India and Czech Republic

The Way Forward

PRESENTED BY
The Southern India Chamber of Commerce and Industry (SICCI)

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FOREWORD

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As Readers may be aware, the ‘Make in India’ initiative aims to achieve 70% indigenization in our Aerospace & Defence sector. The Aerospace & Defence Policy 2019 provides the needed incentives and measures to develop a strong domestic capability in Defence. The Policy gives greater impetus for economic growth, skilled job creation and supporting growth of domestic manufacturers, especially MSMEs.

The Southern India Chamber of Commerce & Industry (SICCI) has been advocating for indigenization of India’s Defence & Aerospace requirements. SICCI’s specific focus has been on Tamil Nadu with our multiple engagements & conferences with the Defence forces. Tamil Nadu is an industrially advanced State with highest number of factories in India. It is also the most urbanized state with 48% of the population based out of cities having world class Industrial Parks & SEZs.

With Chennai already possessing inherent strengths in Automotive manufacturing, the scaling to Defence manufacturing would be the next logical step. SICCI is committed to the establishment of the Defence corridor in the State, one of the 2 corridors identified by the Government of India. We strongly feel that industry should not miss this unique opportunity to manufacture for and supply to the world's most profitable Defence market.

SICCI has therefore been engaging in hosting relevant conferences, releasing knowledge reports and interfacing with Government for Aerospace & Defence Production & Procedures. This report released at the Virtual Aerospace & Defence Roundtable on **"The Road Ahead for India Czech Aerospace & Defence Partnership"** is but one example. This has been towards enabling greater participation of industry in the region, especially within the MSME sector with their global counterparts.

The Czech Republic is one of India’s key Aerospace & Defence Partners. Linkages among the two countries have been growing stronger. Newer avenues have also been opening up for future cooperation. There is immense scope to substantially upgrade our current partnership, one that would truly reflect the depth of our robust bilateral relations. India & the Czech Republic have complementarities that can make us effective Partners. However, converting these complementarities into possibilities will depend on creating a conducive environment for greater Czech collaboration and deeper engagement with industries.

We hope this study is insightful and helps industries in Tamil Nadu and in the Czech Republic gain a better perspective, while importantly making informed decisions. This would in turn help in the flourishing of the Defence sector in Tamil Nadu. We appreciate the efforts put in by SAS Partners in the preparation of this comprehensive study and making it a "ready reference" on the subject.

DISCLAIMER

INDO-CZECH BILATERAL RELATIONSHIP

Economic relations between the Czech Republic and India are a 100 years old, beginning with the setting up of the erstwhile Czechoslovakia Consulate in Bombay in 1920. In 1993, when Czechoslovakia became the Czech Republic, trade and investment relations initially slowed down and then picked up momentum. Both countries have shown a very healthy and growing trend with respect to their bilateral economic relations. There have been a number of high-level visits between both countries and India and the Czech Republic have supported each other in many international fora.

The first Joint Commission on Economic Cooperation (JCEC) between the Czech Republic and India was held in 2010. Since then, meetings have been taking place regularly. However, the 12th meeting of the JCEC which was to be held in 2020 was postponed due to the COVID pandemic. India and the Czech Republic also have a Joint Working Group on Heavy Engineering. Among other things, India and the Czech Republic have signed MoUs on Defence and Science & Technology and also have an Avoidance of Double Taxation Treaty.

Bilateral trade between India and the Czech Republic has been growing steadily. During India's financial year of April 2019 to March 2020, India exported goods and services worth US$ 313,361 to the Czech Republic and for the period April 2020 to January 2021, this figure stood at US$ 228,772. India's imports from the Czech Republic during the period April 2019 to March 2020 was US$ 474,709 and the figures for April 2020 to January 2021 was US$ 304,359.

Values given in US$ Millions.

India's main products of export to Czech Republic are Garments and textiles, Pharmaceutical products, Iron and Steel products, electronic instruments, auto components, chemicals, power equipment, footwear etc. India's main products of imports from Czech Republic are auto components, textile and leather machines, machines for rubber and plastic industry, machine-tools, food production equipment, ICT equipment, furniture, pumps, electronic items etc.

Almost 7% of Czech investments outside Europe came to India and India gained 1/10th of Czech investments. Around 30 Czech companies have invested in India including Skoda Auto, Skoda Power, Bonatrans, Home Credit etc. in transportation, power, automotive and financing sectors.

Indian companies have invested in the Czech Republic in sectors such as IT, vehicles, tea, textile, pharmaceutical and auto-components. Major Indian companies which have invested in the Czech Republic include Infosys, Tata Global Beverages, Cognizant, Samvardhana Motherson, Varroc Excellence, Pricol, CLC, KCI, Dina-Hitex, Glenmark Pharmaceuticals, Alok Industries/Mileta Horice a.s., APAG.

THE CZECH INDUSTRY & ECONOMY

INTRODUCTION

The Czech Republic is located in central Europe. The country has a population of about 10.6 million people and covers an area of 78,866 km2. It is a landlocked nation bordered by Germany, Austria, Slovakia, and Poland. Prague is the capital city and the largest city of the Czech Republic. The country has about 1.3 million residents. The Czech Republic has one of the most stable, wealthy, and developed economies in the world. The availability of educated and skilled professionals in the automotive industry, the strategic location in central Europe, and the good infrastructural network has influenced the growth and expansion of the industrial sector.

The GDP of Czech Republic is USD $215.7 billion. The service industry tops in terms of GDP contribution to the economy of the country at 59.7%, followed by the industrial sector at 37.8%, and finally the agricultural sector at 2.5%. The labour force for these sectors stands at 59.2%, 38%, and 2.8% respectively. The Czech Republic is, in many ways, a Central European success. Driven by FDI and strong participation in global value chains, the booming manufacturing sector now leads all sectors in employment.

CZECH INDUSTRY & SERVICES

The manufacturing industry is the main pillar of the Czech's economy. There is a great output from high-tech engineering, machine engineering, and automotive engineering. The Czech Republic is the 12th largest global car exporter and has employed over 150,000 people accounting for more than 20% of both Czech manufacturing output and Czech exports. Engineering forms the backbone of the Czech economy and its manufacturing base is made up of more than 1,100 companies. These companies are especially involved in the field of energy engineering, transport engineering, production of machining and shaping tools, metallurgy and production of structures and metal components.

Approximately 60% of the employees in the Czech Republic work in the service sector just close to the European average of 75%. The service sector has risen to be among the most productive industries in the Czech Republic. The focus in the services sector is on research and development, ICT and software development, nanotechnology, real estates, consultancy, business (such as finance), and life sciences.

The aviation industry of the Czech Republic focuses on two main activities. First of all, there is the production of complete aircrafts. It concerns smaller aircrafts for local and regional transport, training and light combat aircrafts, sport and agriculture aircrafts, ultra-light aircrafts and gliders. A quarter of ultra-light aircrafts sold in the world have been produced in the Czech Republic. The second segment of the aviation industry is the production of components for large transport and military aircrafts and helicopters.

The chemical industry of the Czech Republic is among its main industrial branches. Production of basic chemical substances (64%) and production of pharmaceuticals (17%) contribute the biggest share in terms of revenue. Chemical industry products are supplied to other affiliated sectors, such as the automotive, construction, electronic, food-processing, textile industries and others. Czech companies produce, for example, fertilizers, polyester fibres, plastic materials and inorganic substances besides they also belong to the most significant producers in this sector.

Besides the above-mentioned sectors, the Czech industry has made a name for itself in several other areas. Some of them are Research & Development, Medical Equipment, Food Processing, Furniture & Glass & Ceramics. The Czech industry, unlike most other countries in Eastern Europe, has a very diversified economy, which in turn has helped the growth and development of the Czech Republic even in turbulent times. Its wide range of industries and services make it a very attractive country for trade and investment, especially in the Indian context where there are tremendous synergies and opportunities to further bilateral economic relations.

DOING BUSINESS IN INDIA

The State and Central Governments have made changes to various laws to deal with economic growth and to streamline the legal system like, Introduction of a Unified Indirect tax law system, introduction of Insolvency and Bankruptcy Code (IBC) to turn around stressed assets and also the recent vast reforms in the proposed New Labour Codes.

The biggest testament of effectiveness of all the changes that have been introduced by the Government is that, India has continuously been scaling to a greater ranking in the World Bank's Ease of Doing Business rankings.

General Legal Framework for investing in India:

- **Foreign Exchange Laws:** Foreign Exchange Management Act, 1999 ("FEMA") and rules, regulations, circulars, notifications and press notes issued under the same.

- **Corporate Laws:** Companies Act, Limited Liability Partnership Act, 2008 and the regulations laid down by the Securities and Exchanges Board of India (SEBI) for listed or to be listed companies in India.

- **Labour Laws:** India has many Central & State Labour laws such as the Industrial Disputes Act, 1947, Minimum Wages Act, 1948 etc. Labour Laws are going through a major reform of getting compiled into four major codes and expected to be effective soon. The applicability of such laws is determined by various parameters (such as the nature of work to be performed, type of establishment, number of employees, etc.).

- **Sector Specific Laws:** In addition to the abovementioned general legislations, specific laws relating to Insurance, Aviation, Financial Services (banking, non-banking financial services), Infrastructure and other sectors are also applicable.

TAX:

- **Taxation Laws:** The Income Tax Act, 1961 (ITA); Indirect tax laws including laws relating to Goods and Service Tax, (GST), Customs, Excise etc.,
- **International Tax Treaties:** Treaties with favorable jurisdictions are in place which help to plan the tax applicability globally.

Critical aspects for Doing Business in India:

I. Foreign Direct Investment (FDI):

Setting up India operations or investing in India by non-residents requires conformity with India's foreign exchange regulations, specifically, the regulations governing FDI. Most aspects of foreign currency transactions with India are governed by FEMA and the delegated legislations thereunder.

FDI limits with respect to the shareholding of non-residents in an Indian company can be divided into the following categories:

- **Prohibited Sectors in FDI:** Activities/ sectors not open to private sector investment like Atomic Energy, Railway operations, Gambling and betting including casinos/ Lottery business including online lotteries, Chit funds, Nidhi company, Real estate business or construction of farm houses, Manufacturing of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes.
- **Permitted Sectors:** In the sectors/ activities, which don't fall within 'Prohibited Sectors', FDI is (i) either permitted upto the limit indicated against each sector/ activity or (ii) is permitted upto 100% under the automatic route, subject to applicable laws/ regulations; security and conditions. In few sectors, additional conditions are required to be complied with such as minimum capitalization requirements.

Aerospace & Defence Sector: The latest release in August 2020 of the FDI policy allows the following investment in Defence sector

- *74% - Automatic approval*
- *75 - 100 % allowed with Government approval.*

II. Establishing a Presence (Unincorporated and Incorporated Options):

a. Unincorporated Entities: A foreign company can use unincorporated entities to do business in India through the following options,

Liaison Office: A liaison office acts as a representative of the parent foreign company in India. However, a liaison office cannot undertake any commercial activity and must maintain itself from the remittances received from its parent foreign company.

Branch Office: It can represent the foreign parent company in India and act as its buying or selling agent in India. However, a branch office cannot carry out any retail, manufacturing or processing activities. The branch office is permitted to remit surplus revenues to its foreign parent company subject to the taxes applicable.

Project Office: A foreign company may set up a project office in India to execute a project in India. A project office is permitted to operate a bank account in India and may remit surplus revenue from the project to the foreign parent company.

b. Incorporated Entities: Incorporated entities in India are governed by the provisions of the Companies Act / Limited Liability Partnership Act, 2008.

Limited Liability Partnership (LLP): LLPs are governed by the Limited Liability Partnership Act, 2008. LLP is a body corporate and exists as a legal person separate from its partners.

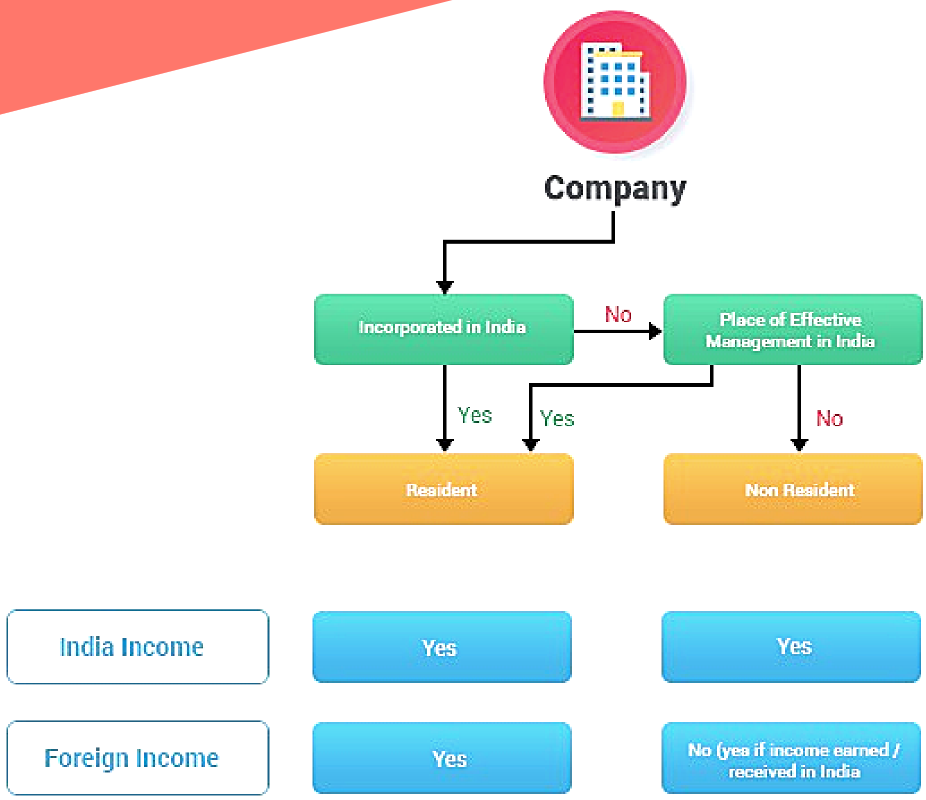
Companies under the Companies Act: With effect from April 1, 2014, the Companies Act, 2013 has replaced the previous Companies Act, 1956. The Companies Act, 2013 sets out, inter alia, provisions related to incorporation of a company, issuance of shares, roles and responsibilities of directors, winding up etc. Companies may either be 'Private Limited Companies' or 'Public Limited Companies'.

III. Tax Considerations: Direct & Indirect Tax

Any person investing or doing business in India has to consider various Direct Tax (Income Based) and Indirect Tax (Consumption Based) which are levied and collected by the Central Government and the State Governments.

A. Direct Tax: Corporate Tax:

i. Tax incidence of a company depends on the residential status of the company, i.e., whether the company has been incorporated in India or its place of effective management lies in India.



ii. Domestic Company: Tax Rates

a. New Tax Rate for New Manufacturing Companies (Section 115 BAB)

The Government, via Taxation Laws (Amendment) Ordinance, 2019 passed on 20 September 2019, has introduced a **favorable** new corporate tax rate for **new manufacturing companies**. It has inserted Section 115BAB offering a low corporate tax rate of 15% (plus Surcharge and Health and Education Cess) making an effective rate of 17.16% to new manufacturing companies, subject to conditions.

This is aimed at attracting new Investments to India from aboard and boost expansion plans by existing companies operating in India. Few sample conditions attached with new section are,

- The domestic company should have been set-up and registered on or after the 1st October 2019, and has commenced manufacturing or production of any article or thing on or before 31st March 2023.
- The business should not be formed by splitting up, or the reconstruction of a business already in existence (not applicable to a business referred in Sec 33B of I.T Act,1961)
- The company should not use any machinery or plant previously used for any purpose, but with **exceptions**.

b. Other Companies Tax rate are as below,

The Government has been taking steps towards reducing corporate tax rates from 30% to 25% (excluding surcharge and cess) over the next 4 years. Few changes in tax rates have come in the last few years.

PARTICULARS	FY 2020-21 (AY 21-22)	FY 2021-22 (AY 22-23)
Income Tax on total turnover / gross receipts during PY 2018-19 does not exceed Rs. 400 crores	25%	NA
Income Tax on total turnover / gross receipts during PY 2019-20 does not exceed Rs. 400 crores	NA	25%
Income Tax on any other domestic company	30%	30%
Company opting for section 115BA	25%	25%
Company opting for section 115BAA** (New Tax rate for Domestic Companies)	22%	22%
Surcharge	10%	10%
Company opting for section 115BAB** (Tax on income of new manufacturing domestic companies.)	15%	15%
Surcharge	10%	10%
Minimum Alternate Tax (MAT)*	15%	15%
Surcharge where total income is Rs. 1 crore < Rs. 10 crores	7%	7%
Surcharge where total income > Rs. 10 crores	12%	12%

Health and Education Cess: The amount of income-tax and the applicable surcharge, shall be further increased by health and education cess calculated at the rate of four percent of such income-tax and surcharge.

***MAT :** The domestic company who has opted for special taxation regime under Section 115BAA & 115BAB is exempted from provision of MAT. However, no exemption is available in case where section 115BA has been opted.

In that case, the provisions of Minimum Alternate Tax (MAT) applies, tax payable cannot be less than 15% (+HEC) of “Book profit” computed as per section 115JB.

However, MAT is levied at the rate of 9% (plus surcharge and cess as applicable) in case of a company, being a unit of an International Financial Services Centre and deriving its income solely in convertible foreign exchange.

****Surcharge:** The rate of surcharge in case of a company opting for taxability under Section 115BAA or 115BAB shall be flat 10% irrespective of amount of total income.

iii. Foreign Company: Tax Rates

PARTICULARS	TAX RATE
Income Tax on royalty received from Government or an Indian concern in pursuance of an agreement made with the Indian concern after March 31, 1961, but before April 1, 1976, or fees for rendering technical services in pursuance of an agreement made after February 29, 1964 but before April 1, 1976 and where such agreement has, in either case, been approved by the Central Government	**50%**
Income Tax on any other income	**40%**
Surcharge where total income is Rs. 1 crore < Rs. 10 crores	**2%**
Surcharge where total income > Rs. 10 crores	**5%**
Health and Education Cess	**4%**

iv. Dividends and Share buy-back

Dividends distributed by Indian companies were subject to a dividend distribution tax (DDT) at an effective rate of 20.55% payable by the company. However, the Finance Act, 2020 has abolished the DDT and reverted to a classical system of taxation of dividend / distributed income in the hands of shareholders / unit holders respectively, at the applicable marginal tax rate. Therefore, on payment of dividend, there shall be a dividend withholding tax applicable on the company at the time of payment to the shareholders who can then take credit of the withheld amount while calculating his own taxes. **The new regime is applicable from April 1, 2020.**

v. Double Tax Avoidance Treaties

India has entered into more than 100 bilateral tax treaties for avoidance of double taxation. A taxpayer may be taxed either under domestic law provisions (i.e. under the ITA) or the applicable tax treaty to the extent it is more beneficial. India is also a signatory to the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MLI), in furtherance of the OECD's Base Erosion and Profit Shifting (BEPS) project.

vi. Structuring Investments

Investments into India are often structured through holding companies in various jurisdictions for a number of strategic and tax reasons. While selecting a holding company jurisdiction, it is necessary to consider a range of factors. Over the years, majority of investments into India have come from countries such as Mauritius, Singapore and The Netherlands, which have favorable tax treaties with India.

B. Indirect Taxation

Prior to July 1, 2017, a series of Central and State taxes were levied at various stages of the production and distribution process. These included Central Excise Duty on manufacturing, Central Sales Tax on interstate sale, sales tax / value added tax on intra-state sale, and Service Tax on the rendering of services. Moreover, credit for input taxes paid was not uniformly available across central and state levies thereby leading to a cascading of taxes. With the introduction of the Goods and Services Tax (GST), India now has unified indirect tax system.

i. Goods and Services Tax (GST)

GST is levied at the following rates nil, 5%, 12%, 18% and 28% depending on the rate schedule applicable to the supply in question. To prevent cascading of taxes, a uniform input tax credit system is available in respect of input supplies of goods or services used or intended to be used in the provision of output supplies of goods or services or both. GST is a consumption tax and is typically passed on to the consumer of the good / service as part of the price.

ii. Customs Duty

Customs duty is levied on goods that are imported into India by the Central Government. The rates at which customs duty is levied are specified in the Customs Tariff Act, 1975. Prior to the introduction of GST in India, import duties were generally categorized into basic customs duty, additional customs duties, countervailing duty, safeguard duty and anti-dumping duty. With the introduction of GST, the customs framework has been significantly revamped.

C: Equalization Levy (EL)

The Finance Act 2016 introduced a new kind of tax called the equalization levy (EL). The EL is a 6% tax on income in excess of INR 1 crore earned by non-residents from the provision of online advertising revenues in India. The EL is intended to tax revenue streams which were previously not considered taxable in India on the basis of physical-presence based permanent establishment tests.

With effect from April 1, 2020, the scope of the EL has been expanded to cover non-resident e-commerce operators making supplies in India or having a nexus with India by imposing a 2% EL on the amount of consideration received or receivable by an 'e-commerce operator' from 'e-commerce supply or services made or provided or facilitated by or through it.

IV. Central and State Incentives

Central Incentive Schemes

Production Linked Incentive Schemes (PLI Schemes)

A scheme that aims to give companies incentives on incremental sales from products manufactured in domestic units. The scheme invites foreign companies to set units in India. It also aims to encourage existing companies to set up or expand existing manufacturing units.

The Central Government already announced PLI Schemes in three sectors i) Mobile Manufacturing and Specified Electronic Components, ii) Drug Intermediaries and Active Pharmaceutical Ingredients, iii) Manufacturing of Medical Devices.

In addition to the above three sectors, following 10 sectors are also proposed on 11th November 2020, namely, i) Advance Chemistry Cell (ACC) Battery, ii) Electronic/Technology Products, iii) Automobiles & Auto Components, iv) Pharmaceuticals drugs, v) Telecom & Networking products, vi) Textile products: MMF segment and technical textiles, vii) Food products, viii) High Efficiency Solar PV modules, ix) White Goods (ACs & LED) x) Specialty Steel.

Few other Central Incentive Schemes

There are other incentives available from Central Government like Authorized Economic Operator Scheme, Project Import Scheme, Export Promotion Capital Goods Scheme, MEIS/ RoDTEP Schemes etc which may also be availed from case to case basis subject to conditions.

State Incentive Schemes

State wise incentives are available to all types of entities, whether Indian or foreign. It is also available whether “New” or “Expanding Operations” in India. Incentives vary based on the location, industry, investment, employment generation etc.

State Wise incentives are available in addition to the Central Incentives Schemes and generally no restriction to avail both together. Most states have announced Sector Specific Polices granting incentives to thrust sectors like Aerospace & Defence, Electronics etc.

Tailor made Incentive Packages are available in most states for substantial investments (generally referred as Mega Projects).

Fiscal Incentives generally provided in three methods, i) Capital Linked- Cash Back, ii) Expenditure Linked- Exemption / Cash Back iii) Sales Linked- Domestic Sales by GST Subsidy.

Tamil Nadu also offers various incentives through Tamil Nadu Industrial Policy, 2021 and Tamil Nadu Aerospace & Defence Industrial Policy, 2019.

OPPORTUNITIES FOR ECONOMIC COOPERATION BETWEEN CZECH REPUBLIC & TAMIL NADU

Czechia:

The Czech Republic has one of the most stable, wealthy, and developed economies in the world. An explanation for this is the strong industrial tradition born in the 19th century. The availability of educated and skilled professionals in the automotive industry, the strategic location in central Europe, and the good infrastructural network has influenced the growth and expansion of the industrial sector. The GDP of Czech Republic is USD $215.7 billion. The service industry tops in terms of GDP contribution to the economy of the country at 59.7%, followed by the industrial sector at 37.8%, and finally the agricultural sector at 2.5%. The labour force for these sectors stands at 59.2%, 38%, and 2.8% respectively. The Czech Republic is, in many ways, a Central European success. Driven by FDI and strong participation in global value chains, the booming manufacturing sector now leads all sectors in employment.

Tamil Nadu:

Tamil Nadu is the second largest economy in India. Tamil Nadu has a diversified manufacturing sector and features among the leaders in several industries like automobiles and auto components, engineering, garments, textile products, yarn, leather products and leather tanning, chemicals, plastics, cement, banking and financial services, drugs and pharmaceuticals, agriculture and food processing, electronic hardware, IT & ITeS and tourism. It ranks first among the states in terms of number of factories and industrial workers. Due to its achievements as an auto production hub, Chennai has been dubbed as the "Detroit of India". Tirupur and Coimbatore are the major textile centres in Tamil Nadu. Tirupur is known as the ‘Knitting City’, while Coimbatore is called the ‘Manchester of South India’. Close proximity with East Asian countries is also enabling Chennai to become an international finance hub.

The Czech Republic and Tamil Nadu economies have many common industries and synergies. The business opportunities between the two regions are tremendous due to the common strengths. Some of the sectors where the Czech Republic and Tamil Nadu can explore, develop and collaborate are briefed here.

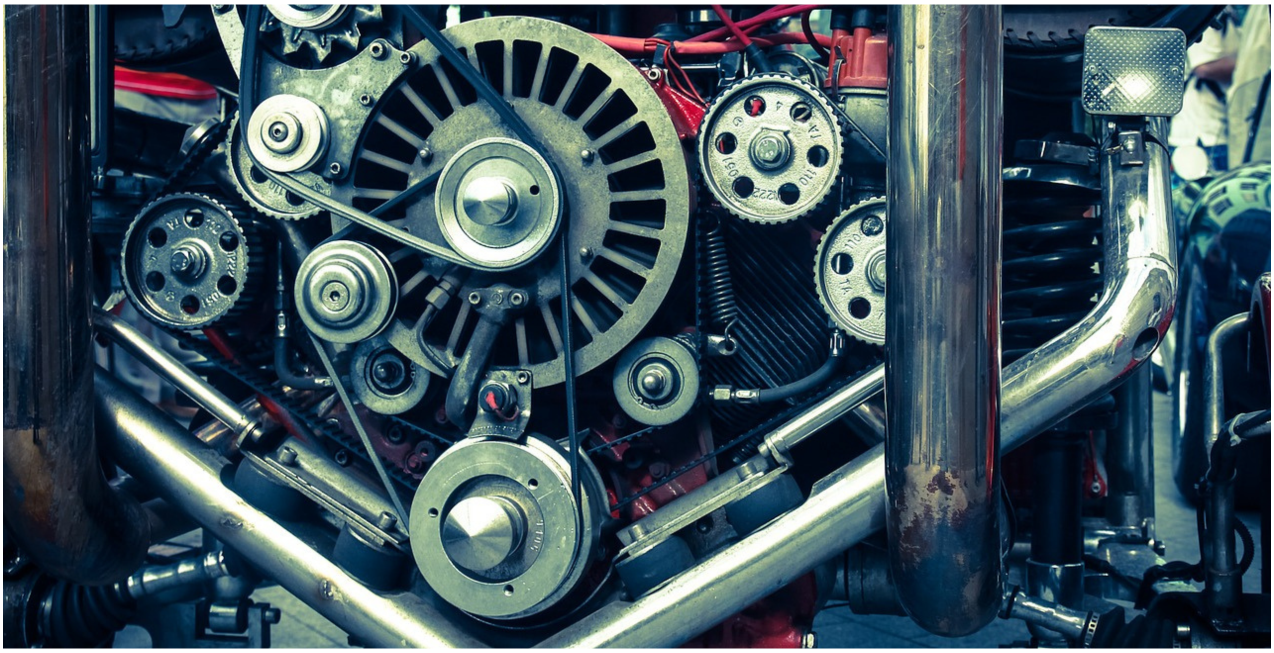
AUTOMOTIVE INDUSTRY

Czechia:

The Czech Republic hosts one of the highest concentrations of automotive-related manufacturing and design activities in the world. With passenger car production at 107.5 vehicles per 1,000 persons, the Czech Republic has maintained its supreme position among world automotive leaders in terms of per-capita output. It is also among the fifteen largest global passenger car producers by volume. The Czech automotive industry employs more than 150,000 people and accounts for more than 20% of both Czech manufacturing output and Czech exports. The Czech Republic is the 12th largest global car exporter and has employed over 150,000 people.

Tamil Nadu:

Tamil Nadu is one of the top 10 automobile hubs in the world. With a well-developed auto ecosystem, Tamil Nadu accounted for 45% of India's motor vehicle/car exports in 2017-18 and 35% of India's auto component production. Tamil Nadu is also the largest tyre manufacturing state in the country. It is known as the Automotive capital of India. Chennai has an annual installed capacity to produce 1.71M units of vehicles. Major OEM companies like Hyundai Motor Co., BMW, Daimler, Renault-Nissan, Ford Motors, Ashok Leyland, TVS motors & Yamaha Motors, etc. are present here. More than 1,300 factories are present in Tamil Nadu which cater to the automotive industry.



ENGINEERING INDUSTRY

Czechia:

Czechia's strength is engineering. Engineering forms the backbone of the Czech economy and its manufacturing base is made up of more than 1,100 companies. These companies are especially involved in the field of energy engineering, transport engineering, production of machining and shaping tools, metallurgy and production of structures and metal components. The Czech Republic exports almost 90% of its engineering production, especially to EU countries, whereas its presence has also been consolidated in the Asian and Latin American markets. There is a great output from high-tech engineering, machine engineering, and automotive engineering.

Tamil Nadu:

Tamil Nadu is a heavy engineering hub with a number of global manufacturers with respect to capital goods and heavy electrical equipment segments. The state contributes 19% to the national production of general purpose and special purpose machinery; It contributes 8% to the national production of heavy electrical equipment. Chennai is a heavy engineering hub with a number of global manufacturers with respect to capital goods and heavy electrical equipment segments. Tamil Nadu ranks second in the production of general purpose and special purpose machinery and ranks fourth in the production of heavy electrical equipment.

AVIATION INDUSTRY

Czechia:

The Czech Republic has a long aviation tradition and has always had a strong presence in the aerospace sector. From basic production to final aircraft assembly and cutting-edge research and development programmes, the local aerospace industry has progressed significantly and simply cannot be overlooked. The aviation industry of the Czech Republic focuses on two main activities. First of all, there is the production of complete aircrafts. It concerns smaller aircrafts for local and regional transport, training and light combat aircrafts, sport and agriculture aircrafts, ultra-light aircrafts and gliders. A quarter of ultra-light aircrafts sold in the world have been produced in the Czech Republic. The second segment of the aviation industry is the production of components for large transport and military aircrafts and helicopters.

Tamil Nadu:

Tamil Nadu is the first State to be designated as an Aerospace & Defence Corridor by the Central Government. Tamil Nadu is ideally placed to become India's largest defence hub as it already has 120 companies supplying to the aerospace sector and over 700 companies manufacturing for the defence sector. The Tamil Nadu Industrial Development Corporation (TIDCO) has established an Aerospace Park with 250 acres of land, which can be expanded to 500 acres. MRO facilities are coming up in Krishnagiri and Chennai. An advanced computing and design engineering centre for the aerospace sector is coming up in the Aerospace Park. In civil aviation, there exists opportunities in MRO development, setting up of greenfield airports, upgradation of existing airports and flying schools, to name a few. The Government of Tamil Nadu, in its Industrial Policy 2021 has designated the Aerospace & Defence sector as a Sunrise Industry. Tamil Nadu aims to position the State as the preferred hub for the aerospace and defence industries in India in the areas of engineering, design, manufacturing and allied activities by harnessing its industrial base and talented human capital strengths.

DEFENCE INDUSTRY

Czechia:

Czechia has huge strengths in heavy engineering. The Czech Engineering sector employs over 126,000 workers. More than 5,200 machinery companies are manufacturing even the most sophisticated components, which makes the Czech Republic second most specialized in industrial machinery, equipment, and tools in the world. That makes the engineering sector one of the three most important industry sectors in the Czech Republic. The Czech engineering sector has been transformed over the past twenty-five years by globalization, technology and the growth of other emerging markets.

Tamil Nadu:

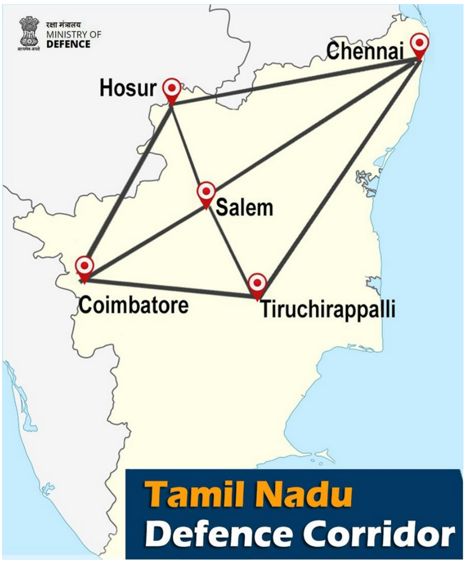
Tamil Nadu is an attractive destination due to its existing industries and infrastructure in the Automotive, Engineering, Electronics & other sectors and how this would have synergies with the Aerospace and Défense sector. The formal launch of the Tamil Nadu Defence Industrial Corridor was done by the then Defence Minister Nirmala Sitharaman in Trichy on 20th January 2019. This southern Defence corridor is also called the “Tamil Nadu Defence Production Quad”, since the nodal cities namely, Chennai, Salem, Hosur, Tiruchirappalli and Coimbatore form the quadrilateral. Independently each of these cities already supports well defined tiered manufacturing clusters, which cater to a variety of industries, from automobiles to heavy industries. These manufacturing hubs also have a fairly developed ecosystem like the Ordnance Factory Boards, DRDOs, and other Defence Public Sector Units.

TAMIL NADU DEFENCE INDUSTRIAL CORRIDOR

India is one of the key Defence markets driven by increasing Defence spend, military modernization plans, and strong engineering base. Its focus on exports has so far been negligible. India's capital expenditure for Defence procurement is expected to be around INR 15,00,000-18,00,000 crore (USD200-250 billion) over the next 10 years and 'Make in India' has been the government cornerstone to promote indigenous Defence production in the country.

In a quest for greater self-reliance and with the objective of building India into a global manufacturing hub for catering to the global and local needs, the Make in India initiative was launched in the year 2014. This covers 25 sectors including Defence and envisions to increase the manufacturing GDP to 25% from the present 16% - as well as to create 100 million jobs by 2022. The Government has also undertaken a number of reforms related to the Defence industry, including industrial licensing, increasing the FDI cap to 49%, a new export strategy and detailed standard operating procedures (SOPs) for granting no objection certificate (NOC) to the industry for certain Defence exports.

Towards achieving self-reliance objective, the Government of India has announced incubating two “Defence Industrial Corridors” in the states of Tamil Nadu & Uttar Pradesh. The announcement has been done with an intention to develop the corridors as manufacturing and service hubs to Defence industry with common facilities and testing infrastructure to facilitate the industry. Tamil Nadu Industrial Development Corporation (TIDCO), a Government of Tamil Nadu Enterprise has been designated as a nodal agency for implementing the Tamil Nadu Defence Industrial Corridor.



The Tamil Nadu Defence Industrial Corridor was formally launched by the then Defence Minister, Ms Nirmala Sitharaman on 20th Jan 2019 at Tiruchirappalli. Five nodes viz. Chennai, Coimbatore, Hosur, Salem, and Tiruchirappalli have been identified for Tamil Nadu Defence Industrial Corridor. This corridor will create new aerospace and Defence production facilities and clusters with necessary testing and certification facilities, export facilitation centres, technology transfer facilitation, etc. Several public and private industries have committed investment plan for Rs.31.24 Billion at the launch and Rs. 70 Billion has been committed subsequently.

Tamil Nadu, India's economic powerhouse, has a conducive business environment, integrated infrastructure and proactive governance which aids industrial growth – Aerospace and Defence inclusive. It is India's sixth largest state by population and second largest by gross state domestic product (GSDP) with a GSDP of USD187.6 billion in 2019–20. Its growth has surpassed the national average for the third consecutive year, and it continues to rank among the coveted investment destinations in India. It has consistently been positioned among the top five states for foreign direct investment (FDI) equity inflows, receiving accumulative FDI inflow of USD446.8 billion between January 2000 and September 2019, with major investments flowing in from Mauritius, Singapore, the US, Japan, and the Netherlands. Until September 2020, it bagged 42 projects worth USD1.6 billion through the State's single-window facilitation.

Tamil Nadu's list of accomplishments continue to grow – It is one of the top 10 automobile hubs in the world — with the capital, Chennai, widely known as the 'Automobile Capital of India. The state has the highest number of operational special economic zones (SEZs) and factories as of 2020 — with more than 37,220 facilities, making it the largest employer of industrial workers. It holds the top spot in the Good Governance Index 2019 and ranks second in the India Innovation Index 2019. It also ranked third in Export Preparedness Index in 2020 and is the third-largest exporter among Indian states.

Tamil Nadu has historically laid emphasis on building credible physical and social infrastructure across the state. Infrastructure investment is prioritized by policy makers as it leads to a multiplier effect, given the corresponding increase in infrastructure demand and consequent improvement in the economy's productive capacity. Multiple factors, including robust infrastructure, surplus power availability, conducive regulatory environment, sector-specific incentives, single-window clearance for fast-track approval process, the Industrial Policy 2021 and Business Facilitation Act 2018, new-age technology policies and labour reforms have engineered Tamil Nadu's growth.

The state has a strong industrial base nurtured by Public and private industries which is being enhanced as part of the Tamil Nadu Defence Industrial Corridor. The state has over the decades encouraged many industries to evolve into TIER I and TIER II suppliers to many of the OEMs in the Aerospace & Defence Sectors. The development of the Aerospace and Defence sector is one of the focus areas for the Tamil Nadu government which has promoted the industry assiduously. The Strategy developed by the Government of Tamil Nadu for the development of the A & D sector encompass the following,

- Establish Common Manufacturing and Testing facilities in collaboration with the private industry for the benefit of MSMEs to undertake jobs and services related to the A&D sector
- Provide additional fiscal incentives to Industries investing into the Tamil Nadu Defence Industrial Corridor
- Support the R&D initiatives of the private industry by way of funding the developmental costs and other costs specific to such activities
- Skill development through introduction of courses specifically catering to the specialized needs of the Aerospace and Defence Industry
- Invite and incentivise anchor A & D units to set up their facilities in Tamil Nadu

The state is also in the process of promoting MSME clusters by developing Centres of Excellence for common manufacturing, skill development and testing centres to increase participation and support growth. The development of these facilities is planned through Public Private Partnerships and the Government is in discussion with various corporate houses and industry associations for their implementation. The Government of TN is also aiming to invest substantial funds in the next 5-10 years in five identified nodes in such common facilities as equity partners and will also develop new A&D-dedicated industrial parks. It is in the process of setting up Aerospace specific Chennai Aerospace Park, which would also host an Advanced Computing and Design Engineering Centre named as AeroHub. The Government is also in discussion with various industry leaders in the sector to increase sourcing of components from the nodes of the Tamil Nadu Defence Industrial Corridor.

The Government of Tamil Nadu was one of the first states to issue the Policy for Aerospace & Defence Industries. To catalyse the A & D industrial base in the state further, it is in the process of tweaking its Aerospace and Defence Industrial Policy to offer higher incentives to investors and focus on R&D to build an end-to-end ecosystem, encompassing design, engineering and manufacturing in the Aerospace & Defence Sector. Tamil Nadu would also be an ideal secondary hub for major European and American A & D majors by leveraging the existing physical and technical infrastructure in the State and enable these firms cater to the A & D markets of African, Asian and Oceanic regions. Adequate interventions would offered to the Czech Aerospace and Defence Industry in Tamil Nadu. Tamil Nadu had been the home to the TATRA trucks for Czech Republic and could be the home for other Czech majors as well.

Tamil Nadu is the home to some of the best academic institutes and large pool of trained manpower. A large network of engineering companies with international accreditations and Deming awards stand testimony to this. To arm the human capital available in the state with the required skills to make them A & D industry ready, the Govt of TN in collaboration with various educational and industrial organizations, is in the process of setting up many skill development centres in the various nodes. A skill development centre, jointly setup by The Boeing Company and Lakshmi Machine Works at Coimbatore is already functional and more such centres are in advanced stages of planning and implementation.

The existing ecosystem supporting automotive, electronics, textile, ICT and other manufacturing and service industries along with the focus by the Govt on the Aerospace and Defence sector, it would not be long before Tamil Nadu emerges as an Aerospace & Defence Hub for not just the country's quest for self-reliance, but also for addressing the needs of other countries and players in the A&D domain.

CONCLUSION

There are many more industrial sectors that Tamil Nadu and Czechia have in common. Healthcare and Medical Equipment, Chemicals and Petro-Chemicals, ICT, Electronics and Industrial Design are some of the other sectors where Czechia and Tamil Nadu could come together and explore business opportunities. These opportunities need to be explored and taken forward for mutual benefit. SAS Partners, along with the Southern India Chamber of Commerce and Industry can help Czech companies do business in South India, organise B2B meetings and find Indian partners for the Czech companies. SAS partners is also specialized in other areas like Foreign Investment, Mergers & Acquisitions, India Entry Services and Compliance. If Czech companies are interested to explore opportunities in India, SAS Partners can provide all the necessary services that are required to do international business.

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ABOUT THE SOUTHERN INDIA CHAMBER OF COMMERCE AND INDUSTRY (SICCI)

SICCI was founded in 1909 under Mahatma Gandhi's inspiration to fight for the economic freedom of the nation. Though a leading regional chamber, SICCI possesses a national outlook having excellent relationship with Central & State governments.

SICCI has inherited rich tradition and at the same time remains youthful, dynamic & embracing change. Being in business for over 110 years, SICCI plays significant role in bridging Industry-Government connect while empowering the society.

The Chamber is a founder member of The Federation of Indian Chambers of Commerce and Industry (FICCI), New Delhi, the apex body, and continues to take an active interest in the affairs of this national body. Many Presidents of the SICCI have also been Presidents of FICCI and many members are also on the committees of the FICCI and other national bodies.

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ABOUT SAS PARTNERS CORPORATE ADVISORS

SAS Partners has been in the forefront of promoting and facilitating cross border investments with India as a focal point. Since its inception in 2008, SAS Partners has been an advisory partner for governments, businesses and entrepreneurs in their endeavor to conceiving, implementing and managing path breaking business ideas to successful organizations.

Drawing from the inherent competencies in legal and regulatory knowledge, SAS Partners has diversified into tax, finance and human resource advisory services. While the offerings are sector agnostic, SAS Partners is building a passionate and experienced talent pool, who can address the nuances of manufacturing in India, including in the domain of Aerospace & Defence.

Successful advisory interventions with SAS Partners has resulted in its clients establishing numerous manufacturing projects, undergoing result oriented corporate restructurings and expanding businesses through corporate M&A initiatives.

SAS Partners is establishing themselves as an end to end advisory partner for Indian and foreign Corporates for doing business in India.

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