Deloitte.

India's FDI opportunity
Through an investor's lens - a survey report

September 2021

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Preface

Recent FDI inflows have been a silver lining and have provided necessary optimism, despite the COVID-19 disruption to the economy. In FY2020-21, FDI inflows (including equity, re-invested earnings, and capital) amounted to a record US$81.72 billion, 10 percent higher than the previous financial year.

While India remains a favoured foreign direct investment (FDI) destination, the country must enact more reforms to ensure FDI flows not only continue but also play a meaningful role in attaining the US$5 trillion economy target. The country must continue to enact reforms and initiatives that drive improvement, building confidence in and enhancing the competitiveness of India's economy. While these inflows were driven primarily by the services sector, a more proportionate contribution to gross capital formation and the increase in exports can be achieved through greater FDI in manufacturing. Average FDI from FY15 to FY21 in manufacturing was US$8.6 billion compared to about US$25 billion for services. Our analysis shows that India will require at least US$8 trillion of cumulative gross capital formation to grow into a US$5 trillion economy, assuming we are on the fastest growth track. Based on past trends, our research suggests India needs approximately US$400 billion of foreign capital cumulatively over the next six years.

Attracting FDI in capital-intensive sectors is key to the country's gross capital formation and establishing its position as a global trade partner. To attract investment to India, investor perceptions must be understood. Deloitte recently surveyed 1,200 multinational business leaders to understand just that.

With this report, we hope to provide insights into the findings and create a conversation on the role FDI can play in accelerating India's passage towards a US$5 trillion economy.

Section 1: Introduction—FDI and India's US$5 trillion ambition

FDI – India's bright spot

Even during the pandemic, FDI has poured into India at record levels. In FY2020-21, FDI inflows (including equity, re-invested earnings, and capital) amounted to a record US$81.72 billion, 10 percent higher than the previous financial year.[i] According to United Nations Conference on Trade and Development (UNCTAD), the Indian information and communication technology (ICT) and construction sectors were large recipients of FDI, making India the fifth largest recipient in the world in the past year. Multinational corporations (MNCs) have targeted strategic partnerships with leading domestic business groups, driving a surge in cross-border M&A, up 83 percent to US$27 billion, with major deals in the technology and health sectors.

FDI is widely regarded as a foundation for accelerating a country's economic growth. It provides financial capital, intellectual capital, access to international management, skills, and technology. The net effect can be massive gains in productivity and innovation, and new direct and indirect jobs along the economic chain. In this report, we examine India's recent FDI boom, asking whether greater FDI that leads to capital formation can be a catalyst to India's ambition of a US$5 trillion economy.

Channel foreign investments for capital formation

While foreign investment inflows into India have been consistently rising over the past five years, they have not contributed proportionately to the country's capital formation and GDP.

Only a fraction of total foreign capital inflows is creating fresh assets in India. Over the last five years, net capital inflows contributed about 4 percent to the total gross capital formation (GCF) as shown in Table 1, suggesting that domestic investments, funded by domestic savings, accounted for the remaining 96 percent.

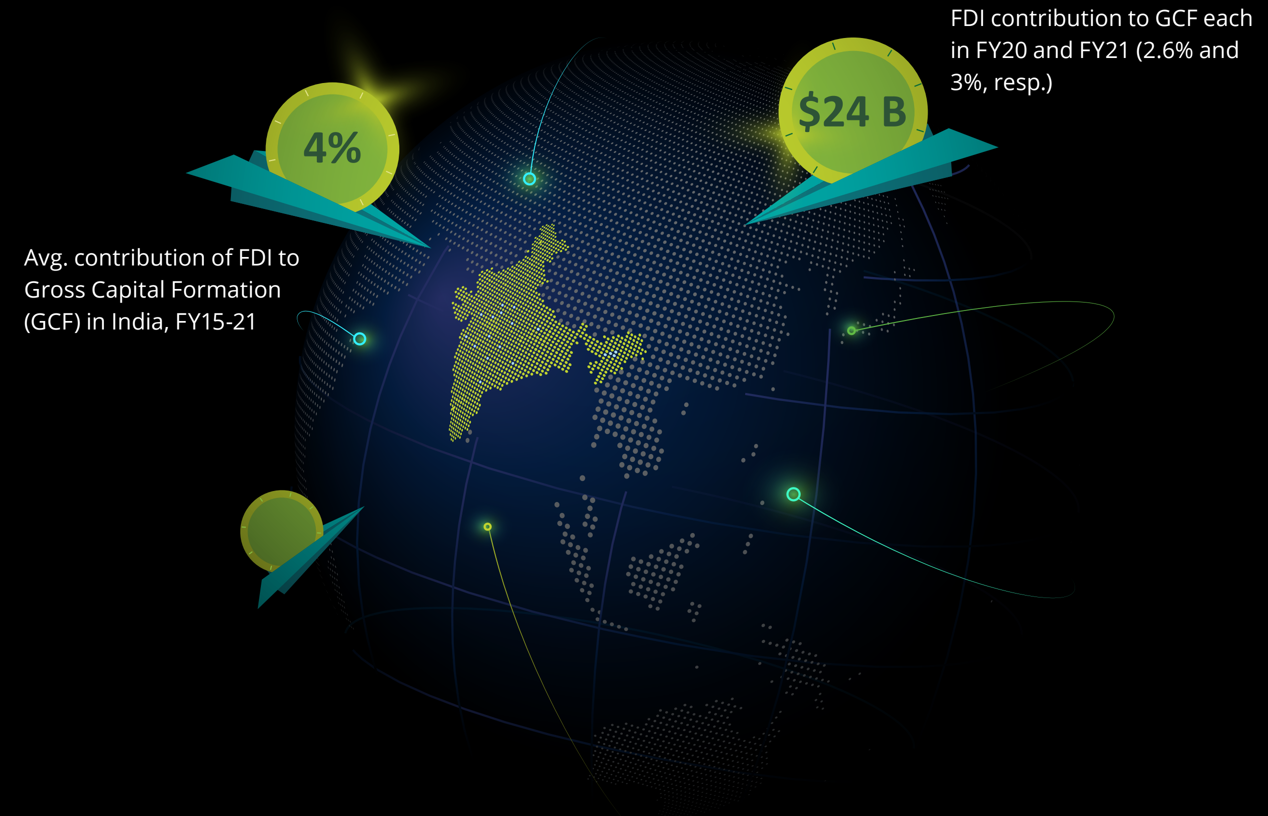
Table 1: Finances for gross capital formation over the past decade

	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
GCF (US$ bn)	742	715	653	700	690	691	813	886	886	780
Net capital inflows (US$ bn)	81	90	32	26	22	14	48	58	23	24
Domestic Investment (US$ bn)	661	625	621	674	668	678	766	828	863	756
Investment (GCF) as % GDP	40%	38%	34%	34%	32%	30%	31%	32%	31%	29%
Net capital inflow contributing to GCF (%)	10.9%	12.5%	4.9%	3.7%	3.2%	2.0%	5.9%	6.5%	2.6%	3.1%

Source: Central Statistics Office, Haver Analytics, Deloitte research

Note: GCF includes dwellings, other buildings & structures; machinery & equipment; cultivated biological resources; and Intellectual property products by financial and non-financial corporations (public and private), general government, and households. The first two categories account for an average of 88% of the total GCF.
The net capital inflows for FY 2020-21 has been proxied by the current account balance data per the RBI's definition of capital inflows into capital formation.
[i] https://pib.gov.in/PressReleasePage.aspx?PRID=1721268

FDI contribution to the US$5 trillion economy goal



Investing in capital formation will play a significant role in building a US$5 trillion economy, and India will need to deploy capital resources both from domestic as well as foreign sources.

To achieve $5T GDP by FY 2026-27

US$7.8 T

Cumulative GCF

US$400 B

Cumulative FDI contribution to GCF

Source: RBI Annual Report publications, World Bank data, CMIE database, Deloitte Analysis

Map not to scale

Impact of COVID-19 on the US$5 trillion ambition

We have created three scenarios with different assumptions for growth and inflation under which India can reach the target of US$5 trillion. We defined two likely scenarios of high growth with high to moderate inflation expectations, and a third scenario of low growth and low inflation. In addition, we estimate the level of gross fixed investment that India requires, and the scale of foreign capital required to meet the investment gap.

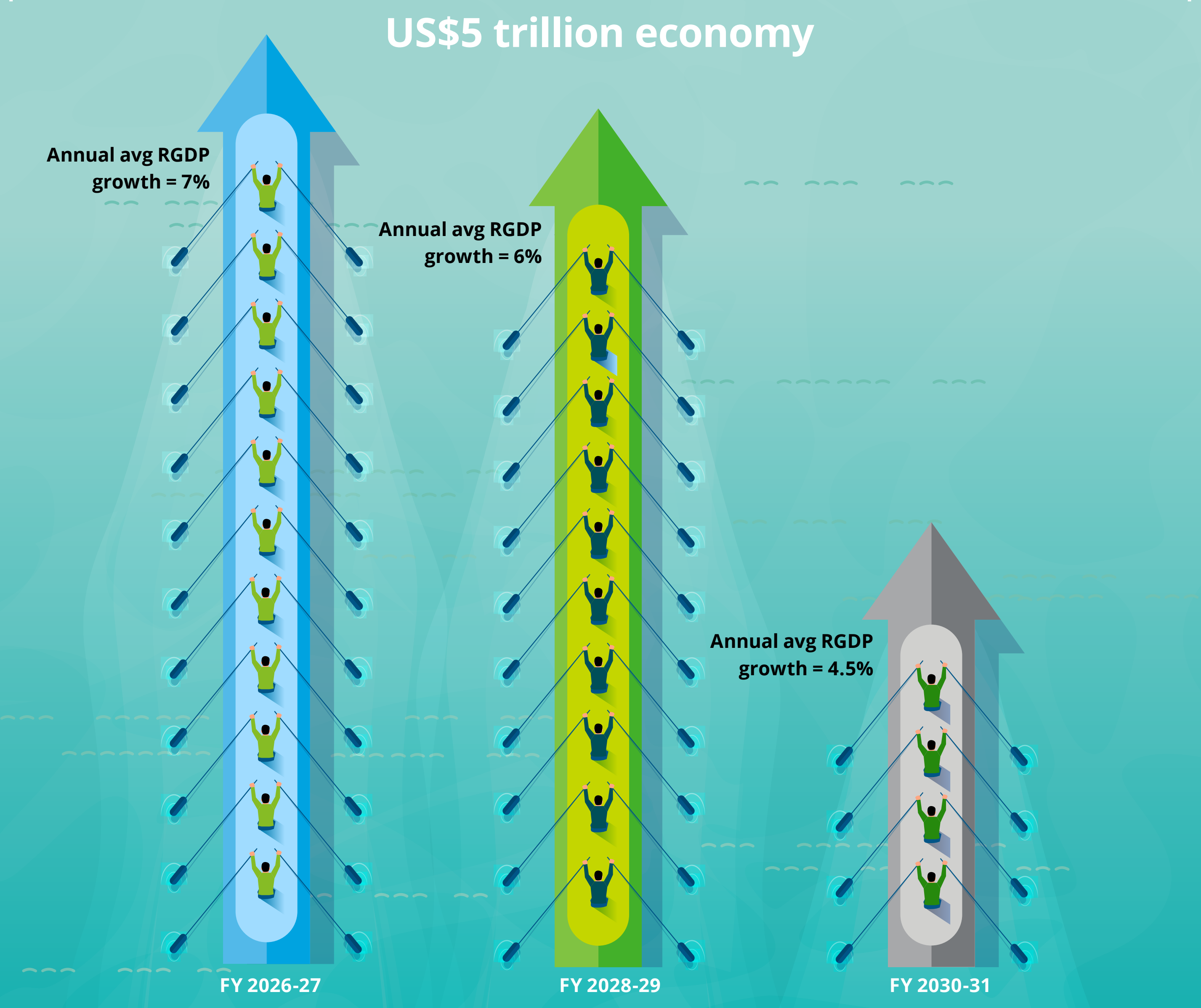
Scenario 1:
High growth-high inflation (likely)
After robust growth in the first two years, real GDP growth declines. The annual average growth rate is assumed to be 7 percent with the annual average inflation rate at the upper end of the 4-6 percent target range. Strong growth results in a gradual currency depreciation.

Scenario 2:
High growth-moderate inflation (highly likely)
Real GDP growth moderates after the first year but remains stable. The annual average growth rate is assumed to be at 6 percent with the annual average inflation rate hovering around the mid-point of RBI's target range (close to 4 percent). Healthy growth results in modest currency depreciation.

Scenario 3:
Low growth-low inflation (low probability)
Sluggish real growth over the next decade. The annual average growth rate is assumed to be 4.5 percent with the annual average inflation rate hovering slightly below the mid-point of the target range. Poor growth results in sharper currency depreciation.

In scenario 1, the economy is expected to reach its target of US$5 trillion by FY2026-27, but the target year is pushed back by slightly more than a year, if real GDP grows by a percentage point lower in Scenario 2, as shown in Figure 1. In the third scenario, India reaches the targeted goal after almost a decade from now.

Figure 1: Three alternative scenarios to reach the target of US$5T economy



Scenario 1 - Likely
(High growth-high inflation)

Scenario 2 - Hilghly likely
(High growth-moderate inflation)

Scenario 3 - Low probability
(Low growth-low inflation)

Methodology:
For three different scenarios, we made three assumptions related to real GDP, inflation, and currency as mentioned in the three scenarios specifications. The additional assumptions (explained in the text) are: The capital-output (K/O) ratio was assumed to be 0.33 and the savings-investment (S/I) ratio was assumed to range around 0.96. The K/O ratio and S/I ratio helped us project GCF investments and foreign investments needed to meet the GCF investment.

Source: Haver Analytics, calculations by Deloitte Research

Note: RGDP - Real gross domestic product

Channeling foreign investment into capital formation under three scenarios

India's capital-output ratio has significantly declined over the past decade suggesting higher capital productivity. Assuming the capital-output ratio remains rangebound at around its decadal average of 0.33 under all three scenarios, India will require total GCF averaging US$1.3 trillion each year to achieve the target of US$5 trillion in each of the three scenarios. Cumulatively, India will need at least US$7.8-10.9 trillion of GCF over the next six to eight years under Scenario 1 and 2, and more than US$13 trillion in the next decade under Scenario 3 to reach the scale of US$5 trillion.

The past decade of strong growth has resulted in a savings-investment ratio of around 0.96, owing to high investments and declining savings. We expect a similar trend in the years ahead.

The savings rate has declined since the onset of the pandemic.[ii] Once the economy revives, pent-up demand will accelerate consumer spending and draining savings further. At the same time, investment will accelerate to meet the demand recovery after a prolonged period of stagnant growth. As a result of these dynamics, we expect domestic savings to fall short of meeting investment requirements.

To reach the target sooner, India will have to direct a larger proportion of foreign investment into capital formation, such as green-field projects. Under the first of our two scenarios, India will need to cumulatively attract foreign investment of US$395–435 billion towards capital formation over the next six to eight years. This translates into an annual average of at least US$55–65 billion of foreign capital required for capital formation at a sustainable pace.

[ii] The RBI Bulletin, State of the economy, Annex 1, June, 2021, https://rbidocs.rbi.org.in/rdocs/Bulletin PDFs/0BULLETINJUNE2021E400EB7F44C349599BC13755EC3111EF.PDF

Section 2: Investor perception of India: A survey

Overview

Deloitte surveyed 1,200 multinational business leaders to understand their perceptions of FDI and investing intentions for India. Specifically, the survey sought to establish the following:

- Awareness of the Indian government's efforts to increase trade and FDI
- A percentage of measure of business leaders who:
  - Plan to expand their investment in the country or
  - Plan to begin investing in the country
- Perception of India as a place to do business relative to other countries

Methodology

The 1,200 multinational business leaders were located in Japan, Singapore, the UK, and the US. The online survey was conducted with 300 interviews per country using a sample sourced from an online panel. The survey was fielded from 12 to 27 April 2021.

Multinational business leaders were defined as:

- Having a title of director or higher
- Working for a multinational company with 50 or more employees

Business leaders surveyed represented industries across sectors in the manufacturing and services sectors. These include consumer products, industrials, utilities and energy, materials, healthcare, information technology, financials, real estate, and communication services.

Map not to scale

Key findings

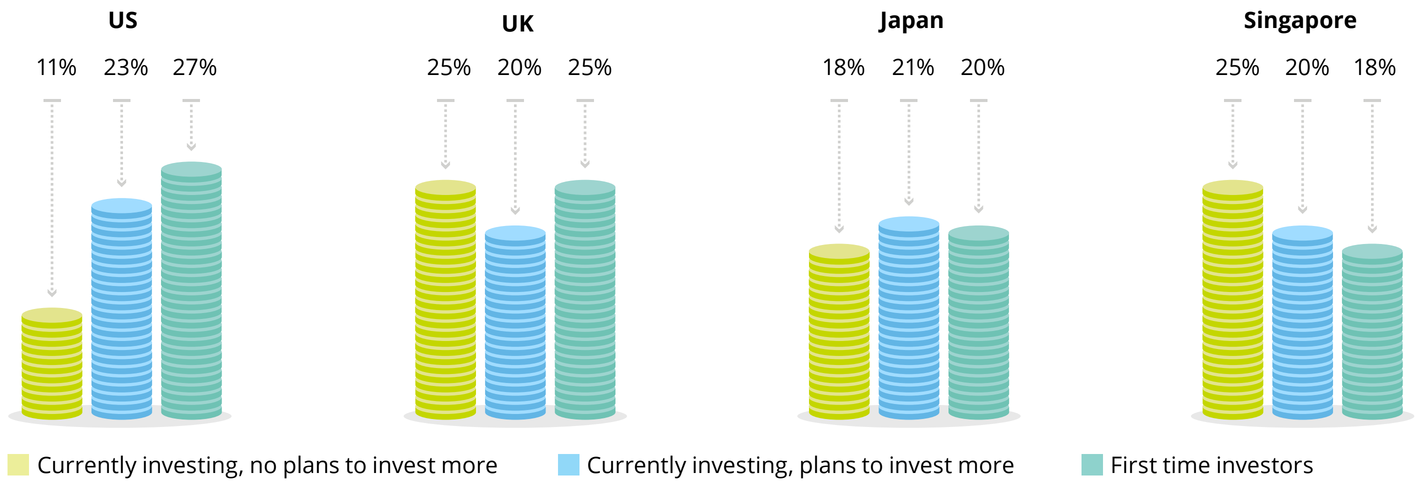
Finding #1: FDI — A continued upward trend

India remains an attractive investment destination. The business leaders said that when identifying investment destinations, they look for growth, political and economic stability, and a skilled workforce. India scored well for its skilled workforce and prospects for economic growth, both seen as supporting the momentum behind FDI.

Forty-four percent of those surveyed across the US, the UK, Japan, and Singapore said they were planning additional or first-time investments in India (Figure 2).

Figure 2: Status on likely investments in India

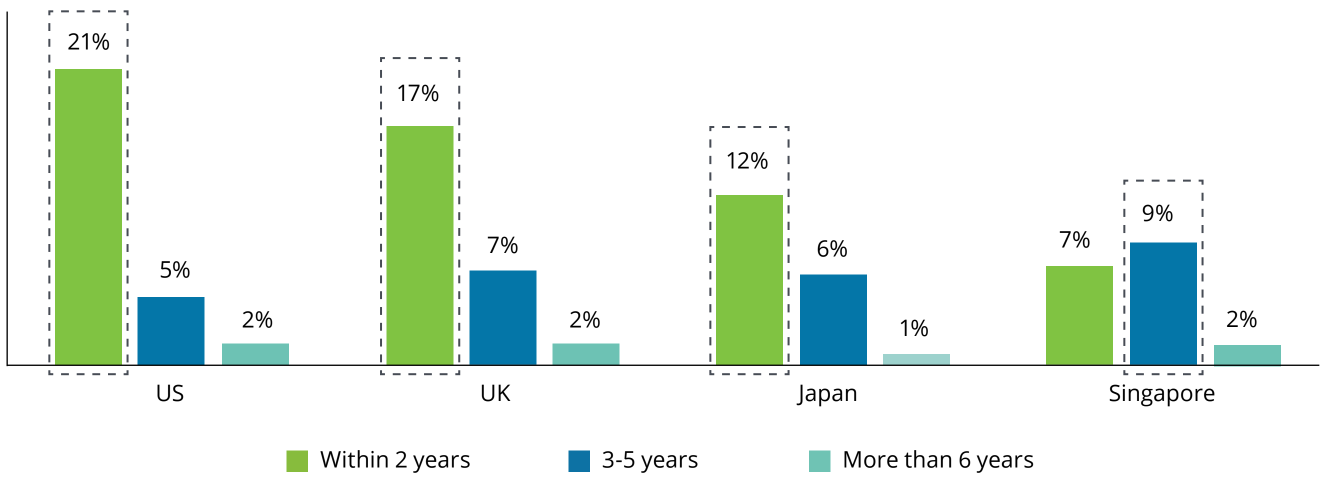
Many multinational business leaders plan to invest in India
Half of US business leaders plan to make a future investment in India



Significantly, nearly two-thirds of business leaders are planning first-time investments in India within the next two years, as shown in Figure 3.

Figure 3: Expected time for companies to invest in India

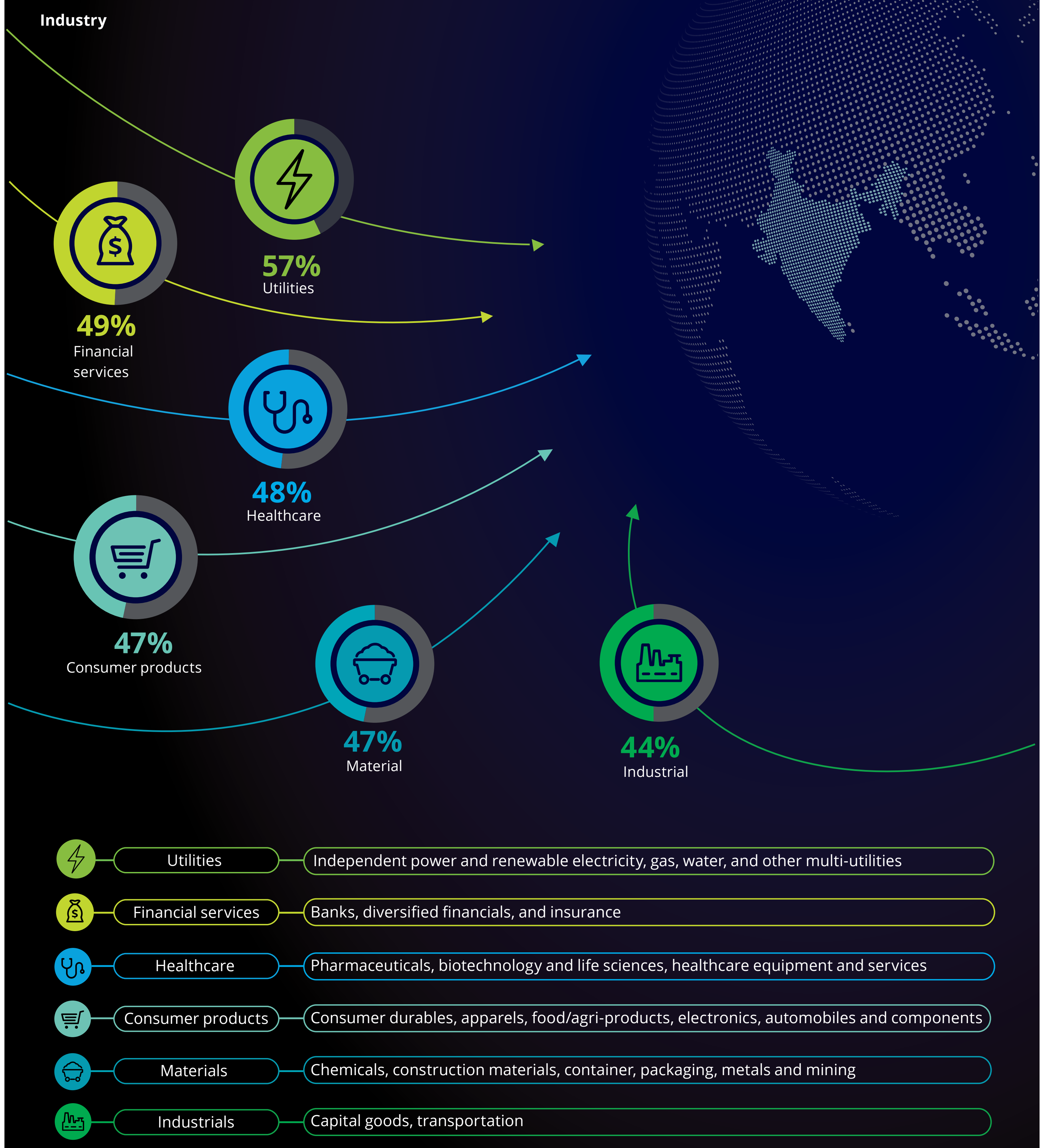
Most new business investments in India will happen within two years
More Singapore business leaders are taking a slightly longer approach



India's FDI opportunity

Utilities, financial services, and healthcare ranked highest amongst industries likely to make new investments in India

The top five industry sectors most likely to make new investments in India



Map not to scale

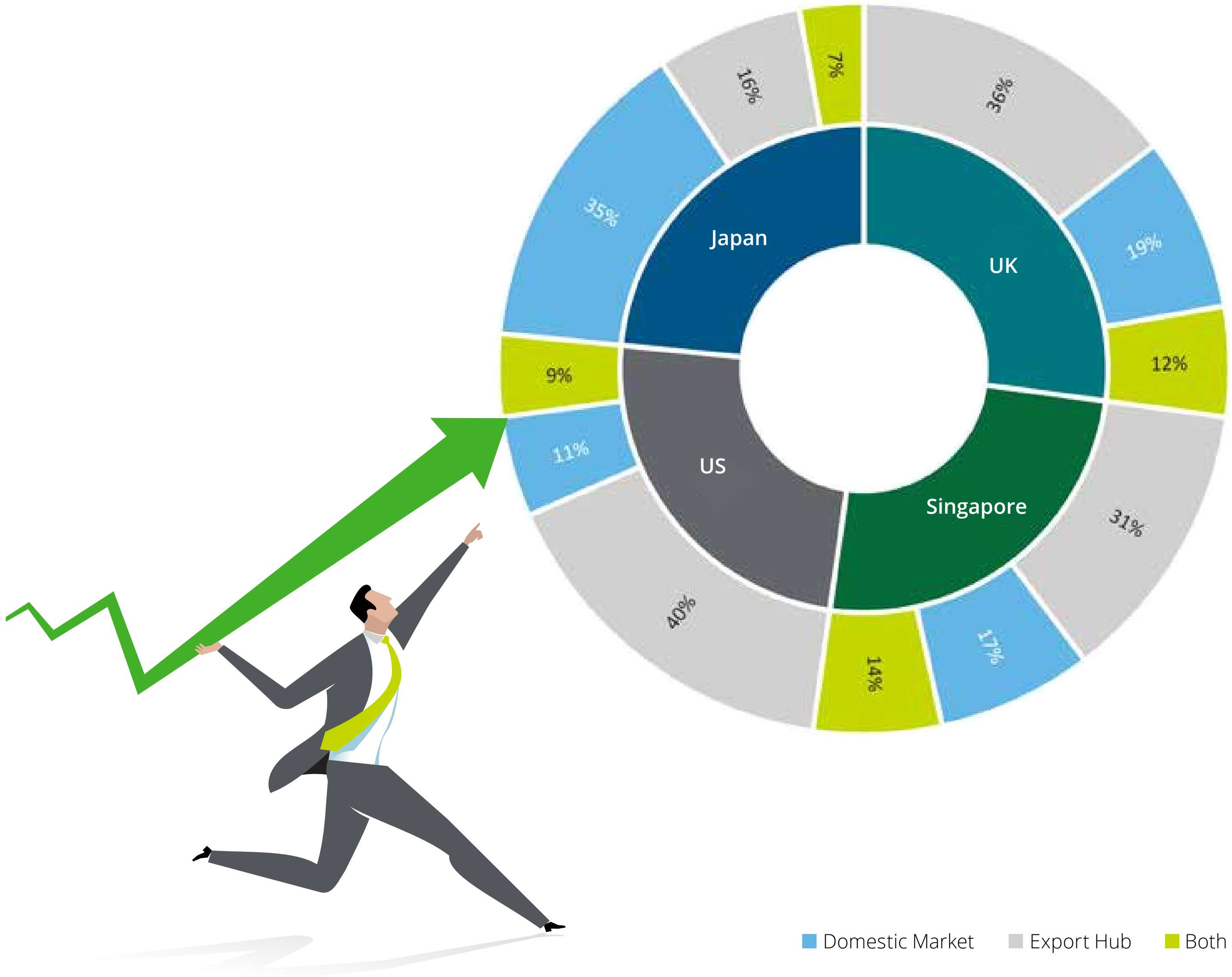
IT (43 percent) and communication services (41 percent) come in marginally below the top five sectors in which investors are most likely to make new investments. Real estate, at 34 percent, was the least popular.

Business leaders from utilities and energy sectors, 35 percent and 27 percent, respectively, along with consumer products at 26 percent and industrials at 25 percent are first-time investors.

Although there is significant crossover, more business leaders, especially those from Japan, are investing in India for access to the home market rather than using India as an export hub. A similar pattern was noticed across industry sectors. This is shown in Figure 4.

Figure 4: Key driver of investing in India

Japanese business leaders more interested in India's domestic market
Decision to invest in India by business leaders from the other countries are more evenly divided, with the domestic market having a slight edge over using India as an export hub.



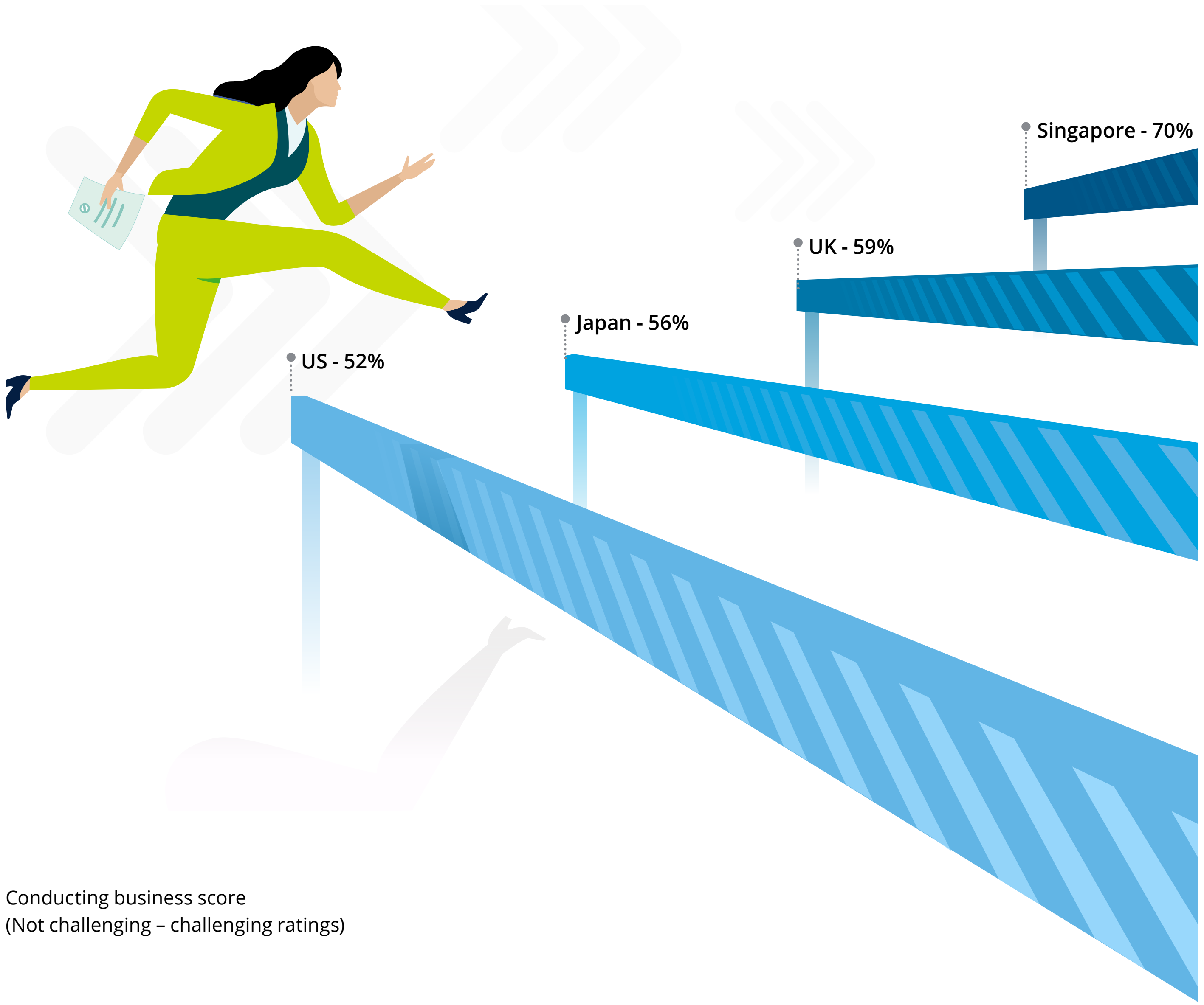
Finding #2 — Perception a challenge

While India remains attractive amongst foreign investors, its perception amongst potential investors needs to be managed and improved.

Overall, India is perceived to be a more challenging environment for MNCs to conduct business, as compared to countries such as China and Vietnam, as shown in Figure 5. More than 50 percent of business leaders, with over 70 percent from Singapore, believe that doing business in India is a challenge.

Figure 5: Perceptions of conducting business in India

Percentage of business leaders who found doing business in India challenging



Conducting business score
(Not challenging – challenging ratings)

This trend continues with respondents across industry sectors. Business leaders from real estate (69 percent), industrials (67 percent), and utilities (65 percent), where historically regulation is deep, complex, and evolving, find it most challenging, followed by IT and healthcare (59 percent), which are both burgeoning sectors, as shown in Figure 6.

Figure 6: Perceptions of conducting business in India by sector

Business leaders in the real estate, industrial, and utility sectors find it particularly challenging to conduct business in India

Doing Business Score
(Not challenging-challenging ratings)

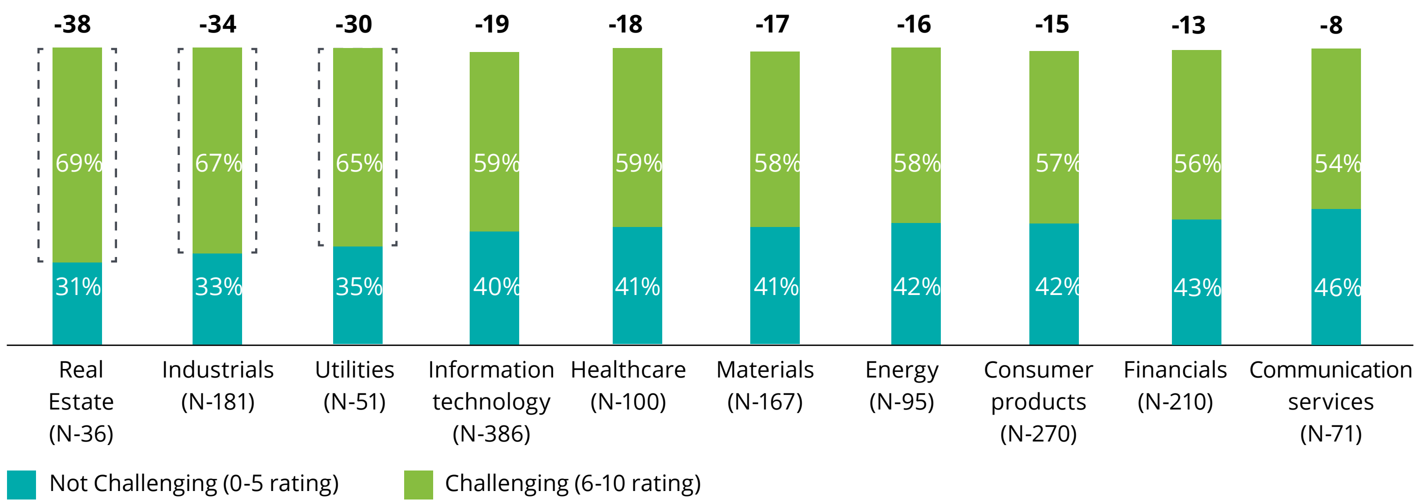
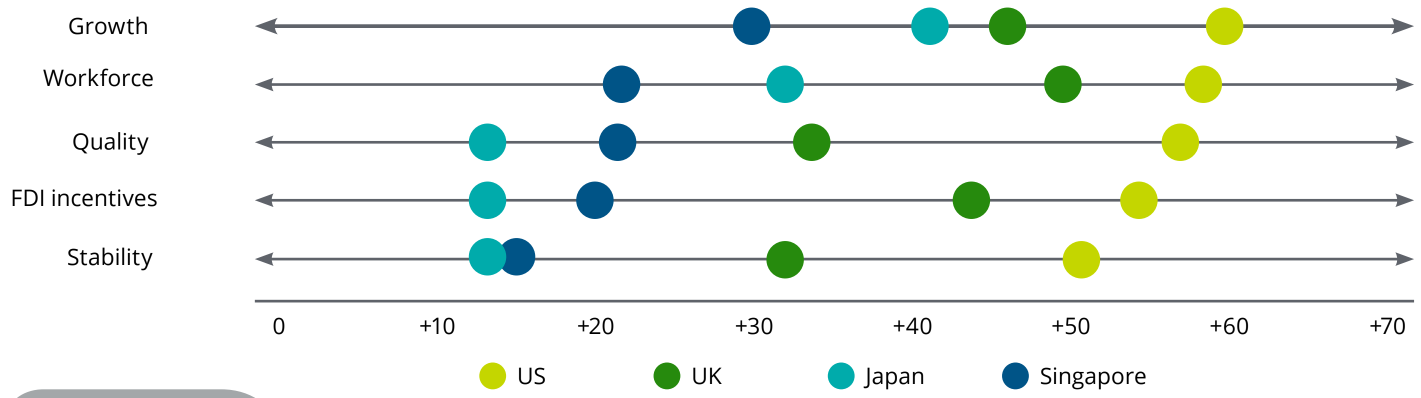


Figure 7 shows perceptions around low institutional stability (predictable taxation, regulatory clarity and efficient judicial redress or mechanisms) and inadequate infrastructure.

Figure 7: Business leaders: Average net descriptor score by country

Based on current perceptions, business leaders are more likely to attribute economic growth and skilled workers to india than stability



Silver Lining:

The Indian government and the country's judiciary, in separate decisions have addressed some of the long-standing concerns regarding institutional stability. Last month, India proposed discontinuing a contentious law that taxed companies retrospectively. The amendment to the tax law is likely to resolve multiple existing tax payment disputes that will boost investor confidence. There have also been a number of recent instances where international arbitration awards have been recognised by the courts in India.

India's FDI opportunity

Finding #3 — Low awareness of recent reforms

Continuing on perception management, despite the government's reforms to improve ease of doing business in India, business leaders lack the necessary awareness to make informed decisions on investments. Business leaders in Japan (16 percent) and Singapore (9 percent) were least aware of initiatives such as the digitisation of customs clearance and production linked incentives for manufacturers, and therefore scored India the lowest in ease of doing business (Figure 8A).

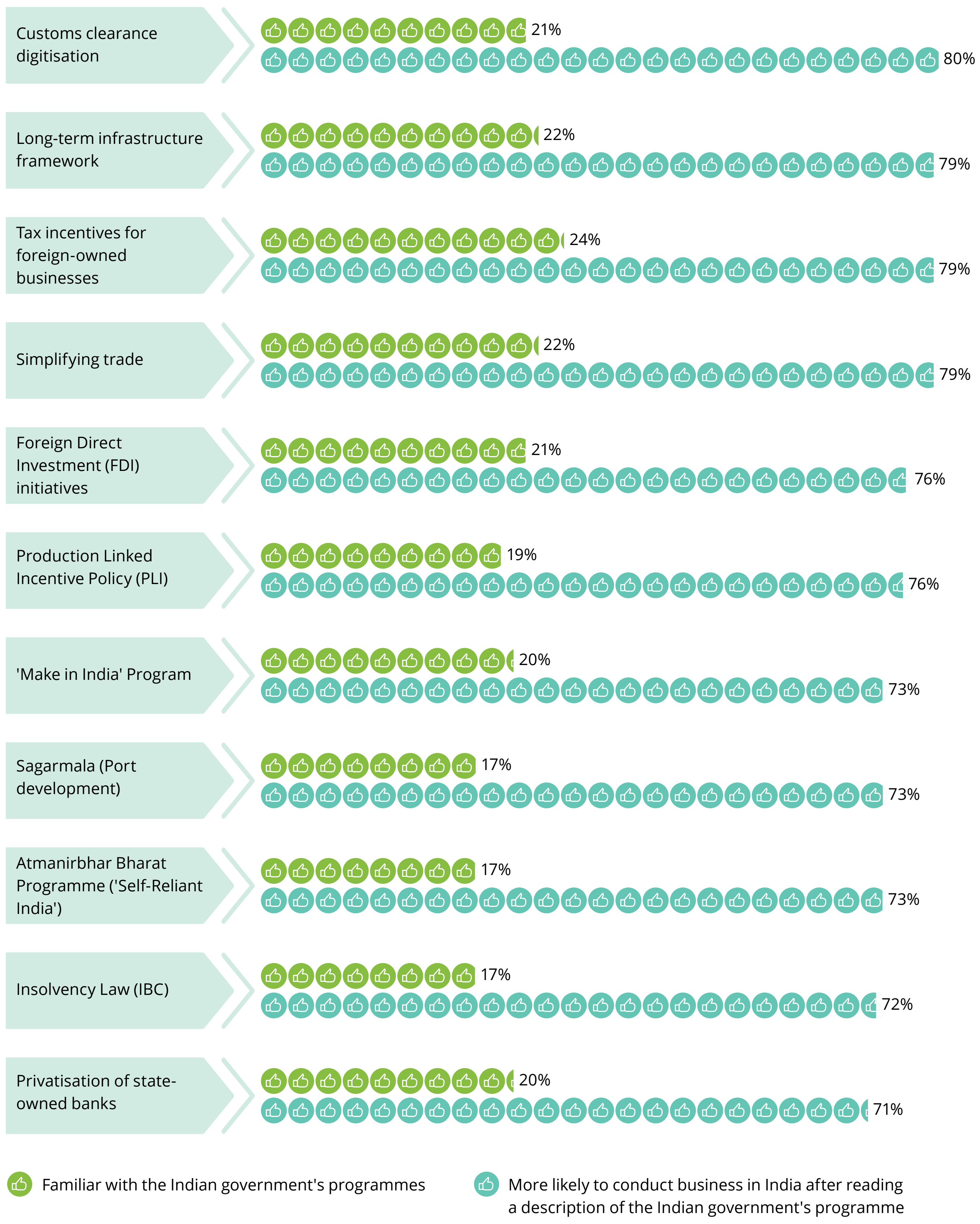
However, this perception quickly changed as soon as leaders became better informed about reforms resulting in renewed optimism about doing business in India. Our research indicated that ~70 to 80 percent of MNC leaders were more likely to do business in India once they were made aware of relevant recent business policy reforms (Figure 8B).

Figure 8A: Familiarity with the Indian government programmes

US business leaders are more likely to know the details of Indian government programmes

Greater awareness of India's reforms, and a search for alternative manufacturing locations in light of recent geopolitical events, have resulted in US business leaders viewing India as their most preferred investment target: More than 50 percent of leaders planning India investments are first-time investors.

Figure 8B: Significant change in investor perception based on increased awareness

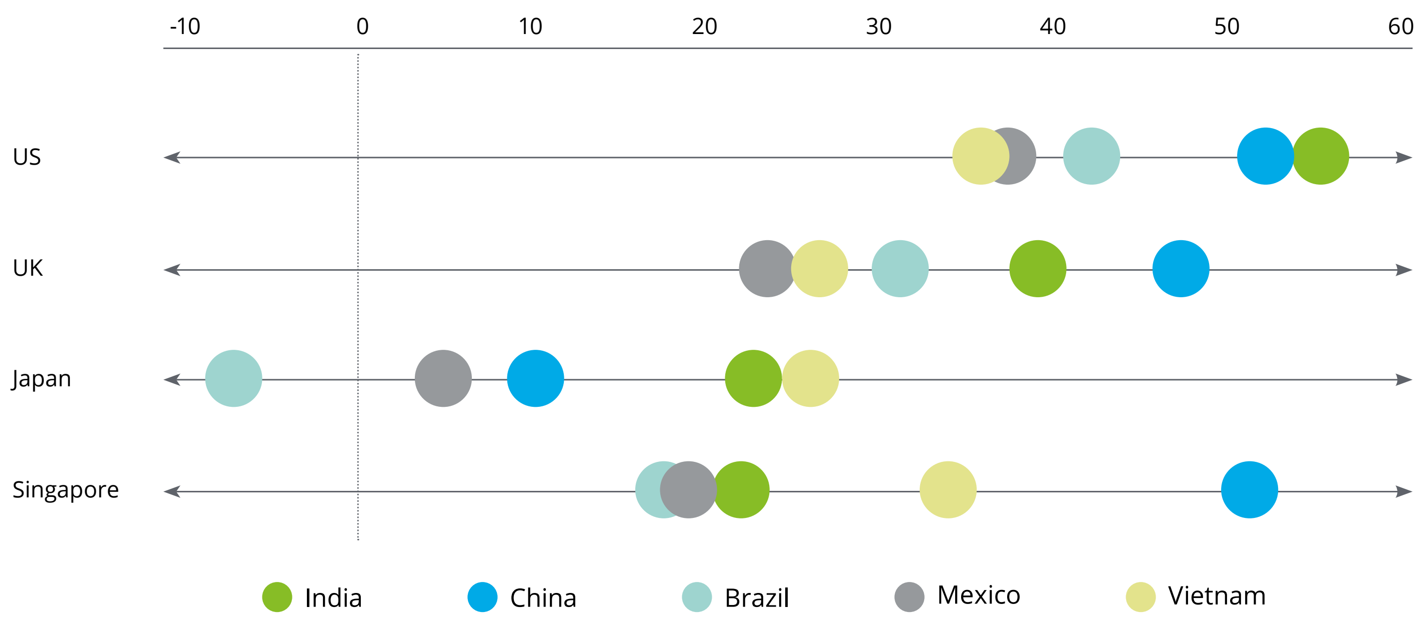


Finding #4 — A competitive FDI environment

Figure 9 shows that compared to respondents in the other four countries surveyed - China, Brazil, Mexico, and Vietnam - India has the strongest reputation amongst investors in the US and a close second in the UK and Japan, narrowly trailing China and Vietnam, respectively. While perceptions of China did take a beating over the past year, the country is still a close competitor to India amongst US investors as a destination for their capital investments.

Figure 9: Business leaders: Average net descriptor score by country

Compared to the other four countries tested, India has the strongest reputation in the US, narrowly trails in the UK and Japan, and in third place in Singapore



Given the US and UK's strong historic ties with India, business leaders expressed greater confidence in India and consider it an important market for new investments, owing to its appeal as an export hub as well as a domestic market.

Japan, which places very high importance on long-term stability of institutions and quality of infrastructure, holds a less favourable perception of India (Japanese investors view Vietnam as superior in this regard). However, Japanese businesses have said that their investments in India are focussed on developing domestic market opportunities, rather than creating an export hub for the rest of the world.

Business leaders from Singapore and especially first-time investors prefer a longer time horizon compared to the other three countries. While they view China and Vietnam as preferred destinations across all metrics (stability, quality, and workforce), most first-time investments from Singapore are likely to come through in three or more years.

Section 3: Recommendations

1. Creating the right institutional framework for outreach to potential investors

Given that perception management is key to attracting investment, advocating the government's policies and reforms and investing in focussed marketing is essential. The following are a few recommendations:

- Setting up an institutional structure for close coordination between the Ministry of External Affairs, Department for Promotion of Industry and Internal Trade and concerned line Ministries for leveraging Indian missions / consulates to create higher awareness about policy and regulatory reforms and related initiatives being undertaken in India.
  - The initiative should be particularly focused on countries like Japan, Singapore, select EU countries, etc., which may not be as familiar with India as the US, the UK and specifically target prominent industry bodies as well as potential anchor investors in the identified focus sectors for investment.

2. Reinforcing the different roles of government through focused communication

With MNCs continuing to look for alternative global manufacturing hubs, the government can position India well to capture a disproportionate share of this tectonic shift, by playing four distinct roles (as shown in Figure 10).

Figure 10: Four key roles that the government can play

Creator	Negotiator	Facilitator	Enforcer
The government oversees digital infrastructure development, which serves as the backbone for the trade ecosystem; this infrastructure can be used across industries and is an added value prop for the government to showcase globally	The government engages with other countries and MNCs to formulate trade agreements, resolve trade-related disputes, and represent India's best interests in front of global trade forums. This is also largely industry agnostic	The government facilitates interactions between the private and commercial sectors to incentivise manufacturing; it evaluates, assigns, and collects tariffs and duties to protect domestic marketplace interests	The government sets up legal/ regulatory frameworks and institutions to ensure that global supply chains are safe, secure, legitimate, and fair to protect national and economic security; this requires interagency coordination
E.g., showcasing Aadhar, COWIN, NPCI, NETC, BBPS, and DigiLocker as tools that can improve ease of business for global investors	E.g., FTAs and preferential tax deals that seek to serve mutual benefit to both, the investor, as well as the Indian economy	E.g., offering PLI, FDI incentives, tax rebates, set up SEZs in specific priority sectors, enable anchor investors to set up/ expand base in India	E.g., anti-dumping policies, mechanism to ensure proper disbursal of incentives, accurate classification of IPR, risk-based policy framework
Korea's e-Govt. services and ICT infra ecosystem; Estonia's blockchain-led e-Govt. services	Since 2007, Vietnam has entered many FTAs outside ASEAN – CPTPP, VCFTA, UKVFTA, VKFTA, EVFTA, RCEP	China's Pearl River Delta Economic Zone; incentives to tech clusters to drive advanced battery manufacturing	US's strict anti-dumping laws, robust IPR mechanism, etc.; continues to get the largest FDI globally as a result

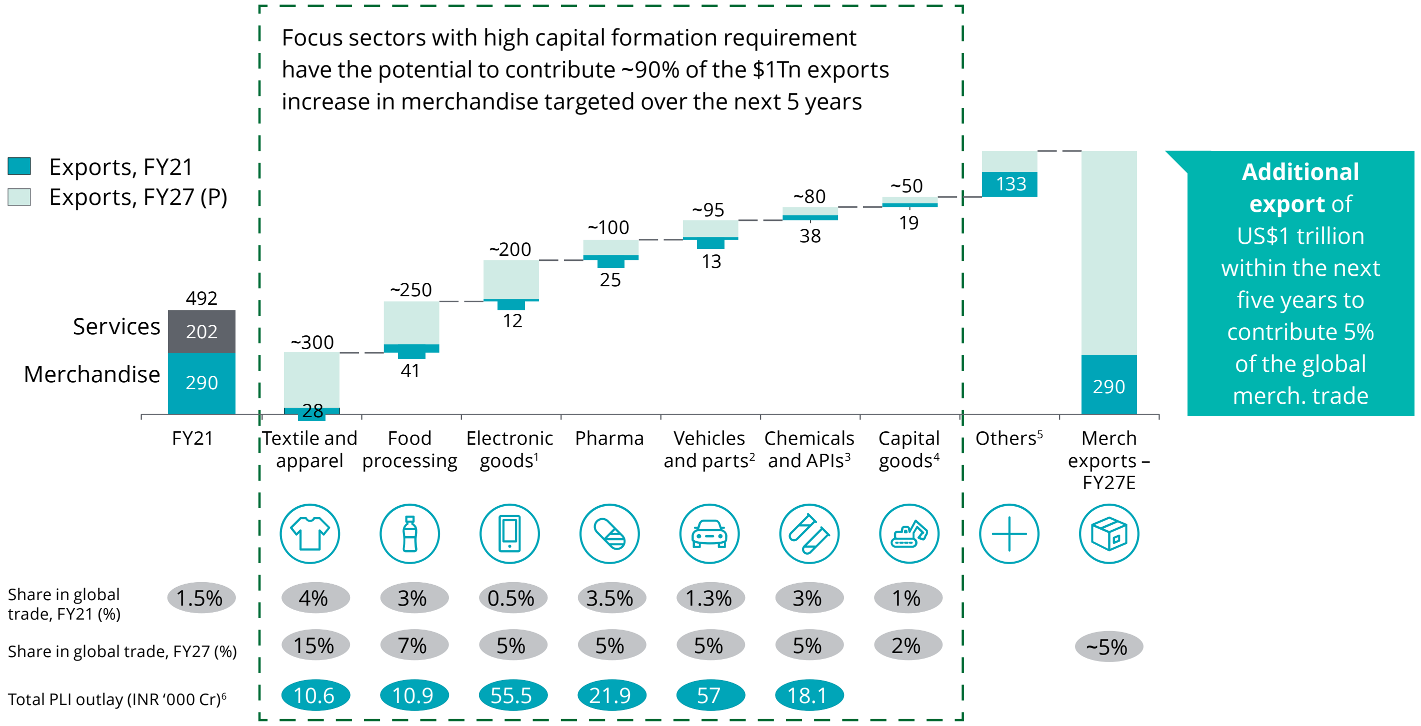
A targeted communications campaign highlighting relevant actions already taken or being taken by the government and driven through consular offices in select countries may go a long way in addressing perception-related issues arising due to lack of relevant information.

Source: Deloitte analysis

India's FDI opportunity

3. **Channeling GCF through FDI in capital-intensive sectors**
India can target an additional US$1 trillion of merchandise exports in the next five years by attracting higher FDI into capital investment-led focus sectors through schemes such as PLI (as shown in Figure 11).

Figure 11: Merchandise exports (FY 21 and FY 27E)



Source: Export Import data bank - Ministry of Commerce and Industry, DCPC, DHI, Invest India reports, Electronics and Computer Software ESC reports, SIAM reports, analyst reports and Deloitte analysis

Notes: [1]Includes medical devices; [2]Includes vehicles and auto components; [3]Includes organic, inorganic and specialty chemicals and doesn't include petrochemicals and pharmaceuticals; [4]Includes mechanical equipment and appliances, nuclear reactors, boilers, machinery, etc.; 5Others include petroleum products (9.2% of exports), gems and precious stones (9%), iron and steel (4.1%) etc.; 6PLI Outlay over multiple years

We have the following recommendations to attract FDI in seven capital-intensive sectors: electronics, pharmaceuticals, textiles and apparels, food processing, automotive, chemicals and capital goods:

I. **Electronics:** Despite being the third-largest market in terms of digital consumers, India only contributes to 3percent of electronics manufacturing; through its PLI schemes and additional policy reforms, India's export contribution could grow 16x to US$200 B

Electronic goods

US$400 B
India's electronics market size; third-largest share of digital consumers globally

US$70 B
India's electronics manufacturing industry, FY18 (3% of global share); 25% CAGR

US$12 B
Electronic goods exports in FY21; 0.5% of global market

US$2 B
FDI inflow over a six-year period (FY14-20)

US$5.3 B
Outlay through PLI for large-scale electronics manufacturing (4-6% PLI for five years)

Key recommendations for the electronic goods sector

Creator
- Explore possibilities to increase the total outlay under SPECS to attract global organisations
- Create a platform to enable collaboration between Indian start ups and mobile phone manufacturers on mobile software, OS, and application development

Negotiator
- Extend the lower corporate tax rate to existing manufacturing companies that achieve identified thresholds of increased manufacturing activity
- Extend/reintroduce the weighted deduction of 150-200%, provide tax credit, cash grant for entities undertaking R&D activities

Facilitator
- Facilitate investment in R&D centres by leading telecom equipment manufacturers focussing on product development, software, and operating systems for India and global, through an R&D linked incentives programme.
- Facilitate investment by global medical electronics manufacturers through market access and incentives
- Extend higher incentives to Original Design Manufacturers (ODMs) under the PLI scheme to focus on manufacturing active components for the downstream electronics value chain
- Enable an export focussed infrastructure and regulatory environment to reduce operating costs and lead-times

Enforcer
- Focus on development to enhance domestic manufacturing contribution in electronic components from the current sub 40 percent to 80 percent by 2024
- Review and improve regulations and processes on customs, export shipments, and timelines
- Review regulations to promote zero e-waste, preserve valuable metals, and progress towards refurbished reusable electronic equipment

Source: Deloitte research and analysis

II. **Pharmaceuticals:** The government can also focus on industries that have the potential to show quick results and set a global precedent; the pharmaceutical sector has the potential to become a US$100 billion pharma factory of the world

Pharmaceuticals

US$41 B
India's pharma industry, 3% of global market; 80% formulations and 20% APIs

US$25 B
Pharma product exports in FY21, ranked 11th globally;

US$14 B
Export of generics, fulfilling 11% of global demand

40%
Share of generics exported to the US, the largest market

US$60 B
Targeted increase in exports by 2025 across generics, APIs, and bio-similars

Key recommendations for the pharma sector

Creator
- Establish a "One Pharma" consolidated platform for sourcing, contracting, quality control and regulatory approvals for utilisation of capacities of 3,000+ mid-sized facilities
- Accelerate the establishment of additional centres of manufacturing excellence with integrated facilities for global companies to utilise India's competitiveness in the value chain beyond generics (on the lines of bulk drug parks)

Negotiator
- Examine existing multi lateral and bi-lateral trade agreements with priority trading partners to streamline existing duty structures and facilitate trade flows
- Consider increasing the applied customs duty rate to WTO-bound rates on pharma products, especially where capacity utilisation for specific APIs is below 30%

Facilitator
- Follow up on "One Pharma" to align regulatory standards with global best practices to enable global companies to establish strategic partnerships with the ecosystem
- Streamline policies to strengthen existing R&D in India, covering both Indian and global companies with specific focus on the biosimilars and biologics value chain

Enforcer
- Strengthen existing "Single Window" approval mechanisms, especially in areas such as drug mfg. license which requires coordination between the central and state government agencies (integrating all approvals into the Sugam portal)
- Focus on biosimilars and biologics with a simplified and faster regulatory approval mechanism for clinical research and allied activities

Source: Deloitte research and analysis

III. **Textiles and apparels:** While the textiles and apparels (T&A) industry contributes strongly to both GDP and exports, there is potential to accelerate India's global value chain participation by over 10x to US$300 B, especially in technical textiles and ready-made garments

Textiles and apparels

US$75 B
India's domestic T&A industry, growing at 10%

US$28 B
T&A exports in FY21e; ~4% of global trade, ranked fifth globally

59%
Share of exports to EU (32%) and US (27%) but could not increase unlike Bangladesh and Vietnam

US$0.6 B
FDI during FY20-21, ~0.5% of total FDI in this period

21%
Decline in global cotton yarn exports in FY15-20; lost to Vietnam and China

Key recommendations for the textiles and apparels sector

Creator
- Focus on scaling up demand and domestic production of technical textiles by notifying usage in PLI, specific sectors, and through a DARPA-like conditional grants system
- Accelerate demand for technical textiles by incentivising usage (e.g., jute geotextiles in civil engineering)
- Speedy execution of MITRA-integrated textile parks is critical; MITRA will need the right type of ready infrastructure (e.g., factory shed, WH, labs) and good connectivity with seaports to succeed

Negotiator
- Neutralise the advantage that countries such as Bangladesh and Vietnam have in terms of duty-free access to input materials and key export markets by entering new FTAs
- Review existing FTAs with ASEAN countries, South Asia (SAFTA), and Japan as the tax rate is 0-5%, making imports of textile products cost competitive in India

Facilitator
- Impetus to man-made fabrics by levying uniform 5% GST across the value chain and raw materials, also eliminating fund blockage from the inverted duty structure
- Facilitate the setting up of manufacturing units with a minimum scale of operations, which can be used for targeting both domestic and export markets in ITP and SEZs

Enforcer
- Increase local sourcing from the current 30% in a phased and calibrated manner (say, 50%). This could reduce imports of RMG from countries such as Bangladesh and increase value addition capital formation in India

Source: Deloitte research and analysis

IV. **Food processing:** There is significant opportunity in the food processing industry for value addition through higher processing and generating rural employment to increase India's global trade contribution to US$250 B (7% share)

Food processing

US$263 B
India's FPI industry, growing at 10% AAGR since FY13

US$41 B
FPI exports in FY21; 3% of global trade, ranked 14th globally

22%
Contribution of rice to FPI exports, with Iran and Saudi being key markets

US$0.6 B
FDI during FY19, <1% of total FDI in this period, despite 100% FDI being allowed

10%
Share of agri-output processed by India, behind most SE Asian countries

Key recommendations for the food processing sector

Creator
- Expedite country-wide initiatives to integrate existing databases on farmer co-ops/farmer producer organisations Kisan credit card holders, etc., on a single platform for linking with e-NAM, GeM, and even large private platforms

Negotiator
- Initiate discussions with the US on restoring the Generalized System of Preferences for addressing import-duty related disadvantages for items including prawns and crustaceans.
- Explore the possibility of increasing applied import duties within the WTO bound duty rates cap to promote competitiveness of domestically manufactured products
- Initiate better FTAs by renegotiating existing trade agreements and lowering existing Non-Tariff Barriers; relook at RODTEP rates to help maintain export competitiveness (aligned with erstwhile MEIS schemes)

Facilitator
- Extend concessionary provisions currently available under the Mega Food Park scheme to single occupant facilities by large anchor investors, supported by initiatives to attract large food processing initiatives (including concessions under the SEZ act)
- Incentivise R&D and tech development with a focus on import substitution through seed funding, encouraging collaboration between institutes, start-ups, and companies

Enforcer
- Rationalise the GST structure to increase demand and incentivise the processing of agriculture and horticulture produce
- Increase the outlay for the PLI scheme to include other products and explore relaxing a few of the eligibility and evaluation criteria

Source: Deloitte research and analysis

V. **Automotive:** With a changing global landscape driven by alternate fuels, the automotive sector has the potential to become a US$600 B industry in the next five years and a global hub for exports of components

Automotive

US$220 B
Automotive market size in 2020

US$60 B
Size of the Indian vehicle finance industry

26 M
Units of production in FY 20

4.7 M
Units of exports in FY 20

6.3 M
Expected sale of the electric vehicle (units) - 2027

Key recommendations for the automotive sector

Creator
- Create a comprehensive alternative-fuel policy that provides both fiscal and non-fiscal benefits to suppliers, manufacturers, vehicle buyers, and ecosystem partners
- Launch sub-segment specific guidelines that focus on domestic value addition in key/critical components that would also provide a platform for exports

Negotiator
- Examine existing trade agreements with priority trading partners to streamline existing duty structures to facilitate trade flows in the automotive sector

Facilitator
- Align the PLI Scheme to specifically cover the cross section of Tier 1 and Tier 2 domestic suppliers with added incentives for the EV portfolio
- Incentivise the expansion of the Automotive Skills Development Council (ASDC) across India with a specific focus on emerging electric vehicle and associated technologies for skill development and certifications

Enforcer
- Accelerate the deployment of the scrappage policy with hub-and-spoke models for vehicle inspection and aggregation (spokes) using the existing ecosystem and scrappage (hub)
- Mandate the production and sale of Zero Emission Vehicles (ZEVs) that would accelerate the deployment of alternative fuel vehicles including electric vehicles

Source: Deloitte research and analysis

vi. **Chemical Industry:** India's chemical industry is poised for strong growth and has the potential to reach US$300 B by 2025 and emerge as a global manufacturing hub, supported by strong demand, favorable government initiatives, and industry policies

Chemicals

US$178 B

India's chemical and petrochemical industry in FY20 to grow at 10%+ to US$300B by 2025

US$39 B

Chemicals and [etrochemicals exports in FY20; ~12% of total exports

US$51 B

Chemicals and petrochemicals imports in FY20; ~11% of total imports

2.5%

Contribution of Indian chemicals industry to global chemical sales

US$1.3B

Average FDI over three year period from 2019 to 2021

Key recommendations for the chemicals sector

Creator
- Fast track implementation of PCPIRs and provide single-window clearance for all investments. Integrate PCPIR with aspects of "National Infrastructure Pipeline" to enable seamless connectivity. Facilitate access to specialised common infrastructure, linking factories with utilities, electricity, and common effluent treatment plants.
- Promote low-carbon manufacturing to ensure exports are competitive in regions that may implement restrictive border carbon taxes and emission regulations

Negotiator
- Negotiate and expedite Free Trade Agreements with EU, the US, and other major markets that India does not have preferential agreements with, in line with domestic production volumes and planned investments for specific segments for equal beneficial to all the stakeholders

Facilitator
- Streamline the execution of the PLI scheme for the chemicals industry to facilitate speedy deployment and capital utilisation
- Facilitate skill development in the chemicals petrochemicals sector to train workforce for industry-specific roles and improve the availability of skilled workers
- Develop academic institutions to enable industry-academia collaboration and provide a cost-effective mechanism to catalyse innovation and growth in the chemicals space to develop novel technologies and processes

Enforcer
- Impose anti-dumping duties more proactively on specific chemicals in the industry that are vulnerable to price competition from cheap imports
- Continue to streamline and enforce pollution standards to ensure players are incentivised to adopt them and make sure all players are operating on a level playing field

Note: [1]Includes organic, inorganic, specialty, agro-chem and petrochemicals
Source: Deloitte research and analysis

India's FDI opportunity

vii. **Capital goods:** There is significant opportunity in the capital goods industry to reach US$100B by 2025, enabled by policies, support to MSMEs, and the adoption of Industry 4.0 technologies

Capital goods

US$43 B

India's capital goods industry,12% of manufacturing activity

US$25 B

Exports in FY20; 0.8% of global trade, ranked 25th globally

56%

Share of "heavy electrical equipment" in the total capital goods market in India

US$100 B

Generation and T&D market to reach US$100B by 2025

US$8.4 B

FDI from 2000 to 2020 in the CG sector; ~1.8% of total FDI in this period, despite 100% FDI allowed

Key recommendations for the capital goods sector

Creator
- Bring all segments of the capital goods sector including heavy electrical equipment, process plant equipment, construction, earthmoving and mining machinery, and machine tools under a PLI Scheme
- Create a comprehensive PLI scheme including for MSMEs that focusses on investments in plant and machinery, R&D, technology transfer, I4.0 adoption and, employment generation

Negotiator
- Discourage the import of used equipment and machinery by disallowing the depreciation allowance on such imports and restricting imports to actual users
- Re-examine the inverted duty structure and the unintended consequences of export promotion policies such as zero duty on import of capital goods, which affects the competitiveness of domestic producers
- Enforce the minimum acceptable safety and performance standards for machinery to enhance competitiveness and curb the inflow of sub standard capital goods

Facilitator
- Support the development of high tech training centres in manufacturing technology (including emerging areas such as digital manufacturing, additive manufacturing, smart machines, IoT, Industry 4.0, and data analytics) by companies, industry associations, and academic institutions, for widespread implementation

Enforcer
- Allow higher depreciation of 25% on indigenous capital goods to encourage investment and faster technology upgradation
- Enforce zero deviation on compliance with Public Procurement (preference to Make in India) Order across segments
- Launch new schemes to finance MSMEs focussed on the adequacy of working capital
- Make mandatory payments to MSMEs by Letter of Credit, beyond a threshold order value

Source: Deloitte research and analysis

4. **Attracting and diversifying FDI to create larger opportunities**

    The creation of high-yielding assets and greater capital productivity will spur India's long-term GDP growth. Attracting FDI enables access to technology and integration with global supply chains and networks. All these create a virtuous circle of larger opportunities, higher asset creation, and improved capital productivity leading to a multiplier effect on income and jobs.

    However, India also needs to diversify its sources of foreign capital. Currently, the US and the UK are the most enthusiastic investors in India. Diversifying India's source of FDI will aid in broad-based networking, accessing varied technology and resources, as well as mitigating geopolitical risks.

5. **Nudge FDI to boost the start-up ecosystem**
    Start-ups are creating new markets: they are agile, risk takers; they innovate and understand scale. Start-ups created 60,000 direct jobs and between 130,000 and 180,000 indirect jobs.[iii] They have fanned economic activity in Tier 2 and 3 cities.

    Start-ups have been pivotal in e-commerce, fin-tech, food-tech, health-tech, and ed-tech, all digital platforms that have delivered new or ensured continuing services through lockdowns.

    Despite their strong recent visibility, most Indian start-ups fail within the first five years. The main reason is debutant entrepreneurs' struggle to attract seed capital and even monetize ideas.[iv] The government is working towards strengthening the start-up eco-systems for nurturing innovation and creative ideas. The government enabled INR 960 crore of funding to Start-ups benefitting over 4000 start-ups through various schemes. It has also allocated INR 828 Cr sanctioned funds for infrastructure. These measures are in addition to several other supports such as credit guarantees, tax exemptions, amongst others.

    That said, India can also use FDI as a means and ways to establish bilateral cooperation with countries that have brought India closer to global investors and use the network to help start-ups tap funds globally, as well as aid in deepening investment and trade ties. While venture capitalists, angel investors, and private equity funds play an important role, the government can target global sources for such funds to supplement domestic funding sources and even bring in expertise and ideas. Israel, France, and Singapore, among others, have been active in supporting start-ups and building out ecosystems of finance and ideas in the country. India could leverage, their culture of entrepreneurship and innovation to buttress India's start-up growth.

[iii] NASSCOM, 2019, Ibid
[iv] Rumki Majumdar. 2020. Finding New Frontiers: The Challenges of Early-Stage Indian Entrepreneurs in Accessing Finance in an Evolving Startup Ecosystem. Entrepreneurial Finance in Emerging Markets, Springer Link, pp 193-211
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Conclusion

To grow into a US$5 trillion economy by FY27, India needs to attract FDI in capital-intensive sectors that add to the country's gross capital formation; this is particularly important considering India's declining domestic savings. India's competitive advantage such as a large and growing domestic market and skilled technical workforce, makes it an unmatched magnet for investors. It is already clear, though, that start-ups, combining innovation and scale, will play a progressively important on India's journey to a US$5 trillion economy. The government must showcase to the world India's dazzling potential as an attractive manufacturing destination while also aspiring for a greater share of global investments and trade flows.

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