CHAPTER 1

OVERVIEW OF THE INCENTIVES FRAMEWORK AND MAKE IN INDIA AGENDA

It is no secret that the manufacturing sector is directly proportional to a country's Gross Domestic Product ('GDP'). It provides high wage employment opportunities, trade-related innovations, technological advancements while also contributing to sustainable growth. When we look at countries like United States of America or China, manufacturing sectors have contributed vastly to the GDP of these nations. Development of manufacturing sector further leads to creation of a strong business ecosystem, larger volume of cross border transactions including exports, strong currency growth, comparatively lower poverty rates, higher production capability, etc. Manufacturing sectors hence contribute significantly in forming a pathway from a developing state to a developed state. A developed state is self-dependent and less likely to be affected by global variables.

When we talk about India, wherein manufacturing was comparatively lower than United States of America and China, the need for importing goods from other countries was extremely high. This coupled with inflation, lower purchasing power of citizens and scarce employment opportunities furthered an economic slowdown. These circumstances made it imperative for India to increase the manufacturing base within the country and move towards a virtuous cycle of growth. It was these reasons which founded the background to the Indian Government's 'Make in India' campaign in September 2014.

Make in India and its Four Pillars

The aim of the Make in India campaign was to facilitate investment, foster innovation and enhance skill development while building best in class manufacturing infrastructure in the country. For this, the Government identified four major pillars - New Processes, New Infrastructure, New Sectors and New Mindset. Let us discuss these pillars in detail.

The first pillar of 'New Processes' identified the importance of 'Ease of Doing Business'. This was extremely crucial to boost entrepreneurship in the country along with initiatives to encourage more businesses and start-ups. Now, to facilitate the ease of doing business in India, various compliances were reduced to make it less burdensome such as lesser days to incorporate a company, reduction in the documentation requirements for undertaking international transactions, increase in validity of industrial license to 7 years, introduction of new bankruptcy laws, GST, etc.

The second pillar of 'New Infrastructure' focused on developing industrial corridors, building smart cities, creating world-class infrastructure, high-speed communication all of which was to be achieved by using advanced technology. The Government wanted to drive the economic growth and improve the quality of life of citizens by enabling industrial and urban infrastructure development.

The objective of the third pillar, i.e., 'New Sectors' was to identify 25 different sectors in manufacturing, infrastructure and service activities to promote economic growth; these being identified as 'Champion Sectors'. These sectors include - Automobile, Aviation, Biotechnology, Defence Manufacturing, Electronic, Food Processing, Media and Entertainment, Oil and Gas, Pharmaceuticals, Railways, Roads and Highways, Textile, Tourism and Hospitality amongst others. Further, the Government allowed Foreign Direct Investment in Defence Production, Construction, E-commerce, Retail and Railway Infrastructure.

Lastly, the fourth pillar of 'New Mindset' was and remains, as important as any other pillar, given its focus on building a private-public partnership of private players with the Government, whereby the Government wants to ensure more and more collaborative effort towards the development of the country.

Having outlined the four pillars of the 'Make in India' program, the Government of India was quick to acknowledge the need for granting incentives, both fiscal and non-fiscal in nature, to achieve the objectives envisaged and to attract investments in India from both international and domestic players. It was clear that without the said incentives, the 'Make in India' agenda would remain incomplete.

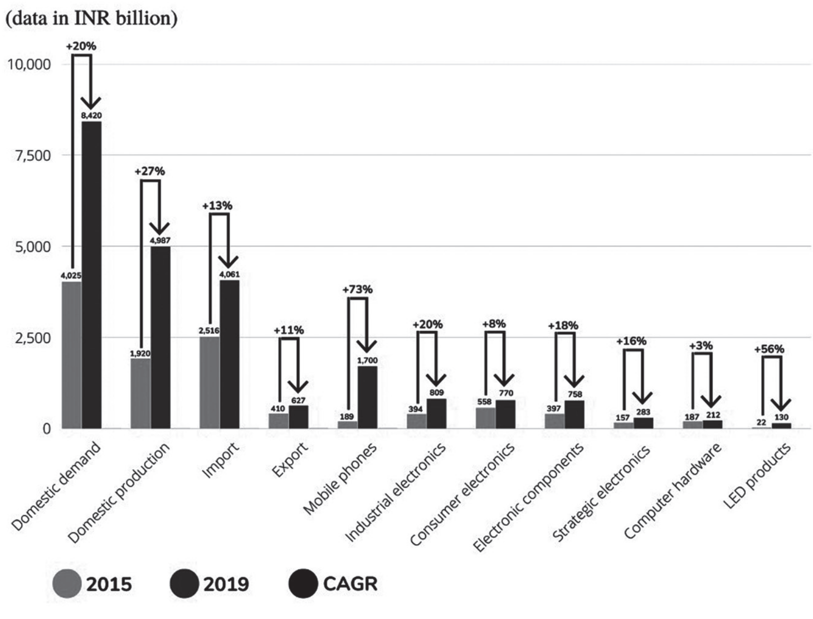
This led to a new era in the Indian ecosystem, wherein Companies were given direct aids by the Government for setting up manufacturing in India.

Early days of Incentives in India

A popular initiative of the Government in the incentive ecosystem, in the initial days, was the introduction of the Phased Manufacturing Program which aimed at increasing and promoting the indigenous manufacturing of cellular mobile handsets and its parts thereof. The Ministry of Electronic and Information Technology issued requisite guidelines, discussing various fiscal and financial incentives to be given to the manufacturers under this program including obligations liked minimum value addition in the country, etc. Further as a part of the said Phased Manufacturing Program, a detailed plan was laid down by the Indian Government to systematically structure the Countervailing Duty, Special Additional Duty of Customs, Basic Customs Duty and Excise Duty on imports related to Cellular Mobile Handsets and parts thereof.

Another popular scheme was the Modified Special Incentive Package Scheme, which was announced by the Indian Government in July 2012 to offset disability and attract investments in Electronics System Design and Manufacturing sector. The scheme provided incentives for setting up/expansions in the ESDM sector with incentives being granted in the form of capital subsidies – 20% for investments in Special Economic Zones and 25% in non-Special Economic Zones.

The aforementioned incentives led to significant increase in India's manufacturing of electronics hardware and reduction in import dependence. In 2017, India's domestic production of electronic goods, which was growing at 20% year over year in the past few years, exceeded imports for the first time, and has set a trend that has continued since. The below graph[1] outlines the success of these incentive in attracting investment in the electronics sector in India.



Now, while in the initial days the incentives provided by the Indian Government were relatively restricted and focused on certain target sectors such as consumer

1. Source: Ministry of Electronics & Information Technology, Annual Report 2019-20

electronics, the success of these initial incentives encouraged the Government (both Central and State) to extend these to a wider range of industries and sectors. These incentives have been discussed in detail in the subsequent chapters of the book.

General nature of the Incentives granted by Indian Government

Here we wish to mention that as on date, incentives are offered to businesses under the following two broad categories:

Central Incentives: These incentives are granted by the Central Government and are administered by the Ministry overviewing the respective sector. They have PAN India applicability and typically do not have any geographical restrictions. Examples of Central incentives include schemes such as Advance Authorisation scheme, EPCG, Export Oriented Units Scheme, Service Export Incentive Scheme, MEIS/RODTEP, Bonded Manufacturing Scheme, Production Linked Incentive Scheme, etc.

From a point of view of Central Incentives, India has undertaken a slew of historic tax reforms in the last few years, such as the reduction of Corporate Income Tax to 17.16% for new manufacturing units, the reduction of Corporate Income Tax for existing businesses to 25.17%, the abolition of taxes such as Dividend Distribution Tax and Minimum Alternate Tax, etc.

State Incentives: State incentives unlike Central incentives, are granted by the State Government and accordingly vary from one State to another. Generally, the States in India offer incentives in form of land subsidy, stamp duty exemption, electricity duty exemption/reimbursement, GST reimbursements, capital subsidy, etc. The quantum of incentives granted by a particular state generally vary basis the following factors:

- Quantum of investment made
- Location of investment
- The end-product being manufactured. Generally, most states provide additional incentives to thrust sectors identified by the states
- Employment generated
- Competition from other States
- Business expenditure and sales pattern

Furthermore, mega/ultra-mega enterprises have an option to apply for a customised package of incentives, over and above the policy, suited to their business needs. These are given based on the investment's strategic and economic importance and may be fiscal and/ or non-fiscal.

Additionally, while fiscal incentives form a major part of state policies, non-fiscal incentives like ensuring availability of land, water and power, provision of external infrastructure, date extensions in fulfilling obligations, etc. are also offered on a case-to-case basis.

Put together both Central and State incentives help businesses recoup at-least up-to 30% to 150% of their initial capital investments.

The following table captures a brief snapshot of the prevalent incentive(s) structure in India:

Activity/ Category	Central Government	State Government
Manufacturing Sector	**Income Tax Act, 1961** - 4 year window of lower Corporate Income Tax (17.16%) for new manufacturing units till 31st March, 2023 **Special Economic Zones** - Deemed foreign territory. Direct Tax, Indirect Tax and non-fiscal benefits **Custom-Bonded Manufacturing** - Deferred customs duty and IGST on import of capital goods and raw materials	**State Industrial Policies and Specific Sectoral Policies** - Drafted by Industries & Commerce Department of States valid for a period of 5 years - Incentivises capital expenditure and reduces operating expenditure - Quantum varies by investment size, employment generation, location, etc
Service Sector	**Income Tax Act, 1961** - Income-tax reduced to 25.17% for new services companies Other Schemes such as Special Economic Zones	**State Industrial Policies and Specific Sectoral Policies** Incentives for services sector are less than manufacturing. However, more and more State(s) are now offering incentives to IT/ ITES
Start Ups	**Income Tax Act, 1961** - 100% deduction of profits and gains derived from any 3 consecutive years out of 7 years from year of incorporation of 'eligible start-up' - Preference in public procurement	**State Start-up Policies** Almost all states in India have specific start-up policies. Incentives such as reimbursement of rentals, patent cost reimbursement, seed grant, preferential procurement, support in quality testing, etc.

In addition to above, certain import/ export incentives are also granted by the Central Government vide the Foreign Trade Policy 2015-20, such as Advance Authorisation scheme, Export Oriented Units scheme, Service Export Incentive scheme, etc. These have been discussed in detail in the Chapter relating to Foreign Trade Policy Schemes.

Atmanirbhar Bharat Abhiyaan and introduction of Production Linked Incentives

The significance of incentives was most acknowledged and realized in the year 2020 - when the world faced an unprecedented global pandemic entailing an unknown and unexperienced economic halt in business operations. To lessen the burden of the crisis, in the spirit of self-reliance and to resume economic activities, the Prime Minister of India announced an INR 20 lakh crore economic package under the 'Atmanirbhar Bharat Abhiyaan'.

Subsequently what followed was the launch of Production-Linked Incentive Scheme (PLI) in 2020, with an allotment of INR 1.97 lakh crores across 13 key sectors, to create national manufacturing champions in the country and to generate employment opportunities in the country. The industries covered under the scheme included Pharmaceutical Companies, Large Scale Electronics Manufacturing Units, Electronic/Technology Production Units, Food Industries, Telecom & Networking Companies, High-efficiency Solar PV Module manufacturers, Automobiles, Semi-conductor manufacturers, Textile Producers, etc.

The incentives under PLI were extended to units based on the incremental production/sales over the base year. It is/was expected that the PLI scheme for shortlisted sectors will make Indian manufacturers globally competitive, attract investment in the areas of core competency and cutting-edge technology, ensure efficiencies, create economies of scale, enhance exports and make India an integral part of the global supply chain.

So far, the response of the industry players on the PLI scheme has been immensely positive and granting of direct fiscal incentives has turned out to be a great means to attract further investment in India.

A detailed analysis of the Production Linked Incentive Scheme has been covered in Chapter 3.

Invest India and Niti Ayog

Now, while having attractive incentive policies in place is crucial to making India the next manufacturing hub, it is equally important to have a governing body in place to ensure the successful implementation of the visions of the Government while simultaneously acting as a one stop solution for all of the investor queries.

In light of this, the Government announced the 'Invest India Programme' which involved creation of an official agency dedicated to facilitate and promote investments in India. The agency was tasked to provide sector specific along with state specific inputs and other support systems to the investors and improve transparency.

Various services offered under the Invest India Programme include-

1. Business Planning & Advisory- Policy and Incentives Advisory, Market Entry and Expansion Strategy),
2. Strategy & Implementation- Joint Venture and Strategic Partner search, Licensing and Compliance Advisory
3. Long Term Partnership Facilitation

Here it is important to note that while Invest India specifically facilitates and promotes investments in India, the National Institution for Transforming India ('NITI') Aayog serves as the apex public policy think tank of the Government of India and the nodal agency tasked with catalysing economic development and fostering cooperative federalism through the involvement of State Governments in the economic policy-making process. Established in 2015, the NITI Aayog has specifically focused on facilitating "ease of doing business" in India and has been instrumental in framing and implementation of policies to attract investments in India.

Over the years, the synergy of having attractive incentive schemes in place, alongside a robust governing mechanism has led to the world looking at India as the next manufacturing destination. This is evident from the fact that a large number of multinational companies have set up manufacturing operations in India in the past few years. Investments in India have further accelerated with more and more Companies looking to have manufacturing set-ups in countries in addition to China, in light of the recent supply chain disruptions on account of COVID – 19 crisis. A select few case studies in this regard have been discussed in the subsequent paras.

Select Case studies

So far, we have discussed the various schemes and strategies adopted by the Indian Government to encourage and promote manufacturing activities in the country. We have also looked at schemes launched by the Government during extremely tough situations like the global pandemic of corona virus to support businesses and make lives of people less burdensome. Let us now look at the impact of said incentives on the Indian manufacturing ecosystem.

One of the largest automobile manufactures headquartered in South Korea had announced construction of a new manufacturing facility in Anantapur District, Andhra Pradesh. The trial production began in 2019 following mass production later in the same year. Incentives offered by the Andhra Pradesh Government had a significant role in the decision of choosing India as the manufacturing location.

The above grants allured other Korean Companies too as well consider sites in India for setting up manufacturing facilities.

Various other companies as well have considered India qua other countries in the last few years with incentives in India playing a key role in such decisions. It is also noteworthy that on account of the developments made in the last decade, India has emerged as the second most favourable manufacturing hub or destination across the world as per the Global Manufacturing Risk Index 2021. This index reflects that India has overtaken several countries including the United States of America which was ranked third.

The report mentions that India was ranked second on the index majorly because of the country's geology and administration supporting different kinds of manufacturing operations.

Conclusion

Going through the various schemes, campaigns, and initiatives that India has launched over the years it is clear that the role of incentives in the overall economic progress of the country is not an exaggeration. While announcement of these incentives has allured various incentives into India, continued growth and similar response would substantially depend on the administration and in specific, timely reimbursement of these incentives.

In the subsequent chapters we have discussed in detail the various Central and State incentives being offered by India.