INDIA GOING ALL OUT TO WOO FOREIGN COMPANIES MOVING OUT OF CHINA

Every dark cloud has a silver lining. Amongst all the disruptions and pandemonium which COVID-19 has caused worldwide, including India, the proverbial silver lining for India as well as emerging economies like Vietnam, Thailand and Indonesia is the potential of becoming an attractive alternative to China.

The trade war between US and China (resulting in increased tariffs) and surge in labour costs already had foreign companies in China considering alternative countries for their business operations. However, COVID-19 has accelerated the decision to exit China for many foreign companies. While some are considering a complete exit, many others, in order to reduce dependency on China, are looking at spreading operations across other countries.

The political fallout of COVID-19 has acted as an additional catalyst. Japan is offering an economic stimulus worth 220 billion Yen (approximately USD 2 Billion) to entice Japanese companies to shift operations back to Japan from China. An additional 23.5 billion Yen (approximately USD 220 Million) has been kept aside for Japanese companies looking at moving operations to other countries.

So as to not miss the wave, and in order to attract companies to India, the Indian Government has set up a dedicated inter-ministerial group to put in place a package of incentives to lure foreign companies to India.

As per news reports, the following incentives/benefits have either been announced by the Central Government or are in proposal stage:

(a) Tax and duty related incentives (such as rationalizing anti-dumping duties as well as fast-track clearances at both Central and State Government levels with single window clearances wherever feasible).

(b) Developing a land pool of around 461,589 hectares (almost double the size of Luxembourg). This includes 115,131 hectares of existing industrial land in states such as Gujarat, Maharashtra, Uttar Pradesh, Tamil Nadu, Andhra Pradesh and Rajasthan.

(c) Making unused land available in special economic zones (SEZ) which already have robust infrastructure in place. Further, relaxations from a plethora of existing compliances and regulations is proposed especially if the planned factory is located in a SEZ.

(d) Financial incentive of 25% of capital expenditure for the manufacturing of goods that constitute the supply chain of an electronic product under the Scheme for Promotion of manufacturing of Electronic Components and Semiconductors (SPECS).

(e) Production linked incentive to boost domestic manufacturing and attract large investments in mobile phone manufacturing and specified electronic components including assembly, testing, marking and packaging (ATMP) units. The scheme shall extend an incentive of 4% to 6% on incremental sales (over base year) of goods manufactured in India and covered under target segments.

(f) Production linked incentive scheme for promoting domestic manufacturing of medical devices. Approval to set up 4 medical device parks with common infrastructure facilities.

(g) Financial assistance to the Modified Electronics Manufacturing Clusters (EMC2.0) Scheme for development of world class infrastructure along with common facilities and amenities through Electronics Manufacturing Clusters (EMCs). It is expected that these EMCs would aid the growth of the electronics system design and manufacturing sector, help development of entrepreneurial ecosystem, drive innovation and catalyze the economic growth of the region by attracting investments in the sector, increasing employment opportunities and tax revenues.

In addition to the above, India already has a favorable foreign investment policy which allows foreign investment in almost 90% sectors without any government approval. 100% foreign investment under automatic route is permitted in manufacturing (including contract manufacturing). Further, the Government, in September 2019, reduced corporate tax to around 25% (for companies with gross receipts up to INR 4 Billion) as against the earlier rate of 30%. For manufacturing companies set up on or after 1 October 2019, a special tax rate of around 15% is on the avail, subject to compliance with certain conditions.

Lastly, the International Monetary Fund's projection of economic growth for India is the highest among the G20 nations. This coupled with all the incentives being offered by the Government makes India an attractive destination offering political stability, a big domestic market and a skilled workforce.

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