Sterling access

2020 Review

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Building a better working world

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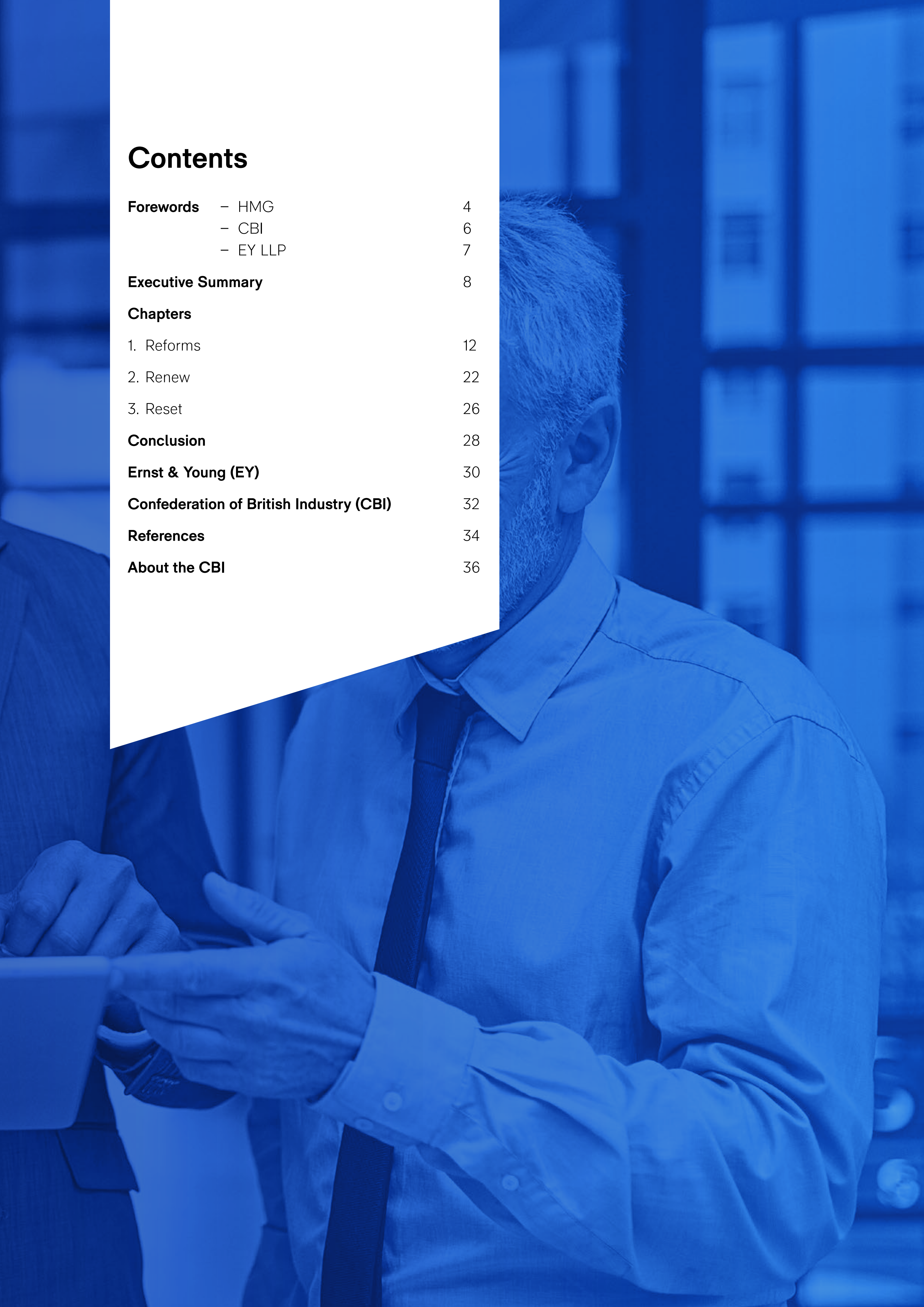
International Trade

Contents



Foreword HMG

It gives me great pleasure to introduce the *CBI-EY Sterling access – 2020 Review*.

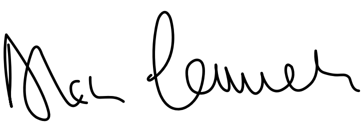
This year's report focuses on the key themes of 'Reform', 'Renew' and 'Reset' for businesses in light of the Covid-19 pandemic – recognising the commercial, economic, political and social challenges of 2020 and the critical role business has played and will continue to play.

Prime Minister Modi has successfully put improving India's Ease of Doing Business amongst his topmost priorities. In 2016, the United Kingdom became India's first and only country partner on this mission; we worked with the International Finance Corporation (IFC) to help identify 187 reforms, which the Government of India is keen on rolling out across 28 States and eight Union Territories. We are developing tailored reforms with a small number of state governments in compliance, labour, land and trade facilitation.

The UK and India are an unbeatable combination. Over 400 UK companies in India employ more than 450,000 people – and created 50,000 jobs within the last 2 years. 842 Indian companies in the UK with combined revenues of almost £48 billion employ more than 100,000 people. Overall trade between our countries hit £24 billion in 2019, up by almost 10% in just one year and Britain has been the second fastest growing G20 investor in India over the last ten years.

The benefits of the UK-India partnership are clear: new jobs, economic growth and new avenues to co-create and co-innovate. This was also clear at the Joint Economic and Trade Committee held on 24th July 2020 chaired by the UK's Secretary of State for International Trade Liz Truss and Minister of Commerce & Industry Shri Piyush Goyal at which both countries agreed to conclude an enhanced trade partnership as part of a roadmap that could lead to a future free trade agreement.

This report further underscores the ongoing and significant role the CBI plays to support British business here in India and around the world. We look forward to continuing to work with the CBI and businesses in both countries to take up the many identified opportunities to strengthen commercial and economic ties.



Alan Gemmell
HM Trade Commissioner, South Asia
Department for International Trade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Foreword CBI

This year has hardly been business as usual. India, much like the rest of the world, is facing the challenge of bringing its economy back to its feet following the Covid-19 pandemic outbreak. It has used this opportunity to change policies which will make its economic fundamentals stronger in the long run. With the call for a self-reliant India, *'Atmanirbhar Bharat Abhiyan'*, by Prime Minister Mr Narendra Modi during the lockdown, there is renewed hope that India will become an integral part of the global supply chain.

This *CBI-EY Sterling access – 2020 Review* tracks the progress of the seven recommendations made in the first edition of the publication. The spotlight is on five states in India which attract the highest amount of FDI from the UK - Maharashtra, Karnataka, West Bengal, Tamil Nadu and Delhi.

The pandemic has left businesses hamstrung with unforeseen challenges. The government however, has pressed on with some significant changes, namely labour reforms, risk adjusted inspection requirements (risk-based inspections) and introduction of online processes.

This year we went a step further in our advocacy by bringing British Deputy High Commissioners', senior Indian state government officials and our members around the table. A virtual table. Embracing the digital acceleration that this crisis has driven.

We thank our member partners EY for their excellent collaboration on the ground. We are grateful to all our members and the British High Commission in India for their continued support and guidance.

Shehla Hasan
Country Director
CBI India

Foreword EY LLP

Shaped by the virus, a new world order is in the making. This will define the new economic order, relocation and redeployment of capital across various parts of the world.

The pandemic has provided a window to regulators to bring in new regulations, revisit the existing ones and also do away with some of them. Now is the time to also reset the laws and regulations, which take up judiciary's time and be more responsive for a progressive society.

Governments have been supportive in these tough times. There is emphasis on better synergy among centre, states and district authorities, but there is also enough room for improvement. Special economic stimulus package under '*Atmanirbhar Bharat Abhiyan*' to support manufacturing and the employment generated will support consumption as well. Businesses are reinventing to keep pace with change in demand patterns.

The EY's government and public sector community has been working closely with governments across the world to prepare economic revival strategies and help them adopt digital technology to create new ways of working. In India, the EY is working with more than 18 states, 15 central ministries and 210 districts on several immediate initiatives. These include Invest India's business immunity platform, to resolve problems pertaining to procurement of raw materials, logistics, regulatory approvals as well as preparing a strategy to lift the lockdown in phases.

While returning to the new normal of working, at unit level labour management and reskilling is one major issue that units are dealing with, re-establishing the supply chain being the other. Business with flexibility will find adopting to the new normal in a more responsive way.

We cherish our association with the CBI and working on the report in consultation with fellow members. We hope that this report brings out the CBI's pointers for the government's consideration and also documents how CBI members in India have contributed to efforts of overcoming the challenges of these difficult times.

Adil Zaidi
Partner - Economic Development Advisory
EY LLP

Executive summary

The *CBI-EY Sterling access – 2020 Review* has revisited the CBI's seven key recommendations to the government of India and tracked progress against each.

With one-to-one interviews and virtual roundtable discussions we took stock first-hand, of progress made in the ease of doing business via centre and state business reforms. This insight focussed on the five states within which most UK businesses operate, Maharastra, National Capital Region, Karnataka, West Bengal and Tamil Nadu, and their respective metropolitan capital cities Mumbai, Delhi, Bangalore, Kolkata and Chennai.

The report groups its recommendations under three headings: **Reform, Renew and Reset**.

Reform

The Indian economy and the political drivers of change in India are complicated, so reform can take time. Often it takes a specific catalytic event such as the pandemic to highlight the stark necessity for reform.

The drivers for reform in the pre-Covid era were based on the governments' objective to improve India's ranking on the World Bank's *Ease of Doing Business* index. Although some progress has been made, the pandemic has stifled further liberalisation, indeed increasing protectionism. It has also required India, much like the rest of the world, to accelerate the use of digital and online services. The introduction of such tools to avoid human touch points in the regulatory chain has resulted in faster and more transparent ways of regulatory compliance.

We found that substantial progress has been made in streamlining the number of regulators, shifting toward risk-adjusted inspection requirements (risk-based inspections) and in labour reforms.

We have also explored some new states where UK companies could consider investing. The ranking of states by the Department for Promotion of Industry and Internal Trade and the World Bank shows some new winners in India's Business Reform Action Plan rankings this year. Some noteworthy new states which have undergone significant reforms are Andhra Pradesh, Uttar Pradesh and Madhya Pradesh.

Renew

This year has led to a renewed commitment by both UK and India to expand their ambition on mutual trade. In the year ending March 2020, the UK and India traded goods and services worth £24 billion (US$ 30.7 billion)[1] a 11.6% increase over the previous year.

Through the Joint Economic and Trade Committee (JETCO), the working groups on IT, life sciences and food and drink are progressing well. There is a further plan to have a working group on services and a new tariff dialogue is on the cards.

They now have a clear roadmap in their 'building block' strategy towards an Enhanced Trade Partnership, paving the way for a potential Free Trade Agreement.

Based on this progress and with direct feedback from CBI members, the CBI recommends three further measures to improve the attractiveness of India's market for British business:

1. **Adopt international standards and certification** to attract foreign investment and position itself as a global exporting hub. Sectors for which harmonisation could prioritise include boiler components, vehicular regulations and medical devices.
2. **Allow wholly owned foreign enterprise status in the insurance sector.** Enabling foreign ownership to increase from 49% to 74% would support employment and spur growth in the Indian economy.
3. **Formalise the new JETCO services working group.** Services underpin cross border trade and investment and will drive global economic growth. The UK's service based economy can support Indian economic development. CBI stand ready to support.

Reset

In the wake of the pandemic, India is resetting its global economic ambitions. With the call for a self-reliant *(Atmanirbhar Bharat Abhiyan)* India by Prime Minister Modi, there is a renewed aspiration to become a part of the global supply chain. The former 'Make in India' slogan has been refreshed to 'Make in India, for the world'.

However, to attract fresh FDI in manufacturing and to become a global export base, India's path is going to be difficult with stiff competition from the ASEAN countries.

The CBI has six recommendations:

1. **Improve regional integration:** India pulled out of the Regional Comprehensive Economic Partnership (RCEP) last year to protect its domestic industry and agriculture. It is suggested that re-negotiations start focusing on its ambition to become a global exporting hub.
2. **Identification of new products and services to trade on, catalysed by the pandemic:** The pandemic has opened up key opportunities. It is time to assess what new products and services can be traded upon. For example, India had no capability in producing Personal Protection Equipment (PPE) at the start of the pandemic. However, it has quickly responded to the new demand. In two months, both domestic and foreign companies geared up to produce over 450,000 items per day. Exporting all over the world including the UK.
3. **Timely implementation of labour reforms:** All states and union territories should adopt and complete implementation of labour reforms to encourage international investment.

Drawing from the previous edition of this report, the next three recommendations are reiterated.

4. **Reduce technical barriers to trade:** India needs to adopt global standards and certification in order to realise its global ambitions.
5. **Develop a clear policy on Special Economic Zones:** The previous policy has lapsed. A new policy which supports India's economic ambitions, targeted at sectors for which India can be competitive in the regional context is required.
6. **Simplification of the Legal Metrology Act:** The Government should streamline business processes alongside decriminalisation to support compliance.

“The UK and India now have a clear roadmap in their ‘building block’ strategy towards an Enhanced Trade Partnership, paving the way for a potential Free Trade Agreement.”

Reforms

India is a federalised country. It has 28 states and eight union territories (UTs), each with their unique opportunities and challenges. In a way, UK companies see India as a set of multiple markets which are distinct, yet part of the same entity. UK investment in India is largely concentrated in a small number of these states namely Maharashtra, Karnataka, West Bengal, Tamil Nadu and the National Capital Region. The CBI and EY, supported by the British Deputy High Commissioners, ran a series of virtual roundtables across the capital cities of these states, to discuss reform progress over the last year – since the inaugural CBI India Sterling access report was published. Most of these discussions with UK businesses had the presence of senior state government officials who apprised us of the business reforms they have undertaken and those which are planned in their states.

Investment attractiveness of select Indian states for UK FDI

	Maharashtra	Karnataka	Delhi	Tamil Nadu	West Bengal
Rank in attracting FDI in India (October 2019-June 2020)	1	2	3	6	9
Cumulative FDI October 2019-June 2020 (US$ Billion)	8.4	5.6	4.9	1.4	0.44
Percentage of total FDI in India	28%	19%	16%	5%	2%
Land available for industry (hectares)	66,000[2]	9280[3]	1690[4]	13,000[5]	1906[6]
Number of areas earmarked for industry	289	173	24	41;[7] 5;[8] 39[9]	26;[10] 17[11]

Based on these discussions and insight from CBI members, below is a progress review of the recommendations in last year's report and recent actions taken by governments to address them:

1. Rationalise the number of regulators and government departments having authority over business

Government of India

In July 2020, the government of India announced that it was working on a 'national level single window'. The window will streamline regulatory approvals and compliance requirements from multiple central and states agencies. The system will also be geared to support risk-based self-regulations and third-party certification. Both new and existing investors will be able to use the system, and states are preparing to integrate their systems with the platform as they implement the Business Reform Action Plan (BRAP).

State government actions:

Maharashtra

In June 2020, the state government announced the 'Master Licence' plan, a new scheme of licensing known as '*Mahaparvana*'. New companies both in service and manufacturing sectors that have secured this licence, can start operations without waiting for any further approvals – streamlining 19 licences into one.

Karnataka

The Karnataka Industries (Facilitation) (Amendment) Ordinance, 2020 was issued in July 2020 to amend the Karnataka Industries Facilitation Act of 2002. The new act has enabled filing of combined applications when establishing a new manufacturing unit. This broadly includes permissions for land acquisition, health and safety procedures, trade licences and factory and buildings plans. It also allows for combined approval from different state committees and self-certification procedure.

Tamil Nadu

A new software portal is being developed to cater to 224 services of the state government's department for business. This will link into the new government of India portal. And will include permissions for land, labour compliances and enforcement of contracts.

2. Develop a clear policy for Special Economic Zones (SEZ)

There has been no government progress on the development of a new SEZ policy. The earlier policy lapsed in April 2020. With the reduction in corporate tax from 30% to 25%, there is a notion that SEZs may now become redundant as the desire to reduce taxation further may not be there.

Recommendations

A new SEZ policy should be developed to support both manufacturing and services sectors

The case for a new SEZ policy has been strengthened by the government's refreshed 'make in India, for the world' campaign. SEZ would attract investment and enable exports to support India's growth into a fully-fledged part of the global supply chain.

To ensure SEZs meet their intended aim, SEZ policy will need to work in concert with domestic policy. Examples include:

- Alignment of incentive schemes such as those for Software Technology Parks of India (STPI)
- Facilitating easier norms for land acquisition
- Supporting flexible labour laws
- Enabling the development of world class infrastructure and port connectivity.

3. Take a risk-based approach (risk adjusted inspection requirements) to regulations instead of inspecting all companies, activities and goods

Government of India

The government is in the process of implementing a Central Inspection System (CIS), which will synchronise inspections in real time both within and across State lines. This would be applicable to all States, covering labour, factories, boilers and legal metrology. It will also relate to State Pollution Control Boards keeping in view the nature and history of businesses in the regions related to compliance. Importantly, it will take a risk-based approach, therefore targeting the companies, activities and goods more effectively.

Karnataka

The Karnataka government is set to eliminate the existing form of 'surprise inspections' which currently exist under as many as 12 different Acts and applies to all businesses without utilising risk weighting. It is due to happen over eight months, starting July 2020. The Acts include those related to payments of wages, gratuity and bonus, labour rights, safety, air and water pollution.

4. Remove obsolete labour laws, reducing the number of inspections and expanding digital tools

Government of India

In September this year, three bills relating to occupational safety, health and working conditions, industrial relations and social security were cleared by the Indian Parliament. With the passage of these three bills, the government has gained legislative approval for splitting 29 labour laws into four broad codes. The first code on wages was approved last year.

Recommendations

Timely implementation of labour reforms

All states and union territories should adopt and complete implementation of labour reforms early to encourage international investment.

5. Make the sterling a currency for trading across India's borders

Progress has not been made on this recommendation although CBI continue to raise it with both the UK and India governments.

6. Simplification of the Legal Metrology Act

In July 2020, the Department of Consumer Affairs issued a stakeholder consultation for the decriminalization of Legal Metrology Act, 2009. It is proposed that only those violations which may have a criminal intent or affect the larger public adversely will be categorised as criminal. This is a welcome move.

Recommendations

The Government should streamline business processes alongside decriminalisation to support compliance

Examples of processes include:

- Extension or elimination of a renewal requirement for all licences and verification of weights and measures. This will ensure compliance due to a more relaxed business environment.
- Involvement of third parties for testing, recalibration and stamping. Inspection and certification by third parties is already allowed for other equipment, not covered by Legal Metrology Act. The working of third parties can be regulated by the government.
- The compliance submission process should be fully digitalised and automated. A compliance checklist should be uploaded on an industry's dashboard as the universal set of requirements for the industry. The system should be designed in such a manner that inspectors can input real-time observations from their physical inspections into a pre-designed inspection report for better consistency and transparency. The digital system should send automatic reminders to the businesses 15 days before the compliance document is due for submission. This would ensure easier compliance.
- Establishment of an Online Case Management system. This will enable business to settle any defaults with the department in a timely and transparent manner.

7. Work on a UK India social security agreement

Progress has not been made on this recommendation although CBI will continue to raise it with both the UK and India governments.

The impact of the Covid-19 pandemic on reform

The Covid-19 pandemic has already had, and will continue to have, a profound impact on the Indian economy. The crisis, combined with geopolitical issues, has made India more protectionist compared to many other regional competitors. At the same time, it has made them focus on where Indian strengths lie and what the future economy might look like, altering policies to attract investment accordingly.

In the last few weeks of the lockdown phase in late May, a £216 billion (INR 20 trillion) fiscal stimulus was announced by the Prime Minister of India Mr Narendra Modi. The stimulus - '*Atmanirbhar Bharat Abhiyan*' (self-reliant India) is 10% of India's GDP, the fifth highest as a portion of GDP for any major economy. The UK is the ninth largest with 5%.

The bulk of the fiscal stimulus is delivered through guarantees and loans with large portions dedicated to medium, small and micro enterprises (MSME), farm workers and daily wage labourers. The stimulus package is a mix of fiscal and monetary support.

Alongside the stimulus announcement, further reforms were announced to the business environment. One of the most significant being the ability for a foreign company to have a wholly owned foreign entity (max 74%) in the defence sector.

A self-reliant India

The Indian government sees the post pandemic recovery phase as an opportunity to push for an India which is part of the global supply chain. This step is a logical extension of the Make in India strategy, and a renewed focus on manufacturing for the world.

The Indian government has set out two sub-themes for achieving a self-reliant India. The first one is the five pillar theme of economy, infrastructure, a technology-driven system, a vibrant demography and demand. The second theme lays emphasis on land, labour, liquidity and laws.

The Prime Minister's call for using local goods was followed up with requirements to use only locally made products in Central Armed Police Forces (CAPF) canteens and a statement disallowing foreign companies from bidding for projects less than £21 million (INR 2 billion).

In August 2020, the government also banned the import of 101 defence components, in order to boost local manufacturing of defence products.

These actions have worried investors, although they agree that India is well within its rights to strive for capacity building and self-reliance. Domestic consumers also feel that in the short term, they may have to settle for lower quality, higher prices or both.

However, the government of India has clarified that a self-reliant India is not a protectionist or isolationist one. It believes this is the right time for pushing itself to be part of the world's supply chain. In his Independence Day speech this year, Mr Modi made it clear that self-reliance did not mean shutting doors on the world but means altering the terms of engagement to become part of global value chains.

According to India's Vice-President Mr Venkaiah Naidu, it is a 'pragmatic development strategy that would enable the country to recognize and capitalise on its inherent strengths'.

The government is working on the next phase of reforms to improve the ease of doing business. These will pertain not only to states but also at district levels. These will relate to:

- Easy registration of property
- Faster disposal of commercial disputes
- A simpler tax regime
- A new public sector enterprise disinvestment scheme.

Business Reform Action Plan for Indian states – where next for UK firms

UK companies interested in making fresh investments in India may consider the states which have been recognised as the most forward leaning on reforms. The top ten states which implemented business reforms as set forth in the Business Reforms Action Plan 2020 by the government of India are:

1. Andhra Pradesh	2. Uttar Pradesh	3. Telangana	4. Madhya Pradesh	5. Jharkhand
6. Chhattisgarh	7. Himachal Pradesh	8. Rajasthan	9. West Bengal	10. Gujarat

The ranking, completed by the Department for Promotion of Industry and Internal Trade jointly with the World Bank, is based on the implementation of the Business Reform Action Plan 2018-19 and feedback received from industry on reforms being felt on the ground.

The exercise is aimed at promoting competition between states with a view to improving the business climate to attract domestic as well as foreign investments.

The Business Reform Action Plan 2018-19 included 180 reform points covering 12 business regulatory areas such as access to information, a single window system, labour and the environment.

Notably, five of the seven states with the lowest income levels in India have found a place in the top ten. The low-income states that have scored well are Uttar Pradesh (2nd), Madhya Pradesh (4th), Jharkhand (5th), Chhattisgarh (6th) and Rajasthan (8th). Uttar Pradesh jumped ten places to rank second.

According to the central government, the rankings were based on reforms implemented by these states in the following areas:

- Single window for approvals/renewals
- Better access to information
- Better transparency in compliance requirements and timelines
- Simplified procedures for construction permit
- Implementing online registrations under labour regulations
- Enabling well-defined inspection procedures
- Establishment of specialised commercial division for dispute resolution

While not much evidence is available in the public domain, Uttar Pradesh (UP) stands out in the claims made for business reforms:

Uttar Pradesh

- Set up of commercial appellate divisions in Allahabad and Lucknow High Courts to resolve commercial disputes.
- UP's single-window portal *'Nivesh Mitra'* which deals with compliance procedures is credited with being the reason for its rise in the rankings for the year. It is claimed that, over the last two years, the portal has cleared over 200,000 applicatons for no-objection certificates and licenses.
- The state's nodal investment agency Invest UP *(Udyog Bandhu)* followed a coordinated approach with various departments to implement the reform. The policy areas included labour, the Pollution Control Board, commercial tax, power, stamp and registration, excise, food safety and drug policy.

Andhra Pradesh, the top-ranking state for the third year in a row, achieved 100% compliance with BRAP 2019, scoring highest on both reform implementation and feedback received from businesses.

Renew

The UK-India relationship is in fine fettle. There are over 400 UK companies in India, employing over 450,000 people and creating 50,000 of these jobs within the last two years. There are over 842 Indian companies in the UK with combined revenues of almost £48 billion (US$ 60.2 billion) and employing about 105,000 people.[12]

There is a mutual desire to make this relationship even stronger which was reflected both in bilateral moments such as the UK-India Joint Economic and Trade Committee (JETCO), and during the crisis. This extended beyond trade liberalisation into strategic asset development.

In a high-profile strategic investment, the British government and Indian mobile network operator, Bharti Global, placed the winning bid of US $1 billion on a 50-50 basis to acquire OneWeb, as part of a project to build a global network of low-altitude satellites.

The year 2019 saw a growing trade and investment partnership between the UK and India:

India invested in 120 projects and created 5,429 new jobs in the UK to become the second-largest annual source of foreign direct investment (FDI) after the US.[13]

In the year ending March 2020, the UK and India traded goods and services worth £24 billion (US$ 30.7 billion)[14] a 11.6% increase over the previous year.

The UK was the third largest recipient of India's overseas direct investment since 2017 till May 2020, receiving 8% of ODI worth £3.5 billion, after Singapore and the US.[15]

The UK is the sixth largest investor in India with cumulative investments of £22.05 billion ($28.39 billion) till June 2020. During the lockdown months of April to June 2020, the UK invested $182 million in India.[16]

UK-India partnership through Covid-19

Despite its heavy social and economic consequences, the pandemic has opened new avenues for UK-India co-operation:

- Indian vaccine major Serum Institute of India (SII) tied up with Oxford University and Astra Zeneca to manufacture one billion doses of the Covid-19 vaccine being developed by the UK companies. It is also conducting late stage human trials of the vaccine in India.
- The North Wales subsidiary of Indian diagnostic company Wockhardt will manufacture the same vaccine for the UK government but in the UK.
- The UK and Indian governments have created a fund of £60,000 (INR 5.6 million) to support manufacturing and bridge the gap between supply and demand of critical medical equipment like ventilators.
- Making an exception, India temporarily lifted the ban on export of paracetamol and exported three million packets of the medicine to the UK in April 2020.

Increasing ambition for a future FTA

India's Union Commerce Minister Mr Piyush Goel met the UK's Secretary of State for International Trade Ms Liz Truss virtually in the 14th Joint Economic and Trade Committee meeting in July 2020.

Both sides agreed to an Enhanced Trade Partnership as part of a roadmap that could lead to a future Free Trade Agreement.

The Enhanced Trade Partnership will seek to address non-tariff barriers to trade and will establish a specific dialogue to explore routes to removing tariff barriers.

Both governments also expanded the scope of joint non-tariff barrier liberalisation to include the services sector. So far, discussions had focussed on food and drink, IT and life sciences.

The CBI and its members were heavily involved in the JETCO. President Lord Karan Bilimoria participated in a select virtual roundtable with Minister Jayawardena in early July before the JETCO meeting as part of the UK government's consultation with business.

Business insight is essential for the success of trade liberalisation. The partnership between government and business can deepen in future JETCOs. Areas for potential collaboration include:

1. Reducing technical barriers to trade

One of the suggestions in the first edition of *CBI-EY Sterling Access: UK companies supporting India's growth* was for India to harmonise standards and accrediations with global best practice. Some sectors stand out which need attention. One of them is boiler components. In the manufacture of boiler components, standards mandated by the government regulator differ from the international market. These standards restrict imports which may make the Indian domestic manufacturing sector less competitive and less able to emerge as a strong player in global value chains. Similar issues have been reported in medical device and vehicle regulations.

2. Increase FDI limit in insurance sector from the existing 49% to at least 74% (wholly owned foreign entity status)

Allowing insurance companies in India to be wholly owned and managed by foreign investors would inject fresh capital into the Indian economy, create jobs and spur economic growth. This has been explored further in the case study.

3. Realising liberalisation in service sectors

The proposed joint working committee on services will support trade liberalisation and bring further UK expertise into India as the market develops its standards and working practices. The UK services sector is world leading and CBI can act as the partner of choice, bringing together insight across all sectors and business size.

Case Study

Foreign Direct Investment in the insurance sector

The Indian Finance Minister Ms Nirmala Sitharaman's budget speech in 2019 raised the possibility of expanding the FDI cap in insurance. However, the existing regulations require all Indian insurance companies to be managed and controlled by Indian shareholders..

Allowing insurance companies in India to be wholly owned and managed by foreign investors would inject fresh capital into the Indian economy, create jobs, spur economic growth and increase insurance penetration within the country. This would replicate the extension of foreign ownership rights from 49% to 74% in the defence sector.

Although India opened up the insurance sector almost 20 years ago, insurance penetration currently stands at 3.69%, one of the world's lowest. Before the insurance sector opened up in India to FDI in 2000, the Indian public sector had a monopoly in the market. This means the Indian private sector lack the vast experience of international firms, strengthening the case for increasing the FDI limit and giving foreign players the management control in the joint ventures.

Insurance

Further recommendations to enable growth of the insurance market:

- The cap on foreign investment in insurance companies should be raised to the same level of investment in the banking sector ie. 74%.
- Management and control of insurance companies should be left to the provisions of the Companies Act, 2013 and agreement of the partners. It should not be subject to regulatory intervention unless it is for a clearly explained reason. This should include a right to administrative review in a transparent manner.
- The foreign companies should be allowed to leverage their local or international talent pool for appointment of key management persons and there should not be any cap on the ability of foreign partners to populate the voting board members commensurate with their equity and without restrictions for qualified voting.

Reset

India has been consistently making the right changes to improve its ease of doing business. To achieve the ambition to become an integral part of the world's supply chain, is a daunting task. There is stiff competition from South East Asian countries such as Vietnam, Taiwan, South Korea and Bangladesh. These countries are already benefitting from multinationals moving out from China due to rising labour and environmental costs. This process has gathered pace as the US-China trade tensions developed.

To increase FDI into India and to convert it into an export base, the Indian government should look to take some essential steps to improve their competitiveness.

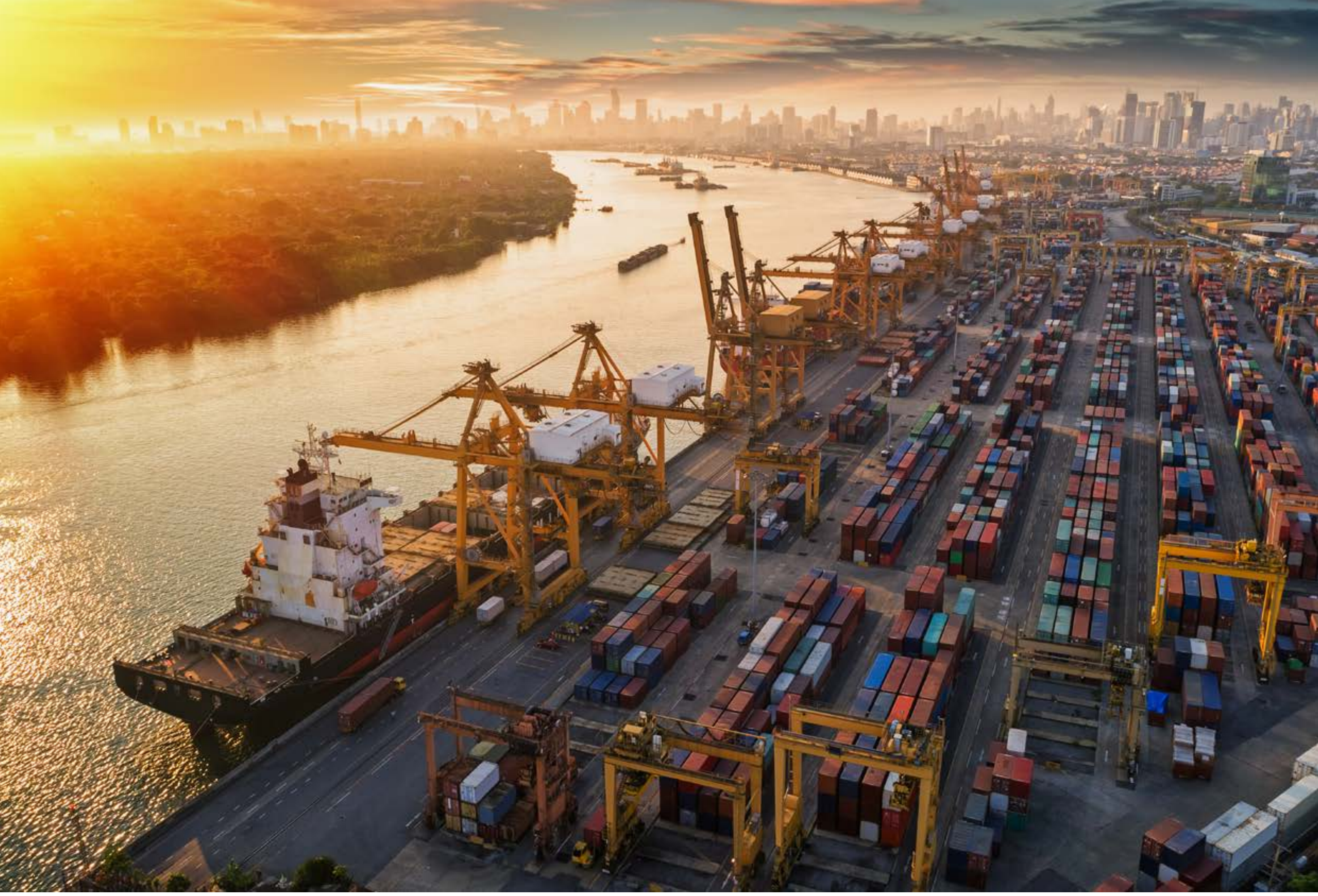
These include:

1. Regional integration

In November 2019, India opted out of the Regional Comprehensive Economic Partnership (RCEP) with China and the ASEAN fearing risk to its domestic industry and agriculture. However, this meant that Indian exporters have lost out on the benefits from tariff-free access to destination markets or offer reciprocity to its trading partners.

Recommendation

- In a post-pandemic world, India needs to re-negotiate the terms of involvement with RCEP with the underlying intention of benefitting from FDI and exports.



2. Harmonisation of local standards to global ones

In some cases, the standards mandated by the Indian government regulations differ from the international market. For India to achieve the status of a global manufacturing hub, it should embrace and adapt to international standards and certification.

For example, to produce boiler components, a UK company in India will ideally import goods and services from an array of locations. This may be in part due to a lack of Indian domestic production or a lack of economies of scale to bring the cost down. These products are typically certified by International approval agencies like Pressure Equipment Directive (PED) Europe, CE marking and the American Society of Mechanical Engineers (ASME). The Indian Boiler Regulations (IBR) guidelines do not allow these products to be used in India.

3. Assess capabilities for new products and services

The pandemic has opened up key opportunities. There is an increase in potential to do business in products and services related to health and pharmaceuticals and in the digital space. The government of India should identify which products and services they can take a leading role in, asssessing demand, supply and potential supply chains.

Conclusion

The UK and India, much like the rest of the world, are currently striving to adapt and respond to the biggest disruptor in our time, the pandemic Covid-19. The second quarter of 2020 experienced unforeseen contractions in both economies with India at -23.9% and the UK at -20.4%.

Despite this significant economic impact, the central and state governments have pressed ahead with their resolve to improve the ease of doing business. There have been significant progress on last year's CBI-EY Sterling access recommendations in key areas such as Labour reform.

With great challenges also have come great collaborations. As global economics and politics navigate through choppy waters, the UK-India relationship has continued to strengthen.

Looking ahead, the road to recovery is not going to be easy. India's ambition to become part of the global supply chain has to be preceded with some basic reforms and attitudinal changes. UK companies have and will commit to India's reform whilst supporting this culture shift. A stronger partnership between business and government will ensure that all policies to attract business are useful, used and ensure prosperity for all.

"With great challenges also have come great collaborations. As global economics and politics navigate through choppy waters, the UK-India relationship has continued to strengthen."

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Confederation of British Industry (CBI)

Across the UK, the CBI speaks on behalf of 190,000 businesses of all sizes and sectors which together employ nearly 7 million people, about one third of the private sector-employed workforce. With offices in the UK as well as representation in Brussels, Washington, Beijing and Delhi, the CBI communicates the British business voice around the world.

The CBI India office is based in New Delhi.

Here is a brief background about CBI India:

The CBI set up its full-time office in India in July 2012 and has over 150 member companies, mostly British employers doing business in India. It is a body which deals with members across sectors and size.

The CBI in India offers its members the following services:

Information & advice

- The CBI's New Delhi-based office provides members with independent, on-the-ground, economic, business and political analysis of the key issues mainly in the policy space facing companies in India.
- Members receive the CBI's monthly newsletter India Update.
- Company specific advice is provided through email, in-market and on visits to the UK.

Policy/regulatory issues

- Provides a voice to members in India on business matters, in meetings with Indian government officials and by feeding into UK and EU lobbying activities.

Events & networking

- Quarterly briefing of CBI members by the British High Commissioner to India.
- India Advisory Board meetings.
- Company specific workshops, business breakfasts and ministerial roundtable meetings with UK and Indian ministers in India and the UK.
- Joint activity and events in partnership with the Foreign and Commonwealth Office, Department for International Trade, UK India Business Council, FICCI, British Business Group, World Bank, CII and Department for Promotion of Industry and Internal Trade, Government of India.
- Special forums to help members with specific in-market needs.

India-related projects in CBI

- CBI Director General is part of the UK India CEO Forum.
- India is part of the international itinerary for the CBI's Leadership Programme.
- Mini-India events in UK regions
- Running the UK India Women's Leadership network.
- CBI-EY Sterling access publication

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About the CBI

Founded by Royal Charter in 1965, the CBI is a non-profit business organisation that speaks on behalf of 190,000 UK businesses of all sizes and from across all sectors, employing nearly 7 million people between them. That's about one third of the private workforce. This number is made up of both direct members and our trade association members. We do this because we are a confederation and both classes of membership are equally important to us.

The CBI's mission is to promote the conditions in which businesses of all sizes and sectors in the UK can compete and prosper for the benefit of all. With offices around the UK (including in Scotland, Wales and Northern Ireland) and representation in Brussels, Washington, Beijing and Delhi, the CBI communicates the British business voice around the world.

Our mandate comes from our members who have a direct say in what we do and how we do it

The CBI receives its formal mandate from 9 Regional Councils, 3 National Councils from Scotland, Wales and Northern Ireland plus 16 sector based Standing Committees. These bodies are made up of members in that region, nation or sector who serve a term of office. The chair of each Standing Committee and Regional and National Council sit on the CBI's Chairs' Committee which is ultimately responsible for setting and steering CBI policy positions.

Each quarter this formal engagement process across the CBI Council reaches over 1,000 senior business leaders across 700 of our members who have a direct say in what the CBI do and how they do it, from refreshing their workplan to discussing the key business issues of the day and re-calibrating its influence. Over 80% of the businesses represented on the CBI Council are outside of the FTSE350 as the CBI represents a wide range of sizes and sectors from the UK business community. This formal governance process is supported by a wide range of working groups, roundtables, member meeting and events that makes the CBI unparalleled at listening to and representing British business.

CBI Council in numbers

1000+

Committee and Council representatives

28+

Regional and National Council and sector based Standing Committees

50%

Representatives of the CBI Council at C-Suite level

80%

Of the CBI Council from non-FTSE 350 businesses

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To share your views on this topic or ask us a question, contact:

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