

A Review of Business Environment in India And Recommendations for Encouraging Investment from Japan

(Jointly compiled by FICCI, JCCII, JETRO, and Embassy of Japan in India on 6 July, 2020)

India and Japan share a strong strategic and economic partnership, and Japan has been one of the largest investors in India. Japan has contributed towards India's economic development across a wide spectrum of sectors in various States, further partnering in some of India's flagship initiatives, such as, Make in India, Smart Cities, and Skill India, etc. However, the presence of the two countries is still weak from the viewpoint of trade scale, as India has just 1.1% share of Japan's total trade, and Japan has just 2.1% share of India's total trade. Thus, we are convinced that India and Japan definitely have further potential for encouraging their economic ties.

The outbreak of the COVID-19 has made several countries aware of the essentiality of reducing supply chain risks, especially for strategic goods. An increasing number of companies may now reconsider their existing manufacturing units, as well as fresh investments towards the "New Normal" phase. Against such a background, this provides India a unique opportunity to transform into a business-friendly country by attracting foreign investment, and to become an integral part of the global manufacturing chains.

In order to supplement this idea, the Government of India has already started working vigorously, and various State Governments have come up with special taskforces to formulate progressive policies to further enhance the ease of doing business in India.

On the other hand, the extensive spread of COVID-19 in India has also revealed the importance of strengthening the healthcare environment. According to the survey conducted by JCCII during the Lockdown, many Japanese expatriates have expressed their huge concerns on the uncertainty in medical and healthcare system in India. The COVID-19 pandemic has made it clearer that the availability of comprehensive and advanced medical services is extremely crucial for Japanese companies' operations in India.

Considering the significance of attracting higher Japanese investment in India, FICCI, JCCII, JETRO, and Embassy of Japan in India undertook several virtual interactions in order to understand and gather the expectations of the Japanese companies, with regard to a better business environment for evoking greater investments from Japan.

We would therefore like to share some of the following issues / recommendations for consideration of the Government of India and State Governments, both for attracting greater investments, and for expansion of existing investments in India. Some of these will also build India's case for becoming a globally important manufacturing hub, comparable to or more advanced than ASEAN countries.

X

Sangita Reddy
President
Federation of Indian Chambers of Commerce and Industry (FICCI)

HASEGAWA Tsuyoshi
President
Japan Chamber of Commerce and Industry in India (JCCII)

MURAHASHI Yasuyuki
Chief Director General
Japan External Trade Organization (JETRO), New Delhi

SUZUKI Satoshi
Ambassador of Japan to India
Embassy of Japan in India

FICCI-Japan Joint Requests

1. COVID-19 lockdown related - State Governments / Local Authorities

i. Information Sharing

- (1) Clarification on impossible inter/intra-State movement: State Governments should notify all forbidden routes and containment zones, and should update them on timely basis.
- (2) Clarification on inoperable industries/services: State Governments and District Magistrates should notify all un-allowed industries/services and should update them on timely basis.

ii. Permissions/Approvals

- (1) Consistency between Central Government's guidelines and State Governments'/police's response: Sometimes local district/police do NOT allow, without a clear reason, operable industries/services in comparison with guidelines.
- (2) Inspections at check points should be ensured to be done in a proper, safe and friendly manner. Some people have encountered improper inspections without clear reasons.
- (3) Universal approvals should be issued, applicable in all the States/Districts. Clarity and uniformity in permissions/approvals are important. As of now, there are lots of variations, hence the confusion.

iii. FRRO's Full Functioning

- (1) Suspension of visa renewal procedure for foreign residents causes temporary bank account freeze and thus, such applications should be processed on immediate basis.

iv. Financial Measures for Liquidity Creation

- (1) Fixed electricity charges may be done away with by the State Governments for a few months, as has been done by Gujarat, Maharashtra, etc.
- (2) Haryana Government has announced a scheme for paying interest on the loans taken by MSMEs to pay salaries to their staff, subject to certain limits. Other State Governments may also announce similar schemes.
- (3) State Governments should immediately clear the outstanding dues of the industrial units.

v. Shortage of Manpower and Workforce Movement

- (1) Some State Governments like Madhya Pradesh, Goa, Assam, etc., have increased shift timings from 8 hours to 12 hours to maximize the output from the currently available labor. This may be replicated by other States.
- (2) People who used to commute daily to work in construction projects from bordering districts, on a day to day basis, are not finding transport for inter-district travel on a daily basis in many States. Regular inter-district transport facilities may be provided by the Government.

- (3) Mechanism should be brought in place wherein available manpower should get linked to employer on immediate basis. The available manpower may be reskilled as per the job requirement.
- (4) Labor reforms as being undertaken by Uttar Pradesh and Madhya Pradesh Governments should be undertaken by various States to attract investments in near term.

vi. SOPs for Safety Norms

- (1) Units/Facilities getting operationalized should be oriented/supported with respect to safeguarding themselves from COVID-19 threat. An SOP needs to be formulated for smooth operations. Also, a mechanism should be in place to facilitate the implementation at ground level.

2. COVID-19 lockdown related - Central Government

i. Financial measures to support resuming of business operations

- (1) Compensation for absence from works due to the lockdown: Compensation for labor costs to companies maintaining employment during the lockdown would be really helpful.
- (2) Economic package for MSMEs should be enhanced: Interest subsidies for loans, an interest-free loan system, moratorium for office rent fee.
- (3) Implementation of demand stimulus package, including reduction of the income tax rate, is required.
- (4) A comprehensive financial package is required.
- (5) ECB (External Commercial Borrowings) regulations for short-term liquidity and financing measures (e.g., approval of short-term “parent-subsidiary loan”, which is a kind of intercompany loan to Indian subsidiaries from foreign parent companies in this case, as a special measure) should be relaxed.

ii. Non-financial measures to support resuming of business operations

- (1) Ease of rational review on labor contracts and conditions: Salary reduction prohibitions are required to be relaxed under the economic crisis caused by the COVID-19 outbreak.
- (2) Unobscured guidelines for the payment of salaries to contract (temporary) employees are helpful under the economic crisis caused by the COVID-19 outbreak.
- (3) Penalties and lawsuits for the late delivery of products due to the lockdown should be avoided.
- (4) Availability of working capital by banks and other financial institutions on easy terms would give much needed relief, especially for the MSMEs.

iii. Logistics and Trade

- (1) Early, full-functional restoration of domestic and international logistics, including postal service, regardless of transportation means (air, ship, rail, etc.) is required.
- (2) Expedition of customs clearance process is required.
- (3) Online system for governmental approval/license: Sometimes imports are being hindered, as no physical meetings are being held by the Government for approval.

iv. Entry and Visas

- (1) Japanese business persons are awaiting resumption of entry to India.
- (2) Smooth business/employment visa issuance is requested by Japanese expatriates returning to India who are temporarily in Japan, and Japanese workers newly arriving to India. Resuming the validity of visas for dependents is also requested.

v. Healthcare Environment

- (1) Provision of advanced healthcare environment would be helpful.

vi. Supply Chain

- (1) Availability of raw material and finished goods is severely hampered, thus impacting production. Raw material is unable to reach the production units, and finished goods can't be shipped out. Dialogue between States and facilitation by Union Government could help.

3. Structural issues which need to be addressed to further attract investments from Japan

i. Finance (Investment / Taxation)

- (1) FDI deregulation: Deregulation for the insurance sector should be implemented on immediate basis, as announced in FY2019-20 budget. It is also requested to deregulate multi-brand retail.
- (2) Review of tax system: Reduction of Corporate Tax rate and GST rate would be helpful.
- (3) Pending various tax refunds, including GST, should be immediately transferred to the retailers / traders / industrialists.
- (4) Immediate refunds of GST credit related to exports would be always helpful.

ii. Setting up a Single Window for Administrative Procedure ("Japan Help Desk")

- (1) A one-stop support desk in each State, as a single window for administrative procedures, wherein officials facilitate administrative applications, taxation, land acquisition, etc., can encourage Japanese companies' further activities/investments. Every State Government can depute a team working with their local district administration, which in turn is aligned with the Central Government's Team.

iii. Fair Trade

- (1) Enforcement of the fair trade rules under the economic crisis caused by the COVID-19 outbreak: Undue discount claims to subcontractors in weaker position, maliciously intentional late payments, and other abuses by those in dominant/stronger position should be prevented. Government should keep a strict watch over such unfair trade practices.

iv. Labor Issues

- (1) Expedition and transparency of proceedings in labor courts is requested.

v. Infrastructure and Logistics

- (1) Infrastructure such as power, road, water, and ports is required to be further improved / stabilized.
- (2) High logistics cost and long transportation time should be tackled.
- (3) Customs duties on raw materials and parts are requested to be reduced, so as to enhance India's connectivity with global and regional supply chains.

vi. Government Sector's Postures on Public Works

- (1) The Government sector (i.e. Central Government, State Governments, UT Governments and PSEs) should make appropriate and timely payments to contractors, as a consideration for EPC (Engineering, Procurement and Construction) or O&M (Operation and Maintenance) in public works, or an annuity in PPP projects.
- (2) The Government sector should timely fulfill the obligations stipulated in each contract. As it would be required to suspend works and to postpone deadlines in almost all projects due to COVID-19 outbreak, the Government sector should adequately pay heed to contractors' requests. The Government sector should not impose irrational liquidated damages, and should not offset expenses to be paid to contractors by such unjustified liquidated damages.
- (3) The Government sector should rationally take account of unavoidably escalating costs on labor forces and machinery, etc., maintained ready during the suspension, for resuming on immediate basis.
- (4) The Government sector should ensure to continue making payments in timely manner and fulfill their obligations, as this would encourage greater participation of Japanese companies in the infrastructure projects in India.