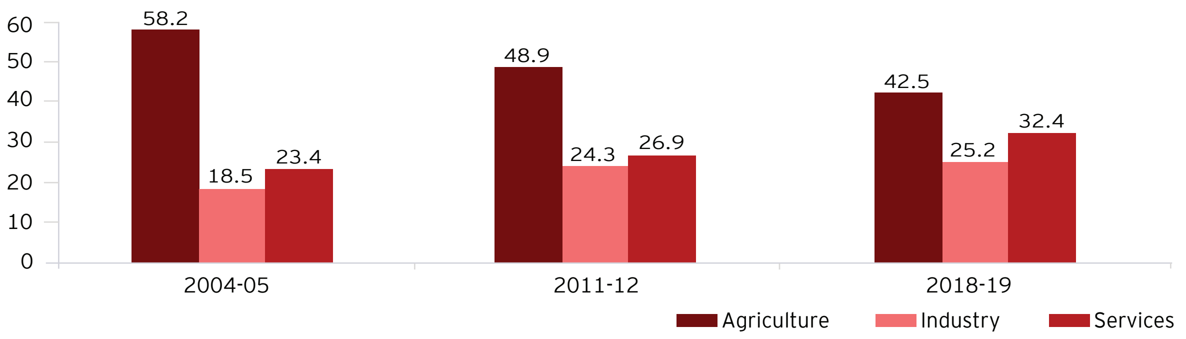
Manufacturing and services sector opportunities

A key part of overall economic transition for India is the movement of workers away from agriculture into manufacturing and services. This transition has led to consistently falling share of workforce in agriculture from nearly 60% in 2004-05 to 42% in 2018-19.

This is similar to the experience of other developing economies like China or South Korea and Japan earlier. However, what is different is that India has a large services sector that accounts for a large and growing worker force (increase from 23% in 2004-05 to 32% in 2018-19). In comparison the share of industry has been relatively low (19% in 2004-05 to 25% in 2018-19).

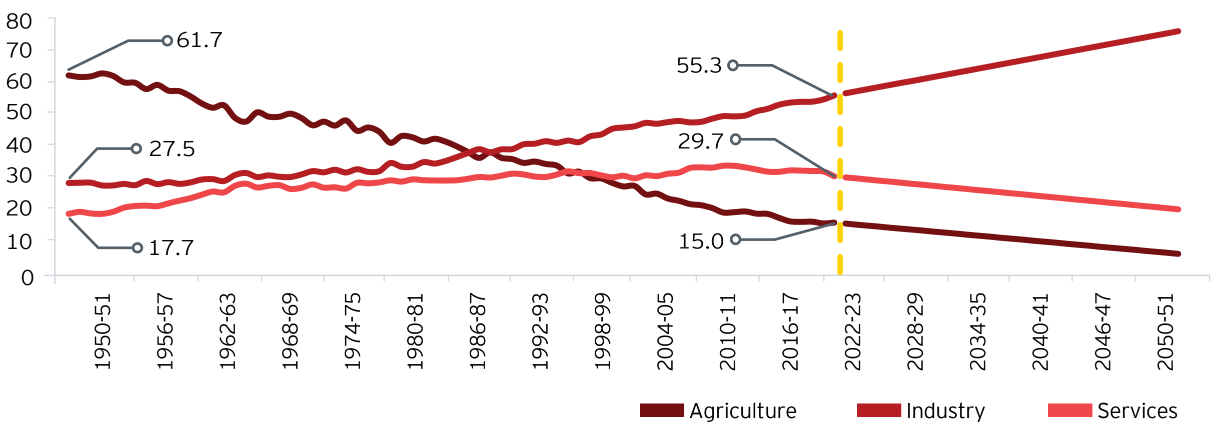
This difference is even more stark when looking at the share of manufacturing and services in GDP. The share of services is close to 55% of GDP in 2019 while agriculture and industry are 18% and 27% respectively.

Figure 14. Percentage distribution of working persons by sector



Source: Periodic Labour Force Survey; Employment-Unemployment Surveys, Ministry of Statistics and Programme Implementation

Figure 15. Share in real GVA (%)



Source: EY Economy Watch - July 2022

* *(Calculation based on extrapolation of trends)*

Manufacturing sector will create a large opportunity for India

As India's flagship program "Make in India" completes eight years this year, various reforms have been undertaken to make India competitive.

- Reduction in corporate taxation in manufacturing sector from over 30% to as low as 17% which makes India a competitive destination in terms of taxation
- Infrastructure development to reduce the infrastructure gap, including development of dedicated industrial and freight corridors
- Ease of doing business in manufacturing across various areas like setting up business, single windows for various permits, ease in accessing utilities, reduction in compliance requirements, digital platform for taxation filing, etc.
- Production-linked incentives are valued at INR 2.4 trillion across 14 sectors over the life of their schemes. This has attracted investment commitments of INR 2.5 trillion.

CII-EY Survey

The CII-EY Survey reveals that MNC investors have been appreciative of the PLI scheme offered by the government that aims to encourage domestic manufacturing. Investors in the sectors such as Automotive, IT/ITES, Chemicals and plastics etc. are of the view that PLI scheme has created good opportunities for their sector.

PLI Scheme

~ INR 2.4 trillion	**~ INR 2.54 trillion**	**~ INR 28.15 trillion**	**6.45 million**
PLI incentives across 14 sectors	Investment committed by industry	Expected Additional Output (next 5 years)	New jobs

Source: PIB; Economic Times

Production linked incentives for champion sectors

- Textiles
- Advanced chemistry cell batteries
- Specialty steel
- IT hardware
- Medical devices
- Automobile & auto components
- Drones
- Telecommunication and telecom network
- White goods
- High-efficiency solar PV modules
- Semiconductors and display fabs
- Large-scale electronics manufacturing
- Pharmaceuticals
- Food processing industry

Services sector is a growth driver

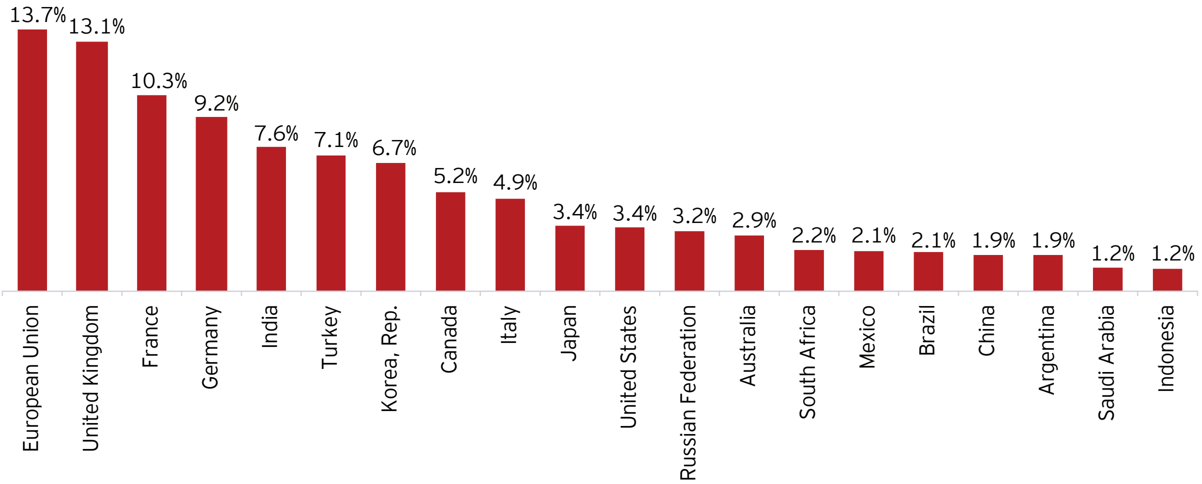
Globally, the services sector has become stronger over the years, growing rapidly post-2000, acquiring a major share in a global GDP composition. In India too, the services sector is driving economic growth, contributing significantly to the GDP with robust demand, increasing investments and exports.

It is expected that by 2030, the share of services sector in India's Gross value added (GVA) may increase from 55.3% in 2019-20 to 63.8% in 2030-31*.

Service sector is relatively less carbon and GHG emission intensive. This provides a built-in advantage to India in achieving its climate and environmental targets through the spontaneous shift in the structure of output.

Amongst G20 economies, India has the 5th highest services exports as a share of GDP at 7.6%. This is next only to the EU as a whole and more specifically UK, France, Germany. The high services exports are driven largely by India's skilled workforce in the IT sector and are likely to grow further, on the back of India's comparative advantage in the global competency centres (GCCs).

Figure 16. Export in services (percentage of GDP)



Source: RBI

GCCs offer an attractive opportunity for investors

Global Capability Centres in India have matured over the past two and a half decades and account for 50% share in the global GCC market. Starting out with a cost arbitrage advantage, India is now seen as a transformation and innovation hub. As one of the highest growing and emerging economies, India is offering all the required aiding elements to add to the GCC growth story.

In the post pandemic working world, there is an increased focus on GCCs as partners, and not mere backend support. Worldwide, India remains the top go-to-destination for GCCs, providing the most favoured environment in terms of ease of hiring talent, cost of operations and geo-political stability.

Today, the GCC presence in India spans across sectors, including banking and financial services, healthcare, electronics, and energy. Increasingly they are taking on new and widened roles in areas such as legal, marketing services supporting their parent organizations and not just operative process centres. Further, GCCs will be centres of excellence and innovation, having a role to play in transformation of talent in a symbiotic manner.

As per NASSCOM:

- In FY21 there were approximately 1400+ GCCs thriving in India, employing about 1.4 million, with an export revenue of $35+ billion.
- It is expected that the export revenue will touch $60-85 billion by 2026. Approximately 2000+ GCCs are likely to create over 2 million headcount.
- Close to 500 MNCs are expected to launch capability centres in India by FY25.
- Direct, indirect and induced impact of GCCs in India is estimated to be - gross output between $99-$103 billion.

Enablers

Cost effectiveness

Talent pool

Demographics

Innovation and digital adoption

Increasing urbanisation

Conducive policy environment

Opportunities

Large headroom for growth of GCCs in India, mature GCC ecosystem and enhanced service partner models make GCC in India a favourable business strategy.

Companies are expanding their ecommerce and digital channels as a part of their business continuity plans and GCCs can help in meeting the growing demand.

Industry 4.0 and solutions using emerging technologies such as IoT, data analytics, AI, and AR/VR offer new opportunities.

World's first 'Smart Manufacturing Competency Centre' has recently been set up by the government in Gujarat to help SMEs learn from the large enterprises and new age start-ups.

India has about 1.17 million digitally skilled employee base as of FY21, with a year-on-year growth of 32% (NASSCOM).

Burgeoning ecosystem of innovative start-ups in India.

Favourable cost arbitrage between labour and other operating costs still remain in favour for India.

5

Digital and e-commerce revolution in India is a gamechanger

As per industry estimates, India's consumer digital economy is expected to be a US$800 billion market in 2030, registering a ~10x growth from 2020. Indian e-commerce industry is expected to surpass the US to become the second largest e-commerce market in the world by 2034, surpassing China

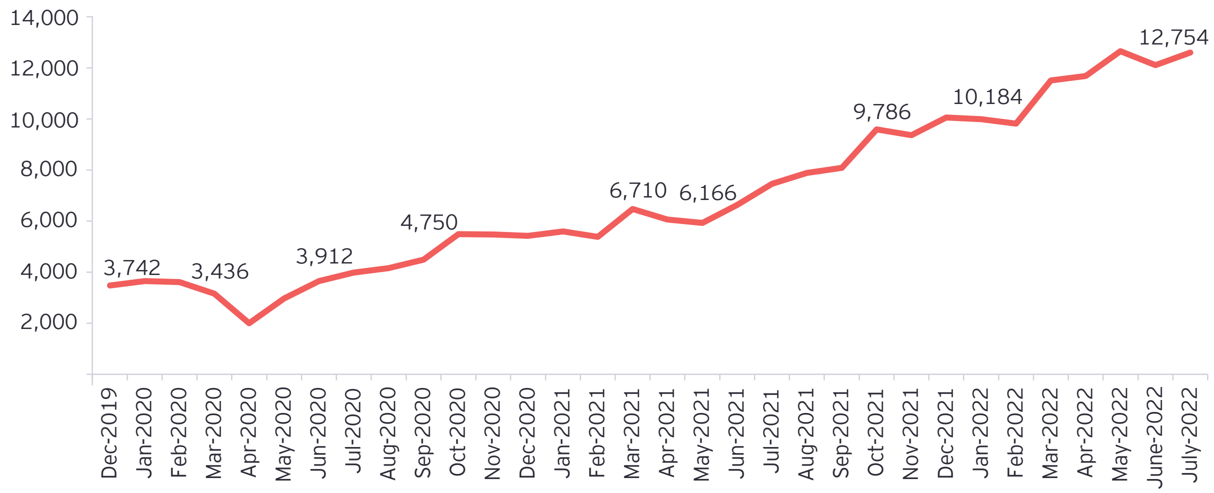
The growth in e-commerce is underpinned by the following factors:

- Reduction in costs of mobile data by 97% since 2015
- 124% increase in internet users between 2016-2021
- 68% increase in smartphone users between 2017-2021
- Rapid increase in real-time payment transactions by an annual rate of growth of nearly 100%

The e-commerce growth has positive implications for MNCs:

- The digital economy is more dynamic than the traditional economy with new, agile business models and start-ups likely to succeed in the Indian market
- While the first phase of growth in e-commerce came from large urban areas, the next phase of growth is coming from smaller urban areas and even from rural areas that form the bulk of India's consumers. This is driven by models like Direct to Consumer (DTC) and social commerce that improve the accessibility of the Indian market and reduce the barriers of entry.
- Digitization is creating a change in the pattern of consumption in India. While traditionally the informal sector comprising of micro and small firms in India has garnered a large share, e-commerce growth also means growth in formal sector.

Figure 17. Total digital retail payments in India (in INR billion)



Source: RBI

Growth of e-commerce in India

Government has taken path breaking initiatives which will revolutionize the digital space in India. This is building on top of the success of similar efforts by Government of India to create public digital infrastructure like the UPI.

E-commerce Sector

E-commerce market may further get disrupted when the Government of India attempts to create an Open Network of Digital Commerce (ONDC):

ONDC is to be based on open-sourced methodology, using open specifications and open network protocols independent of any specific platform.

- It will take all measures to ensure confidentiality and privacy of data in the network.
- It will not mandate sharing of any transaction-level data by participants with ONDC.
- It will work with its participants to publish anonymised aggregate metrics on network performance without compromising on confidentiality and privacy

Financial Sector

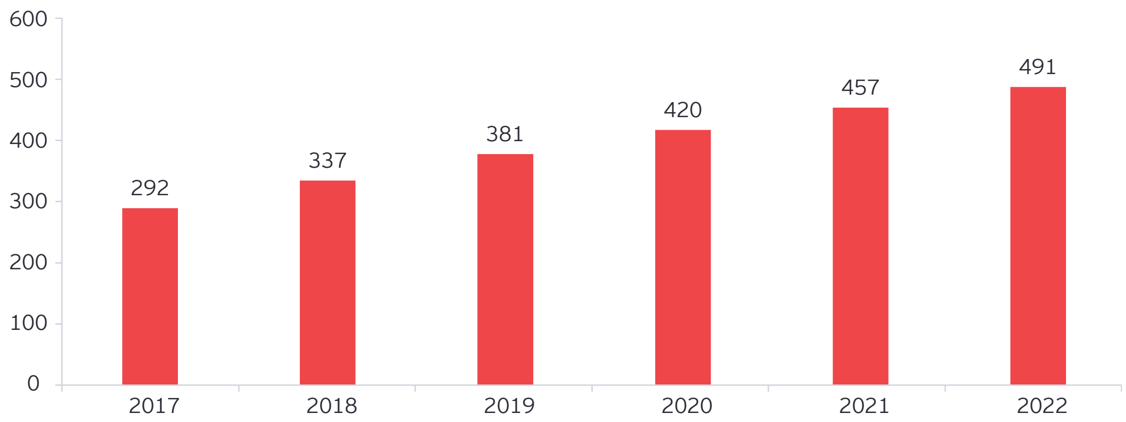
- India Stack is a set of APIs which allows the government and private companies to deploy cashless and paperless technology products
- Sahamati is a non-profit entity bringing together all participants of Account Aggregator Ecosystem to implement the framework for digital consented data

Health Sector

- Ayushman Bharat Digital Mission (ABDM) - digitized health records for patients, a health claims exchange for insurers, a health facility registry for doctors, a drug registry, and the involvement of hospitals to consume and process the data. Public health stack—which includes linking historical records of patients, offering a network of doctors and medical service providers, and a linked registry of drugs.

India is 2nd largest smartphone market in world behind China

Figure 18. Smartphone users in India (million)



Source: EY E-commerce and consumer internet sector India Trend book 2022; PIB

Focus on facilitating innovation

3x increase in PE/VC funding in India in the last four years

Indian tech industry pivoting to become the world's digital solutions partner. Robust digital infrastructure supporting emerging technologies - AI, Machine Learning, and IoT. In addition, the upcoming launch of India's 5G network is expected to further accelerate this the digital performance of the country.

The private equity (PE) and venture capital (VC) investments have increased by over three times in just four years between 2018-2022. A large part of these investments are in start-ups, leading India to have the second largest number of start-ups after US, and third largest in terms of the number of unicorns, after US and China.

India's position globally

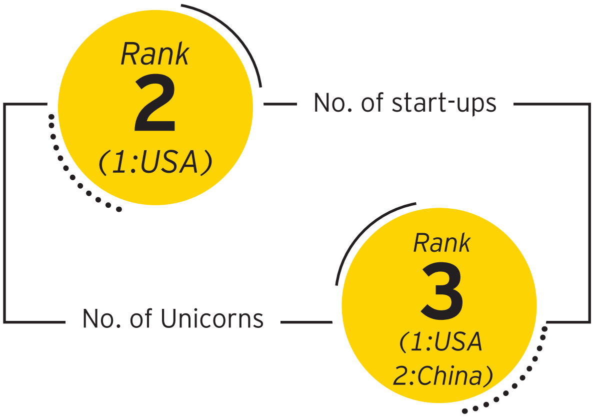
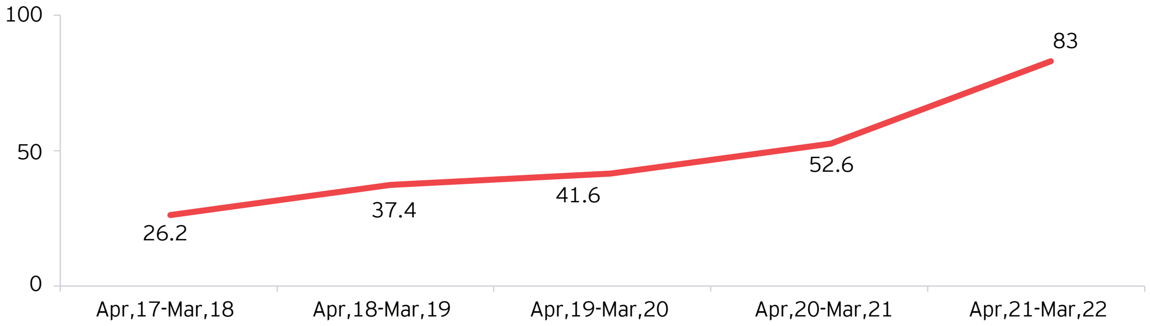
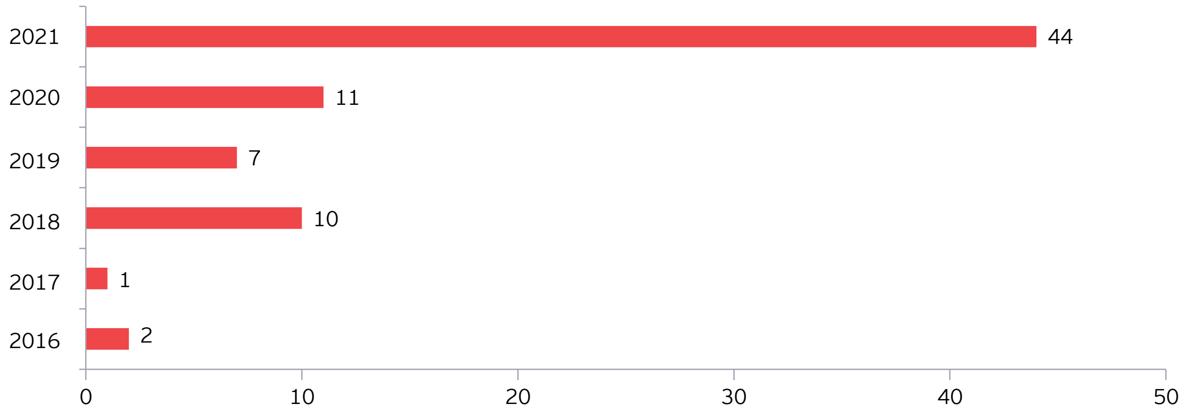


Figure 19. PE/VC investment in India (US$ billion)



Source: Indus Valley Annual Report 2022

Figure 20. No. of start-up companies achieving unicorn status in India



Source: Indus Valley Annual Report 2022

6

India is constructively engaging with the world

Trade deals will help India garner greater share of US$ 500 billion export opportunities

Traditionally, India has been a big manufacturer in sectors like chemicals and plastics, textiles and apparel, consumer goods, electronics, pharmaceuticals and automobile sectors.

Many new ideas on the global manufacturing value chains have been popularized - such as supply chain resilience, creating flexibility, redundancy, onshoring and "friendshoring". These are driven from the disruptions due to COVID-19 and geopolitical changes. While onshoring is being driven in technology intensive areas by automation and policy push, labour intensive sectors are witnessing companies diversifying their offshore manufacturing bases to create more supply chain resilience and flexibility. Many new global efforts are underway to reshape supply chains – such as Supply Chain Resilience Initiative, Indo-Pacific Economic Framework led by the United States.

At a sectoral level, this creates opportunities for India to attract labour intensive manufacturing that cannot be moved to developed countries and create alternative value chains in India. Manufacturing opportunity for India is also growing as a result of MNCs picking India as a manufacturing and export hub to diversify their supply base to reduce geopolitical and economic risks.

China has been a dominant manufacturing destination in the Asia-Pacific region in terms of the global value chains. Even before the current geopolitical trends, China has been undergoing a transition in manufacturing where its market share in global exports for more labour-intensive sectors such as clothing, electronics equipment, etc.

Other countries like Vietnam who have benefited in the past from movement of factories in labour intensive sectors is already showing signs of saturation in absorbing such investments as the overall economic base is relatively small, including a smaller work force. India is the only country in the region that can be considered as an alternative to a large base like China in terms of overall size and strength in domestic demand.

As a result, manufacturing opportunity for India is growing, seen by several MNCs picking India as a manufacturing and export hub to diversify their supply base to reduce geopolitical and economic risks.

India has started pursuing aggressive trade strategy. and is targeting total export opportunity of $2 trillion in goods and services by 2027. It has completed deals/FTA with Australia and UAE and is seeking early harvest trade agreements with UK, EU, and Canada.

With similar trends continuing, India's trade deals will enable it to increase its market share in labour intensive sectors by the total exports value of over US$ 500 billion cumulatively in 2022-2027 period.

Source: UN COMTRADE

1. Estimated based on reduction in the share of China's exports in the global market in the relevant categories and the trends in growth of global exports

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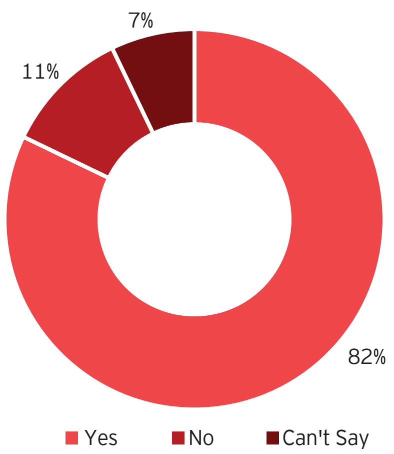
Trade opportunities continue to grow

In the recent years, India's Free Trade Agreements (FTA) architecture has changed, and the focus has shifted from the 'Look East' policy to Western geographies such as the US, the UK, the EU, and Eurasia. The new alignments are expected to have supply chain partners that are credible and resilient, while offering investment and access to technology. Moreover, the new / proposed FTAs go a step further from the traditional aspects and cover issues such as sustainability, labour, gender, and digital trade.

A large majority (82%) of the survey respondents support India's initiative towards FTAs with the western, developed countries and are confident that the FTAs with the UK and the EU will create more trade and investment opportunities for them.

Figure 21. Importance of India's FTAs with developed economies



Will India's FTAs with developed countries create more trade and investment opportunities?

7

Infrastructure: India's capex push and asset opportunities

India's large infrastructure push

India has undertaken a large infrastructure spend consisting of the following:

Overall infrastructure pipeline of US$1.3 trillion in 5 years

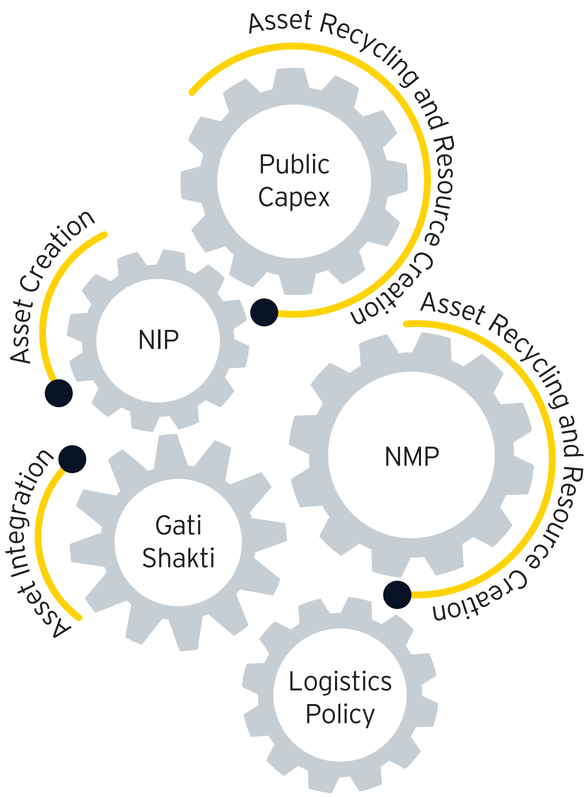
Public capex
Central Government budget capital expenditure increased from 1.6% of GDP in 2018-19 to 2.9% in 2022-23

National Monetization Pipeline (NMP) to monetize stabilized assets that have been de-risked through innovative tools such as InVITs. The NMP estimates aggregate monetization potential of INR 6.0 trillion through sale of core assets of the Central Government

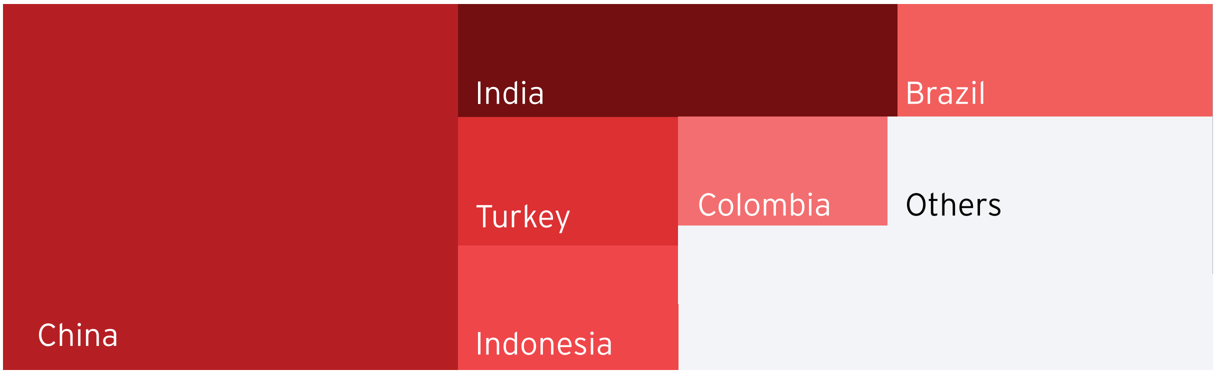
Gati Shakti
Coordination of asset and multimodal infrastructure across multiple ministries

Source: Ministry of Finance

Figure 22. Infra push to build India



India is 2nd largest investments in PPP projects in transport infrastructure in the low income & emerging market economies



Source: World Bank Public Private Partnership database

8

Sustainability investments

India has set itself the target to become net-zero by 2070. It has also set the target of meeting 50% of its energy requirements from renewable energy by 2030 besides reducing carbon intensity by 45%. India has remained the only G20 country that is currently on track for meeting its climate commitments in the Paris Agreement. Sustainability linked investments would be a large opportunity for MNCs in India. India has already attracted US$18 billion capital flows in global green bond issuances and has emerged as a leader in this area. The investments have happened across three major sectors: (i) renewable energy, (ii) real estate and (ii) transport sector.

The above sectors are likely to produce large investment opportunities for the MNCs.

Renewable energy

India's push towards renewable energy has resulted in its capacity increasing from 40 GW in 2014 to 151 GW in 2021. The demand for renewable energy is projected to further increase by 107% by 2026-27 and further by 171% between 2026-2032 period.

Transport

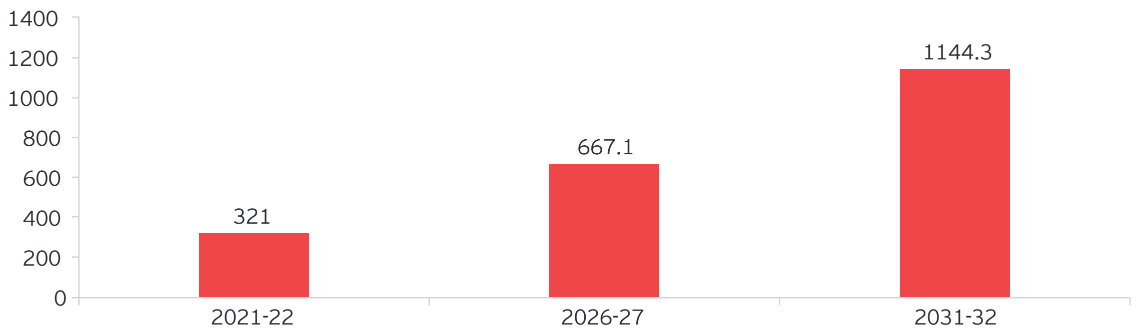
India has set a target for aggressive use of electric vehicles in India and has seen large growth in use of electric vehicles in the two wheeler, three wheeler and buses segment. India had set a target of EV sales penetration of 30% of private cars, 70% of commercial cars, 40% of buses and 80% of two and three-wheelers by 2030.

Green Buildings

India has a large and growing real estate market both in residential and non-residential sectors (offices, warehousing, retail, hotel and restaurants, etc.). It is estimated that South Asia would require investments of US$ 1.8 trillion in green buildings of which India would entail a major share (International Finance Corporation).

In addition, on 15th August 2021, India announced a green hydrogen mission aimed at making India a hub for the production and export of green hydrogen. Green hydrogen demand is projected at 15-20 MT by 2030.

Figure 23. Renewable energy demand projection in power sector (in BUs)



Source: Central Electricity Authority

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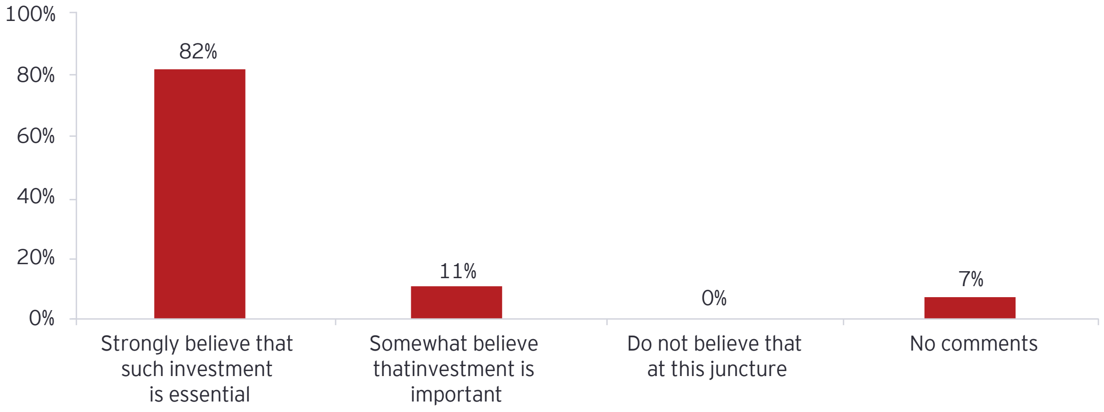
Investment in sustainable goals is essential

The government's strong sustainability thrust has been visible in its announcements towards energy transition and climate action. Initiatives are being taken with respect to green jobs, conservation, water security, and cleaner technology and mobility.

The government's focus on investments for sustainable development goals resonates with the MNCs in India too. **93% of the survey respondents feel** that investment in the Sustainable Development Goals and in climate change mitigation and adaptation is essential, and 82% feel strongly about this aspect.

Figure 24. Importance of focusing on Sustainable Developement Goals



Is investment in the Sustainable Development Goals and in climate change mitigation and adaptation is essential?

9

Stable geopolitical and policy environment

India provides more stable and certain environment for companies amidst global volatility and uncertainties

The world is going through turbulent geopolitical and economic period, comprising of various disruptions. In addition to looking for growth, MNCs are concerned about looking for relatively stable and predictable environment.

India offers relative stability compared to other emerging market economies across a range of parameters including macroeconomic stability, robustness to geopolitical shocks and perhaps even anti-fragility (i.e., India could also benefit indirectly from certain changes in the geopolitical environment). India's political stability and relentless economic policy reforms add to the attractiveness.

Global economy	India	
Inflation affecting the global economy	India's consumer price inflation is much lower than inflation in advanced economies	Relative macro-economic stability
Sharp depreciation of all major economies against US$	INR depreciation much lower than the depreciation of EUR vis-à-vis US$	Relative macro-economic stability
External debt crisis for many emerging market economies	India's external position strong with low external debt and strong forex reserves	Relative macro-economic stability
Geopolitical shocks and turbulence at global level	India's strong external position with increasing leadership at G20, membership in QUAD while maintaining economic relations with Russia	Robust or even anti-fragile to geopolitical shocks
Trade shocks and potential risk from relative de-globalization	Large domestic consumption base growing at 7% and base for digital services exports preserves from global shocks in trade	Robust or even anti-fragile to geopolitical shocks
Political risks and growth in populism	Relative political stability and strong commitment to pro-growth reforms	Political and economic policy
Policy risks- and uncertainties	Increased policy certainty (e.g. cut in corporate tax, removal of retrospective taxation provisions, ease of doing business reforms)	Political and economic policy

Source: EY Analysis

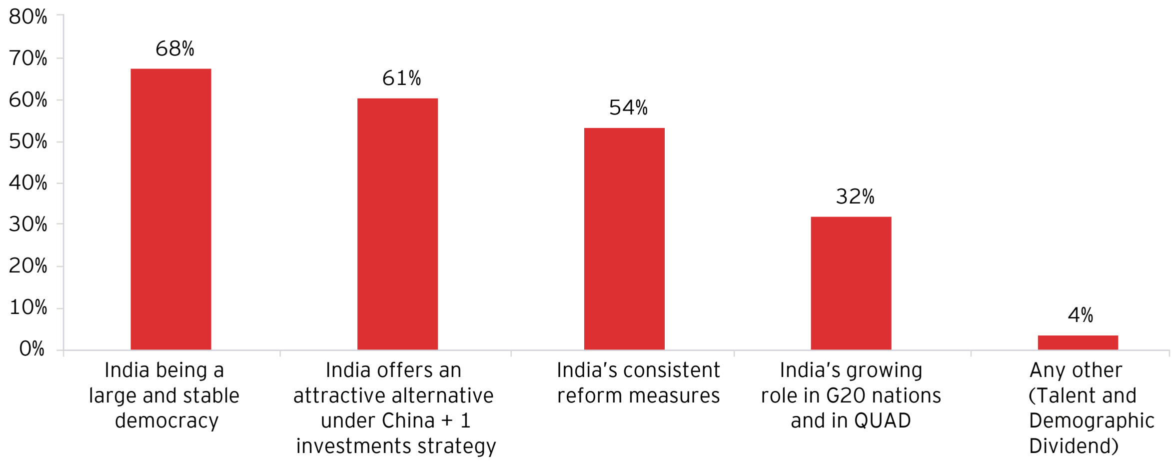
CII-EY Survey

Stability and positive reforms contribute to India's attractiveness

At a time when most economies are facing political and economic vulnerabilities, India provides stability and assurance of its resolve to preserve macroeconomic and financial stability. India's economic diplomacy, its presidency of the G20 from December 2022 and the notable role at G7 on significant issues like climate, energy, health, food security and gender equality have earned it great respect among investors.

68% of the survey respondents find India attractive because it is a stable democracy and has undertaken consistent reform measures. India's capex focus, liberalization of regulations and trade agreements are encouraging the investors to shift their global supply chain to India.

Figure 25. India's geo-political advantage

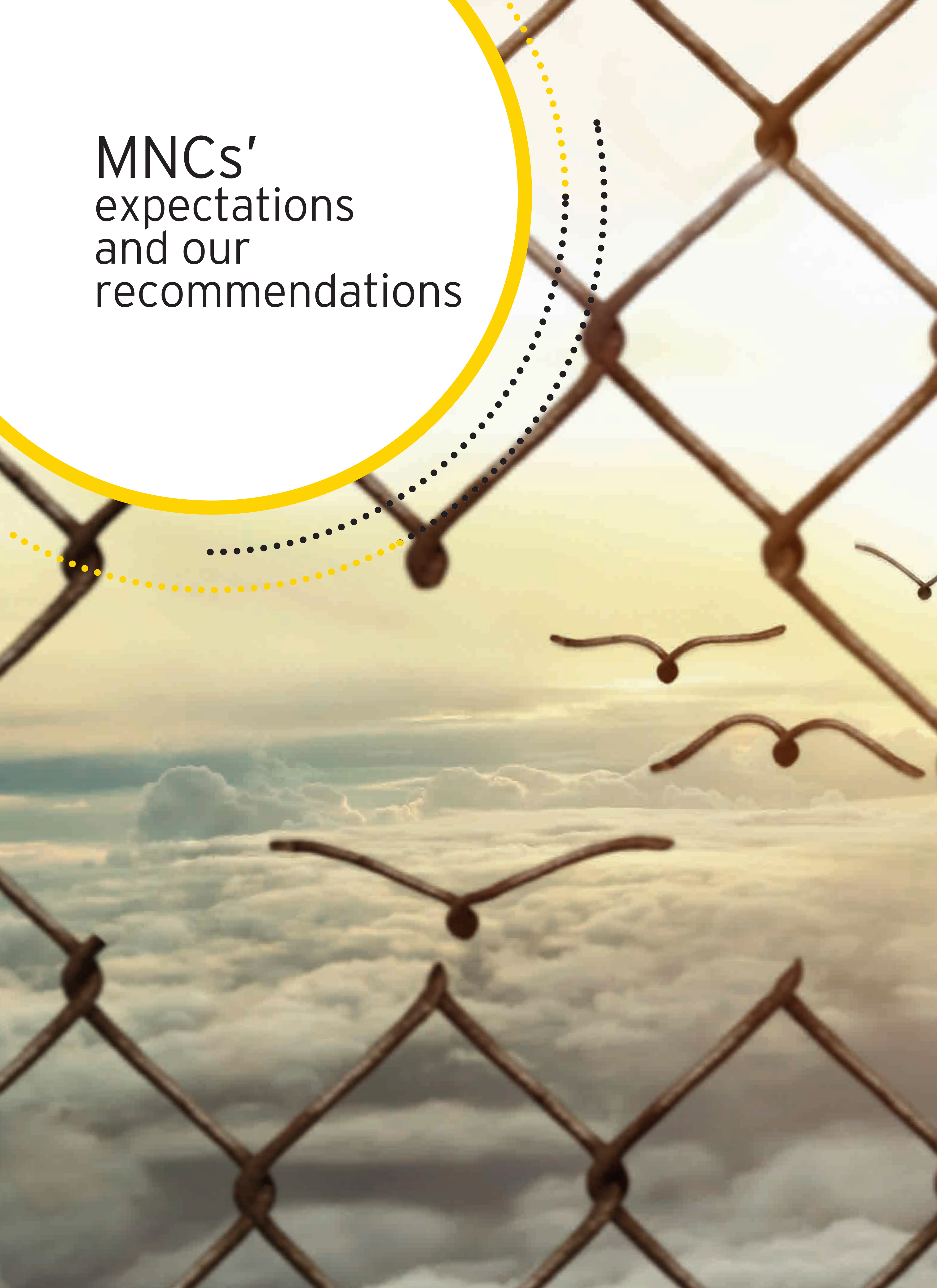


In the rapidly changing geo-political environment what features of the Indian economy make it favourable for investors?

Option for selecting multiple choices were given to the respondents therefore, the cumulative percentage of charts is exceeding 100%

61% of the respondents are of the view that India offers an attractive alternative under China + 1 investments strategy

MNCs' expectations and our recommendations



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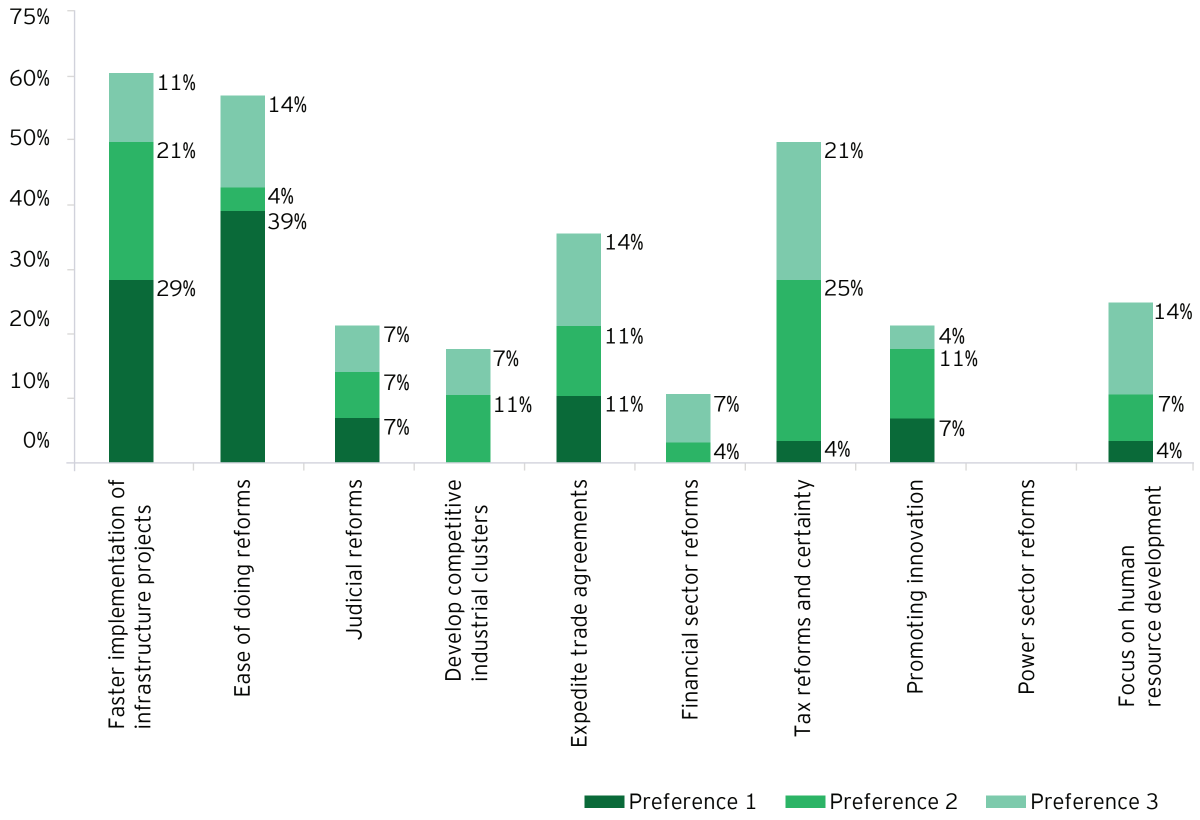
MNCs' expectations on policy reforms for achieving potential growth

The businesses surveyed are optimistic about India's growth story led by steady and focused reforms by the government. They feel that further reforms can propel India towards a US$10 trillion economy by 2035. 39% of the respondents choose ease of doing business as their first preference in terms of continuing the ongoing reform exercise, whereas 29% of the businesses voted for faster implementation of infrastructure projects announced by the government as their first priority. In addition, tax certainty is among the key areas that needs attention as per the respondents.

Besides the above, the survey shows that there is a need to undertake judicial reforms, focus on promoting innovation, and expediting the trade agreements that are likely to favourably impact export opportunities. Collective focus on the above-mentioned areas would provide a better experience to the foreign investors in the country.

Source: https://economictimes.indiatimes.com/news/economy/indicators/india-would-become-5-trillion-economy-by-2026-27-cea-v-anantha-nageswaran/articleshow/92205688.cms?from=mdr

Figure 26. Reforms to propel India towards potential growth



Option for selecting multiple choices were given to the respondents therefore, the cumulative percentage of charts is exceeding 100%

CII-EY Survey

Policy recommendations on ease of doing business

A majority of survey respondents laud the government's consistent efforts for bringing ease of doing business.

Over 60% feel that the business environment has improved for them in last three years.

Among the positive initiatives taken by the government, introduction of Goods and Services Tax (GST) and the strong digital push in various spheres are improving the ease of doing business. Besides these measures, reducing interface through faceless assessments and other measures for bringing transparency in taxation, as also simplification of labour laws have been appreciated by businesses. Respondents feel that measures for timely disposal of commercial cases (e.g., pre-institution mediation and settlement, designated special courts for hearing, the Insolvency and Bankruptcy Code and simplification of procedures for imports and exports have improved the business environment for them.

The survey points out the need to continue the ongoing reforms for facilitating ease of doing business. The key areas identified by them are improvement in National Single Window System, followed by improving tax certainty. Close behind are contract enforcement, decriminalization of economic laws and simplification of environmental regulations that need further improvement for facilitating business.

Figure 27. Improvement in business environment

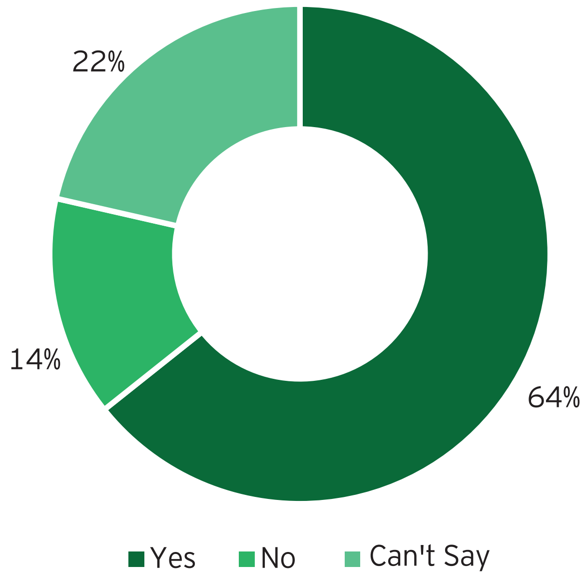


Figure 28. Ease of doing business: impactful initiatives

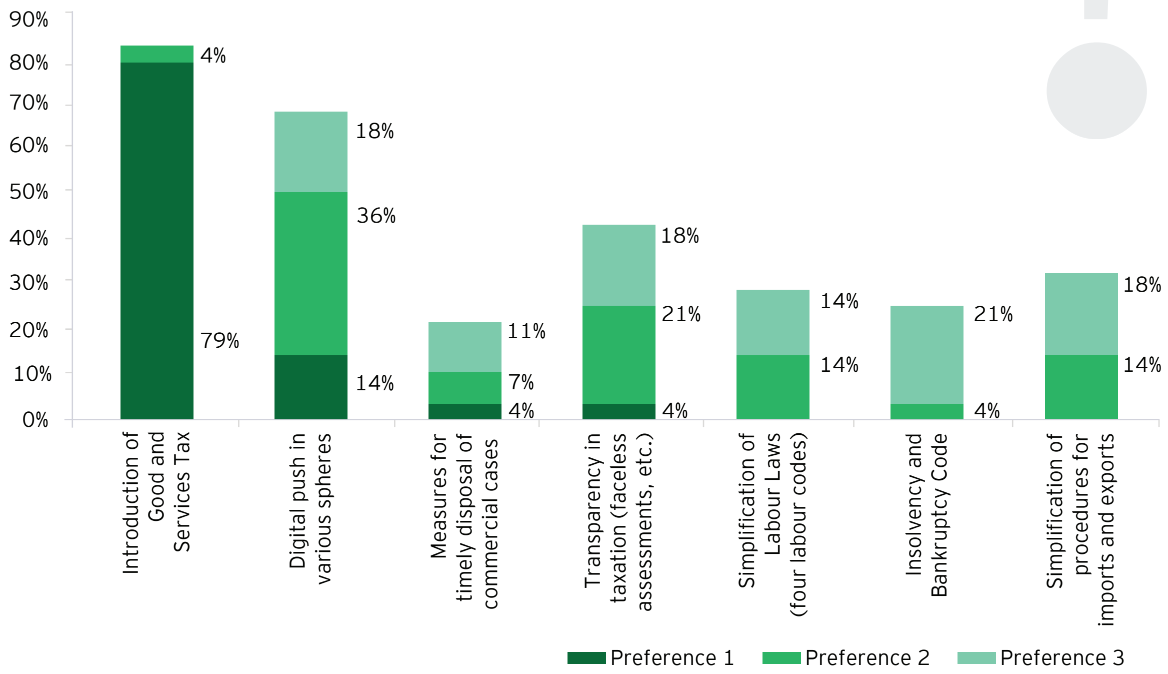
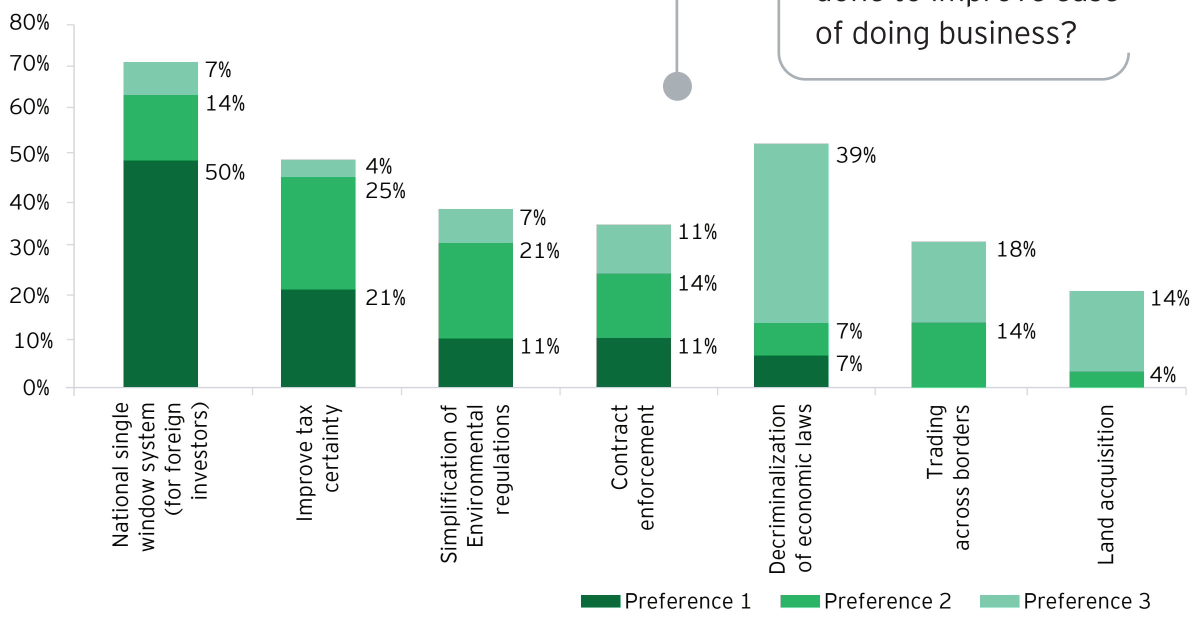


Figure 29. Ease of doing business: next steps

What more needs to be done to improve ease of doing business?



Option for selecting multiple choices were given to the respondents therefore, the cumulative percentage of charts is exceeding 100%

Government should continue its efforts towards ease of doing business

Continue reforms to enhance ease of doing business

While India's rank improved significantly in the regulatory quality index published earlier by World Bank until 2020, (index that captures perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private-sector development) there is still significant scope for improvement in India's score.

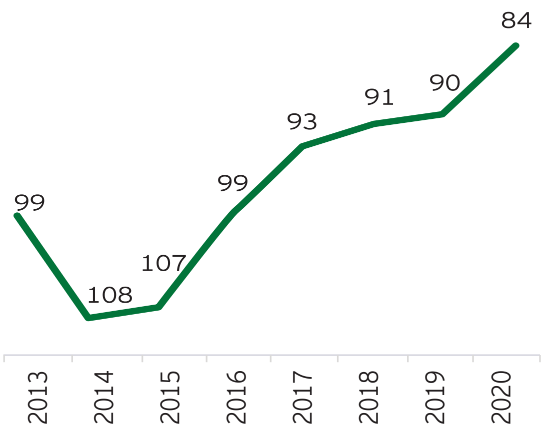
A Single window clearances

The digital platform of National Single Window System (NSWS) for investors to identify and apply for approvals is indeed a welcome initiative. NSWS supports information across 32 central departments and 17 states. Further improving the platform can provide a smoother experience for the investors.

Some of the initiatives that can be taken are:

- Extend the provisions of NSWS for existing businesses
- Assess and rank the performance of central and state governments in providing business approvals/clearances etc.

Figure 30. India's rank based on Regulatory Quality Index



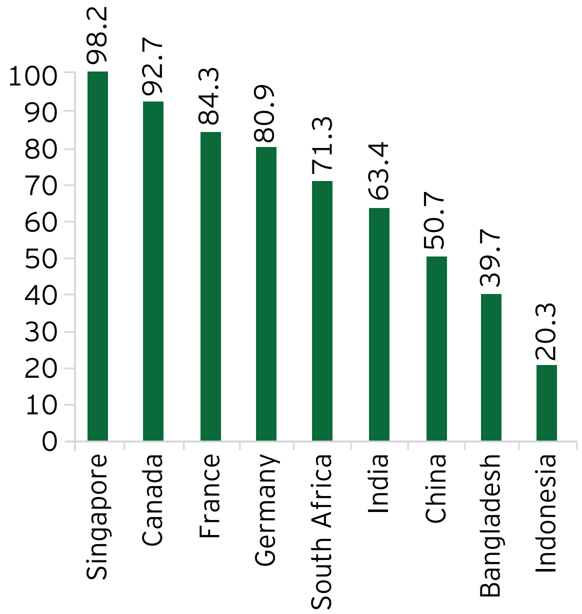
Source: World Bank

- Provide an effective grievance redressal mechanism on the portal
- Ensure that all states having functional SWS are on-boarded with NSWS
- Integrate important Government Programs' and Schemes' related approvals on the portal, for instance, PM Gati Shakti, Production Linked Incentive (PLI) Scheme, among others
- Approvals pertaining to government notified Textile, Leather and Food Parks could also be brought on the portal
- Classify green field and brown field projects separately
- The Turn-Around-Time should be uploaded and updated regularly for each listed activity
- Ensure time-bound and deemed approvals. That should be the USP of NSWS

B Decriminalization of economic laws

Various economic laws entail minor offences as criminal offences, at times entailing contradictory or complex regulations. This raises the scope for rent seeking at local level and harassment of businesses - thereby leading to increase in cost of doing business. These laws need to be reformed by simplifying regulations and more importantly decriminalization of the offences by converting them into civil offences.

Figure 31. Cross country comparison of Regulatory Environment (2020)



C Tax certainty

The government has taken some significant initiatives on the tax front. Besides the tax rate cut, focus on transparent tax administration, with faceless assessment and 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 the mechanisms for avoiding and resolving tax disputes.

One of the measures that should be considered is pre-consultation with taxpayers before introducing changes that have significant policy and compliance implications. The government should also continue its initiative of issuing clarifications in response to the taxpayers' ask for clarity in provisions.

Faceless Appeals: With amendments recently carried out to Faceless Appeal Scheme, pending faceless appeals need to be expeditiously taken up for disposal. Holding on to disposals delays the judicial process.

Advance Pricing Agreement (APA) mechanism: There is a need for capacity building of APA teams with appropriate number of officers having the appropriate skills, knowledge, and subject matter expertise, to bring down the pendency of cases along with providing a stability of tenure to such personnel.

The tax department should leverage technology to reduce timelines. For instance, video calls and E-site visits may be held instead of physical meetings, wherever appropriate. Adopting a 'framework' approach for resolving pending APA cases with low complexity/ risk, e.g., cases involving information technology (IT) / IT enabled services (ITES) transactions can also expedite disposal of cases. Rationalization of safe harbour rules to make them attractive would reduce the load on APAs. While these measures are being taken, the regular TP assessment should be kept in abeyance during the APA process, in line with international practices.

Board for Advance Ruling (BAR): The government notified three BAR benches (Delhi, NCR, Mumbai) in September 2021, but these are not functional yet. Making these functional, will help provide certainty for more than 350 cases pending before the erstwhile Authority for Advance Ruling (AAR). BAR should have adequate strength right from inception to ensure expeditious admission and time bound disposal of applications.

New mechanisms like private ruling and tax mediation may also be examined to minimize disputes.

D Contract enforcement

Contract enforcement remains a large challenge affecting ease of doing business in India. The large pendency of cases in India's judicial system have been highlighted by several stakeholders, including the Government's Economic Survey. Improvement in contract enforcement would be a key driver for greater investments by the MNCs.

Globally, it is recognized that arbitration and reconciliation are best practices to deal with commercial disputes than the general judicial system. However, in India, there is a general tendency for arbitration cases to be appealed in judicial courts. These cases are also similarly affected by the general judicial delays.

Data shows that of the arbitration cases currently pending, a majority are pending for more than a year. Further, the case disposal trends show low disposal rates of arbitration cases that are more than 3 years pending.

Focus on improving effectiveness of the arbitration processes and strengthening of the ecosystem would significantly improve the business environment.

Figure 32. Age wise pendency of arbitration cases

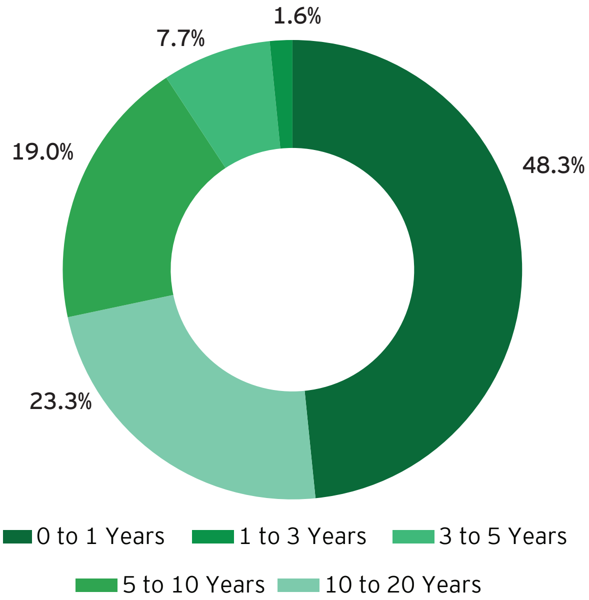
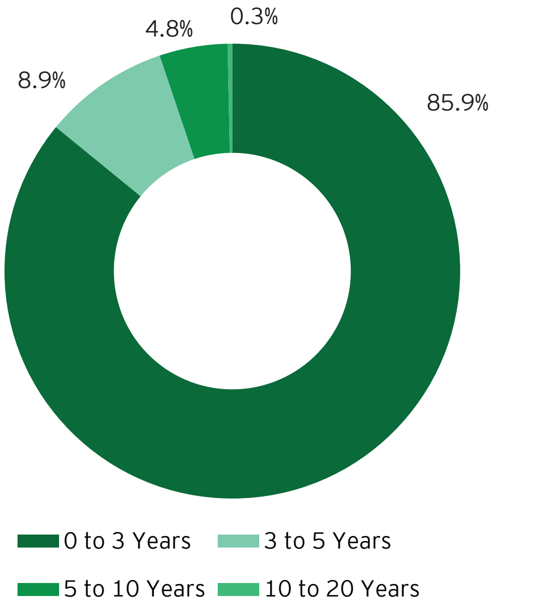


Figure 33. Age wise disposal of arbitration cases



Source: National Judicial Data Grid, 2022

India's rank in World Justice Report	2015	2019	2021
Civil justice overall rank	88	97	110
Civil justice is free of discrimination	81	99	118
Civil justice is free of corruption	61	68	79
Civil justice is free of improper government influence	34	41	54
Not subject to unreasonable delay	97	123	133
Civil justice is effectively enforced	84	104	110
Total Countries	**102**	**126**	**139**

Source: The World Justice Project , Press Release 14 October, 2021

Implementation focus is needed in Infrastructure projects

Focus on implementation of infra projects, project preparation timelines, especially for PPP projects

The Government announced the National Infrastructure Pipeline (NIP) in 2019 entailing infrastructure projects across different sectors like transport, energy, and urban development with cumulative value of US$ 1.3 trillion in 5 years. While more than half of the NIP period is over, information around the progress of the NIP is not available in the public domain. The infrastructure development is a key driver for economic growth for India. A large part of financing for the NIP are planned to come from the private sector. At a broad level, the private investments in infrastructure would happen in greenfield or brownfield categories.

In the greenfield categories, often entailing public private partnership (PPP), it is important for the Government to reduce the risk of delays of projects due to regulatory issues. However, as noted by the Infrastructure and Project Monitoring Division of MOSPI, as of June 2022, of the 1,568 infrastructure projects monitored by the Government of India with estimated cost of INR 26 trillion, 46% were delayed. The top three sectors in which the delayed projects belonged were petroleum, railways, and road transport. Regulatory challenges such as delay in environment and other clearances, funding challenges and delay in land acquisition are amongst the key reasons for delay of such projects. To achieve scale of infrastructure development envisaged in the NIP, it is important to focus on implementation issues which would also make the projects more attractive for the private sector.

Private investment in brownfield assets is also considered to be a key investment strategy. The asset monetization strategy by the Government is an important step in this direction. The National Monetisation Pipeline (NMP) envisages the potential for sale of infrastructure assets owned by the Government that have stabilized and have predictable performance up to the value of INR 6 trillion.

Implementation of the NMP, including making greater number of projects available for private sector participation, across the different sectors would provide a big boost to private investments in the infrastructure sector.

Policy reforms should continue

Free trade agreements and economic partnerships

Free trade agreements (FTAs) or broader economic partnership agreements are very effective tools for India to improve its competitiveness and get integrated in the global production network. Recently, India has signed crucial agreements with United Arab Emirates (UAE) and Australia. Given that India's participation rate in the global value chains is low, further efforts towards FTAs with other economies would be very beneficial to boost economic growth.

Currently, India is already in advanced negotiations with the UK and ongoing talks with the Canada and EU. In addition to trade issues, the economic partnerships would be crucial towards opening up of services sectors, regulatory cooperation in standards, alignment on data and technology issues, investment agreements, sustainable trade, small and medium enterprises (SMEs), government procurement and gender and trade.

The aim of greater participation of India's domestic value content in global value chains, India must identify the products, understand the value chain and take proactive steps to export the final value-added product in global supply chain. The new agreements of India will give an opportunity to integrate with global value chains in certain sectors such as textiles and apparel, chemicals and pharmaceutical (TIVA report on India 2022).

Source: https://indiainvestmentgrid.gov.in/national-infrastructure-pipeline

To facilitate India's value chains, exports play a bigger role and India must improve efficiency of ports, shipping and customs via automation. Improved efficiency, along with low or nil duties, can also be a big boost for participation by Micro, Small, and Medium Enterprises (MSMEs). The existing value chains are being disrupted as many organizations and countries feel the need to develop alternate sources of supply in which all the components are available in the domestic vicinity or within the country's own economy. Therefore, India has to look at a hybrid model to source from the most efficient suppliers, including domestic suppliers. There is a need to build capacities across the value chain.

Develop competitive business clusters through DESH initiative

It is crucial that India provides a globally comparable business ecosystem for FDI. This encompasses, inter alia, world class infrastructure, availability of land, skilled labour, logistics, business friendly regulatory environment, social infrastructure such as health and education, etc. This is important especially for enterprises to achieve scale and also enable economies of scope, especially in the context of India where the industry is often fragmented geographically.

Earlier India had created Special Economic Zones (SEZ) besides other types of industrial clusters, parks, estates, etc. The Government recently sought to overhaul this structure through the proposed Development of Enterprises and Services Hub (DESH). A draft law is likely to be introduced by the Government.

In order to provide the maximum benefits from the DESH initiative, it is important that structure of decentralized regulations is devised. These kinds of initiatives have proven to be successful in many other countries. This leads to decentralized governance, focused development, and ability for small-scale innovations that, if successful, could lead to their scale up in other parts of the country. In addition, the DESH areas notified in future should be sufficiently large to give a greater chance of success. Finally, the Government needs to back the initiative with funding to ensure infrastructure development and provide sufficient financial incentives for firms located in these areas.

Lastly, to promote DESH, dual use of infrastructure may be allowed, without recoupment of any fiscal benefits, to enable and attract DTA units to the zones under DESH. This will also help in optimisation of infrastructure.

GST reforms

The introduction of GST has been a pathbreaking reform, and the initiatives taken by the Government towards simplification of law and its smooth implementation have been truly appreciated by taxpayers. The paradigm shift from manual intervention to technology enabled complete automation of compliances, the proactive measures taken by the government to understand and address the taxpayers' concerns has played a key role in adoption of GST by the industry at large. Further, focused measures towards improving compliances through data analytics have resulted in robust GST revenue collections.

There is now a need to consolidate and build on the back of this great foundation. There are certain policy and procedural issues under GST which once addressed, can further improve the ease of paying taxes for taxpayers and help in achieving the true potential of the GST reforms.

Credit Rationalization

Input tax credit (ITC) should be allowed on restricted goods/ services. For instance, ITC should be allowed where immovable property is further used for carrying out taxable activities in the course or furtherance of business (e.g., renting/ leasing of immovable property).

ITC should also be allowed on advances paid by recipient. Since the supplier has already paid the tax upfront, credit should be allowed to the recipient as soon as the tax is paid to the Government.

Dispute Resolution

Currently, a large number of dispute cases are pending at the High Court level. Setting up of GST Appellate Tribunals shall expedite the settling of long pending issues and facilitate effective resolution mechanism to taxpayers.

Further, constitution of a National Appellate Authority for Advance Ruling (NAAAR) should help put to rest the uncertainty around issues that have been a subject of conflicting rulings by various state advance ruling authorities.

Source: RBI https://pib.gov.in/PressReleasePage.aspx?PRID=1821785 https://pib.gov.in/PressReleasePage.aspx?PRID=1812730#:~:text=The%20India%2DAustralia%20ECTA%20will,peoples%20of%20the%20two%20countries.

Rationalization of penal provisions

The current provisions of the GST law provide for mandatory imposition of penalty in addition to recovery of tax and interest, even in cases where tax is payable due to reasons other than fraud or any wilful misstatement or suppression of facts.

Where taxes have not been deposited due to clerical errors or bona-fide mistakes, it cannot have the same treatment where the taxes have not been deposited due to fraud or any wilful misstatement or suppression of facts. Accordingly, specific provisions may be introduced in GST law allowing the tax authorities to have specific power for waiver of penalty in cases of reasonable cause of failure.

Rationalization of Audit / Assessment

Sectors where businesses are engaged in providing services on pan-India basis, e.g., banking, insurance, travel and logistic operator, hotels, media entertainment, financial services and large manufacturing enterprises, GST registration is required in almost all the states.

Government may consider allowing the concept of centralised Audit / Investigation for large taxpayers having pan-India presence and significant turnover with multiple GSTINs. Further, where taxpayers have obtained multiple registrations under GST, which fall under different jurisdictions, standardisation of formats for seeking information by all jurisdictions will help remove duplication of efforts and ease the overall process of collation and submission of data/ information required by authorities.

Decriminalization of GST law

GST law empowers tax officers to invoke the punitive provisions against taxpayers including prosecution, arrest, fine and imprisonment. The imprisonment term is based on the numerical value of tax evaded, amount of ITC wrongly availed/ utilized or the amount of refund wrongly claimed.

Prosecution should be invoked only in case of blatant specific fraudulent practices such as issue of fake invoices or any other fraudulent activity with an intent to evade tax. To protect the bona-fide and genuine cases, protection needs to be provided where there is a reasonable cause for failure.

Widening the scope of GST

To facilitate seamless ITC availability across all sectors and make Indian manufacturing more competitive, all petroleum goods (petroleum crude, high speed diesel, motor spirit, natural gas, aviation turbine fuel) should be included within the ambit of GST.

Power sector reforms

Power sector reforms are crucial for reducing cost of power and improving quality of electricity, and for India to achieve its goals of decarbonization of the electricity sector. This includes the following:

- **Reforms in the distribution sector:** The electricity distribution sector needs strengthening and reforms to enable rapid growth in the power sector. This includes reforms of the power tariff structure, reduction of power losses, installation of smart meters, etc.
- **Regulatory reforms to incentivize investments:** Investments in decarbonization of the electricity generation sector, and renewable energy storage. Further, investments are needed to upgrade the electricity grid into smart grids.

Investments in health, education and skilling

The CII-EY survey notes the significance of India's talent pool, with 100% consensus amongst the respondents that India's talent pool provides a competitive advantage compared to other economies in terms of education and skills.

India must further nurture this advantage. Public spending in the health and education sector would need to boosted. Often mentioned targets are 2.5% to 3% of GDP in the health sector and 6% of GDP in the education sector, while current spending levels are significantly lower. This would enable much needed expansion of quality public services towards human development.

In addition, implementation of policies announced such as the National Education Policy need to be fast tracked.

Source: Economic Survey 2020-21

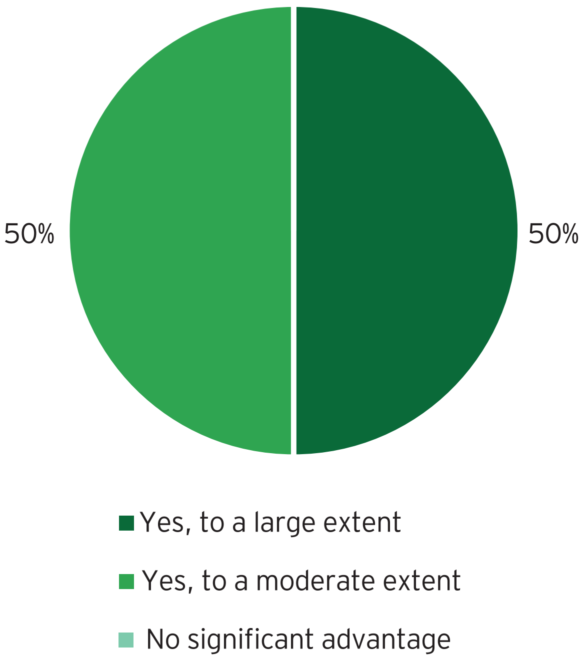
Continue focus on environment, social and governance sectors

To provide a fillip to India's efforts to achieve its ESG targets, India needs to develop market-based mechanisms to incentivize decarbonization of its economy.

Similarly, development of a domestic green financing market is crucial. While the Government has already announced steps for sovereign green bonds, further incentives towards green financing in well defined areas would be important. This would help mobilize the required capital for green transition.

CII-EY Survey

Figure 34. India's talent pool provides a competitive edge



Does India's talent pool provide a competitive edge in terms of education and skills?

Confederation of Indian Industry

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering Industry, Government and civil society, through advisory and consultative processes.

CII is a non-government, not-for-profit, industry-led and industry-managed organization, with around 9000 members from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 300,000 enterprises from 286 national and regional sectoral industry bodies.

For more than 125 years, CII has been engaged in shaping India's development journey and works proactively on transforming Indian Industry's engagement in national development. CII charts change by working closely with Government on policy issues, interfacing with thought leaders, and enhancing efficiency, competitiveness and business opportunities for industry through a range of specialized services and strategic global linkages. It also provides a platform for consensus-building and networking on key issues.

Extending its agenda beyond business, CII assists industry to identify and execute corporate citizenship programmes. Partnerships with civil society organizations carry forward corporate initiatives for integrated and inclusive development across diverse domains including affirmative action, livelihoods, diversity management, skill development, empowerment of women, and sustainable development, to name a few.

As India completes 75 years of Independence in 2022, it must position itself for global leadership with a long-term vision for India@100 in 2047. The role played by Indian industry will be central to the country's progress and success as a nation. CII, with the Theme for 2022-23 as Beyond India@75: Competitiveness, Growth, Sustainability, Internationalisation has prioritized 7 action points under these 4 sub-themes that will catalyze the journey of the country towards the vision of India@100.

With 62 offices, including 10 Centres of Excellence, in India, and 8 overseas offices in Australia, Egypt, Germany, Indonesia, Singapore, UAE, UK, and USA, as well as institutional partnerships with 350 counterpart organizations in 133 countries, CII serves as a reference point for Indian industry and the international business community.

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