



Shardul Amarchand Mangaldas



India-Japan: Time to Seize New Opportunities



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MESSAGE FROM AMBASSADOR OF INDIA

भारत के राजदूत
AMBASSADOR OF INDIA



भारत का राजदूतावास
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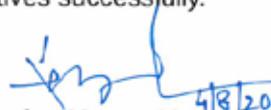
MESSAGE

I would like to commend the Federation of Indian Chamber of Commerce & Industries (FICCI) for having cooperated closely in taking forward the positive agenda of India-Japan Business Cooperation Committee (IJBCC). Due to the evolving situation of COVID-19 pandemic, I strongly feel that this year's Joint Meeting of JIBCC and IJBCC should be held on a virtual platform. I wish this event success and hope it would provide opportunities to both India and Japan to plan several outreach initiatives through digital mode to further stimulate bilateral trade, investments and capacity building. Based on the past trends and future opportunities, we see top priority for India to enhance future investment inflows from Japan in sectors such as infrastructure, manufacturing, agriculture, food processing, start-up ecosystem, financial and healthcare.

The pandemic has caused major disruptions in the global and regional supply chain systems requiring a complete diversification of business strategies. I hope this period of crisis will bring India and Japan more closer to forge collaboration and explore opportunities under a new climate of business, trade and investment, while combating the pandemic unitedly. It is my firm belief that the future of international trade and investment will be driven by process and technology innovations creating win-win situation for our two countries.

I wish IJBCC accomplishes its mandate and objectives successfully.

Tokyo
4 August 2020


(Sanjay Kumar Verma)
Ambassador

“WHAT’S NEXT FOR INDIA-JAPAN STRATEGIC RELATIONS”

JAPANESE AMBASSADOR SUZUKI’S MESSAGE



Satoshi Suzuki
Japanese Ambassador

Vibrant economic interactions between India and Japan form the core of our Special Strategic and Global Partnership. As Ambassador of Japan to India, I am privileged to witness the bilateral relationship at its best. Yet many of us engaging in this special relationship feel that we have not yet tapped its full potential.

I therefore welcome this knowledge report by FICCI, titled “India-Japan: Time to Seize New Opportunities.” Yes, now is the time. While COVID-19 is posing unprecedented challenges both in terms of our health and economy, its ensuing economic situations give us an opportunity to consider what concrete steps are needed to realize the vast potential of our economic partnership. It is a well-known story that Japanese businesses have long been earnestly wishing for a better business and investment environment here, because they wish to expand their mutually beneficial businesses with India.

This report makes useful policy recommendations to expand our bilateral trade and investment. I am pleased to see FICCI, a body with eminent leading Indian businesspeople as members, came up with these specific recommendations. This report is a manifestation that meaningful policy reforms are now recognized as indispensable to carry our bilateral relations further by both our ends. India-Japan relations do not exist in a vacuum; I suggest it should also be beneficial to objectively evaluate the business environment in India vis-à-vis her healthy rivals such as ASEAN countries.

Recently, FICCI, JCCII (Japan Chamber of Commerce and Industry in India), JETRO and our Embassy jointly made policy requests, in view of challenges posed by COVID-19, which have been submitted to relevant Indian authorities. Such collaborations are increasingly becoming important as the global business environment is rapidly evolving. This report is a useful addition to our joint efforts to enhance India-Japan economic ties. I am grateful for FICCI to have taken this initiative.

As Prime Minister Modi expressed, his vision of “Atmanirbhar Bharat,” a self-reliant and Resilient India, can be only pursued through India’s integration with the global economy. I assure that Japan and our businesses remain committed to being a strong partner in India’s economic ascent, as you have seen in our dedicated support for Make in India and other important initiatives. This knowledge report will surely give further impetus to our mutual endeavors in years ahead.

FOREWORD



Mr Onkar S Kanwar

*Past President, FICCI & Chair,
India-Japan Business Cooperation
Committee (IJBCC) and Chairman,
Apollo Tyres Ltd*

Japan has been a strong contributor towards India's economic development across a wide spectrum of agenda including some of India's flagship initiatives such as Make in India, Digital India, Smart cities and Skill India etc.

The last few years have seen an impressive expansion and deepening of India's 'Special Strategic and Global Partnership' with Japan. Shared values of democracy, respect for the rule of law combined with convergence of political, economic and strategic interests have made this partnership even stronger.

India-Japan trade and investment relations have seen tremendous growth in recent years, thanks to the dynamic leadership of Prime Minister Modi and Prime Minister Abe. Japan is one of the leading investors in Indian states across key sectors. The Indian States today are competing with each other to enhance investments in their respective states and therefore, there is a remarkable improvement in ease of doing business rankings of Indian States. In fact, India has recorded a jump of 14 positions against its rank of 77 in 2018 to be placed now at 63rd rank among 190 economies in the year 2019.

In these unprecedented times of ongoing global pandemic which has led to major disruptions in global supply chains, India and Japan partnership can be harnessed to its highest potential. Some of the major economies including Japan have decided to de-risk their manufacturing investments and diversification of their supply chains due to major disruptions arising due to the pandemic. This provides India with an opportunity to become the next hub of global manufacturing supply chains. In this context, a lot of State governments and their investment/industrial promotion agencies have come up with various progressive policies for promoting industrial development and catalysing investments and are keen on introducing these to potential investors looking at India as a favourable destination for relocation/expansion.

This knowledge report will unleash some of the highlights of the investment policies in India and throw light on the recent policy reforms introduced by the Government of India towards attracting greater investments in Indian States. I am sure that the information in this report will be useful for the Japanese investors looking at making investments in India, both Greenfield as well as expansion of existing businesses.

I once again congratulate FICCI and Shardul Amarchand Mangaldas & Co. for this report and wish you happy reading!

Onkar S. Kanwar

*Past President, FICCI & Chair, India-Japan Business Cooperation Committee (IJBCC)
Chairman, Apollo Tyres*

FOREWORD



Shardul S. Shroff

*Executive Chairman and
National Practice Head -
Insolvency and Bankruptcy
Shardul Amarchand Mangaldas & Co*

It brings us great pleasure to present this publication 'India and Japan: Time to Seize New Opportunities'. We have prepared this report to provide an outline of the established and enduring synergetic relationship between India and Japan, which has grown leaps and bounds in the past few years and has enriched both these countries economically, commercially and socially; and to discuss the opportunities that we must jointly draw from the global effects of the coronavirus pandemic.

While India and Japan have proven their mettle both independently and in collaboration with each other, and safely arisen to the vanguard of Asian economies, yet the coronavirus pandemic has affected stories of growth across the world. To ensure continuity and success of their respective and collaborative ventures in these trying times, India and Japan will need to come together on their strengths in the manufacturing and service sectors, not just in India, but also in other countries, for e.g. in renewing their development efforts in countries in Africa. The coronavirus pandemic has also provided a unique opportunity for India to leverage its existing dominance in the manufacturing sector to entice global value chains to move or expand their production capabilities to India in light of the de-risking activities being undertaken by them. The Government of India has proactively taken many policy and reform steps to ensure a hospitable investment environment for both existing and incoming investors and stakeholders.

As Japan has always been one of the most active investors in India, the Indian government has ensured that various

benefits and structural reforms are aimed at enabling Japanese investors, for e.g., investors in start-ups in emerging areas such as food technology, electric vehicles, etc., or in the fields of upcoming digital technology such as AI, IoT, big data, etc., to have a streamlined entry into the Indian market. Working together in the fields of people to people exchanges, education sector, healthcare sector, etc., while already an ongoing process between India and Japan, will become even more relevant in the coming times. FICCI, JETRO and JCCII have also risen to the occasion and assisted with streamlining and simplifying this process, assisting with and resolving any concerns of Japanese investors looking to foray into India.

We hope to see how India and Japan come together and nullify the effects of the economic and social devastation being caused by the coronavirus pandemic to their nations. The active participation of both countries is essential to bring in a new era of hope and mutual success.

It was a pleasure to work with FICCI to bring to fruition this research paper. We have together, aimed to prepare a paper which we hope is of some assistance to Japanese companies which are looking to advance into India's rich, evolving and ever welcoming investment environment.

Yours sincerely,

A handwritten signature in blue ink that reads "Shardul S. Shroff". The signature is fluid and cursive, written over a white background.

Shardul S. Shroff

Executive Chairman and National Practice Head – Insolvency and Bankruptcy, Shardul Amarchand Mangaldas & Co.

EXECUTIVE SUMMARY

We have, in this report, aimed to set out the changing investment culture and requirements of the global economy and how these will affect the relationship between India and Japan; particularly in light of the ongoing US-China trade war and the coronavirus pandemic.



Japan has always been one of the largest investors in Asia, and particularly in India and China. While the historic relationship between India and Japan predates even India's independence by a considerable period, the economic and strategic partnership between the two nations has progressed remarkably over the past years due to the perseverant efforts of both sides. Most memorably, Japan has played a significant role in the development of India's infrastructure by making investments in landmark infrastructure projects such as the Delhi-Mumbai Industrial Corridor, Mumbai Ahmedabad High Speed Rail, Western Dedicated Freight Corridor etc. Collaboration in many other sectors such as manufacturing, production, logistics, etc. have emerged at the forefront of the contemporary partnership between the Japan government and the Government of India (GoI), and their respective companies and investors.

In the wake of the coronavirus pandemic, companies across the globe, including Japanese companies, are considering

diversification and de-risking strategies to set up their manufacturing bases and associated value and supply chains in Asian countries other than China. Japan's announcement of the stimulus package for Japanese companies to de-risk their supply chains and diversify their operations has provided a much needed impetus to Japanese companies to move part of their bases to countries such as India, Vietnam, Thailand, Indonesia, Malaysia and Myanmar. A survey of Japanese manufacturers with overseas subsidiaries, conducted by the Japan Bank for International Cooperation (JBIC) ranked India as the most desirable place to do business in long and medium term, i.e., in the next 3 to 10 years. The GoI has taken a plethora of steps to woo Japanese firms to India. The technological and economic prowess of Japan coupled with India's established strengths in manufacturing, software, technology and related essential skill sets could further strengthen the ties between the nations and may lead to a paradigm shift in the supply chains across the globe.





We have attempted to provide, in this report, a brief framework of the existing structural relationship between India and Japan, and to set out information we feel may be relevant for incoming investors and other stakeholders to analyse the viability of India's ecosystem for their needs. Chapter I of this Report provides an overview of Japan's investment pattern, specifically in Asian countries. Chapter II of this Report outlines Japan's investment relations with India over the past few years and briefly discusses the initiatives taken by the Japanese government and the GoI in this regard. It also identifies the potential sectors and the capabilities of various states in India, which Japanese investors may consider prior to investing in Indian companies and start-ups. Infrastructure, railways, food processing, defence, electric vehicles (EVs), pharmaceuticals, amongst others, have emerged as exciting areas for investors.

Chapter III of the Report touches upon Japan's investment relations with China and the reasons for Japanese companies considering diversification of their manufacturing and production to other Asian countries. China's increasing labour costs, trade relationship with the USA and its transformation from being the world's factory primarily exporting products to a service-driven economy has played a major role in this regard. The stimulus package provided by the

Japanese government may help Japanese investors expand their production facilities into other countries, depending on multiple factors such as existence of trade agreements between the target economy and potential market countries; costs of production, ease of compliances, etc.

Chapter IV of the Report provides a comparative analysis of India's investment and trade regime with Asian countries like China, Thailand, Vietnam, Indonesia, Myanmar and Malaysia on various parameters such as focus sectors for foreign investment, government policies, tax incentives, trade agreements, availability of labour, infrastructure etc. It also highlights that the investment opportunities in the Indian market are primarily due to its skilled and educated workforce, its consumer base, its proximity to key manufacturing sites, key suppliers and lower development costs, etc.

Chapter V highlights recent reforms announced in India to deal with the aftermath of the coronavirus pandemic. These reforms include reforms in the insolvency and bankruptcy laws of the country, the labour laws, policy reforms for particular sectors, ranking attractiveness of Indian states for new investments, decriminalisation of offences under the Indian Companies Act, changes in our foreign exchange laws, etc.

Chapter VI provides to the reader a brief overview of India's performance on certain parameters compared to the performance of other Asian countries analysed in Chapter IV previously.

Chapter VII of the Report briefly discuss the challenges faced by foreign investors while investing in India and sets out our recommendations for strengthening the ties between India and Japan and aiding further investment into India. We have included our recommendations in the areas of ease of doing business, ease of living, operational transparency, tax regime and land allocation.

One of the key takeaways from this report is that the GoI is a responsible, responsive and active government, which has brought in many reforms in the past few years, and has reinvented its investment regime to further incentivise foreign investors and prepare a smoother entry for them into the Indian market. Japan, having been one of India's oldest compatriots, has had a first-hand view into the working of the Indian production and marketing ecosystem. We appreciate the mutual growth of the two countries together and expect to see a further deepening of the relationship between India and Japan in the years to come.



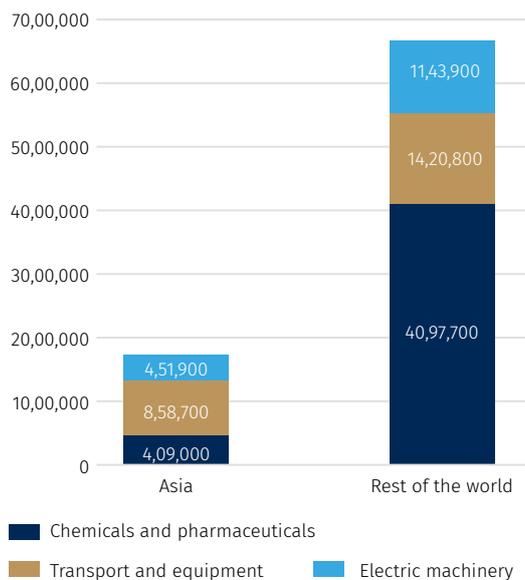
Chapter I

INTRODUCTION

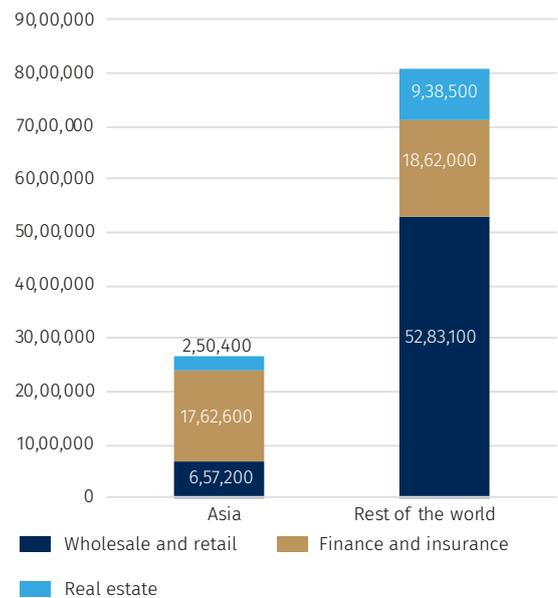
Japan is one of the largest investors in the world and in Asia.

Japan is one of the largest investors in the world and in Asia. Although Europe and North America have been Japan's primary investment destinations¹, the foreign direct investment inflows from Japan to Asia in the past few years has risen significantly, from 8.8% to 24.2% from 2016 to 2019.² In 2019, Japan's total outward foreign investment was JPY 24,706,800 million, with Asia receiving 31.9% amounting to JPY 5,982,100 million. A brief overview of Japan's outward direct investment in Asia and rest of the world is set out below:

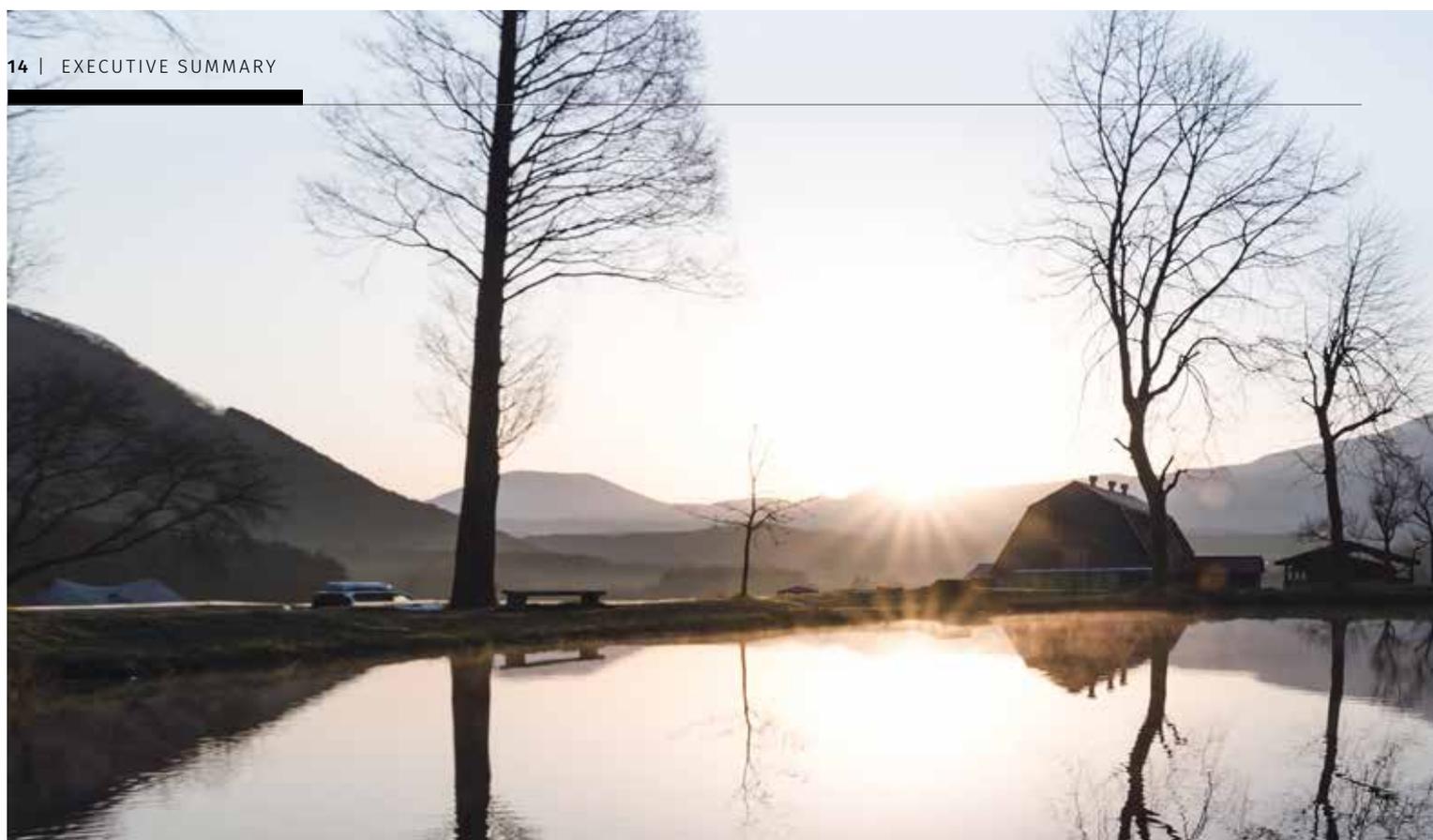
Japanese outward investments in the manufacturing sector in 2019 (in million JPY)



Japanese outward investments in the non-manufacturing sector in 2019 (in million JPY)



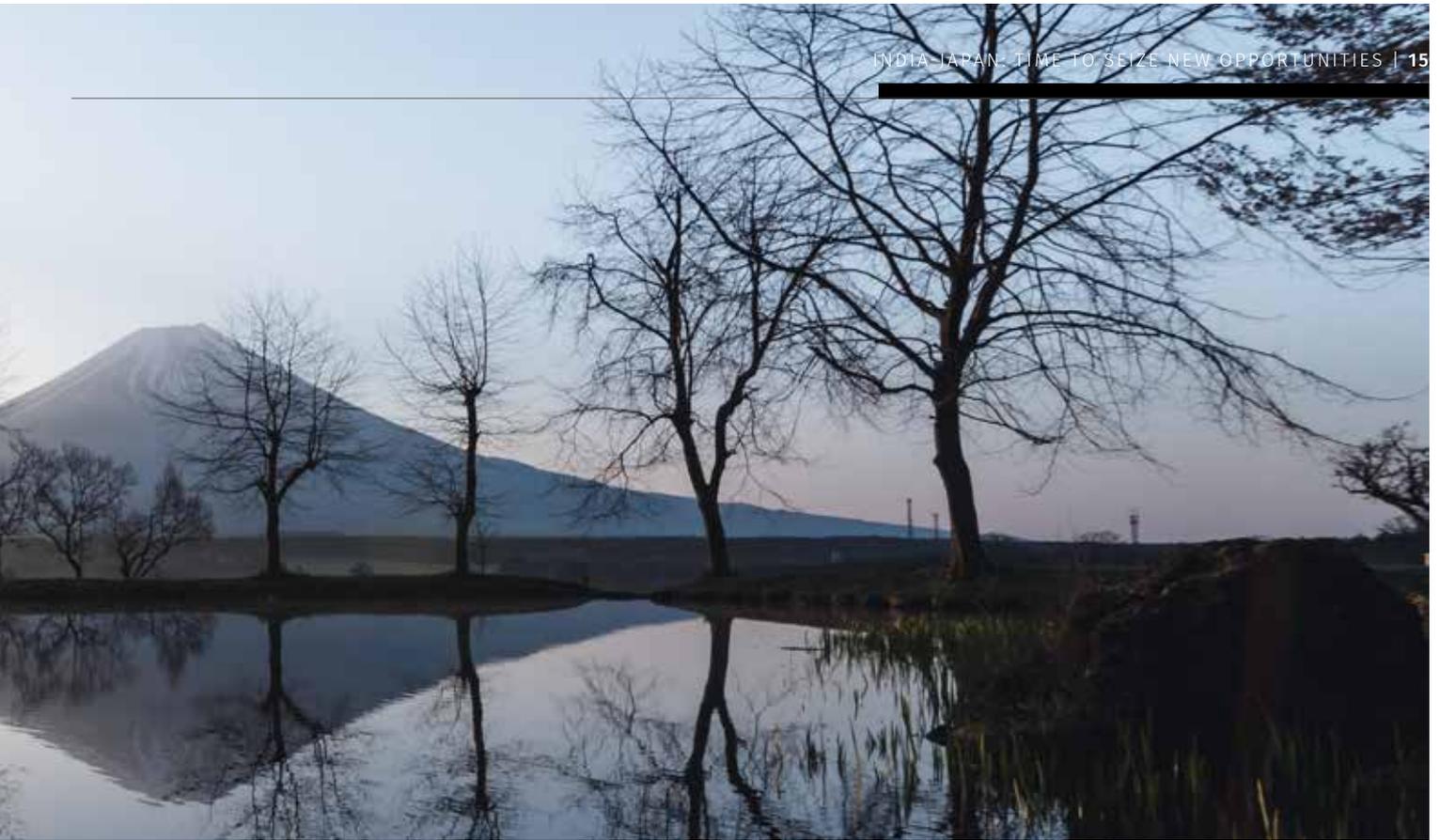
Japan's outward investment in Southeast Asian countries has grown significantly over the past few years³. The World Investment Report 2020, published by the United Nations, highlights that Japanese multinational enterprises remain the largest investors in the world, with investments rising by 58% to a record USD 227 billion in 2019 from



USD 143 billion in 2018. The Report also highlights that in 2019, Japan's investment in Asia increased by 6%. A substantial portion of Japanese investment in Asia has been directed towards the manufacturing sector, which includes manufacturing of transportation equipment, electrical machinery, chemicals and pharmaceuticals, amongst others. Japanese companies have also made significant investments in the wholesale and retail sector, services and real estate sector. Set out below is an overview of Japan's direct investment in Asia in 2019:

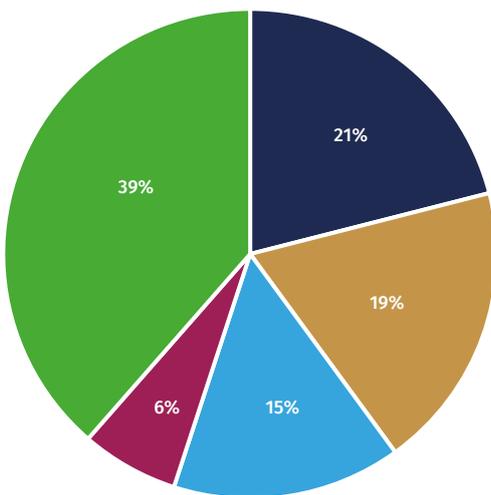
(All figures in JPY million)	India	Thailand	Indonesia	Vietnam	Myanmar	China	Malaysia
Total FDI from Japan in 2019	553,800	448,100	914,900	273,600	25,500	1,399,200	30,400
FDI from Japan in the past five years (2015-2019)	1,434,000	2,580,200	2,392,300	1,070,000	135,000	6,255,200	789,600
Manufacturing sector total (2015-2019)	1,087,300	1,795,800	872,200	618,600	39,100	4,273,600	272,400
Chemicals and pharmaceuticals	(-) 221,800	220,800	150,200	77,500	600	466,400	(-)32,300
Transport and equipment	861,900	549,100	367,600	122,800	7,000	1,553,500	84,600
Electric machinery	112,300	344,200	60,800	110,200	400	717,000	39,000
Non-manufacturing sector total (2015-2019)	346,800	784,400	1,520,200	451,400	95,900	1,981,900	517,200
Wholesale and retail	102,800	141,200	133,000	52,800	9,100	1,336,500	36,700
Finance and insurance	245,300	542,900	1,169,600	183,300	59,600	456,400	174,300
Real estate	47,100	44,000	168,400	102,100	2,700	61,900	2,000
Services	37,900	(-)19,500	33,900	42,800	8,700	95,900	(-)50,900

Japan's major exports in 2019 included vehicles (other than railway and tramway), machinery, nuclear reactors, boilers, electrical and electronic equipment etc., and a majority of Japan's exports were made to USA, China, South Korea, Hong Kong and Thailand.



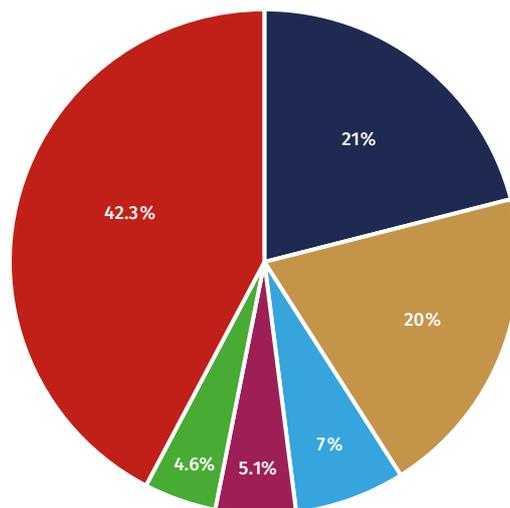
Given that the outbreak of the coronavirus pandemic has disrupted the global economy, various businesses, including Japanese companies, that are heavily reliant on manufacturing units or parts of a business' supply chain in China are evaluating the prospect of diversifying the locations of their manufacturing activities and the de-risking the supply chain from any future shocks from one particular location or country, by investing in other Asian countries.

Japan's major exports



- Vehicles other than railway, tramway
- Machinery, nuclear reactors, boilers
- Electrical, electronic equipment
- Commodities not specified according to kind
- Others

Top export destinations for Japan, 2019



- USA
- China
- South Korea
- Hong Kong
- Thailand
- Others



Chapter II: **INDIA- JAPAN RELATIONS**

India has consistently been ranked as one of the most attractive investment destinations in recent years' surveys of JBIC⁴. India and Japan have a very long-standing relationship, solidified by years of cooperation and shared values.

HISTORICAL TIES

- The India-Japan relationship dates back to 752 AD.
- Bilateral ties between the two countries date back to almost 1,400 years.
- The two countries have never been adversaries in the history of their bilateral relations.
- The India-Japan Association, set up in 1903, is one of the oldest surviving international friendship bodies.

INVESTMENT RELATIONS

- Japanese FDI equity inflow for FY 2018-19 reached USD 2965.18 million and rose to USD 3225.71 million in FY 2019-20.
- Cumulatively, since January 2000 till March 2020, the FDI equity inflow from Japan to India has been USD 33,579.31 million, contributing to 7.13% of the total FDI equity inflow in India.
- Japan ranks third now among India's major investors.
- Japanese FDI into India has mainly been in automobiles (19%); drugs & pharmaceuticals (15%); services sector (14%); metallurgical industries (9%); and telecommunications (7%).

Japan's FDI in India: Investors and recipients

Top Japanese Investors in India from April 2000-December 2018	Top Indian Recipients of Japanese Investments
<ul style="list-style-type: none"> SoftBank's Vision Fund (has multiple investments in India, including in Delhivery, Grofers, FirstCry, Ola, Oyo, Paytm, PolicyBazaar, etc.⁵) JFE Steel Corporation, Japan (USD 1779.49 million) Mitsubishi Chemical Corporation (USD 474.78 million) Suzuki Motor Corporation (USD 839.44 million) Nippon Life Insurance Company (USD 599.02 million) Toshiba Corporation (USD 273.39 million) Nissan Motors Company (USD 274. 67) 	<ul style="list-style-type: none"> JSW Steel Ltd. (USD 1779.49 million) MCPI Private Limited (formerly MCC PTA IND) (USD 474.78 million) Suzuki Motor Gujarat Private Limited (USD 839.44 million) Reliance Life Insurance Company Ltd. (USD 338.04 million) Toshiba Transmission & Distribution Systems (USD 273.39 million) Renault Nissan Automotive India Pvt Ltd. (USD 274. 67)

Singapore route

Apart from directly investing in India, Japanese companies often also invest in India through their subsidiaries in Singapore. Singapore is also one of the largest sources of foreign direct investment in India. Below is a list of a few Japanese entities that have made investments in India in 2018-19 through their Singapore subsidiaries:

Name of Indian company	Name of Singapore investor	Name of Japanese entity	Year of investment	Investment amount (in USD)
Misumi India Private Limited	Misumi South East Asia Pte. Ltd.	MISUMI Corporation	2019	2.46 million
Nittsu Logistics (India) Private Limited	Nippon Express (South Asia and Oceania)	Nippon Express Co. Ltd.	2019	11.6 million
NTT Security (India) Private Limited	NTT Security (Singapore) PTE Ltd	part of NTT Group Japan	2019	0.01 million
Mitsubishi Electric India Private Limited	Mitsubishi Electric Asia Pte Ltd	Mitsubishi Electric Corporation	2019	2.77 million
Ryoyo Electro India Private Limited	Ryoyo Electro Singapore Pte Ltd	Ryoyo Electro Corporation	2019	0.03 million
Yanmar Engine Manufacturing India Private Limited	Yanmar International Singapore Pte Ltd	Part of Yanmar Group Japan	2019	0.01 million
Daicel Safety Systems India Private Limited	Daicel Asia Pte Ltd	Daicel Corporation	2019	0.20 million
Isuzu Motors India Private Limited	Isuzu Motors Asia Ltd	Part of Isuzu Group, Japan	2018	87.66 million
IIFCOTokio General Insurance Co Ltd	Tokio Marine Asia Pte Ltd	Tokio Marine & Nichido Fire Insurance Co. Ltd	2018	14.09 million
Makino India Private Limited	Makino Asia Pte Ltd	Makino Milling Machines, Japan	2018	4.95 million
Daiki Axis India Pvt Ltd	Daiki Axis Singapore Pte Ltd	Daiki Axis Co. Ltd, Japan	2018	1.36 million
Jeol India Pvt Ltd	Jeol Asia Pte Ltd (overseas subsidiary)	Jeol Limited, Japan	2018	2.01 million



India–Japan Strategic Cooperation: Creating an investor friendly ecosystem

- **Japan Plus:** India has established the “Japan Plus” office in the Ministry of Commerce and Industry, GoI, in October 2014 as a one-stop location for resolving problems faced by Japanese companies.
- **India-Japan Digital Partnership:** The India-Japan Digital Partnership has also been launched to further the scope of cooperation in relation to science and technology, and particularly information communications technology, with a particular focus on digital information and communication technology.
- **Focus on Technology based Societal Benefit Programs:** India and Japan have pushed for their respective flagship programs of “Digital India”, “Start-Up India” and “Smart City” by India and Japan’s “Society 5.0”, with the intention of distribution of societal benefits to citizens.

- **Information Technology (IT) Corridor project in Japan:** NASSCOM has set up a mirroring IT corridor project in Hiroshima Prefecture to attract highly skilled talent and establish a collaborative effort between India and Japan’s industries and institutions.
- **Training to Indians in Japanese manufacturing practices:** Japan has made arrangements for training 30,000 Indian personnel over a period of 10 years in the Japan-India Institute for Manufacturing, (JIM) providing Japanese style manufacturing skills and practices, in an effort to enhance India’s manufacturing industry base and contribute to “Make in India” and “Skill India” Initiatives.
- **Japanese Industrial Townships (JITs):** JITs are being set up at 12 chosen sites in India, as integrated industrial parks with ready-made

operational platforms, which are proposed to have, among others, world class infrastructure facilities, plug-and-play factories and investment incentives for Japanese companies. The state governments in India have identified sites to develop these JITs. Incentives being provided include single window clearances, exemptions from certain taxes and duties, such as electricity duty, stamp duty, entry tax, land acquisition tax, etc. The GoI has proposed to set up the 13th JIT in Assam in order to promote domestic manufacturing and strengthen economic ties between India and Japan. The GoI is working on a geographic information system-enabled data base of industrial areas and clusters across India and is also working on setting up a fast track mechanism to solve the problems faced by Japanese investors in India.



Mr. Ravindra Sannareddy,
MD, Sri City

India-Japan relations have traditionally been strong. Their relationship has become a formidable force to reckon with in the Asia Pacific region, and indeed, across the globe. We are witnessing an active participation of both the countries on their journey of mutual growth and success. Even during the present Covid crisis, Indo-Japanese ties are growing deeper and wider, from digital partnership, start-up collaboration and technology transfer to moon mission, health care and defence, etc., among others.

Andhra Pradesh, the top ranked state for ease of doing business in the country, has been proactive in engaging with the Japanese investors. Sri City, which boasts of a Japanese enclave and considered as the second home for Japanese businesses, will continue to work to add value to the industry and farther the Indo- Japanese bilateral linkages through knowledge initiatives, such as this report. I commend the research and insights of FICCI for their lead in compiling this timely exclusive report.

- Sri City:** One of the most prominent among the 12 JITs referred above, Sri City is a well-connected industrial estate of more than 7500 acres and located just 55 kilometers from Chennai, enabling excellent connectivity to four different commercial ports and two international airports. Since its inception in 2008, Sri City has exponentially grown to become one of India's most coveted business destinations with investments that surpass USD 4 billion and exports to the tune of USD 1.5 billion to date. Sri City is home to over 185 companies from 27 different countries and employs over 50,000 people. This Business Park consists of a multi-product SEZ, a domestic tariff zone, a free trade and warehousing zone and an Electronics Manufacturing Cluster. A dedicated Japanese desk

and the presence of a Japanese enclave at Sri City has attracted over 24 Japanese companies, which include Isuzu Motors, Toray, Panasonic, Unicharm, Kobelco, IMOP, Aisan Autoparts, Kikuwa India, NS Instruments, Nippon Express, among others. The first JIM in Andhra Pradesh, a scheme conceived by the governments of India and Japan, operates in cooperation with Japanese companies in Sri City. Set up to help train and skill youth for the manufacturing sectors, it greatly contributes to the 'Skill India' and 'Make in India' initiatives. The Sri City JIM imparts basic knowledge about quality control, manufacturing techniques, provides lectures on the concepts and skills of Japanese manufacturing and on-the job training in the Japanese operated factories⁶.

Panasonic: A success story

Panasonic is a sterling example of a successful company, brought together by the shared vision of India and Japan. Panasonic is a 101-year-old global brand and in 1972, two great leaders - Late Mr. Konosuke Matsushita and Late Mr. D.D. Lakhanpal - came together to mark Panasonic's first step in the journey of making India stronger with the first dry cell manufacturing facility. Panasonic has flourished for over 40 years in India, providing opportunity to over 13,000 employees, and has since diversified its portfolio to household appliances and enterprise solutions, and expanded its market to not only India but also other countries across the globe. The company has emerged as a true flagbearer of the Make in India, make for World principle. It has also set up its R&D arm, the India Innovation Centre (IIC), which has launched intelligent solutions to increase productivity in various spheres, including Smart Factory solutions to boost productivity, and has enabled the installation of 3000+

security cameras in 10 smart cities. IIC has also spearheaded Panasonic's AI and IoT projects. Panasonic's IoT platform, MirAle, has become a reality and works across many of the company's products, integrating consumers' smart lifestyle with a connected home experience. Panasonic has also been active in the exciting EV space, and has launched Nymbus - a first-of-its-kind smart EV charging service in India. Nymbus allows individual EV users, fleet owners; e-commerce and logistics companies to manage their fleet efficiently with real-time analytics, and an intuitive dashboard leveraging the artificial intelligence (AI) capabilities. The company has also been instrumental in uplifting local communities and has created a local partner eco-system that has helped a number of MSMEs to build their businesses. Driven by the vision to build 'A better life, a better world', Panasonic intends to achieve sustained growth and enhanced corporate value. The focus is on driving the push for self-reliance by making India a manufacturing hub and export products as well as services.



Mr. Manish Sharma

President and CEO, Panasonic India and South Asia, Chairperson -Electronics & Manufacturing Committee, FICCI; Co-Chair FICCI Energy Storage Committee

The socio-economic relationship between the two countries- India and Japan, is deep-rooted and enhanced through synergies between Modinomics and Abenomics. The two great leaders with a common goal of doubling Japan's direct investment and the number of Japanese companies in India have been successfully leveraging the expertise, resources, and investment pool to advance the economic agenda. With many initiatives to ease business operations and enabling growth environment, Indo-Japan relations provide the much-needed impetus to 'Make in India' and allows the exchange of knowledge and expertise of Japanese manufacturing.

As the fastest growing sector, the electronic industry is expected to reach USD 400 billion by 2025 with a potential import opportunity of USD 150 billion, to be leveraged locally. The stimulus provided by the Government of India, along with the production linked incentives, component manufacturing schemes and cluster schemes, pegs India to be a truly global manufacturing hub and investment destination.

It is heartening to know that Japan already is a significant contributor to India's development and with India opening up more doors, our relations with Japan are on the path to solidify further.



Industry (Japan) and Ministry of Commerce & Industry, GoI, on May 1, 2018. The Hub is intended to enable collaborations between start-ups, interested investors, incubators etc., and ensure proper networking amongst all stakeholders. It has successfully assisted with the launch of various start-ups and initiatives, including SoftBank & Paytm having launched a mobile-based Digital Payments Service in Japan called PayPay; Japan's Recruit Group, having invested in an online lending startup called Rubique; Bugworks having raised USD 9 million funding to develop antibiotics to fight superbugs; Recruit Holdings having invested in the logistics management startup Locus, etc.

- JETRO has also played an active role in leveraging these strengths and “playing matchmaker between Indian startups and Japanese VCs and corporations.” India's National Association of Software and Service Companies (NASSCOM), has also organized multiple pitch meetings, including online meetings, to interest Japanese investors in Indian offerings. One of the latest pitches reportedly covered start-ups in India's high opportunity transportation sector. In 2019, NASSCOM partnered with the Embassy of India in Tokyo, and commenced the Global Capital Access Initiative to bridge the gap between Indian technology based start-ups with the venture capitalists in Japan. NASSCOM's 2019 event saw attendance from more than 170 entities and out of 26 participating startups over 2 days, 5 startups managed to obtain funding and engage in partnerships with Japanese

India-Japan collaboration in start-ups

- The GoI recognizes that Japan is a strategic partner and an important investor in India's startup economy. Japan's venture capital (VC) investments in Indian startups had exceeded USD 10 billion in 2018 itself. Japan has also invited Indian startups to go for initial public offerings on the Tokyo Stock Exchange. India has emerged as a particularly attractive destination for Japanese investors and start-up founders, as it has a large skilled and technically educated workforce. It has also demonstrated its expertise in IT and Software as a Service (i.e., SaaS) segments. It is to

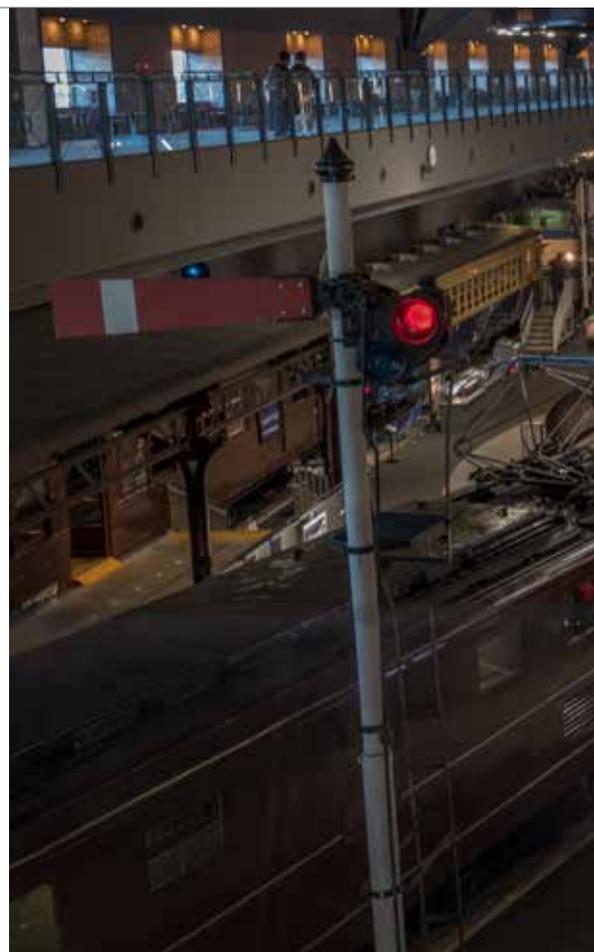
the mutual benefit of both countries to explore future collaboration in this area, as Japanese investors and businesses can also consider Indian start-ups as a gateway to tap into the hitherto untapped Indian market for specific technologies, or create customized products and solutions for various other global markets.

- Bearing in mind the deepening relationship between the two countries regarding collaboration on start-ups, the GoI has established the Japan – India Startup Hub as part of the Startup India website. The Hub was conceptualized as part of a joint statement signed between the Ministry of Economy, Trade, &

enterprises within 6 months. Japanese investors have also demonstrated interest in startups in India's health sector, supply chains and mobility / robotics sectors. Akatsuki Entertainment Technology Fund, Hiro Mashita of M&S Partners, SoftBank, Mistletoe, BEENEXT, Spiral Ventures, and Incubate Fund India have emerged as the most significant Japanese investors in this regard, and have played a significant role in jettisoning Japan to become the fourth largest private equity (PE) / VC investor in India.

Connecting with Indian States

- To further supplement synergetic relationships between Japanese investors and interested parties, the GoI has supported the signing of MOUs between Indian states and the prefectures and cities of Japan. As per FICCI, presently, 7 Indian States and 3 cities/regions in India have drawn partnerships with the Prefectures and Cities of Japan through MoUs in different sectors. The table below demonstrates certain state specific capabilities which Japanese investors may consider prior to investing in companies and start-ups in India.



Sector/ State	Andhra Pradesh	Haryana	West Bengal	Gujarat	Karnataka	Maharashtra	Uttar Pradesh	Tamil Nadu	Rajasthan
Electronics	✓		✓		✓		✓	✓	✓
Pharma and medical devices	✓			✓					
Telecom and communication technology	✓	✓		✓		✓			
Fintech	✓	✓			✓	✓	✓		
Auto and auto components	✓	✓		✓	✓	✓		✓	✓
Financial services		✓				✓			
Healthcare, telemedicine and biotechnology	✓			✓	✓	✓	✓		
Defence	✓				✓		✓		

Opportunity Sectors for Investment in India

- Manufacturing:** Among others, India and Japan are looking to further increase their collaboration on the

following manufacturing sectors in India:

- **Infrastructure:** From April 2000- March 2020, the FDI in the construction development sector (including townships,

housing, built-up infrastructure and construction development projects) was USD 25.66 billion, according to Department for Promotion for Industry and Internal Trade (DPIIT) and



Internal Trade. As per the IBEF, the logistics sector in India is growing at a CAGR of 10.5% each year and is expected to reach USD 215 billion in 2020, and India is expected to become the third largest construction market globally. Multiple infrastructure projects that include the USD 100 billion Delhi-Mumbai Industrial Corridor and a Japanese bullet train to run between Mumbai and Ahmedabad are in progress. Japan is also collaborating with India on the improvement of roadway connectivity, river bridge constructions, and improving the provision of power to parts of the Indian North-east region.

- **Railways:** As per the IBEF, the FDI inflow in railway related components was USD 1107.60 million from April 2000- March 2020, and the revenue of the Indian railways increased at a

CAGR of 6.20% during FY 2008- FY 2019 to USD 27.13 billion in FY 2019. India and Japan have also agreed to collaborate in the railways sector. The countries aim to work for infrastructural improvement in four subgroups- civil works, track works, electrical works (including signal and telecom) and rolling stock. The renowned rail safety mechanisms of Japanese rail systems will also be applied to Indian rail systems in the future.

- **Defence:** India and Japan have agreed to collaborate on the defence sector in India, in the last annual summit held on November 4, 2019. India has notified certain policy changes to make defence an attractive destination for investors, including increasing the FDI limit in the defence sector under the automatic route from 49% to 74% in defence production.

A 'Strategic Partnership' initiative by India in 2017 aims to bring in chosen Indian companies in the sector in contact with shortlisted foreign original equipment manufacturers to manufacture complex military platforms such as aircrafts, together. The prime minister of India, Mr. Modi, has also launched the iDEX initiative to foster innovation and technology development in Defence and Aerospace by engaging Industries including MSMEs, start-ups, individual innovators, R&D institutes and academia. Further, a Defence Investor Cell has been created to promote investment, facilitate joint ventures, transfer of technology or search for technology partners. The proposed creation of Defence Corridors will further enable foreign investors to evaluate investment strategies in the

sector.

- **Electric Vehicles:** As per the IBEF, the EV sales in India, excluding e-rickshaws grew by 20% to reach 1.56 lakh units in 2019-20, driven by two-wheelers. According to a report by Avendus Capital, the EV market is estimated to be a USD 7.09 billion opportunity in India by 2025. The production of EVs and associated infrastructure such as batteries and battery components has also emerged as a very attractive avenue for foreign investment. India aims to leverage its strong, established talent and infrastructure in automobile/auto component manufacturing and retool these benefits for the EV market as well. India, with its focus on converting 40-50% of its two-wheelers and three-wheelers to EVs over next

10 to 15 years, will offer a large local market opportunity too: with volumes close to 25 million EV sales per year of these categories, plus four wheelers and buses as additional opportunity. Thus, a Make in India for EV/ its components can be a scale opportunity for servicing the local market in India and for setting up as a base for global market. The GoI has already put in place the Faster Adoption and Manufacture of (Hybrid and) EVs) Scheme (Phase II) and intends to push for aggressive implementation of the same, among other proposed policy reforms in this sector.

- **Pharmaceuticals:** As per the IBEF, the Indian drug and pharmaceutical sector in India received a cumulative FDI inflow of USD 16.5 billion from

April 2000- March 2020, and is expected to grow to USD 100 billion, while the medical device market is expected to grow USD 25 billion by 2025. India and Japan have inked plans to collaborate on manufacture of high standard generic medicine in India. BY way of policy changes, India has permitted 100% FDI through automatic route for greenfield pharmaceutical projects, and 74% for brownfield pharmaceutical projects through automatic route and beyond that through GoI approval route. Further, the GoI has approved certain schemes for the pharmaceuticals sector in India, including a scheme on the promotion of Bulk Drug Parks, which aims to ensure financing for common infrastructure facilities in three Bulk Drug Parks,





Nikhil Nanda

Chairman & Managing Director,
Escorts Limited

Japan, strategically fits in strongly as a trade partner in our growth journey.

“At Escorts, Japan strategically fits in strongly as a trade partner in our growth journey. Our Joint Venture partnerships with leading firms in Japan, Kubota Corporation and Tadano Limited in agriculture and construction space respectively, are a testimony of our roadmap to co-create innovative product offerings for enhanced customer experience globally.

We have also been an active member and participant at STS, Science & Technology in Society Forum, Japan, enabling us to get a preview of the Indo-Japan trade relations and opportunities emerging in both the countries for mutual growth.

As a TPM accredited Indian firm, we hope to achieve many milestones ahead in our trade relations with Japan.”

with proposed grants-in-aid to the relevant Indian states with a maximum limit of INR 10 billion per Bulk Drug Park. Further, a PLI Scheme for promotion of domestic manufacturing of critical KSMs/ Drug Intermediates (available to eligible manufacturers of certain identified critical bulk drugs) and active pharmaceutical ingredients in the country with financial implications of INR 69.4 billion for next 8 years has also been implemented.

- **Healthcare:** As per the DPIIT, hospitals and diagnostics centers attracted FDI of USD 6.72 billion from April 2000- March 2020. As per the IBEF, the healthcare market can increase three-fold to USD 133.44 billion by 2022. India and Japan plan to collaborate on multiple aspects of healthcare, including human resource development in the fields of acute medicine, surgery, trauma care, etc. In this regard, India also plans to prepare training programs in India, for the health care workers of both countries. India and Japan are also working on collaboration between Japan’s Asia Health and Well-being Initiative and India’s healthcare initiatives such as Ayushman Bharat, by introducing affordable technology,

skill development and best practices in the sector. Collaboration in relation to holistic alternative medicine, for e.g., yoga and ayurveda, is also being evaluated.

- **Food Processing:** India and Japan have agreed to collaborate in the agriculture, food processing, food safety, forestry, and fisheries sectors. Various MOUs have been signed in the food processing sector between Japanese and Indian companies over the past few years. In the field of technology and automation for smart agriculture, a JV has been set up between Hitachi India and Amnax Technologies. Suzuki and Ise Foods are collaborating on a cold chain logistics JV, etc. Companies like Ise Foods, Kameda Seika, Coco Ichibanya, Zensho, Kiyomura Corporation are engaged in the mindful eating and personalized nutrition space. Softbank has also invested in Grofers, a startup dedicated to delivery of food items and ingredients, amongst others.
- **Digital Partnership:** The two countries are aiming to partner in areas of next generation technologies such as AI, data science and IoT, etc. Collaboration is also contemplated for talent facilitation and human resources. Training facilities have

been set up in India to specifically meet the needs of Japanese companies. Infosys has formed an alliance with Hitachi, Panasonic and Pasona to use digital technology platforms to improve indirect procurement.

- **Electronics:** India is the 5th largest consumer durables market in the world, expected to reach USD 48.3 billion by 2022, with the Indian electronics hardware production having a CAGR of 26.7%, worth USD 59 billion. The GoI has introduced the National Policy on Electronics and the Modified Special Incentives Package Scheme to attract foreign investment in this sector. Further, the Ministry of Electronics and Information Technology has set up an electronics development fund that will work with venture capitalists in providing risk capital to companies developing new technologies, including, electronics, nano-electronics and information technologies.
- **Other sectors:** At the last annual bilateral summit meeting, the two countries also discussed further collaboration in various sectors, including bilateral cooperation in third countries, and collaboration on investment promotion.

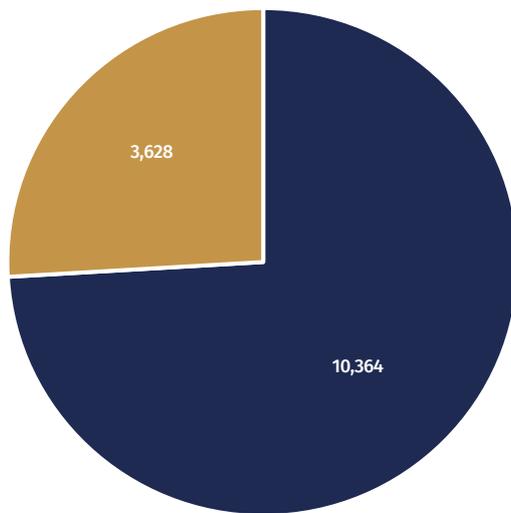


Chapter III:

JAPAN'S CHINA EXPOSURE

Japan-China ties

Split of Japanese Investment in China, 2019 (in JPY million)



■ Manufacturing sector ■ Non manufacturing sector

- In 2019, Japan invested JPY 13,992 million in China, out of which JPY 10,364 million was in the manufacturing sector (including manufacturing of transportation equipment, general machinery, electric machinery, chemicals and pharmaceuticals) and JPY 3,628 million was in the non-manufacturing sector⁷.
- Additionally, China accounted for 20% of Japan's total exports in 2019, valuing USD 134.68 billion, being the second largest after USA. In 2019, Japan was the third largest customer of China's

exports, having imported approximately 6.0% of all of China's exports and was also the second largest supplier into China, as China imported approximately 9.2% of its total imports from Japan⁸.

Japan's diversification and de-risking strategy

The coronavirus pandemic has had an enormous adverse impact on industries around the world and the economic and financial ramifications through global supply chains from raw materials to finished products. China has been the world's factory manufacturing various goods, including high-value goods and components and a large consumer of commodities while also offering an attractive consumer market. The impact of the coronavirus was anticipated and felt globally even before the virus was reported to have spread to other countries from China. Reportedly, the coronavirus pandemic has affected more than 188 countries.⁹ It is estimated that more than 200 of the Fortune Global 500 companies have a direct presence in Wuhan, China. It is also estimated that 163 of the Fortune 1000 companies have direct suppliers in the area of early impact¹⁰, and 938 companies have indirect suppliers (feeding the first tier/direct suppliers) in the area of early impact in China.

China has, in the past years, transitioned from a double-digit growing, low-wage, low regulation emerging economy to an upper-middle-income country with higher wage demands, a lack of manual labourers, stricter environmental laws and almost unavoidable trade collusion with USA. Labour costs in China are estimated to be USD 6.5 per labour hour¹¹ which is



USD 1.5 higher than the cost in 2016¹² and significantly higher than the labour cost in India and other Asian countries. China has also transitioned from being the world's factory primarily exporting products, to a service-driven economy.

The coronavirus pandemic has also thrown light upon the vulnerability of companies to global shocks and disrupted their supply chains, thereby driving global manufacturing companies to adopt strategies to de-risk their supply chains and diversify their manufacturing to other Asian countries rather than being heavily dependent on a single source for their supplies. The review of investment strategies by multinational companies, including Japanese and American companies, has been underway for a while now, and has only been accelerated by the coronavirus pandemic and the US-China trade war.

Japan's economic stimulus package

The closure of factories in China due

to the outbreak of the coronavirus pandemic lead to a fall in the exports to Japan and disrupted the supply chains of Japanese companies. In order to mitigate the economic and social impact of the coronavirus pandemic and facilitate manufacturers in shifting their production out of China, the Japanese government unveiled a massive stimulus package of JPY 243.5 billion (USD 2.2 billion). From this pool of JPY 243.5 billion, the Japanese government has set aside JPY 220 billion (USD 2 billion) to aide Japanese companies in shifting their production base back to Japan from China, while JPY 23.5 billion is designated for those Japanese companies seeking to move their production from China to other countries. The package is aimed at reducing future risks of supply chain disruption in case of another black swan event.

A Rabobank report analysed countries which have export baskets similar to China's, low wages and an attractive

investment climate and found that Vietnam, Thailand, Malaysia, Taiwan and India are likely to benefit from the de-risking strategies of global investors.¹³ The final decision of investors also depends on the export destination for the company's products.

A key factor in a company's decision to diversify and expand its manufacturing and production facilities to another country would be any trade agreement between such an investment destination and Japan or USA in order to reap the benefits of tariffs and exemptions. In the ASEAN region, the Philippines, Thailand, Malaysia and Indonesia are standard Generalized System of Preferences (GSP) beneficiary countries, and Cambodia and Myanmar are GSP beneficiaries treated as least developed countries.¹⁴ Set out below is a list of Japanese companies currently manufacturing in China and reportedly considering expanding their operations to other destinations as part of their de-risking strategy:

S. No	Name of the company	Sector	Relocation destination
1.	Ricoh Co.	High speed printers	Thailand
2.	Asics Corp.	Athletic shoes and apparel	Vietnam
3.	Sharp Corp.	Dynabook notebook computers Multifunction printers	Vietnam/ Taiwan Thailand
4.	Nintendo Co. ¹⁵	Video games and consoles: swatch game player	Vietnam
5.	Kyocera Corp. ¹⁶	Copiers and multifunction printers	Vietnam
6.	Canon ¹⁷	Printers	Vietnam
7.	Komatsu	Construction Equipment Components	Japan or Vietnam (already relocated some production to USA and Thailand)
8.	Toshiba Machine	Auto parts	Japan
9.	Keihin	Robot components	Japan
10.	Sumitomo Heavy Industries	Auto parts	Japan
11.	G-Tekt	Auto parts	Japan
12.	Mitsubishi Electric	Laser processing machines	Japan
13.	Casio Computer	Wristwatches	Thailand
14.	Citizen Watch	Wristwatches	Thailand
15.	Panasonic	Stereos, other in-car equipment	Thailand or Malaysia
16.	Mitsuba	Auto parts	USA (partly relocated to Vietnam)
17.	Nidec	Auto parts, home appliances parts	Mexico
18.	Funai Electric	LCD TVs	Mexico (relocated some production to Thailand)
19.	Sony Corp.	PlayStation consoles	Thailand

India as an attractive investment destination

The GoI has taken several steps, such as, offering preferential tax rates apart from a reduction in corporate taxes, identifying and developing land in industrial and other areas across India for setting up manufacturing units, providing utilities and other infrastructure and revamping the labour laws and bringing about other policy changes, to attract Japanese investors to India. India is rightly placed in the current scenario to reshape its influence across supply chains globally. India is equipped with one of the largest scientific and technical manpower in the world, including research and development, and its service sector continues to be globally competitive. Additionally, India's capability to supply raw materials and intermediaries offers businesses the prospect of reducing the dependence on multiple global sourcing. In furtherance of such efforts, India will also need to overcome challenges such as low productivity, lack of a robust ecosystem with efficient suppliers, logistical and infrastructural constraints and lack of trade and investment agreements, to emerge as a preferred destination for investment for Japanese companies.

In Chapter IV below, we have briefly compared the investment and trade regimes and ecosystems of prospective beneficiaries of the diversification and de-risking investment strategies of global investors, especially Japanese investors.



Chapter IV

COMPARISON OF INVESTMENT AND TRADE REGIMES OF

CHINA, THAILAND, VIETNAM, INDONESIA,
MYANMAR, MALAYSIA AND INDIA



CHINA

Overview

- Second-largest global economy.
- Largest exporter.
- Second-largest FDI recipient, after USA.
- Has the largest exchange reserves in the world.
- One of the fastest growing GDPs in the world.

Foreign Direct Investment

Top sectors attracting FDI	<ul style="list-style-type: none"> • Manufacturing • Real Estate and Leasing • Warehousing Businesses
Top sources of FDI	<ul style="list-style-type: none"> • Hong Kong, Singapore, Taiwan, Japan, South Korea, USA

Trade agreements

- Various FTAs in Asia and the Pacific including the China- ASEAN FTA.
- Engaged in negotiations on the Regional Comprehensive Economic Partnership (RCEP), China (Gulf Cooperation Council) FTA, FTA with Japan-Korea.

Economic Data and Activity

- Economic growth reduced to 6.1% in 2019 against 6.7% in 2018, as a result of the structural slowdown. The GDP growth is expected to fall to 1.2% in 2020 pursuant to the coronavirus pandemic as per IMF data.
- Public debt is concerning. While the official figure for 2019 was 55.6%, it has been estimated that China's debt to GDP ratio is 300% and the IMF anticipates an increase in the government debt to 60.9% in 2020 and 265.4% in 2021.
- China has been a preferred destination for outsourcing of global manufacturing units owing to its erstwhile cheap labour market. However, with the China-USA trade war, outbreak of the coronavirus pandemic and the significant rise in labour costs in recent years, there is a growing reluctance to invest in China. While the service sector in China has been growing in recent years,

it is encumbered by public monopolies and restrictive regulations, which have affected its progress negatively.

Tax incentives

- Organisational and start-up expenses are tax-deductible in the first year of operation.
- Preferential tax treatment in the form of incentives is granted to new high-technology enterprises, companies in special economic zones and pilot free trade zones.
- Certain exemptions to specific sectors such as agriculture, fishery, forestry, software and infrastructure.
- For R&D expenses incurred for new technology, new products or new craftsmanship, an extra 75% of the actual expenses incurred are also tax-deductible as an incentive (during the period from January 1, 2018, to December 31, 2020).
- Tax losses can normally be carried forward for a maximum of 5 years starting from the year subsequent to the year in which the losses incurred.

Incentives for investment in China

- The rapid development of the high-tech sector, establishment of free trade zones, purchasing power parity, proximity to emerging Asian markets especially Japan, tax cuts and reduced foreign investment barriers have played a pivotal role in attracting foreign investment in China.
- China has also introduced mechanisms to improve the delivery of major foreign investment projects, provided exemptions and relaxations in corporate tax rates, reduced import tariffs, streamlined its customs clearance processes and established an online filing system to regulate FDI.
- China has updated and relaxed its foreign exchange control over cross-border investment and trading.
- Proximity to emerging markets in Asia, especially Japan.
- High purchasing power parity.

THAILAND

Overview

- Second-largest economy in Southeast Asia after Indonesia.
- Expected to grow at a moderate pace despite domestic political uncertainty.
- Public investment to remain a key driver in line with the government's infrastructure plans to attract private investment.
- Highly dependent on exports, constituting more than two-thirds of the GDP.

Foreign Direct Investment

Top sectors attracting FDI	<ul style="list-style-type: none"> • Manufacturing, including automotive • Electronic components • Financial and insurance activities
Top sources of FDI	<ul style="list-style-type: none"> • Japan, China, Hong Kong, Singapore and Germany

Economic Data and Activity

- Economic growth in 2019 decreased to 2.4%. The GDP growth in Thailand is expected to fall to -7.7% in 2020 due to the Covid 19 pandemic as per the IMF.
- Thailand's National Strategic Plan (2017-2036) places emphasis on improving the business environment, boosting Thailand's competitiveness and long-term economic performance through the development of rail, road, airport and electricity infrastructures.
- The manufacturing sector accounts for 34.9% of Thailand's GDP and is well-diversified, employing 23.4% of the active population. The main Thai industries are electronics, steel and automotive.

- Thailand is an assembly hub for international car brands. Other key sectors include electrical components & appliances, computers, cement production, furniture & plastic products.

Trade agreements

- Thailand has signed more than 10 trade agreements with nations such as Australia, India, New Zealand, Peru etc. and is also a signatory to the ASEAN FTA.
- Thailand has completed negotiations of the ASEAN-Hong Kong, China FTA.
- It has also completed negotiations with BIMSTEC (Bangladesh, India, Myanmar, Sri Lanka, Nepal, Bhutan and Thailand). However this is not yet fully operational.

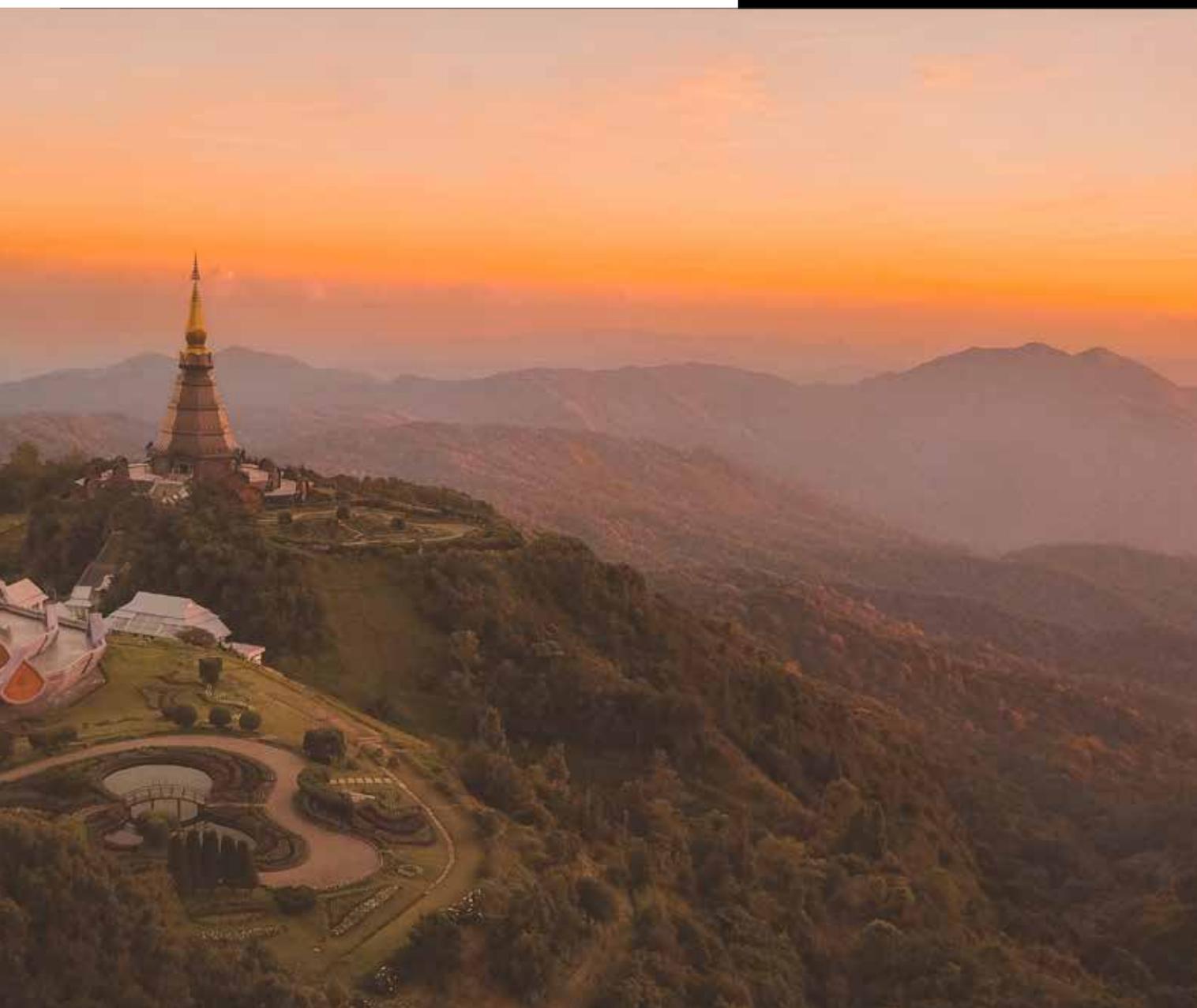
Japan- Thailand trade relations

- Japan is the third largest customer of Thailand's exports, having imported approximately 9.9% of all of Thailand's exports in the year 2018. Further, in 2018, Japan was also the second largest supplier into Thailand, as Thailand imported approximately 14.2% of its total imports from Japan.
- The Japan-Thailand Economic Partnership Agreement provides for preferential tariff reductions and cooperation programs. The ASEAN-Japan Comprehensive Economic Partnership provides for the elimination of tariffs between 80% and 99%, permits back-to-back shipment of goods between member countries, allow for third-party invoicing of goods and permits ASEAN accumulation. Thailand is also currently negotiating a FTA with the RCEP.

Tax incentives

The Thai Board of Investment offers various tax incentives such as provision of 8 years tax exemption for certain companies; 50% tax reduction for companies for 5 years; double transport, electricity and resupply deductions; tax incentives for newly acquired equipment in the form of accelerated depreciation; and 25% reduction in net profits for establishment and construction costs, for sectors such as agriculture and food, renewable and alternative energies, automotive, electronics, information and communication technologies, fashion, high added-value services (including leisure, health and tourism).





Incentives for investment in Thailand

- The Thai Board of Investment offers import tax exemptions on raw materials required for production aimed at export.
- Thailand has undertaken reforms in business regulations, including reducing the time to start a business from 29 days to 6 days.
- To ensure continued support from investors, Thailand provides online services for document submission.
- In order to tackle the aftermath of the coronavirus pandemic, Thailand has announced additional tax benefits for investments in the medical sector and temporary relaxations of certain investment conditions.
- Thailand offers incentives to invest in advanced technologies, innovative activities and research and development through the Investment Promotion Act, and the Eastern Economic Corridor Act, which offers benefits to investors in this zone (including tax subsidies, land ownership, issuing of visas).
- Thailand has simplified the conditions of investment promotion of smart farming service while offering attractive tax incentives, in order to accelerate investment in technologies.
- Thailand has been striving to reform 5 key industries, being automotive, electronics, affluent medical and wellness tourism, agriculture and biotechnology as part of its economic strategy and is also working on driving foreign investment into other sectors such as robotics, aviation and logistics, biofuels, bio-chemicals, digital industry and medical services.
- Thailand's strengths lie primarily in its diverse, inexpensive and skilled workforce, strategic geographical location and favourable government policies towards investments.



VIETNAM

Overview

- Certain sectors in Vietnam, such as industrial production, textile, electronics and seafood production, have been growing rapidly.
- Vietnam’s GDP has grown at a rate of 7% in 2019 and 7.1% in 2018.
- As per the IMF, the GDP growth rate is expected to fall to 2.7% in 2020 due to the coronavirus pandemic.

Foreign Direct Investment

Top sectors attracting FDI	<ul style="list-style-type: none"> • Processing and manufacturing • Real estate • Whole retail • Science and technology
Top sources of FDI	<ul style="list-style-type: none"> • South Korea, Japan, Singapore, China and Taiwan

Economy and Economic Activity

- Vietnam is one of the fastest growing countries in the world, and its economy has been resilient to trade wars and slower growth rates in China, due to labour shifting from the agricultural sector to manufacturing and services, private investment, higher wages and accelerating organisation.
- The Vietnamese economy relies upon large state-owned industries in sectors such as textiles, food, furniture, plastics and paper, tourism and telecommunications.
- In recent years the energy sector (coal, hydrocarbons, electricity, cement and steel industry) has seen increased growth in Vietnam. Vietnam has also invested in high value-added industries such as cars, electronics and computer technologies. The manufacturing sector grew by 10.9% year-on-year in 2019, contributing an industrial trade surplus of over USD 10 billion.

Significant trade agreements

- Vietnam joined the World Trade Organisation in 2007 and has signed 10 FTAs which are in force.
- Vietnam has also entered into a cooperation agreement with the European Union.
- Additionally, an FTA between Vietnam and the European Union was ratified by the European Parliament in February 2020.
- Vietnam is also currently negotiating an FTA with the RCEP.
- Vietnam has concluded the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and the ASEAN-Hong Kong, China FTA.

Vietnam- Japan trade relations

Vietnam is heavily dependent on foreign investment and exports. Japan is the third largest customer of Vietnam’s exports, having imported approximately 7.8%



of all of Vietnam's exports in the year 2018. Further, Japan was also the third largest supplier into Vietnam, as Vietnam imported approximately 7.9% of its total imports from Japan in the year 2018.

Vietnam has entered into the Vietnam-Japan Economic Partnership Agreement with Japan, which provides for exemption from import tariffs for over 94.5% of Vietnam's export revenues and over 87.6% of Japan's export revenues within the next 10 years. This agreement also ensures that at least 86% of the agroforestry aquatic products and 97% of Vietnamese industrial products exported to Japan will benefit from preferential trade tariff rates. Further, aquatic, farm products, apparel, steel, chemicals, electronic appliances will benefit most from this trade liberalisation.

Vietnam is also a signatory to the ASEAN-Japan Comprehensive Economic Partnership which provides for the elimination of tariffs.

Tax incentives

- Vietnam provides preferential corporate income tax rates for a definite period or for the entire duration of an investment project.
- Depending upon the nature of the project for investment and the location of such project, Vietnam offers an exemption from corporate income tax for a period of between 2 to 4 years and a reduced corporate income tax for a period of between 4 to 15 years.
- In certain cases such as investment in projects of manufacturing and processing agricultural products, a lower corporate income tax is applicable.
- Vietnam also offers an exemption from import duties in respect of goods imported to form fixed assets, raw materials and components for the implementation of an investment project.
- Additionally, an exemption or reduction of land rental and land use tax is also offered.

Incentives for investment in Vietnam

- The Vietnamese government aims to attract more FDI into areas such as export-oriented industry, energy and high technology industry by building a more business-friendly environment.
- The Vietnamese government has taken measures to improve its judicial system, create more incentives and favourable taxation policies for foreign investors to attract further FDI.
- Vietnam has also revamped its legal system including the labour legislations and land, competition, enterprise, investment and tax laws to foster a more transparent investment environment.
- Vietnam has integrated its role as an emerging value chain hub globally, with its socio-political stability, abundance of young and skilled workforce, and free market reforms.

INDONESIA

Overview

- Not experienced negative GDP growth since 1998.
- Private domestic consumption is a key driver of the Indonesian economy with a huge market of nearly 70 million people (55% of GDP).
- As per the IMF, the GDP growth rate is expected to fall to 0.5% in 2020 due to the coronavirus pandemic.
- Indonesia is a significant producer of rubber, rice, sugar cane, coffee, tea, tobacco, palm oil, and spices.

Foreign Direct Investment

Top sectors attracting FDI	<ul style="list-style-type: none"> • Metal, except machinery, and equipment industry • Electricity, gas and water supply • Transportation, warehouse and telecommunications
Top sources of FDI	<ul style="list-style-type: none"> • Singapore, Japan, China, Hong Kong and Netherlands

Significant trade agreements

- Indonesia has entered into bilateral and multilateral trade agreements to revive sluggish non-oil exports within the next 5 years.
- Indonesia has entered into 6 regional and 2 bilateral agreements FTAs.
- It has also entered into preferential trade arrangements with Malaysia, Bangladesh, Pakistan, Iran, Egypt, Turkey, and Nigeria, and is in the process of negotiating comprehensive economic cooperation agreements and FTAs.
- It has also entered into regional FTAs and is negotiating comprehensive economic cooperation agreements.



Japan-Indonesia trade relations

Japan is the second largest customer of Indonesia's exports, having imported approximately 10.8% of all of Indonesia's exports in the year 2018. Further, Japan was also the third largest supplier into Indonesia, as Indonesia imported approximately 9.5% of its total imports from Japan in the year 2018.

Indonesia has entered into the Indonesia-Japan Economic Partnership Agreement which covers about 90% of goods exported to Japan and removes import duties for most export products. Indonesia is also a signatory to the ASEAN-Japan Comprehensive Economic Partnership that provides for elimination of tariffs.

Tax incentives

- Indonesia offers various tax incentives such as reduced tax interest rate for exporters, energy tariff cuts for labour-intensive industries, tax incentives for investment in special economic zones and lowered tax rate on property acquired by local real estate investment trusts.
- Tax incentives are granted to companies operating in certain strategic industries such as oil industry and manufacturing or in geographical zones in the form of tax reduction of up to 30% of the investment (5% of production each year for six years).
- Tax holiday of 100% of the corporate income tax due is granted for 5 to 20 years to certain companies and pioneer industries engaged in specified sectors. Further, to incentivise mergers and acquisitions, Indonesia offers a partial relief from 5% transfer of title tax on land and buildings, and full relief from 2.5% income tax on the transfer of land and buildings.

Incentives for investment in Indonesia

- FDI inflows in Indonesia have grown due to its resilient economic growth,

low government debt and fiscal management.

- The Indonesian government has also put in place economic policy packages over the last few years, mainly focusing on deregulation, law enforcement and business certainty, setting up new SEZs, reducing layers of government regulation, leveraging regional trade integration, and opening new areas of the economy to private investment.
- Indonesia has put in place a best practice based guarantee facility for investors, i.e., the Indonesia Investment Guarantee Fund which provides guarantees for public-private partnership infrastructure projects such as toll roads, bridges, railroads, irrigation canals, wastewater infrastructure, telecommunication towers and power generators.
- The government recently launched a series of infrastructure development programs involving 225 priority infrastructure projects and is currently working on reforms to simplify administrative procedures to improve investments such as FDI.
- The Investment Coordination Board of Republic of Indonesia (BKPM) and DBS Bank recently signed a memorandum of understanding, to facilitate investors to invest in Indonesia and this collaboration is likely to promote foreign investment in Indonesia.
- BKPM has also facilitated online submission of licensing and other business related requests.
- The Indonesian government hopes to take advantage of the strategic location of Indonesia between Asia and the Pacific, and current unfavourable international context due to weakening demand from China and lower commodity prices and aims to be the sixth-largest economy by 2030.





MYANMAR

Overview

- Myanmar is one of the fastest growing economies in the world, and its GDP growth rate is currently higher than most major economies in East and Southeast Asia.
- Mining is the third largest industry contributing to the country's GDP behind oil, gas and energy.

Foreign Direct Investment

Top sectors attracting FDI	<ul style="list-style-type: none"> • Oil and Gas • Power • Manufacturing • Trading • Logistics
Top sources of FDI	<ul style="list-style-type: none"> • Singapore, China, Hong Kong and Thailand.

Economy and economic activity

- The manufacturing and service sectors account for a significant part of Myanmar's economy.
- Business opportunities in Myanmar include trading, agriculture, tourism and real estate.
- Industries such as agro-processing, seafood, steel, beauty products, IT and power are also growing.

Tax incentives

- Tax deduction on research and development;
- Accelerated tax depreciation on assets;
- Foreign companies are provided with an income tax exemption following the start of commercial operations in the country (*7 years for businesses in the Free Zone and 5 years for businesses in the Promotion Zone*);

- Customs duty and other tax exemptions for the first five years for the importation of equipment, instruments, raw materials etc.

Incentives for investment in Myanmar

- Strategic location, sharing borders with China and India, as well as Thailand, Laos and Bangladesh and abundance of natural resources.
- Improved engagement with the western countries and lifting of USA sanctions in 2016.
- New Myanmar Investment Commission endorses investment for faster project approvals.
- Development of special economic zones, thereby leading to development of infrastructure.
- Low cost of labour and simplified regulatory processes.



MALAYSIA

Overview

- Investment-friendly destination because of its well-established local supply chains, competitive costs, well-developed infrastructure, abundance of natural resources, extensive network of free-trade agreements, pro-business policies, dynamic workforce and robust legal and regulatory systems.
- One of the most technologically developed countries in the ASEAN region.
- Malaysia is the largest producer of rubber, and is also one of the largest producers of cocoa, palm oil, tropical hardwoods.

Foreign Direct Investment

Top sectors attracting FDI	<ul style="list-style-type: none"> • Services • Construction • Manufacturing
Top sources of FDI	<ul style="list-style-type: none"> • Singapore, Japan, Netherlands, Hong Kong and USA

Economy and economic activity

- Malaysia is one of the most open

economies in the world with a trade to GDP ratio averaging over 130% since 2010.

- Its economic growth was reduced to 4.3% in 2019 and its GDP growth is expected to fall to – 1.7% in 2020 and may rise to 9% in 2021 depending on the impact of the coronavirus pandemic as per IMF.

Tax incentives

- Industry specific tax incentives offered to industries including manufacturing, education and healthcare, high technology and multimedia, agriculture, research and development, approved service projects, tourism and shipping.
- Pioneer status (a form of tax exemption for companies involved in promoting activities or producing promoted products for a period of 5 to 10 years).
- Investment tax allowance (based on qualifying capital expenditure for a period of 5 to 10 years).
- Double/special tax deductions on qualifying expenses, preferential tax treatment with various economic corridors, additional/accelerated capital allowances, exemption of import duty and excise duty.

Trade Agreements

- Malaysia has signed and implemented bilateral investment agreements and regional FTAs with countries including India, New Zealand, Chile, Australia, Turkey, Japan etc.
- Malaysia is a signatory to a trade agreement with 21 other countries in the São Paulo Round of the Global System of Trade Preferences among Developing Countries (GSTP).
- Malaysia is also a part of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and has several FTAs under negotiation.

Incentives for investment in Malaysia

- Political stability and strong international relations.
- Comprehensive and robust regulatory framework.
- Well-developed infrastructure and technological advancement.
- Educated, multilingual and productive workforce with a high literacy rate of 95%.
- Free trade zones.
- Liberal equity policy.
- Abundance of natural resources.

INDIA

India Overview

- As per the IMF, the Indian economy grew by 4.2% in 2019 against 6.1% in 2018. Pursuant to the coronavirus outbreak, IMF updated the GDP growth forecast to fall to 1.9% in 2020.
- The GoI has announced a multitude of reforms to jumpstart the economy and recover from effects of the coronavirus pandemic, details of which are covered in Chapter V of this Report.
- The rapidly growing software sector has been boosting the export of services and modernising the Indian economy. India has capitalised on its large educated English-speaking population to become a major exporter of IT services, business outsourcing services and software workers.
- India's energy sector (including coal), textile industry, and chemical industry are also very attractive for foreign investors.

Foreign Direct Investment

Top sectors attracting FDI	<ul style="list-style-type: none"> • Services (includes Financial, Banking, Insurance, Non-Financial / Business, Outsourcing, R&D, Courier, Tech. Testing and Analysis) • Computer Software and hardware • Telecommunications • Trading • Construction Development
Top sources of FDI	<ul style="list-style-type: none"> • Mauritius, Singapore, Japan, Netherlands and USA

Economy and economic activity

- India is the world's third-largest producer of coal.
- In the manufacturing industry, textile plays a predominant role.
- In terms of size, the chemical industry is the second-largest industrial sector.



- The services sector is the most dynamic part of the Indian economy contributing almost 48.9% of GDP while employing only 33.5% of its workforce.

Tax incentives

- India provides certain income and investment linked tax exemptions apart from providing tax benefits on exports.
- Tax holidays for a period between 3-10 years and other exemptions up to 100% are provided for companies carrying out specific business activities in India.
- Start-ups and infrastructure development undertakings in India enjoy tax exemptions.

Trade Agreements

- India has entered into comprehensive economic co-operation agreements and comprehensive economic partnership agreements with countries such as Singapore, Malaysia, Japan and Korea.



- India is also a party to regional trade agreements such as the South Asian FTA, the Asia Pacific Trade Agreement, India-ASEAN Agreement and the India-SAARC agreement on Trade in Services and has entered into ASEAN Trade in Goods Agreement.
 - India also has a few bilateral investment treaties in force. However, several of India's bilateral investment agreements have been terminated over the past few years and are in the process of being renegotiated.
 - India has also signed the Trans-Pacific Partnership and is negotiating the Trans-Atlantic Trade and Investment Partnership.
- Incentives for investment in India**
- Effective democratic regime.
 - Well-developed administration and an independent judicial system.
 - Educated, hard-working and skilled workforce.
 - Ever-growing consumer base and large market.
 - Proximity to key manufacturing sites, key suppliers and lower development costs, making it an effective base from which multinational companies can export to other high growth emerging markets.
 - India has created incentives for manufacturing companies to set up in SEZs, National Investment and Manufacturing Zones and EOUs.
 - Additionally, each State government has its own policy, providing additional investment incentives, including subsidised land prices, attractive interest rates on loans, reduced tariffs on the electric power supply, tax concessions etc.
 - Different Indian states have also taken different measures to attract foreign investment in wake of the pandemic.
 - India has remained a favourable investment destination due to multiple positive factors, including its high degree of specialisation and services, with a skilled, English-speaking and inexpensive labour force and a potential market of over a billion citizens.

We have further discussed certain recent reforms and incentives proposed/ already undertaken by India in the next chapter of this Report.

Chapter V

RECENT REFORMS IN INDIA

Recently, India announced a special economic and comprehensive package of approximately INR 20,000 billion (USD 260 billion), equivalent to 10% of its GDP, to support the Indian economy's fight against the coronavirus pandemic.

The stimulus package is a combination of monetary and fiscal reliefs, fundamental reforms and ease of doing business processes. Salient features of the economic package are as follows:

- **Insolvency and bankruptcy law reforms:** Measures announced include increasing the minimum threshold for filing insolvency proceedings to INR 10 million, suspension of fresh initiation of insolvency proceedings under the IBC for up to one year and exclusion of coronavirus pandemic related debt from the definition of default.
- **Labour laws:** Measures announced include universalization of minimum wages, introduction of a National Floor Wage to reduce regional disparities, and timely payment of wages to all workers, introduction of a reskilling fund for retrenched employees, provision of social security fund for unorganised workers, etc. Apart from this, various state governments have
- announced suspension of most major labour laws (barring a few), in their respective states for a certain period in order to stimulate investments and aide the states in recovering from the economic aftermath of coronavirus pandemic. However, as on date, this suspension is yet to be ratified by the GoI and therefore, is not in force yet.
- **MSMEs:** Measures include removal of difference between manufacturing and service sectors, increasing the investment limits for determining an MSME to INR 10 million, provision of collateral free loans, provision of subordinate debt for stressed MSMEs, introduction of a special insolvency resolution framework etc.
- **Policy reforms in certain sectors:** Many sectors specific reforms have also been propounded, including liberalization of the FDI caps in certain sectors as follows:
 - **Coal sector:** Liberalisation of entry norms by removing barriers



for private participants including foreign investors, introduction of commercial mining on revenue sharing basis, infrastructure development of INR 500 billion for coal evacuation, auction of coal bed methane extraction rights;

- **Mineral sector:** GoI has taken steps to enhance private investments in the mineral sector by simplification of the mining plans, removal of distinction between captive and non-captive mines, rationalising stamp duty



payable at the time of awarding mining leases;

- **Defence sector:** The FDI cap for defence manufacturing has been raised from 49% to 74% under the automatic route. Further the GoI has announced measures to enhance self-reliance in defence production and reduce dependence on defence imports that include indigenisation of imported spares among others, setting up of a project management unit to support contract management,

overhauling trial and testing procedures;

- **Power sector:** The GoI has revamped the tariff policies for the power distribution companies which will ultimately benefit the consumers and has also made a one-time liquidity infusion of INR 900 billion into the power sector to avoid cash-flow problems;
- **New public sector policy:** New public sector policy: The GoI proposes to announce a new policy whereby a list of strategic sectors requiring presence of private sector enterprises in public

interest will be notified and in other sectors, the public sector enterprises will be privatised, merged or brought by holding companies

- **Real estate:** Reforms include extension of deadlines for completion of real estate projects, treating coronavirus pandemic as a force majeure event under the real estate regulations, extension of timelines for various statutory compliances etc.
- **Agriculture, food processing and related logistics:** Multiple measures were announced to support farmers, dairy farmers and fish farmers. The



- Gol aims to focus on creation of adequate cold chain and post-harvest management infrastructure in the vicinity of farm-gates and aggregation points, and has allocated INR 1,000 billion for this. Intention is to ensure improved health and safety standards and integration with retail markets, which will also support investors in food related businesses.
- Civil aviation:** In order to make India a global hub for aircraft maintenance, repair and overhaul (MRO), the tax regime for MRO has been rationalized and it is proposed to reduce the airline maintenance costs.
- Social infrastructure:** The Gol has announced setting up of a viability gap funding scheme with a corpus of INR 81 billion to boost private sector investments in social infrastructure including hospitals, opening up of Indian Space Research Organisation facilities for the private sector etc.

- Others:** The Gol has also announced initiatives to boost private investments in geo spatial technology, increased public expenditure on health in order to be equipped with future pandemics and revamped the education sector.

Other reforms undertaken in India

- Creation of Empowered Group of Secretaries (EGOS) and Project Development Cell (PDC):** In order to facilitate entry of investors into the country and fast track the investment clearance process, the Ministry of Commerce and Industry, India, has approved the setting up of an EGOS in June, earlier this year. The EGOS is proposed to comprise, among others, the CEO of Niti Aayog, and secretaries from the DPIIT, Department of Commerce, Department of Revenue, Department of Economic Affairs. The EGOS has been put in place

to coordinate between different departments and ministries of the Gol to ensure timely clearances for proposals submitted by foreign investors. It is expected that the EGOS will bring in some political stability to the investment process, which has been highlighted as an issue by investors in the past. The Gol has also approved a PDC to be set up in each ministry, which is intended to assist in the development of projects which may attract foreign investment. The PDC is expected to work with the Gol and the state governments for this purpose, and will be required to conceptualise, strategize, implement, and disseminate information for feasible projects. It is further expected to assist with obtaining approvals, ensuring land allocation, preparation of project reports, etc., and also highlight areas of concern for potential investors' analysis.



- shortcomings in the corporate social responsibility reporting, inadequacies in board report, filing defaults, delay in holding annual general meetings, will help in fulfilling the GoI's objective to facilitate and promote ease of doing business in India and increase India's attractiveness as an investment destination, and will also provide relief to foreign investors from protracted litigation in cases of technical and procedural defaults.
- **Ease of doing business for corporates:** The GoI's move to permit direct listing on foreign stock exchanges will help companies in new business areas and start-ups raise money from already evolved financial markets. Further, the GoI's clarification on private companies which list non-convertible debentures on stock exchanges not being treated as listed companies, will foster more listing of debt and less dependence on bank finance and companies which have only listed debt, would not have to meet the same set of standards set for companies with equity listing.
- **Recent changes in the foreign exchange laws:** The requirement of the RBI to consult with the GoI for approving foreign investments has been done away and the RBI has been given power to interpret and issue such directions, circulars, instructions, clarifications, as it may deem necessary. Further, foreign airlines have been permitted to invest in the capital of Indian companies operating scheduled/non-scheduled air transport services up to 49% of their paid up capital under the government approval route and it has been clarified that this 49% will subsume FDI and foreign institutional investment/ foreign portfolio investment.
- **Introduction of National Manufacturing Policy (NMP):** The GoI aims to bring the Indian manufacturing sector's share in the country's GDP to 25% and also create more job opportunities, to the tune of 100 million additional jobs, in the sector in the coming decade. The NMP is proposed to assist with this aim, and is based on the principle of industrial growth in partnership with the states of India. While the GoI enables a conducive environment by providing incentives for infrastructure development based on public private partnership models through various financing instruments, the various state governments are encouraged to adopt the instrumentalities provided in the NMP.
- **Creation of National Investment and Manufacturing Zones (NIMZs):** NIMZs were proposed in the NMP. These zones include largely integrated greenfield industrial townships with state-of-the-art infrastructure; land use on the basis of zoning, clean and energy efficient technology, social infrastructure and skill development facilities to provide supportive environment for manufacturing industries. So far, fourteen NIMZs have received in-principle approval outside the Delhi Mumbai Industrial Corridor region, out of which NIMZs in the states of Andhra Pradesh; Telangana and Odisha have been granted final approval.
- **Single window clearance system:** Single window mechanism has been created by most states in India, to grant approvals and permissions within a stipulated time, with provisions for deemed approval in cases of deviation or delays in granting approvals.
- **Ranking of States on Investment Attractiveness to compete for new investments:** Ranking of various states in India on the basis of their attractiveness for foreign investments is expected to encourage states to bring further improvement in the business and policy environment in their respective states which in turn will help in attracting significant investment.
- **New Champion Sectors:** The GoI has approved Incentive schemes for Promotion of New Champion Sectors in sectors such as solar photo voltaics manufacturing and advanced cell battery storage. This will help in growth and development of potential sectors.
- **Decriminalisation of offences under the Companies Act, 2013:** The move to decriminalise non-compliances of minor, technical or procedural nature under the Companies Act, 2013 such as



Chapter VI

A SNAPSHOT OF INDIA'S PERFORMANCE VIS-A-VIS OTHER ASIAN COUNTRIES



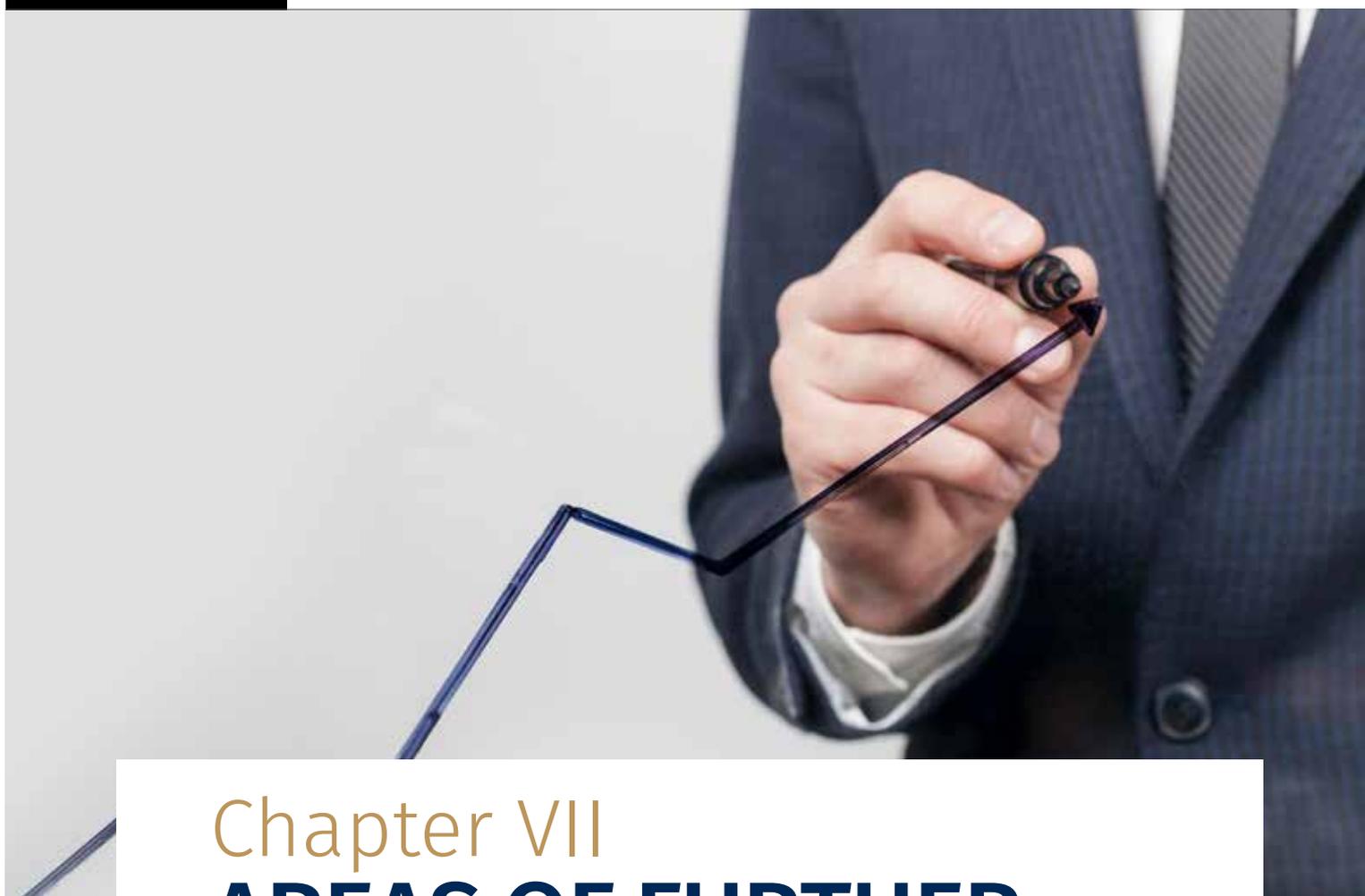
Set out below is a brief overview of India's performance on certain parameters compared to the performance of China and the other Asian countries discussed in Chapter IV above:

Parameter	China	Thailand	Vietnam	Indonesia	Myanmar	Malaysia	India
<i>Ease of Doing Business</i> ¹⁸	31	21	70	72	165	12	63
<i>Corporate Governance Watch (Asia)</i> ¹⁹	10	6	-	12	-	4	7
<i>Intellectual Property Protection</i> ²⁰	49	64	83	65	-	32	55
<i>Transparency of Government Policy-making</i> ²¹	82	83	82	51	136	23	50
<i>Corruption perceptions index</i> ²²	80	101	96	85	130	51	80

The rankings in the aforementioned table have not taken into account the recent reforms undertaken by the GoI, highlighted in Chapter V of this Report. Basis the above, it can be seen that India has fared comparatively well in relation to its neighbours, when it comes to the above parameters. Particularly in relation to its Ease of Doing Business rankings, which we have discussed in some detail in the next chapter, India has made consistent reforms over the past few years. As per the World Bank's Doing Business - 2020 report²³, out of 190 economies, India ranks 27th in dealing with construction permits, 22nd in getting electricity, 25th in getting credit, and 80th in trading across borders. These remarkable rankings have been made possible due to the proactive reforms carried

out by the GoI in relation to the above parameters, amongst others. The GoI is also fairly transparent in its policy-making, also evidenced by the table above. The GoI orders and news are easily available and are updated, amongst others, on the press information bureau website, and on the central and state e-gazette websites for access to the common public.

The reforms introduced by the GoI in the past few months, particularly in light of the coronavirus pandemic, are expected to further cement India's reputation in being a very investor friendly destination, and also result in India make strides in its global rankings.



Chapter VII

AREAS OF FURTHER REFORMS IN INDIA AND RECOMMENDATIONS

International Trade Relations

We have discussed in Chapter IV how India has entered into many economic partnership agreements with certain countries such as Singapore, Malaysia, Japan and Korea, and also is party to various regional trade agreements with ASEAN, SAARC, etc.

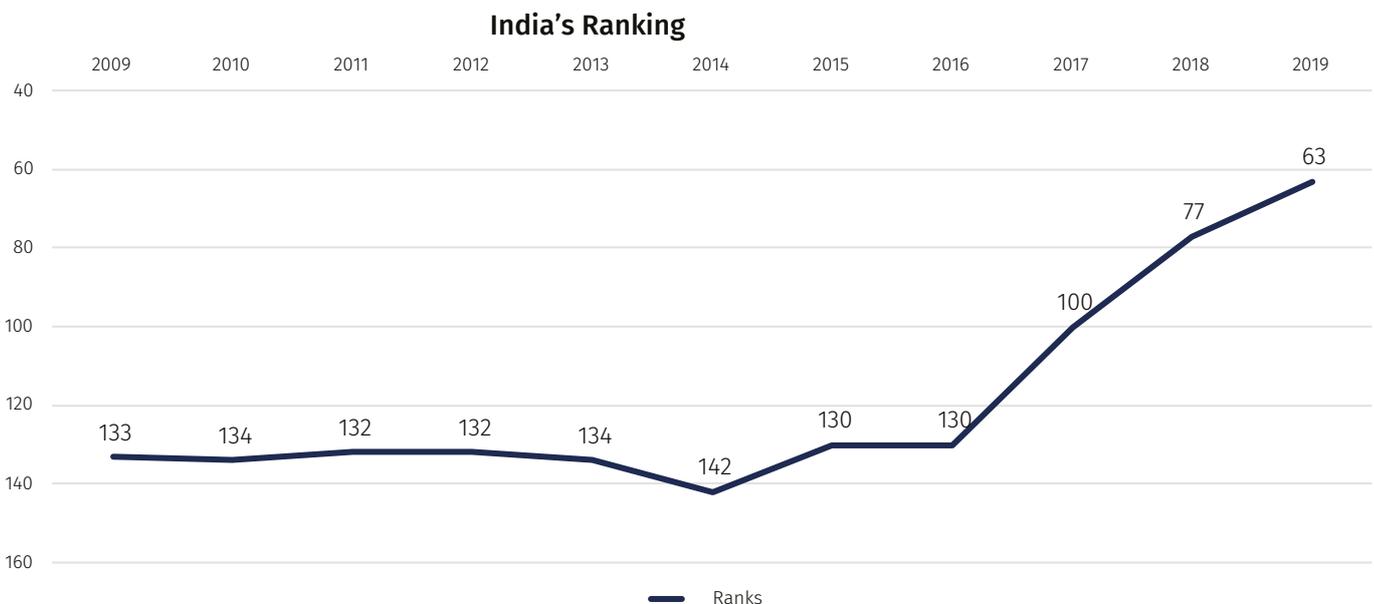
However, we also mentioned that India has had many of its bilateral investment agreements terminated over the past few years, and is currently in the process of renegotiating them. To ensure a stable regulatory atmosphere for foreign investors, India may consider entering into additional BITs, FTAs or trade relation agreements. This may assuage investors' concerns as BITs between two countries contain reciprocal protections, which encourage, promote and protect investments made by companies in each other's territory. Similarly, FTAs or trade relation agreements often contain provisions offering foreign investors substantive and procedural protections from events where the government has taken some step which may adversely impact investments. Given that India follows a federal structure of government, with its states having certain autonomy in taking such actions impacting investors, FTAs or trade relation agreements may further bolster investors' confidence. The effects of these may be examined, for example, in relation to the manufacturing sector, which includes multiple variables such as revocation of licenses, permits, etc., change in tariffs, or retrospective regulatory changes, etc. These agreements also provide a legal basis for enforcing the rights of

the investors through international arbitration. Therefore, the GoI may consider this as a recommendation. We understand that the GoI is already in the process of negotiating certain agreements. For instance, newspaper reports indicate that India and USA have resumed talks on entering into a FTA, given the increase in trade between the two countries²⁴.

Ease of Doing Business

The World Bank's Doing Business Report measures the ease with which a company may do business in a particular economy. India's ranking has improved from 142 (out of 189 countries) in the year 2014 to 63 (out of 190 countries) in the year 2019, as per the World Bank's Doing Business - 2020 report²⁵. India has been recognized among top ten improvers for third consecutive year, which has been appreciated as a remarkable effort by the World Bank, given that India is a large country.

Provided below is a graphical representation of India's ranking from the year 2009 to the year 2019:



However, we face challenges in respect of the following parameters:

Enforcing contracts

India has not fared very well on the enforcing contracts parameter of the Doing Business report. Its current rank stands at 163, out of a total of 190 economies. Singapore, South Korea, Norway, Kazakhstan and China hold the top 5 spots on this parameter as per the Doing Business rankings for 2020. As per certain news reports²⁶, about 35,000,000 cases are pending in the judicial system, with approximately 87.5% of these cases being concentrated in the district and subordinate courts. India's low score on this parameter has been a cause for concern for various foreign investors. India may consider taking the following steps recommended by the World Bank to improve its record in this arena, and build investor confidence:

- **Use and popularization of case management tools:** Case management tools are principles and techniques which ensure the timely and organized flow of cases through the court from initial filing through disposition, including with reference to systematic record-keeping, and ensuring strategic allocation of time and resources to relevant cases. India's case management tools permit, among others, the following activities: (a) for judges, the system allows them to access laws; send notifications to lawyers; track case status in their docket; view

and manage case documents and also permits semi-automatic generation of court orders; (b) for lawyers, the system allows them to access laws; access forms to be submitted to the court; receive notifications; track the status of a given case, etc. However, these are yet to percolate into common use, particularly in non-metro cities and towns in India. The Gol needs to ensure awareness for use of electronic case management tool facility for judges and lawyers in courts across the country.

- **Popularisation of court automation processes:** India must popularise use of court automation processes, including electronic filing of the initial summons, electronic service of process and electronic payment of court fees. Not only will these measures speed up the court processes and trials, they will also reduce corruption due to lack of personal interaction with court officers, and result in better access to courts and more reliable service of process. Court costs resulting from document reproduction and courthouse visits will also be reduced for litigants. India must also ensure that the process of appointing judges to certain cases is not only random, but fully automated across the country. The coronavirus pandemic has already given a huge boost to court automation, and even hearing cases via video conferencing. India must carry this momentum forward.

Starting a Business

While India has carried out certain reforms on this parameter, for example, simplifying the form to incorporate a new company and appoint directors thereto, abolishing fees for form filing for incorporation for most companies, etc., yet it is ranked at 136 out of 190 economies on this parameter²⁷.

New Zealand, Georgia, Canada, Hong Kong and Singapore and hold the top five spots for this parameter on the World Bank's Doing Business report for 2020.

Part of the problem is the multiplicity of licenses and permits required to start a business in India, governed by a confusing myriad of laws that differ from state to state. Setting up a company and obtaining the necessary tax and labour registrations takes 18 days in India, compared to half a day in New Zealand. Obtaining additional licenses and approvals depending on the nature of business further add to the complexity of starting and conducting business in India. To simplify the process of setting up a new enterprise in India the Gol may:

- permit trademark registrations along with the company incorporation process;
- remove the restriction on number of directors that are appointed through the SPICe+ company incorporation form; and
- incorporate other licenses and permissions, for example, in principle environmental approvals (without carrying out inspections beforehand), into the incorporation form, which may be opted for depending on the requirements of the company.

This will effectively result in a single window clearance for setting up and conducting business in India.

Trading Across Borders

Trading Across Borders is a parameter in the World Bank's Doing Business Report, which measures the costs, timelines and documentary ease of compliance in relation to moving goods across international borders. Trade reforms are important as they rely upon the relation between two countries and their cooperation

in "ensuring easy customs clearance procedures, harmonization of compliance rules, and border control efficiency"²⁸.

The top economies for this parameter as per the Doing Business report for 2020 are Denmark, Austria, Spain, France, Slovenia, Portugal, Poland, Czech Republic, Slovak Republic, Netherlands, Belgium, Croatia, Hungary, Romania, Italy and Luxembourg, all sharing the first place with similar scores.

India has also focussed on carrying out reforms for this parameter in the past few years, resulting in demonstrable improvement in its rank from 146 in the 2017 report to 68 in the 2020 report. As per the most recent reforms, India increased its scores by "enabling post clearance audits, integrating trade stakeholders in a single electronic platform, upgrading port infrastructures, and enhancing the electronic submission of documents" at India's primary ports in Mumbai. However, India may consider the following recommendations to further improve its connectivity both within the country and with external trade partners:

- **Carry out necessary reforms, such as electronic data interchanges, in major ports of India:** As per reports, improvement in the Trading Across Borders Parameter is focused on ports in Mumbai (as the Doing Business reports measure improvement on parameters with specific reference to cities of Delhi and Mumbai), and has not translated into corresponding changes being made in other major ports of the country, for example in Vishakhapatnam or Kolkata. Therefore, the Gol should ensure that major reforms made at the Mumbai ports should be provided to other ports in India as well. For instance, the Gol should aim for all of the approximately 300 ports in India to be fitted with

functional customs electronic data interchange systems in due course of time. This will also help the exporters get back a percentage of the value of their goods in the form of tradable scrip or duty drawback to compensate them for higher transaction and logistics costs in India, as such processing is done faster at ports fitted with the electronic data interchanges.

- **Incentivise use of alternate ports in India:** The GoI should focus on developing other ports in the country as this will also reduce congestion at the three or four preferred ports on India's coastline. In the initial phase, incentives may be provided to local exporters to utilize ports closer to their inventory, especially bearing in mind the reduction in congestion charges which are levied at India's major ports. Reportedly, exporters based in Mangaluru often avail Mumbai's port, and those in Bhubaneswar also send containers to either Vishakhapatnam or Kolkata leaving aside their closest ports for ease of compliance.
- **Develop a unified logistics policy:** The internal logistics sector in India is largely disorganized. India should also consider putting in place a national Logistics Policy to promote uniformity in logistics processes and costs, and ensure last mile connectivity across the country. We understand that the Indian government is working on a 'National Logistics Policy' that will cover several aspects such as process re-engineering, digitization and focus on multi-modal transport.

Ease of living

In order to boost its manufacturing industry, India needs to transform its social infrastructure facilities to support expatriate professionals. Set out below are a few aspects that India needs to further

develop for boosting its manufacturing industry and attracting FDI:

- Enhancement of medical infrastructure by increasing healthcare spending, to build more hospitals, provide quality health services and expand the use of telemedicine. As per FICCI, in a recent interaction with the Japanese working in India, it was revealed that while only 20-30% of Japanese expatriates wanted to leave Asian countries and relocate to Japan during the coronavirus pandemic, almost 60% of expatriates in India wanted to return to Japan due to lack of confidence in our healthcare system.
- Improvise facilities in housing communities close to manufacturing clusters by easing rent control, providing affordable housing supply and providing clarity on property ownership by extending unique property identification and geo-tagging.
- Improvise access to education and develop international educational schools and colleges close to manufacturing clusters to support families at manufacturing units.
- Provide shopping spaces, banking and world class physical infrastructure at the industrial clusters.
- Improve India's air quality levels as a means of better living conditions for expatriates in comparison to other Asian countries. Out of the 30 cities most affected by air pollution in the world, as measured by the concentration of fine particulates, 21 are from India²⁹.

Operational Transparency in India

A correlation between the perception of being a more transparent nation, and having a high score on the World Bank's Doing Business rankings can be easily drawn. 5 of the top 10 countries to feature

on Transparency International's Corruption Perceptions Index, 2019, viz. Denmark, New Zealand, Singapore, Sweden and Norway, also hold fort as part of the top 10 countries in the Doing Business rankings for 2020.

India is treated as a flawed democracy, instead of a full democracy, by Transparency International. India's rankings in the past three years have ranged between 78 to 81; out of a total of 180 nations, indicating a serious corruption problem. One in two respondents to a survey conducted by Transparency International about bribery in India last year admitted to having paid a bribe. Transparency International's 2019 report³⁰ has India and China tied at rank 80 (both countries scoring below the Asian regional average). This issue may be tackled by the GoI by taking the following steps:

- **Popularising the Lokpal and Lokayuktas:** India may consider further popularising the Lokpal (at central level) and Lokayuktas (at state levels), which are ombudsman bodies to supervise all public servants, amongst its citizens.
- **Control private sector corruption:** India must also focus on controlling private sector corruption by enabling quick and anonymous reporting of private sector bribery. This may be done by setting up and popularising centralized websites or countrywide dedicated helplines. Various states / police departments in India have set up helplines but the awareness about these measures amongst the public is still not very high. Denmark, for example, has tackled this by funding a website that specializes in commercial bribery and corruption risk management. The Danish government has also established an anti-transnational bribery agency under the Ministry of Foreign Affairs

to fight against commercial bribery, embezzlement and fraud.

- **Introduce police sensitization and reforms:** India may consider wide sweeping long term reforms in India's police forces to enable easier reporting of financial crimes as well.
- **Restrict facilitation payments:** India may consider restricting facilitation payments as well, borrowing from the Danish and Singapore examples, amongst others.
- **Adopt zero tolerance approach towards corruption in high offices:** Singapore, for example, has adopted a zero tolerance approach to corruption, and has not shied away from prosecuting even government ministers and civil servants at all levels for corruption, including resulting in dismissal. India's record in this arena is less than satisfactory and the Gol may consider establishing stricter selection processes and penalties for its ministers and civil servants in line with these strategies.

Provide a more attractive taxation regime

To remain competitive with other Asian countries vying for obtaining incoming investments from Japan, India must offer attractive taxation incentives and reforms. A few such reforms, which may be considered, are listed below:

Direct Taxes

- **Reduction of Corporate Income Tax and providing tax holidays:** While the Gol has reduced the corporate tax rate for setting up of new manufacturing industries to 17.16%, it may consider reducing the corporate income tax rate for existing companies to promote investment into India. Indonesia has similarly reduced the corporate income tax rate from 25% to 22% in 2020-21 and 20% starting in 2022 as part of policy measures announced by it. India may

also consider providing a complete tax exemption in the nature of a tax holiday, to incentivize incoming companies for a certain period like Thailand, which has provided this exemption for 8 years³¹.

India may also consider extending this benefit for an additional period of years for specific value adding companies engaged in adding value to the Indian economy. (For instance, Indonesia has permitted companies and pioneer industries which have a wide range of connections, provide additional value and high externalities, introduce new technologies, and have strategic value for the Indonesian economy, to take advantage of a tax holiday of 100% of the corporate income tax due for 5 to 20 years based on the investment amount from the start of commercial production and an additional 2 years of 50% reduction after the full production period.)

- **Deduction of start-up costs:** India currently permits companies to claim one-fifth of their start-up costs, i.e., costs of incorporation and expansion of capital, as a deduction over a period of 5 years³². The Gol should consider permitting complete deduction of these start-up costs as claimed in full in the year in which the expenditures incurred. If required, the Gol might request proof of such expenses being legitimate and necessary for the tax payer. (Similar deductions are provided by Thailand, Indonesia and Vietnam.)
- **Deduction of interest on loans and other expenses:** The Gol might permit companies to obtain tax deductions for interests on loans which have been incurred and utilized in the ordinary course of business. India may also permit deductions upto a certain percentage (say 50%) for motor vehicle and telephone expenses, including depreciation; for expenses for meals and transportation if when they are

made available to all staff, etc. (Similar deductions are provided by Indonesia.)

- **Reintroduction of long-term capital gains exemption:** The Finance Act, 2018 reintroduced tax on long term capital gains realised from the sale of shares listed in a recognised stock exchange of India. Securities Transaction Tax (STT) continues to be payable on such transactions.
- A relaxation in taxing long term gains may attract long term investment. The Gol may consider reverting to the earlier law of allowing tax exemption from long term capital gains from the sale of shares (including mutual funds) where STT was paid on such transactions. The Gol may consider increasing the holding period (to qualify as 'long term') from the existing 12 months period to a 24 months period to avoid any misuse of the relaxation from long term capital gains exemption.
- **Transfer of Immovable Properties:** In case of transfer of immovable properties, the Income Tax Act, 1961, by way of a deeming fiction, substitutes the consideration received on transfer of immovable property with its stamp duty value (value per circle rate) if the former is lower than the latter. However, a variation of 5% is currently permitted between stamp duty value and consideration actually received, which does not attract any adverse consequences.

In the current economic scenario, one may see a rise in distress sale of immovable properties. Accordingly, even genuine transactions may not be able to adhere to the de-minimis consideration/ valuation requirement, resulting in excess tax outflow basis notional income.

The Gol may consider increasing the tolerance limit from 5% to 10/ 15% for

FY 2020-21, to ensure bonafide cases of distress sales are not taxed overly.

- **Introduction of term test for Transfer Pricing:** The coronavirus pandemic is likely to result in significant fluctuations in the operating margins for the entities in future. The current regulations provide for benchmarking the margins of an entity year on year basis without factoring the overall margins of the entity over a period of time. This results in having transfer pricing adjustments in one year due to lower margins without any corresponding reversal in subsequent years when the margins exceed the arm's length margins.

The GoI should consider introducing the concept of term test for benchmarking the margins of entities over a range of years, rather on a year to year basis, so as to ensure that a taxpayer earns an arm's length mark-up on actual costs over a range of years, even though there could be fluctuations in profitability on year on year basis.

Indirect Taxes

- **Extension of Export Obligation / Net Foreign Exchange (NFE) Fulfilment**

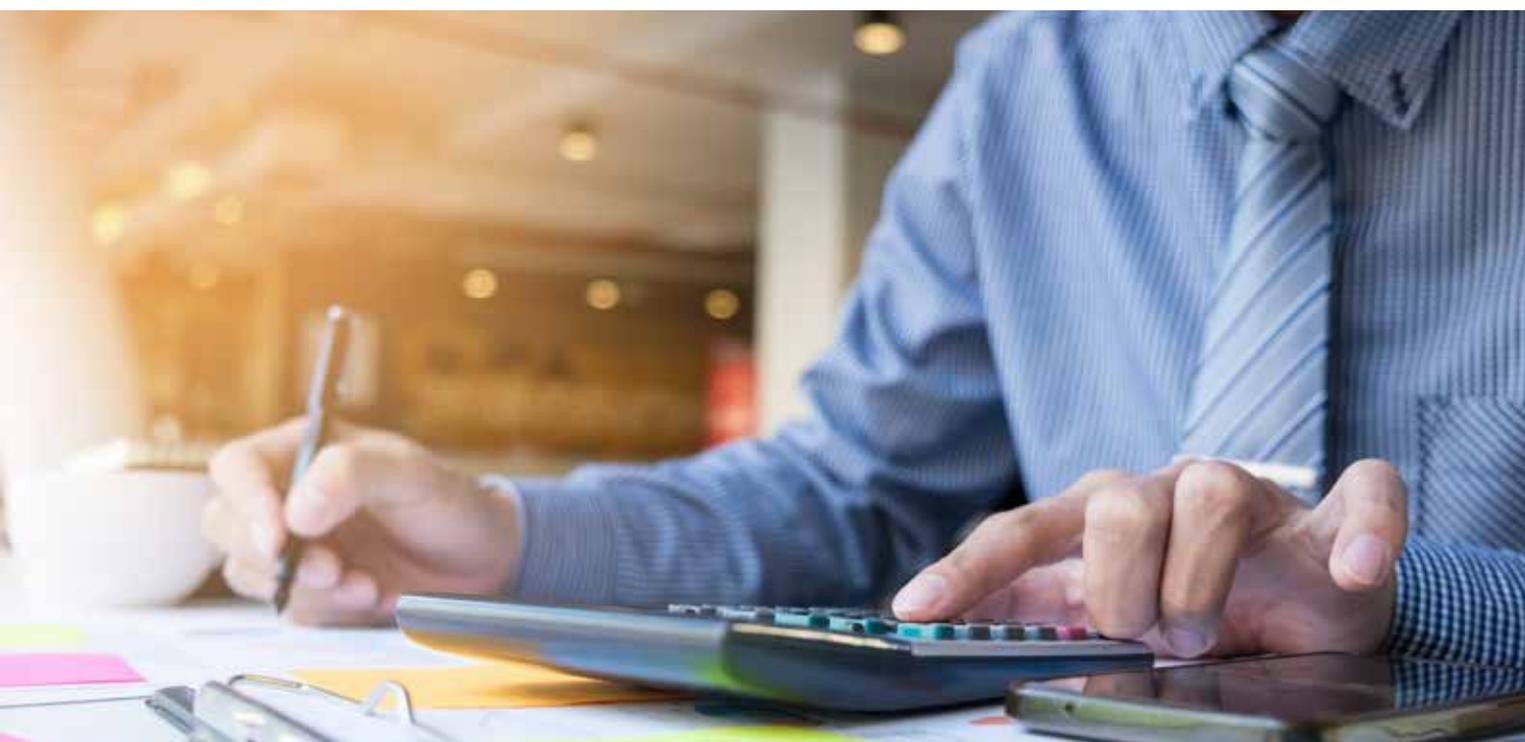
Period: Businesses operating under Advance Authorization Scheme, Duty-Free Import Authorization Scheme, Export Promotion Capital Goods Scheme, and units operating under SEZ / EOU / STP scheme are required to meet export obligations / NFE in lieu of tax/duty benefit availed under these schemes.

Given the extraordinary circumstances, it is suggested that export obligations / NFE fulfilment period for businesses operating under Advance Authorization Scheme, Duty-Free Import Authorization Scheme, Export Promotion Capital Goods Scheme, and units operating under SEZ / EOU / STP scheme may be suitably extended.

- **Special stimulus package for health, aviation, hospitality and tourism industry:** It is recommended that supplies of goods or services to such sectors are made zero-rated. Supply of goods and services by such sectors

should be exempted from GST. These incentives should be applicable for at least a period of 2 years from the end of lockdown.

- **Relaxation of ITC Matching Provisions:** The Goods and Services Tax Act, 2016, provides that credit will be available to the extent the purchase registers match with the GSTR 2A uploaded by the suppliers. In any case, a leeway of 10% of additional credit is allowed for unmatched cases. This rule was relaxed for credit from February 2020 to August 2020.
- **Increase ambit of input tax credit:** Since the industry is reeling and is low on cash, an increased credit reserve would provide the necessary stimulus to businesses. Accordingly, for a period of 1 year, credit should be allowed for all goods and services which are used or intended to be used in the course or furtherance of business. Businesses should make the payment on such invoices latest by March 31, 2021. Removal of input tax credit restrictions specified under Section 17(5) of the





Central Goods and Services Tax Act, 2016, on invoices received from April 1, 2020, to March 31, 2021, subject to payments being made by March 31, 2021.

Reforms in Land Ownership

- Foreign investors have highlighted their discomfort with the current process of registering land ownership in India. The diffused nature of land records, which are currently being maintained in various local languages in the multiple registry offices in different states; and the absence of a central searchable repository of title deeds / ownership documents has also contributed to this issue. The GoI should undertake relevant policy reforms and enable the unification of registry records across the country. The maintenance of a central record system may be aided by utilizing appropriate technology, for instance, block chain. Certain state governments, including, Andhra Pradesh government, have already commenced efforts in this regard, and they estimate that utilizing block chain technology will make the process of land registry record keeping a tamper proof and more reliable process³³. The GoI may engage with state governments and encourage adoption of block chain technology for the purpose on a pan-India level.

- Investors have informed us that they would prefer the availability of more land for their proposed projects, preferably on a 'plug and play' basis, with complete supporting infrastructure (electricity, water, sewage systems etc.) and necessary municipal approvals. The GoI has already considered this and is in the process of bringing out necessary reforms in this regard.

In response to COVID-19 and its economic consequences, FICCI, jointly with JCCII (Japan Chamber of Commerce and Industry in India), JETRO (Japan External Trade Organization), and the Embassy of Japan made policy requests and submitted them to relevant Ministries and Agencies of the Government of India. The following are excerpts of these recommendations, which hold value in a longer-term, reflecting the concerns of both Indian and Japanese business establishments.

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)

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 an globally important manufacturing hub, comparable to or more advanced than ASEAN countries.

FICCI-Japan Joint Requests

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.

Chapter VIII

CONCLUSION

India and Japan are two economies that have been at the forefront of Asian trade and investment, buoyed by their strengths, and having synergized their roles to the common benefit of their people.

The two countries have even joined hands to assess capabilities and undertake development efforts in other countries, including countries in Africa. While the two countries have been allies for hundreds of years, and the relationship has only grown stronger in the recent past with the steps taken by India's Prime Minister, Mr. Narendra Modi, and Japan's Prime Minister, Mr. Shinzo Abe on the lines of cooperation, including economic, social and commercial.

Today, India and Japan stand at a critical stage in their bilateral relationship. The two countries have to proactively deal with the damaging effects of the ongoing US-China trade war, the coronavirus pandemic and the resulting aftermath. This will require a steely resolve and a further strengthening of relationships between the two countries and with their long-standing allies. This is an opportunity for both countries to re-evaluate their businesses and concerns in a major way and seek out the monumental potential for growth and partnerships across the wide spectrum of sectors common between them. Japan has already demonstrated its capabilities in the manufacturing sector which includes manufacturing

of transportation equipment, electrical machinery, chemicals and pharmaceuticals, amongst others. In this report, we have tried to highlight the further upcoming sectors where the two countries can join hands and push for further technological development, including start-ups, railways, defence, pharmaceuticals, electronic vehicles, to name a few. The success story of Panasonic, as we have discussed previously in the report, can be looked at as an example of a long standing relationship which has worked successfully to challenge the status quo and innovate on the technology fronts to the benefit of citizens of both countries.

Not only this, Japan has, in recent years, become an active partner for India's investment regime, by strategically using Japanese public and private sector resources and increasing its involvement in India's food sector, its construction development activities, people-to-people exchanges, education sector strategies, and many others. Japanese companies have also significantly collaborated with Indian companies engaged in the wholesale and retail sector, services and real estate sector. This active relationship should be further



developed and Japanese companies should be encouraged to consider India as a strong contender for relocation and de-risking activities in light of the Coronavirus pandemic. They will find India to be extremely hospitable and suited to their enterprises, having had long standing experience and multiple connection channels to assist Japanese investors in setting up shop in India.

The GoI, of course, is also undertaking various landmark reforms and policy



changes, and also setting up state of the art infrastructure to woo Japanese investors to its shores. India has offered multiple benefits to attract Japanese investors, as compared to other Asian nations. It already has an established and politically stable regime; an experienced and active bureaucracy; a very skilled and highly educated workforce; and its large domestic market, amongst other factors. India's improvement in the World Bank's Doing Business rankings; its recent sectoral reforms such as

reforming labour laws, reforming sectors such as coal, minerals, defence, and power; reforms in the areas of real estate, agriculture, food processing, logistics, further liberalizing our foreign exchange laws to the benefit of foreign investors; the setting up of EGOS and PDC are all aimed to provide incoming Japanese investors with a vibrant and welcoming investment and collaboration atmosphere. To demonstrate its commitment to Japan, the GoI has also undertaken various steps to create an

investor friendly ecosystem, as we have discussed in the report, including the setting up of Japan Plus, of the Japan India Startup Hub, the Indo-Japan Digital Partnership, and the Japanese Industrial Townships, etc. We hope that this report is able to assist Japanese investors in determining the next course of action with respect to their prospective plans for India.

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MESSAGE FROM JETRO



Murahashi
JETRO Chief Director

Till the outbreak of the coronavirus pandemic, India was in the high bracket for its growth, despite some slippage in the growth last year. With the outbreak of the coronavirus pandemic, India is on the verge of facing a crucial situation in its economy in 2020-21, at par with other nations. Nevertheless, its strong economic parameters are forecasted to continue, according to various international institutions like World Bank, IMF and the rating agencies.

India's favorable points over other emerging nations are its strong domestic market, vast natural resources and a large pool of working population. Unlike Japan and China, aging population is not an impediment to the growth.

Given these characteristics and its geographical placement, India can pose a gateway to South East Asia. In pursuance to this, Japan acted swiftly to support Prime Minister Narendra Modi's Act East policy.

India is assertive for its Make in India, which will make it a global hub for manufacturing. During Modi's period, foreign investors were upbeat. This endorsed foreign investors' confidence in strong parameters of Indian economy, even during the coronavirus pandemic.

Japan - India partnership is already on the path of acceleration. Not only in domestic affairs of both countries but it also stretched to across the border. Japan - India partnership in FOIP (Free and Open Indo - Pacific Strategy) is a case in point. Japan - India committed to work together to bring peace, stability and prosperity, through economic growth and development, including Africa, in Indo-Pacific. It will enhance connectivity through quality infrastructure and capacity building of partners.

Given the Indian Prime Minister's vision for Aatmanirbhar Bharat Abhiyaan (Self-reliance movement), Japan - India economic partnership can accelerate Japanese cooperation in supply chain development through investment and technology up-gradation in India.

The Japan External Trade Organization (JETRO) is a government-related organization that works to promote mutual trade and investment between Japan and the rest of the world. JETRO provides a wide range of services, such as timely market intelligence, extensive business development support, and relevant business events, designed to encourage new business between foreign companies and Japan. In order to strengthen economic ties with India, JETRO continues to support "Make in India" policy, establish a platform for India-Japan Business Cooperation in Asia-Africa region and promote Japan India Digital Cooperation.

GLOSSARY

Abbreviation	Term
AI	Artificial Intelligence
ASEAN	Association of Southeast Asian Nations
BIMSTEC	Bangladesh, India, Myanmar, Sri Lanka, Nepal, Bhutan and Thailand
BIT	Bilateral investment treaty
BKPM	Investment Coordination Board of Republic of Indonesia
CAGR	Compound Annual Growth Rate
CEO	Chief Executive Officer
DPIIT	Department for Promotion of Industry and Internal Trade
EGOS	Empowered Group of Secretaries
EOU	Export oriented unit
EV	Electric Vehicle
FDI	Foreign Direct Investment
FICCI	Federation of Indian Chambers of Commerce and Industry
FTA	Free trade agreement
FY	Financial year
GDP	Gross domestic product
GoI	Government of India
GSP	Generalized System of Preferences
GST	Goods and Services Tax
IBC	Insolvency and Bankruptcy Code
IBEF	India Brand Equity Foundation
iDEX	Innovations for defence excellence
IIC	India Innovation Centre
IMF	International Monetary Fund
INR	Indian Rupees
IoT	Internet of Things
IT	Information Technology

Abbreviation	Term
JBIC	Japan Bank for International Cooperation
JIM	Japan-India Institute for Manufacturing
JITs	Japanese Industrial Townships
JPY	Japanese yen
JV	Joint venture
MoU	Memorandum of understanding
MSME	Micro, Small, and Medium Enterprises
NASSCOM	National Association of Software and Service Companies
NFE	Net foreign exchange
NIMZ	National Investment and Manufacturing Zones
NMP	National Manufacturing Policy
PDC	Project Development Cell
PE	Private Equity
PLI	Production linked incentive
R&D	Research and development
RBI	Reserve Bank of India
RCEP	Regional Comprehensive Economic Partnership
SAARC	South Asian Association for Regional Cooperation
SAM & Co	Shardul Amarchand Mangaldas & Co., New Delhi
SEZ	Special economic zone
STP	Software technology park
STT	Securities Transaction Tax
USA	United States of America
USA	United States of America
USD	United States Dollar
VC	Venture Capital

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ABOUT IJFF

The India-Japan Friendship Forum (IJFF) has been formed under the patronage of Ambassador of Japan to India and is chaired by Amb. Deepa Wadhwa, Former Indian Ambassador to Japan.



The secretariat for IJFF is located and would be provided by FICCI, New Delhi.

The mission of IJFF is to increase visibility of Japan in India, and thereby enhance mutual understanding between India and Japan by showcasing art and culture and exchange knowledge and ideas and to deepen understanding on Japan amongst Indians.

The India-Japan Friendship Forum partners with several organisations both in India and Japan to organise various activities to foster and facilitate exchange of people and ideas between the two countries.



The launch of the IJFF was held on January 8, 2019 in the august presence of **H.E. Mr. Taro Kono, Minister of Foreign Affairs of Japan** and **Shri Suresh Prabhu, Minister of Commerce and Industry and Civil Aviation**. IJFF has 28 partner organizations working towards promoting India-Japan relations are partners to the IJFF.



Some of the major events and programmes organised under IJFF include India-Japan Tourism Roundtable during FICCI's Great Indian Travel Bazaar (GITB) 2019; Celebration of New Imperial Era (Reiwa) and welcoming JCCII board members; India-Japan Collaboration Opportunities in Fintech; Special lecture by Shri Ramesh Abhishek, Former Secretary, DPIIT, Government of India and welcome reception for Japanese Ambassador H.E. Mr Satoshi Suzuki.



An exclusive website of IJFF under the address of ijff.co.in has been launched and is live now for everyone to access.

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- Economic Engagements- India-Japan Business Cooperation Committee (IJBC)
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- Connecting Indian States: “Dialogue with States”
- Promoting Government of India’s flagship initiatives including Make in India, Skill India with Japan
- Partnership through MOU with JCCI, JETRO and JCCI
- Experience of conducting Investment promotion roadshows for Vibrant Gujarat & Advantage Assam in Japan
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