



## LEGAL HURDLES THWART JAPANESE COMPANIES IN TELANGANA, AP

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Soaring Japanese investment in the Indian manufacturing sector during the last decade reflects the availability of human and natural resources, a relaxation of sector-specific foreign direct investment (FDI) policies and foreign trade agreements. Foreign collaborations have augmented India's need to build infrastructure and establish diversified and dependable supply chains for its growing economy.

At the 2024 G7 summit, India and Japan pledged to strengthen B2B and P2P partnerships and transform their manufacturing co-operation. The India-Japan Competitive Partnership agreement has committed to JPY5 trillion (USD32.5 billion) of investment between 2022 and 2027. Japan has already invested USD42 billion during the past two decades, with more than 1,400 Japanese companies in India in 2022. More than half are in manufacturing and technology. The states of Telangana and Andhra Pradesh (AP) are home to 300 Japanese companies, their business-friendly policies putting them among the top states in the ease of doing business (EODB) index.

The governments of Telangana and AP have signed memorandums of understanding with bodies such as Japan's Ministry of Economy, Trade and Industry, the New Energy Industrial Technology Development Organisation and the Japan International Co-operation Agency (JICA). These cover FDI in manufacturing, food processing, healthcare, pharmaceuticals and information technology. They also encourage information exchange, infrastructure, education and job creation. Sri City in AP has secured FDI from more than 25 Japanese companies. Recently, JICA partnered with Telangana, boosting the latter's startup ecosystem with an Official Development Assistance loan of JPY23.7 million. Collaboration has led to significant investment and growth.

The 2002 Single Window Approval systems of the two states have encouraged businesses to establish industrial enterprises by providing single application processes. Schemes such as TS-iPASS have set up one-stop shops for industries, manufacturing and services. TG-bPASS has done the same for building permissions, which is particularly relevant following Telangana's recent strict enforcement of building rules and the regulations for setting up industries around protected zones. That state's 2024 MSME policy is to partner with foreign entities to boost the manufacturing sector. Initiatives such as the JICA-THub, promoting startups through incubation cells and infrastructure partnerships with Telangana and AP, have increased FDI and developed economic ties with Japan.

However, Japanese manufacturing faces obstructive laws and legal processes. These include slow judicial administration, foreign exchange regulations, complex direct and indirect taxation in cross-border transactions, intellectual property infringement and labour issues. In Telangana and AP, enforcing contracts becomes difficult. This results from traditional business practices, litigation involving land needed for manufacturing facilities, trade union intransigence, strict adherence to state-specific environment and building regulations and political interference. Extensive legal assistance is needed to draft contracts, obtain regulatory permissions, conduct due diligence and apply to the correct forum for timely relief.

Real estate dealings in these two states require meticulous due diligence in title and partnerships before setting up manufacturing facilities. State-specific laws protect labour rights. Foreign investors need timely resolution of commercial disputes. Setting up the International Arbitration and Mediation Centre in Hyderabad in 2019 was a promising start to making India a hub for cross-border dispute resolution. However, institutional arbitration must resolve international commercial disputes to prevent section 34 of the Arbitration and Conciliation Act, 1996, allowing appeals against arbitral awards, encouraging forum shopping.

Despite such difficulties, government EODB policies have attracted FDI to Telangana and AP, reflecting sector-specific Japanese manufacturing collaboration. At the 2024 QUAD summit, India and Japan committed to common policies and investment in Indo-Pacific clean energy supply chains. Japan has promised FDI of USD122 million for renewable energy. The EODB and state partnerships are vital to sustainable manufacturing FDI. Resolving legal obstacles facing foreign businesses is crucial.