

ERGO

Analysing developments impacting business

IMPETUS TO GCCS IN INDIA: KARNATAKA RELEASES FIRST OF ITS KIND DRAFT POLICY

7 October 2024

Background

Karnataka is a state in southern part of India and has been home to many global capability centres (GCCs) established by international corporations. Its capital city Bengaluru is also widely recognized as the information technology hub of India. From basic back-office and business process outsourcing activities at the beginning of India's journey in outsourcing to the current scenario where GCCs are taking ownership of global product lifecycles and driving innovation for global corporations, the prism with which corporations are looking to India has evolved over time.

The Government of Karnataka recently released a draft Karnataka Global Capability Centre Policy 2024-2029 (Draft Policy). Per the Draft Policy, approximately 35% of the country's GCC workforce contribute to the state's dynamic economy.

Vision, mission and objectives of the Draft Policy

The Draft Policy aims to expand the GCC footprint in Karnataka to 1000 GCCs in the State by the year 2029, resulting in the creation of 350,000 new jobs and generating USD 50 billion of economic output via GCCs in Karnataka by 2029.

The importance of GCCs for the Indian economy cannot be understated. From the benefits of creation of jobs, adding to the gross domestic product, and shoring up foreign exchange reserves, the development of GCCs has also aided development of ancillary domestic industries who have supported the growth of GCCs in India.

Karnataka's government has set itself a goal to develop advanced manufacturing, research and development, and innovation and to create an ecosystem for an inclusive, balanced and sustainable development of the state.

The Draft Policy intends to focus its efforts on automobiles and auto components, pharmaceuticals and medical devices, engineering and machine tools, knowledge-based industries, core sectors – cement and steel, sugar, logistics, renewable energy, aerospace and defence, electric vehicles, healthcare and wellness, higher education, and biofuels.

Key highlights of the Draft Policy

- Development of sector specific clusters. Karnataka Government has identified clusters across the state and tagged sectors that can be developed in those clusters. It is also proposed to establish anchor groups for each cluster outside of Bengaluru to facilitate the development of GCCs within the clusters.
- Development along economic corridors. Indian government is developing the Peninsular Region Industrial Development (PRIDE) Corridor as a development strategy to accelerate regional economic integration and development. Within this, the Karnataka Government will promote setting up of industrial nodes / clusters along the special projects declared by Central / State Government such as Chennai Bengaluru Industrial Corridor (CBIC) and Bengaluru Mumbai Economic Corridor.

➤ Incentives

- Proposed introduction of recruitment incentives from the state government, government-funding support for capital expenditure for GCCs set up beyond Bengaluru, reimbursement of certain rental expenses, internet costs and property taxes as well as power tariff concessions by way of exemption from electricity duty and application of 'industrial' category power tariffs.
- Customized incentive packages will be created to facilitate establishment of large-scale GCCs.
- Other financial incentives contemplated in the Draft Policy include partial reimbursements of statutory fees for patent filings, fees associated with quality certification, internship stipends, provident fund contributions, subject to fulfilment of certain locational and headcount criteria, funding support for events and conferences and grants for development of R&D infrastructure.

➤ Facilitating ease of doing business. Initiatives that are geared to ease doing business include, establishment of a dedicated GCC helpdesk with regular interactions aimed at resolving pain points, establishment of three new technology parks which would have coordination offices for addressing issues and to provide required regulatory support.

➤ Land acquisition reforms. It is proposed to streamline the land acquisition process, especially for projects that are approved by the State High Level Clearance Committee or the State Level Single Window Clearance Committee. The State Government has undertaken to shorten the timeline to approve the acquisition of land which require special permissions under various state specific laws.

➤ Labour reforms. A combination of in-progress and completed labour reforms have been proposed in the Draft Policy, including a possibility of easing over-time hours to a higher limit and stabilization of minimum wages. The state government also acknowledges the need for skill development, and to this end has looked to push forward skill development among population by facilitating institutional partnerships and up-skilling initiatives, and on job training.

➤ Centre of Excellence for AI. Recognizing the increasing role of Artificial Intelligence (AI) in optimizing GCC offerings, the Karnataka Government has proposed to set up a Centre of Excellence for AI in Bengaluru to support the development of AI ecosystem for GCCs.

Conclusion

The Draft Policy is yet to be adopted by the Government of Karnataka. Currently, the Government of Karnataka is accepting comments on the Draft Policy from stakeholders until 11 November 2024.

The Draft Policy is comprehensive policy statement and an effort at coordinating efforts by multiple stakeholders that has already been underway. The Draft Policy could help open up synergies and sets out the focus areas of the current dispensation.

GCCs have now become a necessary tool for global corporations that enable them to develop efficiencies and drive innovation. This combined with the benefits to states if the GCC sector is developed, it is only a matter of time before other state governments also look at coordinating efforts on GCCs. Currently other states in India also have industry specific policies. For instance, Tamil Nadu has policies for data centre and fintech sectors; and Telangana has announced plans to promote life sciences GCCs. All these moves point towards opening a wide field of play for global corporations looking to set up GCCs in India.

- Ganesh Prasad (Partner); B N Vivek (Partner) and Swathy Ramanath (Partner)

For any queries please contact: editors@khaitanco.com

We have updated our [Privacy Policy](#), which provides details of how we process your personal data and apply security measures. We will continue to communicate with you based on the information available with us. You may choose to unsubscribe from our communications at any time by clicking [here](#).