

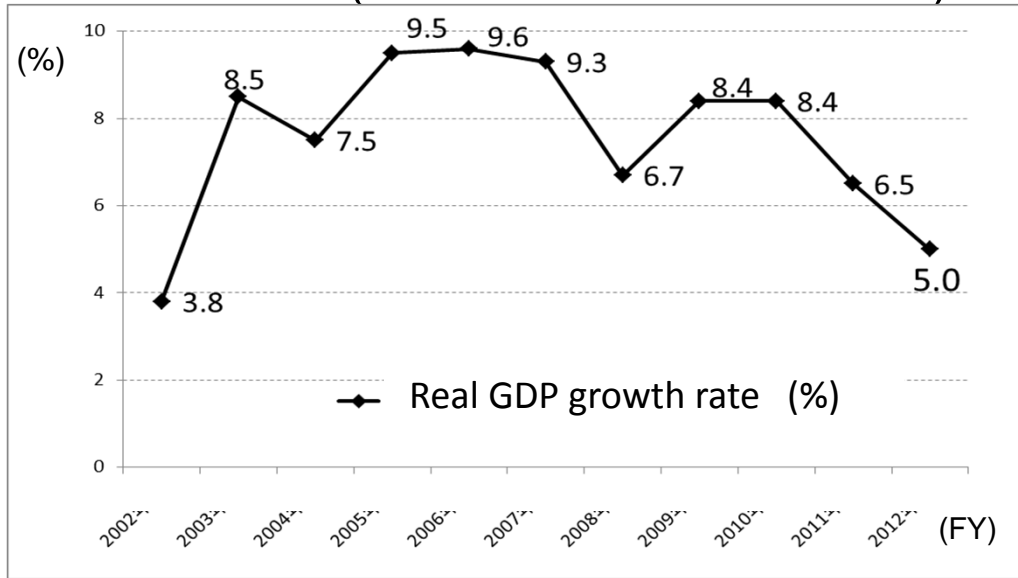
**Challenges for India-Japan Investment Promotion  
and Proposals to Both Governments  
- Towards Expanding Exports through Investment -**

Japan External Trade Organization  
September 2013

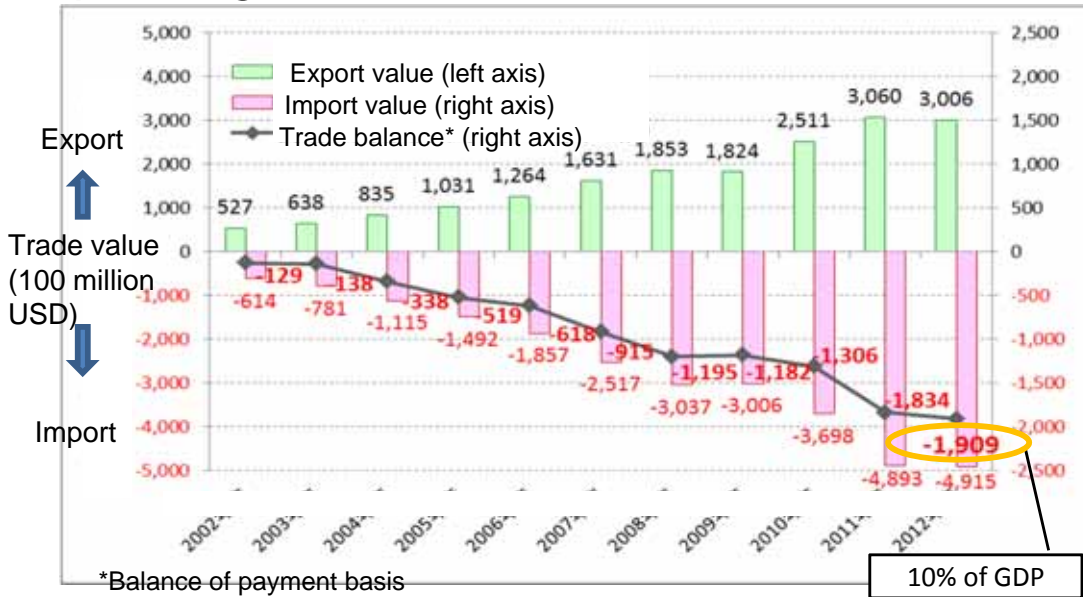
# **1. Challenges for promoting development in both India and Japan**

# Issues the Indian economy is facing

## Low GDP growth rate (lowest in the last decade)

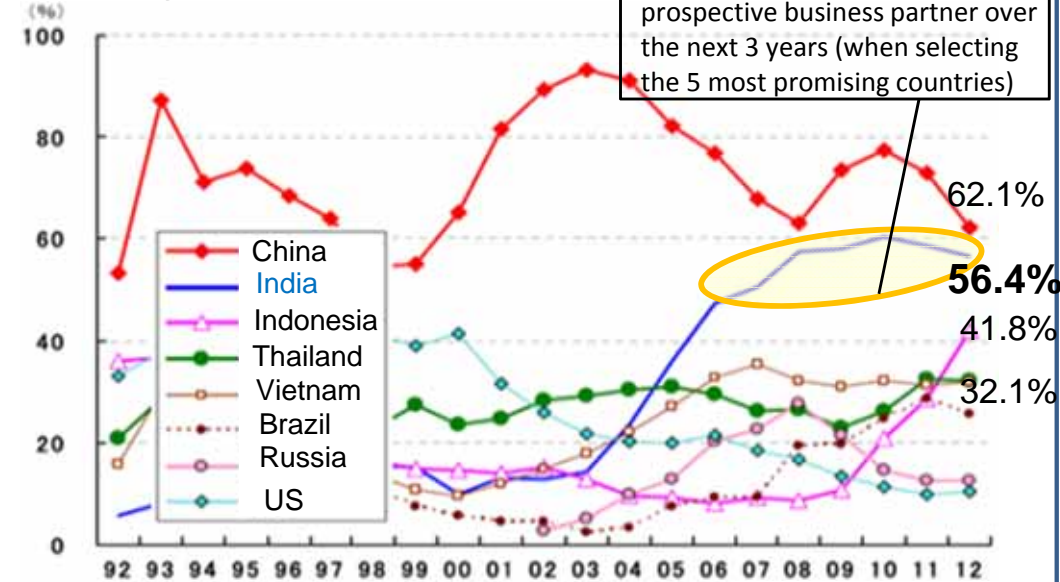


## Expanding trade deficit

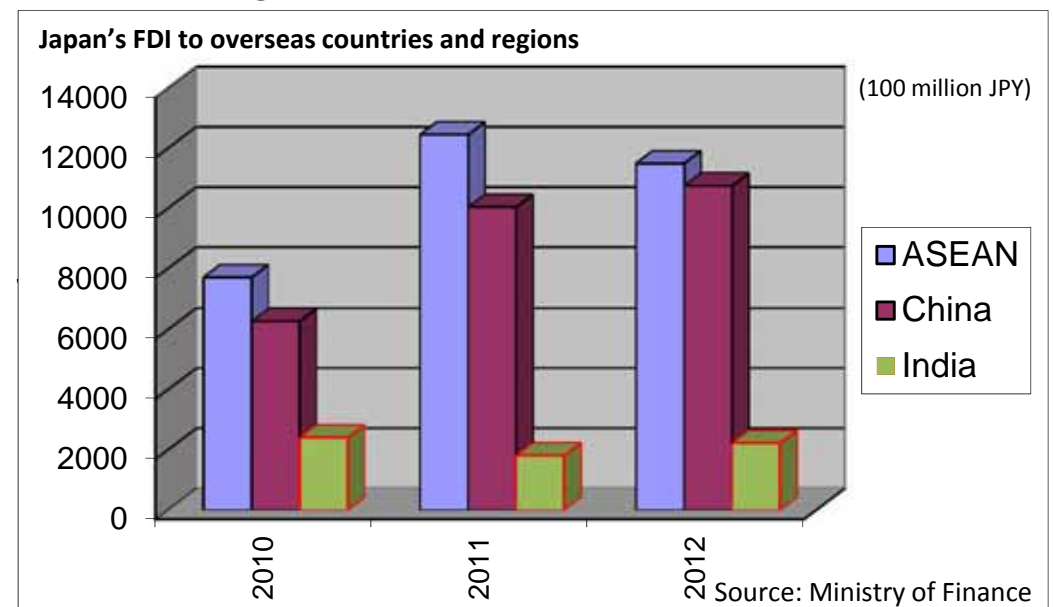


# Expectation and actual status of investment by Japanese firms

## Growing interest in India



## However, growth of FDI into India still slow



# Challenges for export expansion through investment: Comparison with China

## Contribution of foreign companies in China (2011)

Percentage of foreign companies in China

3.5%



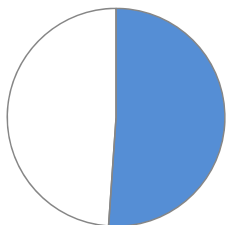
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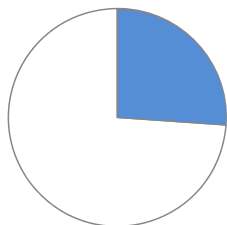
Share of foreign companies in the total value of exports and imports

51.1%



Share of foreign companies in the total industrial output

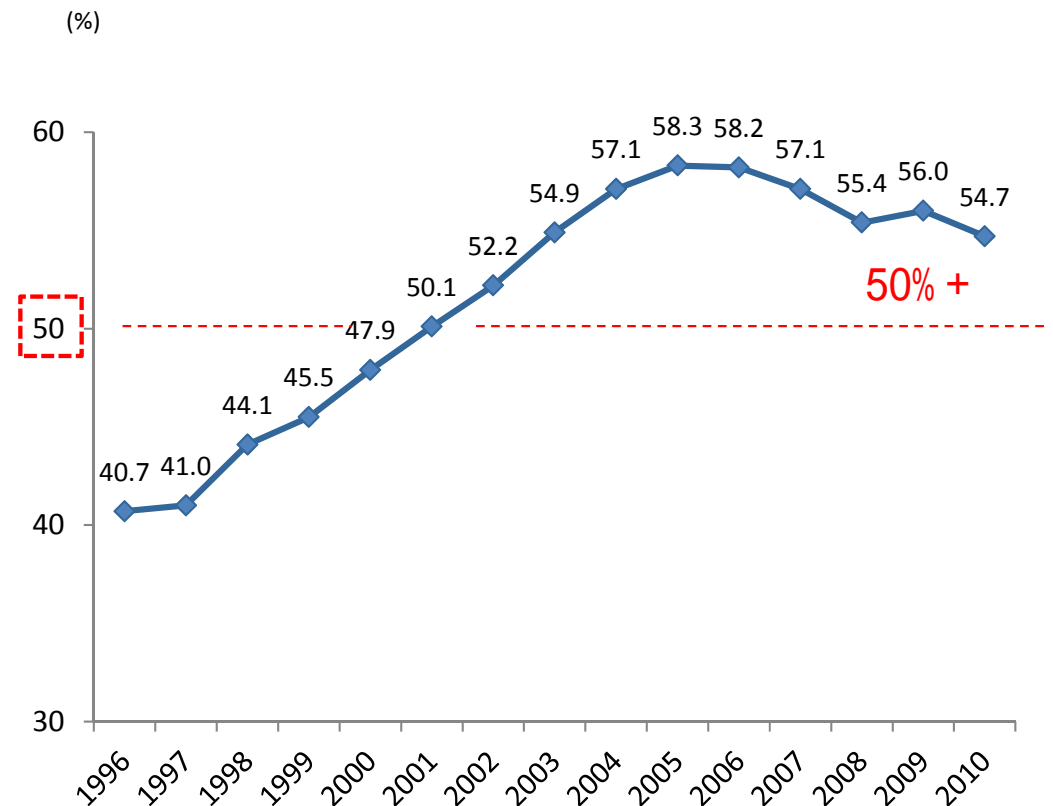
26.1%



The number of employees in foreign companies

45 million +

## Share of foreign companies in total exports from China

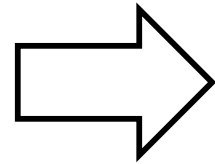


Source: Ministry of Commerce of China  
Ministry of Corporate Affairs of India

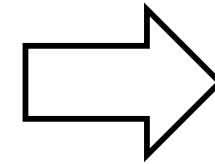
<ref> Percentage of foreign companies in India 0.43%

# 12 challenges toward export expansion through Investment in India

Increase of  
FDI



Enhancement of  
international  
competitiveness



Expansion of  
export

Challenges for  
inviting investment

- (1) Development of investment information
- (2) Development of world-class industrial parks
- (3) Fast and transparent administrative processes for approval and permission
- (4) Promotion of India-Japan business matching

Challenges for  
successful operation

- (5) Development of infrastructure
- (6) Development of human resources and supporting industries
- (7) Improvement in protection of intellectual properties
- (8) Reform of related financial regulation and tax systems

Challenges for  
export

- (9) Facilitation of trade related procedures
- (10) Enhancement of export support scheme
- (11) Establishment of base in Japan
- (12) Promotion of free trade

## **2. Challenges for inviting investment**

# Challenges for inviting investment: (1) Development of investment information

## Proposals to both governments

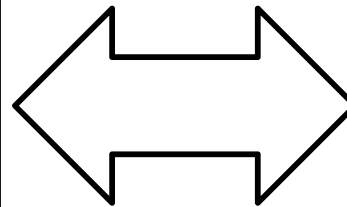
- (1) Development of information on all-inclusive industrial parks covering both public and private sectors
- (2) Mission for introducing industrial parks arranged by DIPP and major state governments, etc.
- (3) Setting up investment windows in Japan capable of communications in Japanese

## Initiatives of Thai government

- (1) Providing all-inclusive information on investment, including the latest information about public and private industrial parks, in English, Japanese, Korean, Chinese, German and French.
- (2) The Board of Investment (BOI) of Thailand dispatches trade show missions including private industrial park administrators to Japan 5 times per year, which allows Japanese companies to easily compare possible industrial parks.
- (3) The Thailand BOI has two Japan Desks in Japan (established in Tokyo in 1979 and Osaka in 1995) which provide services in Japanese and accept applications for investment incentive programs.

## Status in India

- (1) Investment information including that about industrial parks is available only on websites of individual states' development corporations. Many of these websites are not adequately updated to provide the latest information.
- (2) No access to officials in charge of industrial parks without visiting individual states' development corporations, which takes considerable time.
- (3) No place in Japan which provides basic information from the Indian Government.



# Challenges for inviting investment: (1) Development of investment information

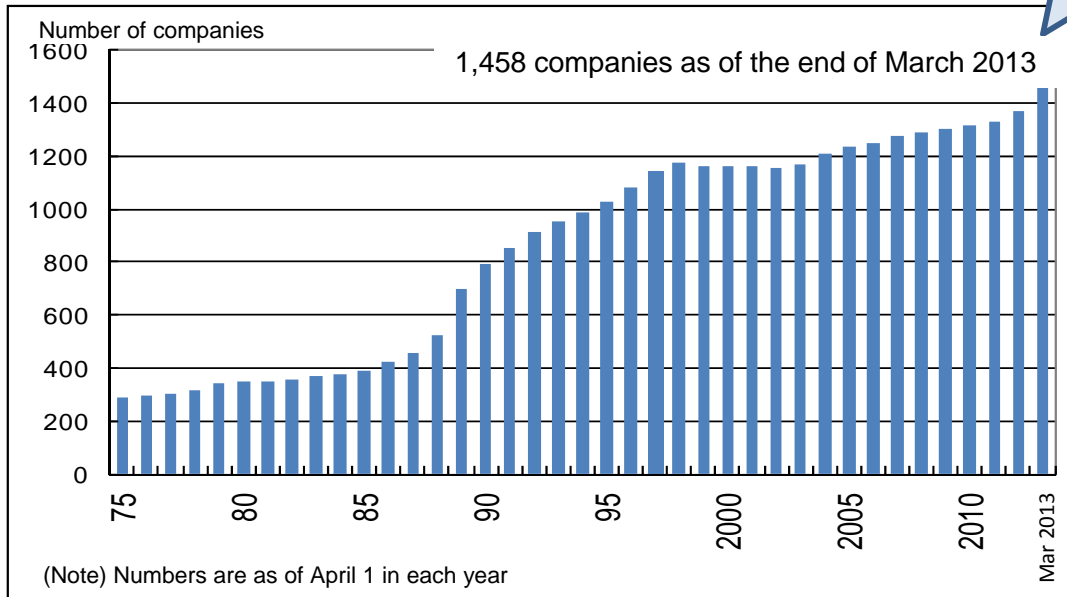
<Reference>

[Comparison of numbers of Japanese companies in Thailand and India]

Member companies of Japanese Chamber of Commerce in Thailand

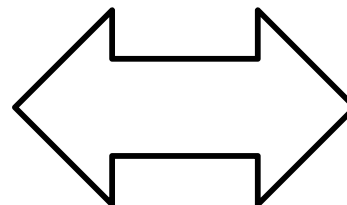
The 2<sup>nd</sup> largest scale in the world following Shanghai JCC (with approx. 2,400 member companies)

JCCII member companies



(Reference)

The number of companies registered in the database of Thai Ministry of Commerce is approx. 7,000



(Reference)

As of October 2012, 926 Japanese companies are operating in India (Source: Japanese Embassy in India)



## Challenges for inviting investment: (2) Development of industrial parks

### Proposals to both governments

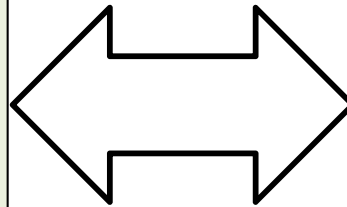
- (1) Early development of industrial parks having all basic infrastructure including power, water, etc. (Proposal 9.(9))
- (2) Facilitation of development of private industrial parks (Utilization of DMIC and CBIC) (Proposal 9.(10))
- (3) Relaxation of sub-leasing regulations and reduction of sub-leasing fee to encourage development of rental factories

### Examples in Southeast Asia

Unlimited power supply from in-house power generator (406 mega watts) in the industrial park provided by the developer.

Unlimited water supply from large neighboring reservoir (with a capacity of 36 million cubic meters).

Availability of rental factories which allow investors to start operation quickly with basic machinery only.



### Status in India

Limited power and water supply in many industrial parks.

Extensive time required for private developers to obtain permission, perform environmental assessment, etc. In-house power generators and central waste water treatment systems are not allowed to be installed.

Compliance with sub-leasing regulations and payment of sub-leasing fees are required for the factory sub-leasing business.

## Challenges for inviting investment: (2) Development of industrial parks

### [Outline of rental factory]

Building is already constructed and provided, which allows quick start of operation only by installing machinery required for each business. SMEs in particular can use these rental factories before building their own. Sub-leasing regulations in state government industrial parks and high sub-leasing fees are bottlenecks in India.

### Example of rental factory in Ota Techno Park in Thailand

Factory area: 320m<sup>2</sup> per unit  
(rental of multiple units available)  
Rental fee: approx. 2,000 USD/month  
Common service expense: approx. 1,000 USD  
Rental period: 3 years (extension is allowed)  
The industrial park provides management support services in accounting, legal and related procedures and recruiting. Tenant companies can concentrate their resources in manufacturing and sales.  
Shared facilities are provided such as meeting rooms, parking lots and guard stations, which reduces initial investment cost of tenant companies.



Entry in an overseas market can be realized with initial investment of 30-50 million yen.



(An SME launching operations in a rental factory in the suburbs of Bangkok)

## Challenges for inviting investment:

### (3) Fast and transparent administrative processes for approval and permission

#### Proposals to both governments

- (1) Establishment of “fast track” process toward faster approval and construction of necessary infrastructure regarding important investment projects
- (2) Comparison of processes for establishing plants and sharing of each state’s best practices

 **Promote an Inter-State competition to create environment conducive to facilitating FDI**

#### Cases of unfulfilled commitments of the state government

##### Case 1 (Total investment: 8 billion rupees)

Company A concluded an MOU with the state government that the government will develop the access road from the factory to the port within two years, but it has not yet started, even after three years.

##### Case 2 (Total investment: 7 billion rupees)

Company B concluded an MOU with the State Electricity Authority for laying lead-in cables to the factory, but the installation has been delayed by more than one year.



How about if the Indian and Japanese Governments jointly set up a “fast track” process for major investment projects to manage their progress?

#### Specific challenges of each state in the plant establishment process

##### State of Haryana

State government stipulates the additional land payment provision (which may require additional land payment in the future upon request by residents) in the contract concerning the plant site. This may cause a significant investment risk.

##### State of Karnataka

- Companies can not choose a specific compartment in the industrial park.
- Compartments are assigned by the state government after payment.



In comparing the establishment process of each state, how about if states share their best practices?

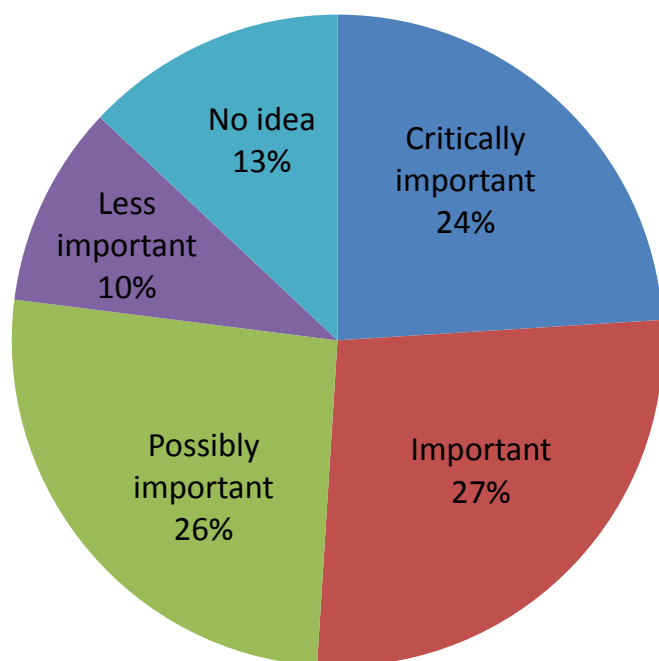
# Challenges for inviting investment: (4) Promotion of India-Japan business matching

## Proposals to both governments

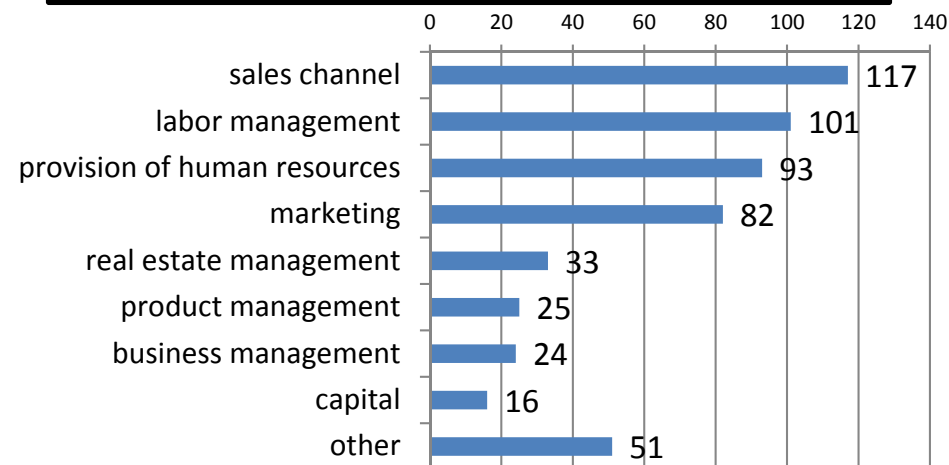
Early provision of opportunities for business matching in strategic industries such as automobiles and energy

## Partnership and cooperation with local companies

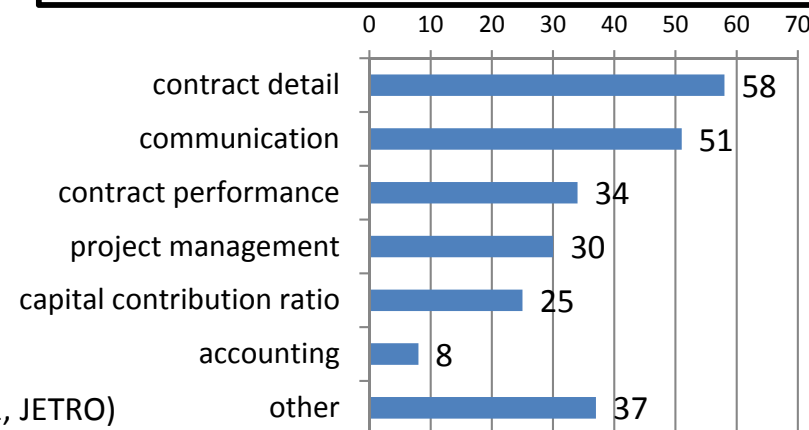
Importance of partnership or cooperation with local companies for enhancement of Indian business by Japanese companies (N=219)



## Expectation for local partners (multiple answers allowed, N=212)



## Points to keep in mind in partnership and cooperation with local companies (N=214)



# Business matching events for promotion of business between India and Japan

## To facilitate matching, JETRO concluded an MOU with CII, FICCI and ASSOCHAM

### India-Japan Energy Forum 2013 “Exhibition”

Organizers: JETRO, NEDO

Period: September 12-14

Place: India Expo Centre

Number of exhibitors: 7 companies, 2 organizations (NEDO area: 21 companies)

Exhibited products: Solar energy, wind energy, hydro/geothermal energy, energy-saving equipment/systems, etc.

Scale of Japan Pavilion: 786m<sup>2</sup>, 87.3 units (indoor), 54m<sup>2</sup>, 6 units (outdoor)

Venue: Hall 1

Outline: (1) Commercial booth: 594m<sup>2</sup>, 66 units (among them NEDO area: 522m<sup>2</sup>, 58 units including 4 units of NEDO booth)  
(2) PR booth (indoor: reception, space for business talks, business center, etc.): 192m<sup>2</sup>, 21.3 units; (outdoor): 54m<sup>2</sup>, 6 units



### Business matching for procurement of auto-parts

(Procurement, exhibition and business matching of auto-parts in Chennai)

1. Period: November 26 and 27
2. Place: Chennai Trade Center, Hall 1

(Business matching of auto-parts in Pune to expand sales channels)

1. Period: November 29 (planned)
2. Place: A local factory manufacturing automobiles or a local hotel
3. Outline:  
JETRO will organize an exhibition and business matching event to facilitate procurement between auto manufacturers and auto-parts suppliers (tiers 1-3) (Japanese and non-Japanese in India) and partnership between Indian and Japanese auto-parts suppliers.

### Business matching between Indian conglomerate business houses and Japanese enterprises

1. Date: TBD (November or December 2013)
2. Place: TBD (the most likely candidate is Tokyo)
3. Organizer: JETRO
4. Outline:  
JETRO will organize the business matching between Indian conglomerate business houses which have a diversification strategy for their portfolio and Japanese enterprises which are interested in potentially doing business in India.

### Joint Statement: Strengthening the Strategic and Global Partnership between Japan and India beyond the 60th Anniversary of Diplomatic Relations (excerpts related to JETRO's business matching event)

- The two Prime Ministers welcomed JETRO's matching activities later this year to strengthen business partnership and consolidate supply chains between the two countries.
- They reaffirmed the importance of the India-Japan Energy Forum to be held in India in September 2013 by JETRO, NEDO and TERI, including an exhibition to showcase Japanese technology in the energy sector.

### **3. Challenges for successful operation**



# Challenges for successful operation: (5) Development of infrastructure

## Proposals to both governments

Acceleration of development of infrastructure through DMIC and CBIC

Major infrastructure problems for operation are logistics, power and water supply.  
[Voice of local Japanese companies]

### 1. Logistics

Considerable time required for import/export due to inadequate port facilities and access roads to the port.

Average truck transport distance limited to 300 kilometers per day due only to undeveloped roads.

Inaccurate operation of freight railway due to the “passenger first” rule, etc. It takes 48 hours even from Chennai to Bangalore.

Terrible congestion in ICDs around Delhi. Urgent expansion is requested.

Difficult operation of truck transport due to various restrictions such as those on ownership of trucks and permission for operation in addition to the need for negotiations with the union. For example, trucks running beyond boundaries of states obtain a national permit, while those running within a state obtain a state permit. Trucks with a state permit are not allowed to operate beyond the boundaries of the state. Conversely, trucks with a national permit are not allowed to engage in delivery within a state.

### 2. Power supply

Limits on power usage, planned outages and blackouts happen frequently due to chronic shortage of power supply. Frequent blackouts leads to a sudden stop in production lines and generation of defective goods, which have weakened competitiveness of companies.

Shortage of power supply prevents production of value-added products, thus those need to be imported from Japan and Southeast Asia.

Discriminatory treatment: In the power supply contracts, large foreign companies are offered preferential treatment (no outage) while small foreign companies are imposed with a very heavy burden of outages and power cuts that disrupt operation.

### 3. Water supply

Strengthened water intake regulations have become a large issue for operation.

Clarification and reduction of time for procedures related to permits are required for establishment of factories (e.g. There are many cases in which obtaining the water intake permit takes too long).

# Challenges for successful operation: (5) Development of infrastructure

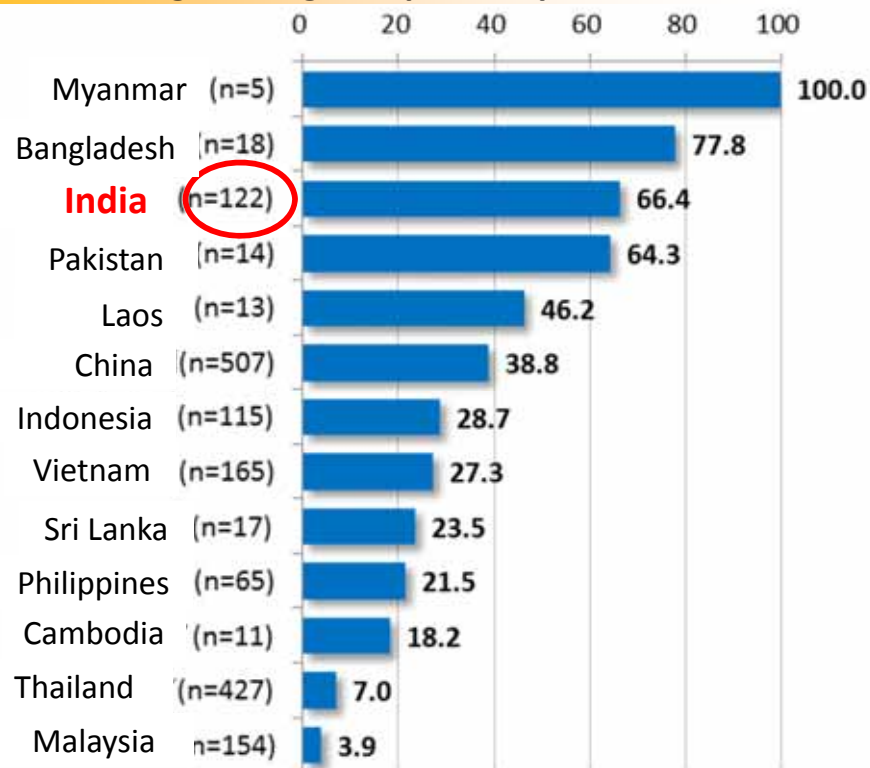
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## Infrastructure: Issues in the fields of power supply and logistics

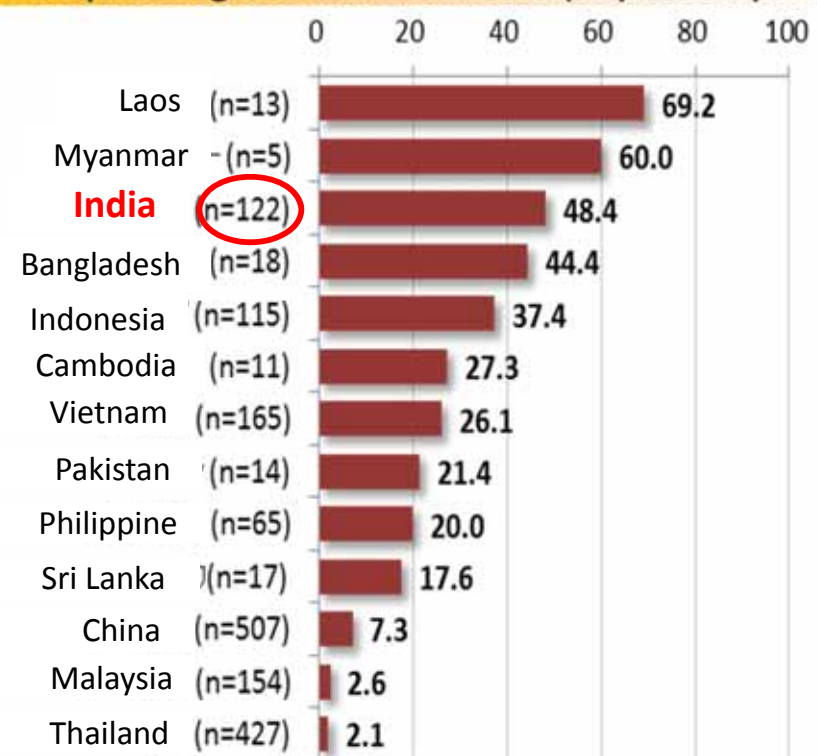
Portion of companies which pointed out the following major items as issues  
(by country/region, multiple answers allowed) (%)

(n = number of effective answers)

### Power shortage/outage (impact on production)



### Inadequate logistics infrastructure (impact on production)



Source: Survey on Business Conditions of Japanese-Affiliated Firms in Asia and Oceania (2012, JETRO)



# Challenges for successful operation:

## (6) Development of human resources and supporting industries

### Proposals to both governments

Promotion of cooperation for human resource development in the manufacturing industry  
 Promotion of local procurement for development of supporting industries

1<sup>st</sup> and 2<sup>nd</sup> business issues are securing human resources and suppliers.

### Business issues of Japanese companies in India

India	(%)
1 Wage increase (n=301)	71.1
2 Difficulty in local procurement of raw materials and parts (n=122)	66.4
2 Power shortage or blackouts (n=122)	66.4
4 Competitors' market shares are growing (cost-wise competition) (n=301)	63.5
5 Complicated customs clearance procedures (n=295)	55.6

Source: Survey on Business Conditions of Japanese-Affiliated Firms in Asia and Oceania (2012, JETRO)

### [Voice of Japanese companies]

Labor cost has increased by 10-15% per year and demand for quality improvement has become large. The whole process including human resource development and equipment procurement needs to be optimized.

In the manufacturing industry, insufficient communication can cause serious loss. Human resource development such as production management and corporate culture is vital.

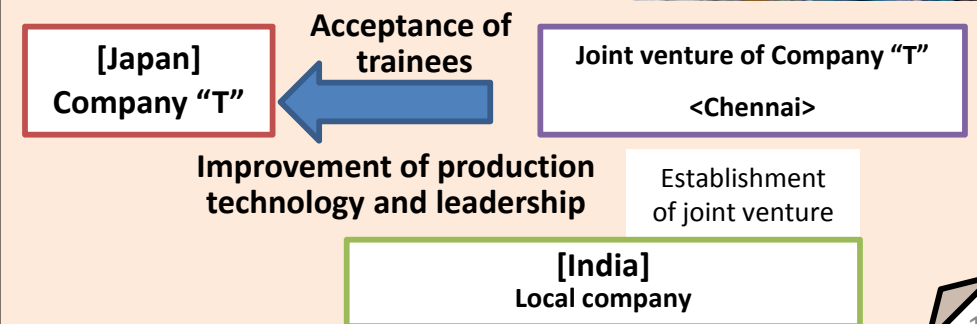
### Example of human resource development

#### Local human resource development to establish coal-powered generator business

A company named "T" established a joint venture with a local company and built a generator manufacturing plant in India. Prior to commencement of production, executive candidates of local personnel were dispatched to Japan.

#### [Training curriculum in this project]

- Classroom lecture (6 weeks):  
 Enhancement of understanding on Japanese corporate culture, capacity building in the field of business execution and improvement of Japanese language literacy.
- On-the-job training (approx. 7 months)  
 Skill development for manufacturing and quality control of the company's products.



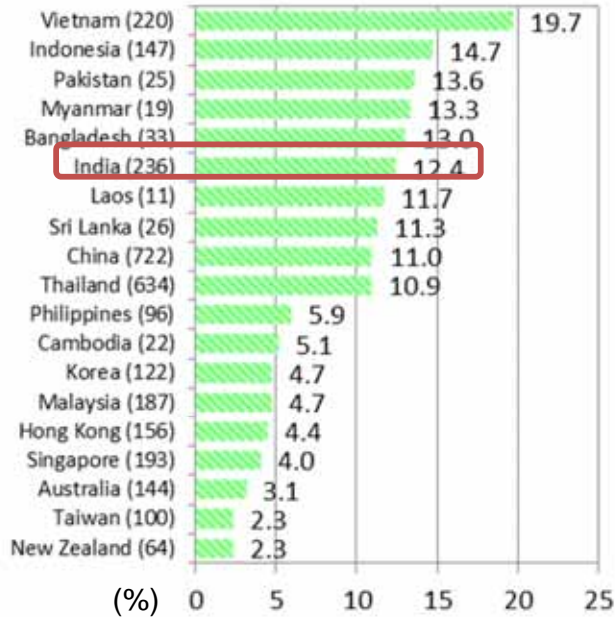
# Challenges for successful operation: (6) Development of human resources and supporting industries

<Reference> Wage increases over the previous year

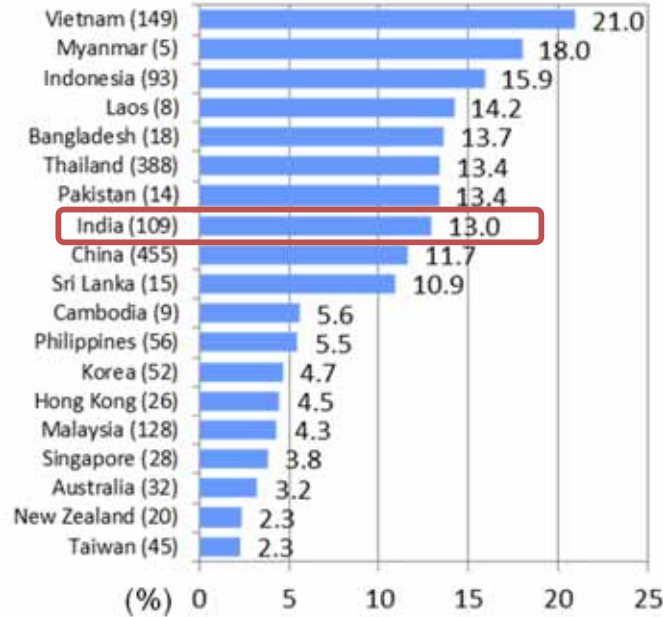
Values in parentheses indicate numbers of firms responded  $n \geq 3$

2012 ← 2011

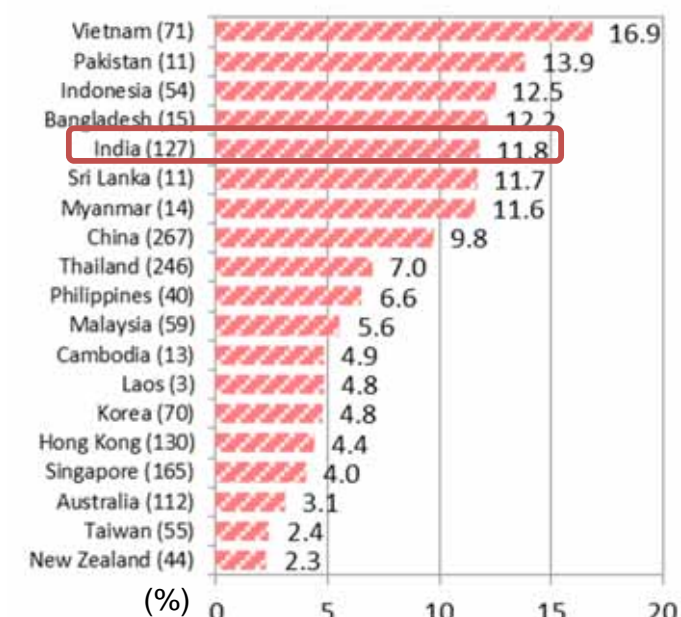
**Total**



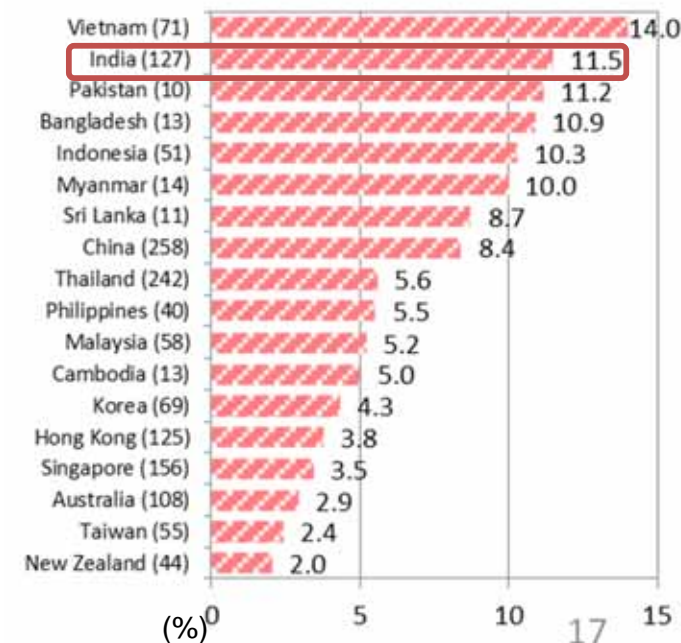
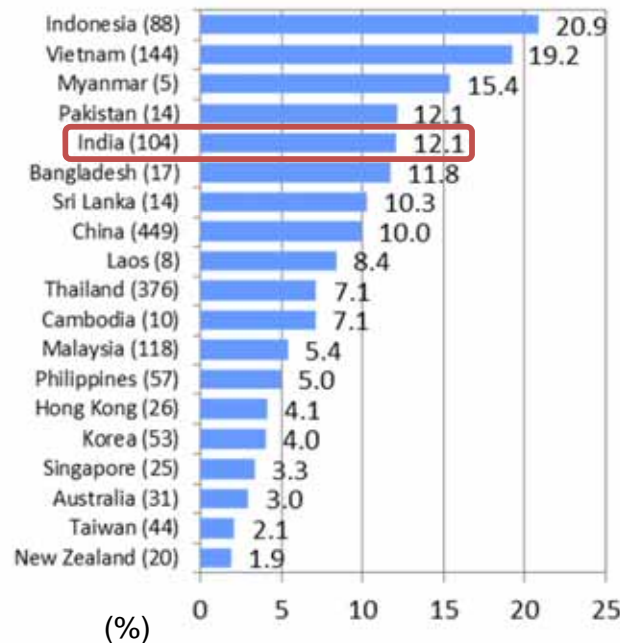
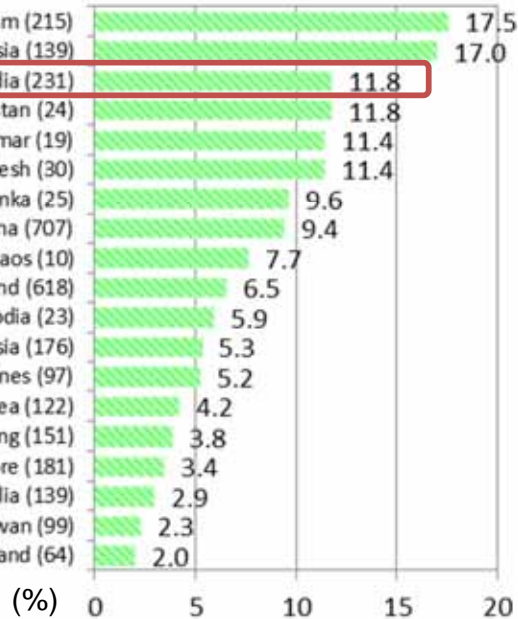
**Manufacturing**



**Non-manufacturing**



2013 ← 2012



# Challenges for successful operation: (7) Improvement in protection of intellectual property

## Proposals to both governments

### Optimization of intellectual property system (Proposal 7)

#### Priority issues of investment promotion regarding intellectual property system

##### Improvement in practices of the existing system

Compliance with the due date of patent application  
Clarification of "resident" definition  
Acceleration of opposition procedures  
Reinforcement of border control by customs

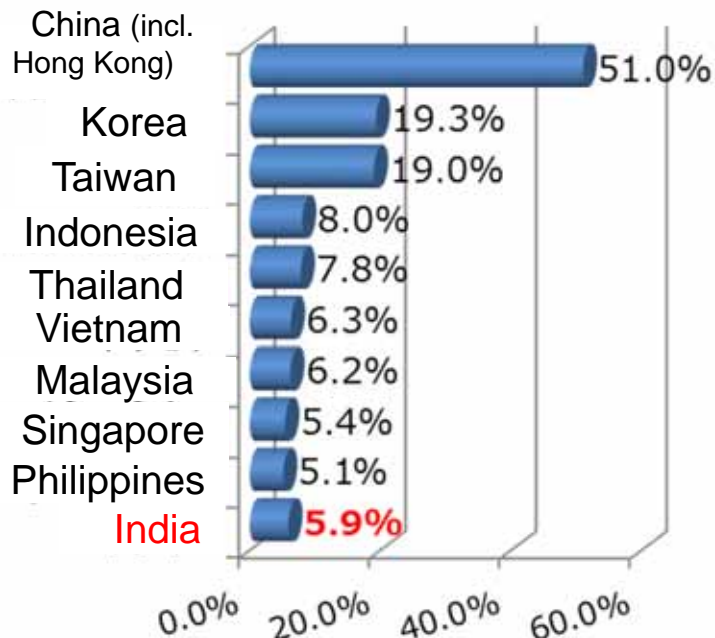
##### Introduction of new systems

Introduction of fast screening system  
Introduction of partial design application system

#### [Voice of Japanese companies]

Under lax regulations and penalties, a growing number of brand imitations on the market are not reduced. More strict regulations are requested to bar these imitations from the market.  
Strengthened measures to eliminate infringing products (counterfeits, imitations) (more strict regulations accompanying with penalties and oversight by the authority)  
Balanced patent screening and judicial rulings are requested based on research on patent practices and trial cases in Western countries.

#### Damage to Japanese companies caused by counterfeiting (FY2011)



#### Damage caused by counterfeit and pirated goods in India (FICCI, 2012)

IT software	80%	FMCG	20-22%
Music CD	40%	Cigarette	15-20%
<b>Auto-parts</b>	<b>30-40%</b>	Alcohol	10-20%
Computer hardware	5-30%	Pharmaceuticals	5-10%

Victims per year caused by counterfeit auto-parts  
Killed: 25,400 people; injured: 93,000 people

Source: Automotive Component Manufacturers Association of India



## Challenges for successful operation: ( 8 ) Reform of related financial regulation and tax systems

### Proposals to both governments

Further promotion of financial deregulation through the DMIC  
Improvement of the Advance Pricing Agreement (APA) Scheme  
Early introduction of Goods and Services Tax (GST)

#### Improvement of APA Scheme

Introduction of provisions for:

- Rollbacks
- Firewalls
- Timelines

In India, transfer price is a risky field where the tax authority is aggressive in enforcement and there are many trial cases. Introducing the APA Scheme can prevent future trial risk regarding transfer price. It is also beneficial for companies intending to enter this market.

In emerging countries including India, due to inconsistent enforcement of taxation in addition to its complexity, relative uncertainty for the future is large. As a measure to eliminate this uncertainty, existence of an effective APA Scheme will have great meaning for companies which aim to enter the country in the future.

Improvement of the APA Scheme will lead to mitigation of transfer price risk, which is expected to encourage entry of Japanese companies.

#### Early introduction of GST

Complex indirect taxation system. There are a number of issues concerning the long time required due to complex application processes and duty drawback procedures as well as many troubles related to payment amounts. Ensuring early introduction of GST is requested.

Early introduction of GST is requested to eliminate complex taxation. In particular, abolishment of CST regarding sales of goods beyond the boundaries of states is urgently required.

## **4. Challenges for export**

# Challenges for export: (9) Facilitation of trade related procedures

## Proposals to both governments

Promotion of computerization of trade related procedures, establishment of a preliminary examination system of cargo before arrival

The ACP should define the rules of on-site inspection

An MRP seal should be allowed to be attached after completion of import customs procedures

The SAD should be abolished at the earliest

## [Voice of Japanese companies]

### Improvement in trade practices

Customs clearance procedures take a long time due to arbitrary requests from customs officials. Preliminary examination of related documents prior to arrival would reduce a lot of time.

Customs clearance procedures are not adequately computerized, not integrated into a one-stop service and have not been shifted to a paperless process.

Many consignees are reluctant to apply the ACP because of the high risk of audit due to unclear specifications such as items and documents to be audited.

### Improvement in customs practices

To reduce the burden of importers to fix sales prices before import, attachment of a maximum retail price (“**MRP**”) seal at bond warehouses after clearance of import procedures should be allowed.

The Special Additional Duty (SAD) specifies the Duty Drawback Scheme. However, due to the complexity of duty drawback procedures, one Japanese company could actually be refunded only 11% of its entitled amount.

It is impossible in a business to inform sales partners of the value of tariff (estimated value) when the importer claims for the drawback of the excise tax imposed in the sales transaction of imported products. To eliminate complexity in this procedure, simplification by introducing GST is required.<sup>21</sup>

# Challenges for export: (10) Enhancement of export support scheme

## Proposals to both governments

Simplification of application procedures in the Duty Drawback Scheme

Relax/abolish of 8-fold 8-year principle in the Export Promotion Capital Goods (EPCG) scheme

Enhancement of partnership between the Federation of India Export Organizations (FIEO) and JETRO

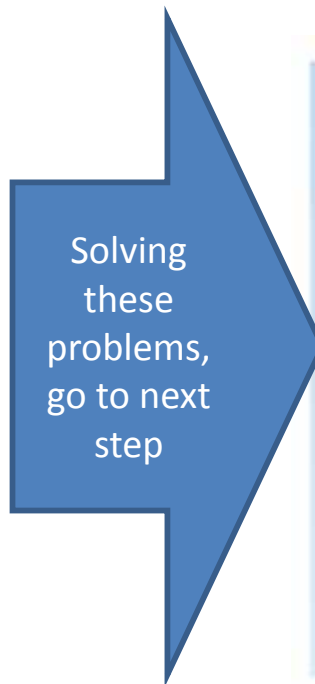


**“Look west” with the strategic partnership between India and Japan**

## [Voice of Japanese companies]

The Duty Drawback: a great deal of documents are required for drawback application including tariff certificates paid by suppliers and sub-sub contractors of related parts and materials. In addition, this drawback procedure requires much time. Simplification of the framework is needed such as introducing a certification system of well-rated companies to inspect them by regular audit instead of checking each individual company.

The EPCG Scheme requires companies to increase export 8-fold in 8 years. For our company planning to start both domestic sales and export, the ratio of these two fields differs in the domestic and overseas markets. The obligation of export volume was a bottleneck in using this scheme.



**“Look west” with the strategic partnership between India and Japan**



# Challenges for export: (11) Establishment of Indian company bases in Japan

## Proposals to both governments

Setting up of Indian company bases in Japan to launch business in the Japanese market

All companies, not only those from India, wishing to enter the Japanese market are required to set up a base in Japan and build a framework for bringing products to the Japanese market and supporting customers. By using JETRO's support, Indian companies can do this smoothly while also reducing initial costs.

## Results

JETRO has supported around 150 Indian companies. Among them, 21 companies have set up business operations in Japan successfully.

## Success case

### Dr. Reddy's Laboratories

An Indian pharmaceutical company which established an office in Tokyo in 2009. Cooperating with Fujifilm in 2011, Dr. Reddy's has established a joint venture company.

#### JETRO's support

-Introduction of a business partner

## JETRO's support

### Scope of consultation

Incorporation of a company or local branch	Types of incorporation, taxation, regulations, etc.
	Registration of the business
	Tax notices
	Opening a bank account
Human resource-related issues	Human resources and labor
	Employment procedures
	Social insurance
Visa-related issues	Consultations for acquisition of Japanese visas with suitable residence status

### Assistance in opening a Japanese office

- Providing temporary office space (Tokyo, Osaka, Nagoya, Yokohama, Kobe, Fukuoka)
- Support in establishing a permanent office



## Challenges for export: (12) Promotion of free trade

### Proposals to both governments

Conclusion of a modern, comprehensive, high-quality and mutually beneficial RCEP in 2015

### Purpose

- Rules reflecting the highly developed supply chain network in East Asia  
(Products manufactured in cross-border production processes will also be able to enjoy tax benefits under the EPA)
- Business friendly EPA through integrating existing diversified procedures in East Asia  
(Easy-to-use EPA rules such as procedures for using the integrated agreement)

### Background

#### **ASEAN Summit and related Summits (November 2012)**

The heads of state from 16 countries endorsed the “Guiding Principles and Objectives for Negotiating the RCEP” and announced the launch of the negotiations.

#### **The first RCEP Trade Negotiating Committee (May 9-13, 2013)**

### Points of the Guiding Principles

1. The RCEP will cover trade in goods, trade in services, investment, economic and technical cooperation, IPRs, competition, dispute settlement and more.
2. The accord is to achieve a comprehensive and high quality agreement with deeper and broader engagement and significant improvement over the existing ASEAN+1 FTAs.
3. Negotiations will commence in early 2013 and aim to complete by the end of 2015.
4. The RCEP will be an open framework which does not exclude participation of external partners in the future.