India's ambition of becoming developed economy demands policy certainty

- *Amitabh Kant**

To achieve the vision of becoming a developed economy by the centenary of our independence, India will have to grow at 8-9 per cent per annum. This will require raising our investment rate from the current level of ~30 per cent of GDP to close to 40 per cent. Given India's savings-investment gap, we require foreign capital. We also require an expansion in our exports and foreign direct investment (FDI). However, foreign capital inflows do not happen automatically. Investments are judged on the probability that returns will accrue. This probability, in turn, rests not just on global factors, but also country-specific factors. Economic potential is important – but not the only factor. Regulatory and taxation regimes play an equally important role, as do economic policies. Economic policies and regulatory regimes ensure that economic potential translates into jobs and economic output.

Global investors see policy uncertainty and ambiguity as risks. Opening to foreign capital requires an understanding of transaction risks, as exemplified by the case of Tiger Global, one of the top investors in India's eCommerce space. Its claim for exemption from capital gains tax on the sale of Flipkart shares was rejected after the Supreme Court ruled in favour of the tax department. Similarly, the Vodafone case shows how retrospective laws led to drawn-out litigation before being withdrawn, ultimately ending retrospective taxation in India.

While taxation is a sovereign right, we cannot allow inconsistency and ambiguity. When policies and regulations are ambiguous, companies and authorities tend to arrive at different interpretations. India's customs is a classic example. Volvo received an advance customs ruling (ACR) to import EVs as completely knocked down kits (CKDs) at a 15% tariff. VinFast applied for a similar ACR to import EV components, sourcing from multiple suppliers and ports, but was rejected. Customs lacked clear criteria for treating components collectively as CKDs. This forces case-by-case judgments, leading to ambiguity and inconsistency. These cases matter significantly because India's growth ambitions necessitate sustained expansion in private investment and exports.

First, taxation policy on foreign capital. India's tax rates on foreign portfolio investors (FPIs) can range from 15 to 24 per cent, depending on whether the gains are long-term or short-term. In contrast, economies such as South Korea, Taiwan, Thailand, Vietnam, Malaysia, and Brazil levy close to zero per cent taxation on FPI capital gains. India is a clear outlier. Rather than capital gains, these can be treated as a turnover tax, akin to the existing securities transaction tax (STT).

Secondly, tax policy needs greater transparency and predictability, with reduced litigation and swift dispute resolution. Currently, about Rs. 25 lakh crore is embroiled in income tax disputes, and another Rs. 5 lakh crore is in dispute over indirect taxes. These unsettled issues divert essential working capital and undermine economic confidence. To increase investment rates, prioritising the reduction of tax litigation is crucial. A key cause of delays is vacancies; the Comptroller and Auditor General (CAG) has highlighted staffing shortages as a major factor behind drawn-out disputes. For example, vacancies in the Central Board of Indirect Taxes and Customs (CBIC) audit departments are nearly 40 per cent. Implementing a focused drive to reduce disputes and hiring dedicated personnel will free up capital and strengthen investor trust.

Thirdly, we also must recognise that to export, we have to import. Raw materials, components, and machinery being held up in customs clearance again strain working capital and divert attention from productive activities. An importer interacts with multiple systems and authorities: Customs, the Directorate General of Foreign Trade (DGFT), Goods and Services Tax (GST), banks, and border agencies. Data submitted to one often isn't reusable by others, resulting in repeated registrations, duplicate documentation, and failures. India needs a genuine national single window for trade based on a common trader identity and the “submit once” principle. Data should move seamlessly across Customs, DGFT, GST, Corporate Affairs, and banks without resubmission. The 2026 Budget announced this shift by introducing an interconnected digital approval window, a Customs Integrated System, expanded non-intrusive scanning, and five-year validity for rulings. Now, these announcements must be implemented, and execution is key.

Fourth, policy clarity must accompany digital integration. CKD, semi-knocked down (SKD), and completely built units (CBU) classifications determine not just duty but influence factory and supply chain design. The law should specify clear criteria for split consignments, shipment intervals, multiple suppliers, ports, and digital bill-of-material traceability. Advance rulings should be publicly available, with reasons regarding any deviations, and made available within 60 days. Customs enforcement must focus on risk. Physical inspections should be rare for low-risk, compliant importers. India needs more scanners, state-of-the-art imaging and testing facilities, and data-driven risk engines so officers can spot suspicious cargo without routinely opening containers.

Finally, beyond individual reforms, India must institutionalise predictability. Ambiguity repeatedly produces disputes. The Government should issue binding, generally applicable guidance instead of relying on company-specific rulings. Regulators should publish service standards for assessments, approvals, and appeals, along with regular performance data. This would not constrain India's sovereign right to change policy. It will ensure that policy changes are communicated and administered in a manner that allows firms to plan, invest and comply.

India's economic fundamentals are strong. It offers scale, talent, infrastructure and a large market. But these advantages must be matched by a state that is clear, consistent and credible. India is asking global firms to commit capital, build factories, integrate domestic enterprises into supply chains and use the country as an export base. Such commitments are made over decades, not quarters. Policy uncertainty acts like an additional tax: it raises the risk premium on Indian projects, increases the cost of capital and encourages firms to delay investment or choose alternative locations. For long-term investors, policy certainty and predictability are not a concession. They are part of the basic infrastructure of a competitive economy. Without policy consistency and predictability, India will not achieve the vision of a Viksit Bharat.

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