

## 4. Economic Profile and Investment Climate- India & Czech Republic

### Why Invest in India

There are several good reasons for investing in India:

- The largest democracy and the 4<sup>th</sup> largest economy (in terms of purchasing power parity) in the world. India is also the tenth most industrialized country in the world.
- With its consistent growth performance (**7.2% in GDP in 2009-2010 and 8.5% in 2010-2011, 9% next year**) and abundant high skilled manpower, India provides enormous opportunities for investment, both domestic and foreign.
- Home to approximately 1.1 billion people with a fledgling middle class of approx. 350 million is one of the largest emerging markets in the globe.
- It also has 54% of population below the age of 25 years i.e. a head count of over 500 million people guaranteeing the future growth of availability of labour, productivity, and consumerism.
- Goldman Sachs has put Brazil, Russia, India and China (or in short BRIC) as the group of countries which has started taking full charge of growth of the global economy. Considering the recent studies conducted on BRIC, India would overtake most of the G-8 countries in a few decades time from now. According to the study “dreaming with BRICS” by Goldman Sachs, Indian economy is expected to continue growing at the rate of 5% or more till 2050.
- Since the beginning of economic reforms in 1991, major reforms initiatives have been taken in the fields of investment, trade, financial sector, exchange control simplification of procedures, enactment of competition and amendments in the intellectual property rights etc.
- India provides a liberal, attractive and investor friendly investment climate that provides freedom of entry and exit, investment, location, production, choice of technology, import and export etc. Foreign investment is welcome in almost all sectors barring those of strategic concern. **FDI inflows approved in the period August 1991- December 2009, has been US \$ 168,358 million (source: Department of Industrial Policy and Promotion, Ministry of Commerce and Industry).**
- Easy communication through English, the main business language in India.
- Thrust on technology, innovation, and knowledge based industries and services.
- Rich base of mineral and agricultural resources.
- Well developed R& D infrastructure and technical and marketing services. India has joined the select club of countries with advanced technology in some areas such as space research, atomic energy, supercomputing and oceanography.

- One of the largest manufacturing sectors in the world, spanning almost all areas of manufacturing activities.
- Legal protection for intellectual Property Rights.
- India offers tax incentives to encourage investments in Special Economic Zones, priority industries and to promote industrialization of industrially disadvantageous areas.
- Rupee is convertible on Current Account at market determined rate.
- Free and full repatriation of capital, technical fees, royalty and dividends.
- No income tax on profits derived from export of goods.
- Complete exemption from customs duty on industrial in-outs and Corporate Tax holiday for 5 years for 100% Export Oriented units and units in export Processing Zones.
- Developed banking system, commercial banking network.
- Corporate Tax applicable to the foreign companies of a country with which agreement for Double Taxation exists, can be one which is lower between the rates prevailing in any of the two countries and the treaty rate.
- India has been recognized as destination for business and investment opportunities with an assured potential for attractive investment.

### **Potential of Investment in India**

#### Infrastructure

- An investment of US \$ 320 billion would be required in the infrastructure sector during the Eleventh Five Year Plan these investment are to be achieved through a combination of public investment, public-private partnerships (PPPs) and exclusive private investments wherever feasible. **The country's infrastructure sector accelerated by 5.3% in November 2009 backed primarily by growth in steel and cement production. Steel production grew at the highest rate- 11.7% during the month. Cement production also picked up by 9%, production of petroleum refinery products also grew by 4.9%.**

#### Aviation

- Foreign equity participation in airport infrastructure is permitted upto 74 per cent with automatic approvals and upto 100 per cent in special permission.
- FDI upto 40 per cent is permitted in domestic air-transport services.
- Foreign investors are allowed to have representation (upto 33 per cent in domestic airline companies).
- Investment opportunities of US\$ 110 billion are being envisaged up to 2020 with US\$ 80 billion in new aircraft and US\$ 30 billion in development of airport infrastructure, according to the Investment Commission of India.

### Telecommunications

- **Third largest telecom network in the world, second –largest among the emerging economies after China.**
- **On an average, approx. 8 million users are added per month, making Indian the world's fastest growing telecom market.**
- **Liberal Foreign Investment Regime: FDI limit increased from 49% to 74%.**
- **The government is promoting telecom manufacturing by providing tax sops and establishing telecom-specific Special Economic Zones.**
- **The government plans to auction the spectrum for 3G services by inviting bids from domestic as well as foreign players. The 3G spectrum is among the major investment opportunities and is expected to attract investments worth US \$ 8-10 billion during 2008-2011.**
- **International and foreign players can enter this segment through joint ventures with Indian companies with a stake of not more than 74 per cent.**

### Automobile Industry

- **The size of the Indian automotive industry is expected to grow at 13% per annum over next decade to reach around US \$ 120 billion to US \$ 159 billion by 2016.**
- **The total investments required to support the growth are estimated at around US \$ 35 billion to US \$ 40 billion.**
- **Total exports in automotive sector would be around US \$ 30 billion to US \$ 35 billion of which components exports would account for US \$ 20 billion to US \$ 25 billion and vehicle exports for the rest.**
- **Mergers and acquisitions and joint ventures have continued to be the driving force in the Indian automotive industry in sync with the dynamics of the an open economy.**

### Pharmaceuticals

- **The pharmaceutical market was worth US \$ 16.6 billion in 2007-2008; the domestic retail market is expected to cross the US \$ 10 billion mark in 2010 and reach an estimated US \$ 12 billion to US \$ 13 billion by 2012.**
- **The outsourcing opportunity is set to grow to US \$ 53 billion in 2010 from US \$ 26 billion in 2006.**
- **Retail sales of pharmaceuticals were US \$ 7.7 billion in 2007-2008.**
- **Domestic consumption accounted for nearly 46 per cent and exports for the remaining 54 per cent of total industry revenues.**
- **The pharmaceutical manufacturing outsourcing market is valued at US \$ 1.1 billion and the segment is growing at thrice the global market rate.**
- **India's share of the outsourcing market is estimated to increase from 2.8 per cent in 2007 to 5.5 per cent in 2010.**

### Healthcare

- **The healthcare industry in the country, which comprises hospital and allied sectors, is projected to grow 23 per cent per annum to touch US\$ 77 billion by 2012**

from the current estimated size of US\$ 35 billion, according to ASSOCHAM report.

- With average household consumption expected to increase by more than seven per cent per annum, the annual healthcare expenditure is projected to grow at 10 per cent and also the number of insured is likely to jump from 100 million to 220 million.
- The medical equipment industry is around US\$ 2.17 billion and is growing at 15 per cent per year. It is estimated to reach US\$ 4.97 billion by 2012.
- Clinical trials have the potential to become a US\$ 1 billion industry by 2010 and the health services outsourcing sector has the potential to grow to US\$ 7.4 billion by 2012, from US\$ 3.7 billion in 2006.
- The Government launched the National Rural Health Mission (NRHM) in 2005. It aims to provide quality healthcare for all and increase the expenditure on healthcare from 0.9 per cent of GDP to 2-3 per cent of GDP by 2012. During the 2009 interim budget, the government allocated US\$ 2.42 billion for NRHM.

#### Information Technology

- Domestic IT market (including hardware) reached US\$ 24.3 billion in FY 2008-09 as against US\$ 23.1 billion in FY 2007-08, a growth of 5.3 per cent. Domestic IT BPO grew by 40 per cent during 2008-2009.
- Government is setting up e-governance initiatives and increasing its IT spends/outlays; allocation has increased from \$ 96 million in 2006-2007 to \$ 175 million in 2007-2008.
- Demand for domestic BPO services increasing rapidly, with nice verticals like healthcare and retail fast gaining traction.
- KPO is now growing at a rapid pace with MNCs setting up third party captive units for data analytics, data modeling etc. Opportunities span across several service offerings; legal process outsourcing (LPO), financial and market research and engineering services outsourcing, which are considered fast moving service offerings.
- Legal process and Intellectual Property (IP) research outsourcing, India offers impressive opportunities to scale up , with a large pool of legal professional (over 1 million lawyers and over 70,000 law graduates passing every year) and cost arbitrage.
- Business, financial and market research, wave of new entrants comprising captive research centres set up by leading global investment banks, foreign banks and consulting firms, as well as several third party service providers and leading BPO players.

#### Energy

- According to a report by CII, India's energy sector will require an investment of around US \$ 120 billion- US \$ 150 billion over next five years.
- The government has revised its target of power capacity addition to 92,700 MW in the 11<sup>th</sup> Five Year Plan (2007-2012), from the earlier estimate of 78,577 MW (as on June, 2007) to sustain the growth of economy.
- Further, according to Planning Commission estimates, renewable energy

projects worth US \$ 16.50 billion, for generation of 15,000 MW power, would come up in 11<sup>th</sup> Plan.

- Government has earmarked a total capacity subsidy of US \$ 6.88 bn for providing electricity connections and for distribution of infrastructure to rural households.
- NTPC is planning scale up its capacity from present 30,000 MW to 75,000 MW by 2017.
- India has launched solar energy mission which aims to generate 20,000 MW of solar power by 2022.
- 100 per cent FDI is allowed in all segments of power sector. There is zero customs on import of capital goods for mega power projects.

#### Financial Sector

- As per the Securities and Exchange Board of India (SEBI), number of registered FIs as on January 29, 2010 was 1697 and the cumulative investments in equity since November 1992 to January 29, 2010, was US\$ 72.51 billion.
- Financial services and real estate sector rose by 9.5 per cent in the first quarter of 2009-10.
- The World Bank and India have concluded negotiations for loans worth US\$ 3.2 billion for recapitalizing state-run banks and funding for the India Infrastructure Finance Company Ltd.
- India is the fifth largest life insurance market in the emerging insurance economies globally and the segment is growing at a healthy 32-34 per cent annually. total life insurance premium in India is projected to grow to US\$ 259.72 billion by 2010-11. Life Insurance Corporation (LIC) is bullish on growth and is targeting business in excess of US\$ 59.14 billion by 2011-12.
- The government is planning to ease restrictions on foreign investments in insurance, banking and pensions, and allow foreign direct investment (FDI) of 49 per cent from the present 26 per cent.

#### Biotechnology

- The Indian biotech sector's overall turnover in 2008-09 was US\$ 2.51 billion, as compared to US\$ 2.13 billion in 2007-08. Bio-pharma contributed US\$ 1.6 billion; bio-agri nearly US\$ 311.28 million, bio-industrial segment US\$ 99.19 million and bio-informatics grew 15 per cent to touch US\$ 45.65 million.
- The Indian biotechnology sector is likely to become a US\$ 5 billion industry by 2010. A Report by CII stated, "India is ranked among the top 12 biotech destinations in the world and is the third biggest in Asia-Pacific in terms of the number of biotech companies."
- Biotechnology industry in India has notched up a growth of 20 per cent during 2007-08 and the revenues earned were worth US\$ 2.56 billion as against US\$ 2.1 billion during the previous fiscal. Research services touched US\$ 500 million and bio-IT (bioinformatics) was US\$ 250 million.
- The Department of Biotechnology (DBT), Govt of India, has also decided to set up a unique Health Biotech Science Cluster (HBSC) at Faridabad. DBT is exploring avenues to fund research, focus on the opportunity of bio-similar

**products and create infrastructure to scale-up human resources to support a shift to high-end research in the long term**

- **India is already being globally recognised as a manufacturer of economical, high quality bulk drugs and formulations. With a huge base of talented, skilled and cost competitive manpower, and a well-developed scientific infrastructure, India has great potential to become a leading global player in biotechnology.**

#### **Policy on Foreign Direct Investment**

India has the most liberal and transparent policies on FDI among the emerging economies. FDI up to 100% is allowed under the automatic route in all activities/sectors except the following which require prior approval of the Government:

- i) Manufacture of cigars and cigarettes of tobacco and manufactured tobacco substitutes;
  - ii) Manufacture of Electronic Aerospace and Defence Equipments: all types
  - iii) Manufacture of items exclusively reserved for Small Scale Sector with more than 24% FDI
  - iv) Proposal in which the foreign collaborator has an existing financial/technical collaboration in India in the “same” field
  - v) All proposals falling outside notified sectoral policy/caps
- The Department of Industrial Policy and Promotion is the nodal agency for information and assistance to foreign investors. The FDI policy is reviewed on continuous basis and changes in sector policy/sectoral equity cap are notified through Press notes by the Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and planning (DIPP). All press notes are available at [www.dipp.nic.in](http://www.dipp.nic.in)
  - Under automatic route, FDI does not require any prior approval either by the government or by RBI. The investors have to notify only within 30 days to the Regional office concerned of RBI.
  - Application for all FDI cases, except non- Resident Indian (NRI), Export Oriented Units (EOU), and for FDI in Retail trading should be submitted to the FIPB Unit, Department of Economic affairs, Ministry of Finance. Application for NRI investment, EOU and FDI in retail trading (single branded product) cases should be submitted to SIA in Department of Industrial Policy and Promotion.

#### **Investment in Czech Republic**

- The Czech Republic – a member of the EU, OECD, NATO, WTO, IMF, and EBRD- is an open market economy, parliamentary democracy, and one of the most successful post-transformation countries.
- Czech Republic has a stable economy and a quality infrastructure.
- The Czech Republic is one of the most successful transition economies in terms of attracting foreign direct investment. Over 130,000 Czech firms across all sectors are supported by foreign capital. Since 1993, more than Euro 50 billion in FDI has been recorded and the inflow of FDI per capita is among the highest of the Central European countries for the past six years. According to an Ernest and Young survey, the Czech Republic is the seventh most attractive country for investors in the world. The survey further states that the main investment targets in

Europe are in the automotive sector and cutting edge technologies. This trend is confirmed by the structure of investment currently flowing in the Czech Republic.

- For investments in transport and logistics, good for its perfect location with regard to consumption and production zones. This, together with its EU membership, makes the country a perfect gateway to the single European market of 455 million consumers.
- Since the Velvet Revolution in 1989, the Czech economy has grown steadily and the standard of living has been increased substantially. After recovering from a slight slowdown caused by the worldwide recession at the turn of the millennium, GDP growth soared above 6.6% in 2007, reaching one of the highest levels among European countries, while inflation remained low and unemployment decreased.
- The Czech Republic has one of the most advanced transport networks in Central and Eastern Europe. Its geographical position makes it a natural crossroads for major transit corridors. The Czech Republic is ranked among the world's most advanced countries in terms of transport-network density. The significance of the Czech Republic as a transit hub has grown since the country became a member of the EU Single Market covering the area of the EU 15 and the new members in Central and Eastern Europe.
- Investors - both foreign and Czech - have the possibility to obtain investment incentives whose purpose is to support the introduction or expansion of production in the manufacturing industry and projects in the area of business support services and technology centres.
- Due to the long tradition and great diversity of the country's industry, it offers vast sourcing opportunities for the business. Moreover, the Czech legal framework and business ethic ensure smooth and safe contracts with the Czech businesses.
- The Czech Republic combines an outstanding level of general education with strong science and engineering disciplines. According to a 2005 OECD study, the country ranked first among European countries in terms of the percentage of the population that has achieved at least upper secondary education. Technical education in the Czech Republic has a long tradition and enjoys a strong reputation around the world. The availability of technically educated graduates at a fraction of the cost of western labour creates a perfect environment for both manufacturing and R&D-oriented companies.
- Prague ranks highest of all post-communist capitals in terms of standard of living. In most respects the Czech lifestyle approaches Western standards, even though the cost of living remains substantially lower - average prices of goods and services in Prague still do not amount to even half of those in Zurich.
- The system of investment incentives in the Czech Republic is set up differently for various types of investment projects. Support takes several forms - from tax relief and contributions for job creation to grants for business operation and training and re-qualification. Incentives are awarded to projects in the manufacturing industry and in the areas of research and development and business support services. There is also a programme of support for smaller-scale projects in regions worst affected by unemployment.
- The Czech Republic is a member of Multilateral Investment Guarantee Agency (MIGA), an international organization for protection of investment belonging to the World Bank-IMF group. India and Czech Republic have also signed Bilateral investment Protection Agreement.

- For protection of property rights, the Czech Republic is a signatory to the Berne, Paris and Universal copyright conventions.
- Under the Czech law, foreign and domestic entities are treated identically in all areas of property rights to investment incentives. The government does not screen any foreign investment projects with the exception of defence and banking sectors.
- No limitation exist concerning the distribution and expatriation of profits by Czech subsidiaries to their foreign parent companies other than obligation of joint stock companies and limited liabilities companies to generate a mandatory reserve fund and pay withholding taxes. Besides India, CR has treaties to prevent double taxation with many countries.
- Well-developed institutional framework to facilitate business e.g. banks/financial institutions, promotional agencies like Czech trade, Czech Invest, apex industry organizations, Chambers of Commerce & Trade Fairs authorities.
- Joint ventures are encouraged and supported by the Czech Republic. CzechInvest maintains a database and will try to match a potential Czech partner.

Detailed information regarding investment opportunities, incentives etc. can be found at the Web Site of **Czech Invest** and **Czech Ministry of Trade and Industry**. The contact details are as follows:

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