

## India's Post-Covid Reform Agenda

October 15, 2020

**In the aftermath of the Covid-19 pandemic, India is reforming and transforming at a fast pace.** The reforms are a positive signal to foreign investors looking to expand their footprint in India and manufacture at scale, making India globally competitive and an attractive destination for companies. The challenge for the government will be to implement all these reforms at a time when the country is fighting the two battles of containing the pandemic and reviving the economy, particularly in ensuring that the ambitious agenda is met without exceeding allocated timeframes and budgets. **Some of the areas to watch closely include manufacturing, infrastructure, technology, pharma, defense and space, as well as digitization. General government priorities of interest to foreign companies and governments alike also include the "Make in India" campaign and supply chain management, especially for small and medium enterprises.**

**Though India is approaching the highest number of confirmed cases in the world, it is rising to the challenges posed by the pandemic.** Increased testing, combined with a high recovery rate attributed to a younger demographic profile, has resulted in a replication value of less than 1, implying that the pandemic is now waning in India. The country reached its peak in mid-September, after which new infections have been on a steady decline. India has three vaccine candidates in Phase 2 and 3 trials, with the government developing a vaccine distribution plan. Over 400 to 450 million vaccine doses will be given to 200 to 250 million people by July 2021.



*Narendra Modi,  
Prime Minister of India*

**Though India's economy has been strongly affected by the global slowdown and domestic lockdowns, the government of Prime Minister Narendra Modi has undertaken an ambitious reform agenda to return the country to growth.** The IMF has forecasted India's GDP will contract in the current fiscal year by 10.3 percent, but it will witness a sharp revival with an estimated GDP growth of 8.8 percent next fiscal year, putting India in the pole position as the fastest growing economy.

**Indicators already point to a return to growth, and the government hopes that reforms will maintain this trend.** The Nikkei Manufacturing Purchasing Managers' Index jumped to 56.8 in September from 52.0 in August, the highest since January 2012, as manufacturing activity in September grew at its fastest pace in over eight year and a relaxation in restrictions led to a surge in demand and output. Consumption indicators such as energy, automobiles and air travel increased to pre-Covid levels.

Please see below for a detailed exploration of India's post-Covid reform agenda. BGA will continue to monitor and keep you apprised as developments occur in India. If you have any questions or comments, please contact BGA India Managing Director Ratan Shrivastava at [ratan@bowergroupasia.com](mailto:ratan@bowergroupasia.com).

Best Regards,

BGA India

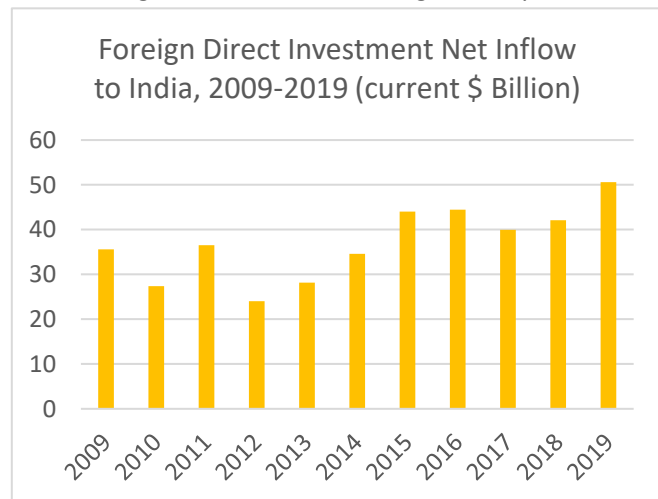


## Reform-Driven Approach to Growth

**The government prioritized a combination of financial support and economic reform to return the economy to growth.** India had large amounts of liquidity in the banking system, so the focus was on driving demand and restoring long term credit flows into the system. India also lacked the fiscal space to absorb repeated financial stimuli which could widen the fiscal deficit and be inflationary, putting additional pressure on recovery.

The relief package announced by the government, amounting to \$22 billion, was targeted to provide the poorest with the most relief. Using technology, relief has reached beneficiaries through direct benefit transfers directly into their banks. Free cooking gas, free food grains and rural local employment guarantees were provided for migrants who moved from cities to their ancestral homes in rural India, to help create a durable rural infrastructure.

**The government has undertaken a flurry of deep structural reforms to make the economy investment friendly, productive and competitive.** It has pushed through reforms, including streamlining India's labor laws, providing multiple marketing avenues for agriculture produce and an aggressive plan for a structured privatization of state-owned enterprises.



Source: The World Bank, 2020

Meanwhile, the natural gas and energy sectors have seen structural reforms to permit investment in upstream, midstream and downstream activities. The latest International Energy Agency report states India will lead global energy demand and is making its energy choices diverse, while global energy demand may shrink by 5 percent.

### “Self-Reliant India” and Legislative Reforms

The AtmaNirbhar Bharat (“Self-Reliant India”) has been the guiding vision for India's political economy reforms. The vision is based on five pillars of economy, infrastructure, technology-driven systems, demography and demand. **It envisions a self-sustaining and self-generating India that, through structural reforms, will merge domestic production and consumption with global supply chains.**

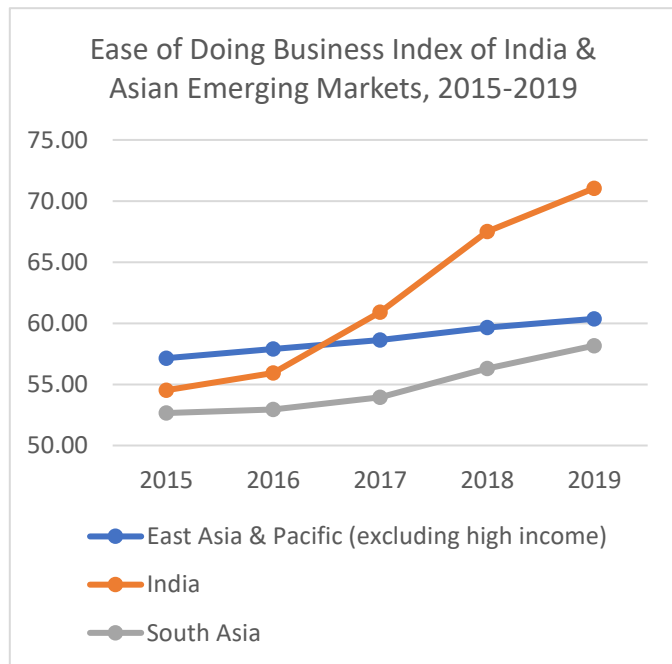
India has enacted legislation to reform the antiquated agriculture sector: the Farmers' Produce Trade and Commerce (Promotion and Facilitation) Act, 2020 the Farmer (Empowerment and Protection) Agreement of Price Assurance and Farm Services Act, 2020 and the Essential Commodities (Amendment) Bill, 2020. These laws are aimed at providing multiple choices to the farmer for marketing agricultural produce and directly sell to buyers.

While the reforms allow farmers greater choice and freedom to sell their produce, they also translate into incentivizing agro companies and the food processing industry to directly invest in building their



robust value chains. This is complemented by robust farm to market logistics and warehousing chains, which could also invite investments in warehousing, logistics and supply chain. However, the government is attempting to balance these reforms against ensuring small-scale farmers are protected, both through farmers’ co-operatives and a market regulator, and are able to sell their goods at fair prices on the market.

Indian labor laws dating to the pre-independence era were a major impediment in attracting investment in the manufacturing sector. These challenges have been addressed by consolidating 44 labor laws into four broad labor codes, which are industrial relations, occupational safety, health and working conditions and social security. Under the new codes, industries will have to file a single return to the authorities. The government is also moving to rationalize industry-specific minimum wages, replacing the labyrinth of federal and state laws. The new codes aim to provide flexibility in hiring contract workers, equal social security benefits for fixed-term and permanent staff and social security cover for gig and migrant workers. The code restricts workers from striking at will and increases the threshold to lay off workers, incentivizing employers to hire contract workers as required, hence increasing employment. The new codes aim to improve India’s ease of doing business and facilitating companies, both foreign and domestic, to expand their operations in the country.



Source: The World Bank, 2020

### Incentivizing Domestic Manufacturing and Global Supply Chain Challenges

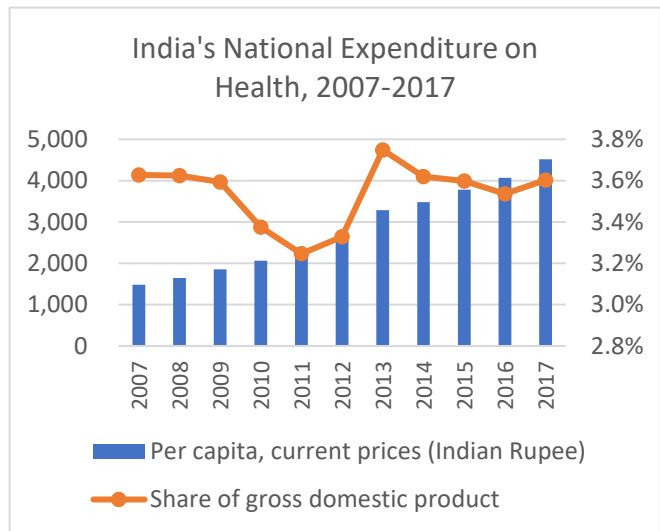
India has made record gains over the past few years in categories as diverse as housing and infrastructure construction, financial inclusion, ease of doing business, bold tax reforms and unparalleled healthcare reforms. These have laid the foundation for the next round of development initiatives.

The strategic shift in the supply chains post-pandemic has led many industries is to start moving some their supply chain out of China. There have been a series of incentives enabling global companies to manufacture in India. The government has chosen 12 economic sectors under its “Make in India” program in which it wants to boost domestic manufacturing. **Of these 12, the highest priority sectors are electronics, pharmaceuticals and medical devices and automobiles, where Production Linked Incentives (PLI) have been introduced specifically for electronics and pharma.**



The PLI schemes provide a much-needed boost to manufacturing in India and the government's intent to position India as an alternative to China. Firms will receive a financial incentive equal to 4 to 6 percent of their sales over a five-year period. Twenty-two companies with plans for \$157 billion worth of production have applied for the incentives and 16 firms including Apple, Foxconn and Samsung have been approved for incentives under the PLI scheme. The move is expected to bring in \$1.5 billion in additional investments in local electronics manufacturing. The projects are also likely to generate over 200,000 direct and 600,000 indirect employment opportunities in the next five years.

The pharmaceuticals industry has played a leading role in producing affordable medicines for the developing world during this pandemic. Two-thirds of the world's vaccines are made in India and India will play an important role in the development and manufacture of Covid-19 vaccines. However, the pharmaceuticals sector is dependent on imports of active pharmaceutical ingredients (API) to meet its manufacturing capacity. To address this gap, the government is seeking to attract investments through a PLI scheme for pharmaceuticals including APIs. The government has announced \$900 million in the Pharma PLI to promote domestic manufacturing of critical starting materials, drug intermediates and APIs. There are plans to set up four large industrial parks for APIs and other inputs for medical products.



Source: The OECD, 2020

The government is also planning to expand the PLI scheme to more sectors including textiles, food processing and automobiles to attract more foreign investment. It also has plans to introduce a phased manufacturing program for sectors, allowing companies to gradually increase their local value addition, which has been a key component of Make in India. **This allows foreign companies more freedom in setting up manufacturing units in India, without the compliance burden of meeting stringent local content requirements.**

### Investment in Infrastructure

The National Infrastructure Pipeline, a \$1.5 trillion five-year infrastructure plan, consists of 6,835 projects in energy, logistics, roads and railways. It aims to shore up economic growth as part of the government's plan to boost the economy to \$5 trillion by 2024.

**Multimodal connectivity has been pitched as the way forward, integrating rail, road and ports with each other.** The focus is also to be on port-led development, with coastal economic zones contiguous to the ports and road and rail networks being built to improve connectivity. The government is also developing 11 industrial corridors across the country, scheduled to be built in four phases through 2024-25. The corridors include the Delhi-Mumbai Industrial Corridor, considered the world's largest infrastructure project, which is planned as a high-tech industrial zone spread across six states. The west



coast already has seen development of special economic zones, including five liquified natural gas terminals and a gas hub in Gujarat.

### Foreign Direct Investment in Defense and Space

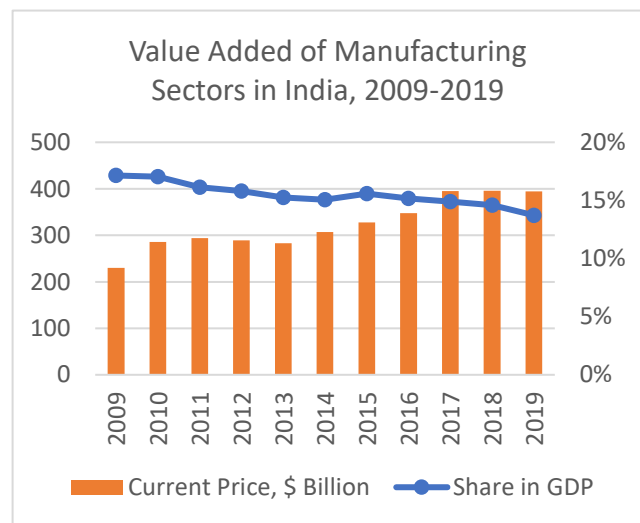
In May, in one of the most radical reforms in the defense sector, the government hiked the foreign direct investment limit on the automatic approval route to 74 percent in the defense production sector, to help foreign original equipment manufacturers set up production in India with domestic defense manufacturers. **These reforms demonstrate India’s efforts to bring state of the art defense and aerospace technology and capital to the domestic defense industry.**

Space sector reforms enabling private sector investment in space have been implemented, resulting in greater access for space technology for commercial use. Necessary legislation is being put in place to ease the business environment for private players, including the creation of the Indian National Space Promotion and Authorisation Centre (IN-SPACe) and NSIL (New Space India Ltd) to facilitate a level playing field for private companies to use Indian space infrastructure.

### Investments in Digital India

India received over \$20 billion in foreign direct investment during the Covid-19 pandemic, highlighting the country’s importance as an investment hub. Investments have been largely driven by global technology majors investing in digital economic hubs, which combine e-commerce, fintech, content and telecom in one “Superapp.”

**The Covid-19 pandemic has exponentially sped up digitalization in India, with companies having to adapt to remote working models.** Digital payments have seen a boost, according to data by the National Payments Corporation of India, with Unified Payment Interface (UPI) recording 1.8 billion transactions, providing a huge boost to the digital payment ecosystem.



Source: The World Bank, 2020

The government has recognized the role that artificial intelligence (AI) and 5G can play in generating employment and improving governance systems. Modi recently announced his vision to make India a global AI hub; the government will aim to build an AI ecosystem promoting large scale skill development. BharatNet, is the program to connect all villages in the country with optical fiber, with the aim to connect 600,000 villages by May 2023.



## Social Intelligence Spotlight: **India**

### **This week's Social Intelligence Spotlight captures conversations in India's digital space on the government's Covid-19 response.**

Two-thirds of media mentions approved of the government's handling of the pandemic and the progress India has made toward flattening the curve. In particular, a significant portion of social media users defended Prime Minister Narendra Modi's stewardship throughout the crisis and expressed gratitude for Health Minister Harsh Vardhan's efforts to secure half a billion Covid-19 vaccines by 2021. The government aims to have a vaccine available in early 2021 for the public, with prioritization of groups to be vaccinated based on key considerations; occupational hazard at the risk of exposure to the infection, and the risk of developing severe disease and increased mortality. Given the size of the country, India will need to tie up with more than one vaccine manufacturer to meet demand.

**While many social media users acknowledged the economic consequences resulting from the nationwide lockdown in April,** they celebrated compliments from the World Bank on India's "swift and comprehensive" pandemic response and noted that the lockdown was necessary to prevent what could have been a much larger outbreak with higher mortalities.

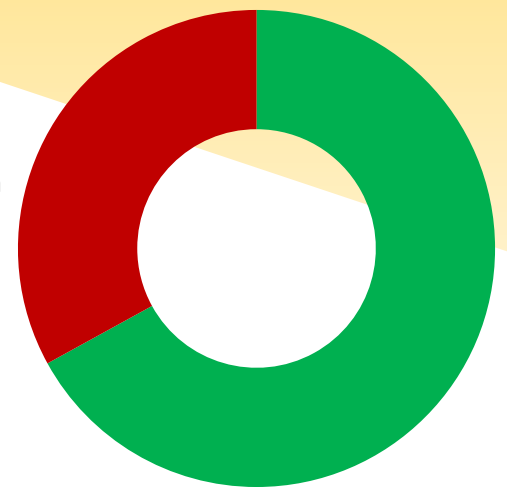
**Supporters of Modi rebuked his critics and urged them to consider India's quick turnaround of test results, with over 90 million tested so far;** fewer per capita deaths than many other countries; and the drop in India's daily number of new Covid-19 cases. India has seen a steady decline of new cases since a peak reached on September 16. Beyond discussions of Prime Minister Modi, a few social media users commended Odisha Chief Minister Naveen Patnaik for his pandemic management.

**Some media mentions also disapproved of the government's pandemic response highlighting India's current economic woes, including a plummeting GDP and rise in unemployment,** in addition to its high number of Covid-19 cases and mortalities. Some suggested that the economy was performing poorly even before the pandemic due to poor governance, while others wished some of the attention to handling Covid-19 was channeled towards preventable causes like tuberculosis, air pollution and hunger.

**Negative mentions also addressed policy failures on the part of state governments,** with Maharashtra and Kerala receiving the brunt of criticism due to their high number of Covid-19 cases. More recently, Kerala has seen a resurgence in new cases, becoming the new hotspot in the country.

### **Social Media Sentiment**

October 8 to 14



■ Positive (67%) ■ Negative (33%)