MAZARS

Knowledge Report

Specializing the EZ Footprint

Released at

Global Economic Zones Expo & Convention

The Ashok, Chanakyapuri, New Delhi

27-29 March 2019

Organised By

Export Promotion Council for EOUs & SEZs
MoC&I, Government of India

WICS
Wbf International Centre Services

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Ei
Exhibitions India Group

MESSAGE

"I am pleased to know that the first-ever Global Economic Zones 2019 expo and convention is being hosted in India from 27 – 29 March, 2019, expecting widespread international participation.

The Government of India has taken a host of measures to attract investments for making India a hub of manufacturing to become a net exporting country and generating jobs for the people of India.

It is a matter of great satisfaction that under the leadership of Hon'ble Prime Minister – Shri Narendra Modi, India is being globally recognised as a destination of choice for investment. This event will offer a great opportunity to India Inc. as well as to the States of India for showcasing their strength to the global investing community.

I am also happy to note that the Ministry of Commerce & Industry and the Ministry of MSME are extending their support to this novel initiative, and Government of Rajasthan has agreed to be the Partner State.

I wish the Global Economic Zones 2019 expo and convention all success in achieving its objectives."

Shri Suresh Prabhu
Hon'ble Minister for Commerce & Industry and Civil Aviation
Government of India

MESSAGE

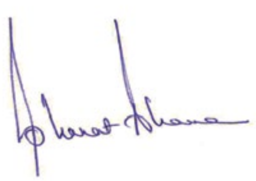
The establishment of Global Economic Zones, or namely *Special* Economic Zones, has been a time-tested framework for undertaking streamlined production & trade in a host of different nations. It facilitates countries to employ the right balance of national control and international liberalization in designated *economic power-hubs,* driving in large-scale investment, employment and cross-border commerce, for the entire region.

India has undoubtedly been an early EZ adopter, from its first EPZ in Kandla making the mark in 1965, to the radical shift towards a structured SEZ regime brought about in the early 2000s. Domestic economic zones have therein mushroomed throughout the country, with over 355 notified zones to date, out which 231 stand operational. These have essentially become *economic sparkplugs* towards increased FDI, production, exports, jobs and infrastructural development, which are well-aligned with the ongoing Make-in-India, Digital-India and Skill-India objectives. This can fuel in greater benefits ahead, helping India develop strategic & synergistic ties on a global level.

While debates surrounding the recent imposition of MAT and DDT, as well as the hovering income tax sunset, have created inherent market speculation, they should not undermine the future of Indian SEZs. Rather, stability should be brought about by putting forward a clearer regulatory regime that gels well on both the local and global front, as well as fixing up impending bottlenecks across the value chain. This should, as per the recent Baba Kalyani Committee report, ideally transform domestic zones into Employment & Economic Enclaves.

Mazars believes a possible way forward for such transformation lies in taking a Creative, Collaborative and Connected approach, which focuses on *creating* a balanced incentive bucket that instills competitivity, *collaborating* with a variety of stakeholders that curbs incongruity and *connecting* displaced zones – both geographically and digitally – through a robust logistical network that enhances efficiency. The key is not to cut out but rather upgrade the current SEZ ecosystem, which encourages robust knowledge-sharing and expertise for the next round of economic growth.

I would like to thank The Exhibitions India Group for having Mazars as a Knowledge Partner for the GEZ Expo & Convention 2019. We are delighted to present to you our report – *Specializing* the EZ Footprint – and hope it provides pertinent insights on India's economic zone ecosystem ahead.
Wishing GEZ Expo 2019 all the very best!



Bharat Dhawan
Partner
Mazars Advisory LLP

MESSAGE

Economic development is a constant process for a country where factors such as geographical layout of a region, population, labour skill-sets, infrastructure, etc., play an equal role in realising this goal. Most governments focus upon certain strategic areas to push large-scale industrial activity to facilitate optimal and steady growth. The establishment of Special Economic Zones (SEZs) has thus gained much favour, allowing countries to design free-trade zones that may host either a mix of different businesses, or be sector-specific, and are governed by special laws.

Over the last two decades, India has pioneered zonal development through Special Economic Zones, and in the last four years, SEZs have become the focal point of Government of India's 'Make in India', 'Digital India' and 'Skill India' initiatives. Under the Make in India initiative, the government aims to increase the share of manufacturing sector to the gross domestic product (GDP) to 25 per cent by 2022, and to create 100 million new jobs by 2022.

Special Economic Zones are being set up across the country to promote a competitive business environment, with developers and investors based in these zones enjoying substantial long-term tax holidays and concessions.

The knowledge paper, **"Specialising the EZ Footprint"**, is an interesting cache of information about Special Economic Zones in India. We are pleased to have forged a partnership with Mazars India for preparing this paper and are confident that the document will provide an insight into the activities and developments in the SEZ space in India.

Babu Lal Jain
Founder & Chairman Emeritus
WICS Connect Group

MESSAGE

The Union government has undertaken several initiatives in recent years to create a favourable policy regime and a robust business environment that ensures India continues to remain an attractive destination for investments. Special Economic Zones are now a major contributor to the country's manufacturing sector, its exports, and quality employment generation.

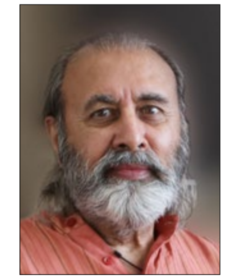
It is estimated that exports from SEZs grew by 18 per cent year-on-year between FY2016-17 and FY2017-18. As per the Department of Commerce, Ministry of Commerce, the value of merchandise and software exported from these zones was Rs. 5,81,033 crore in FY18. As on 30th September, 2018, a total of 19,96,610 workforce was employed in SEZs spread across the country. While the IT, ITeS and electronics industries traditionally established businesses in these zones, a number of merchandise and goods producers including gems and jewellery, FMCG, garments and textiles, steel, cement, etc., have also moved in to enjoy the facilities and incentives being offered.

Meanwhile, renewable energy equipment manufacturers and bio-tech have emerged as sunshine sectors for exports (which grew 113 per cent y-o-y in FY18) and a new source of FDI. These sectors are exploring dedicated zones to suit their needs as well. The Union government has also decided to open up sensitive sectors such as defence, railways and space to private participation, as a result of which activity in some of these industries has started picking up.

"Specialising the EZ Footprint", not only talks about the current scenario of the SEZs in India; it tactfully discusses how some grave issues and bottlenecks, such as land acquisition, under-developed infrastructure, regulatory roadblocks etc. can be addressed for greater benefit of all concerned parties. The paper approaches the problems with a balanced perspective and tries to find solutions through experiences drawn from international best practises.

My congratulations to Mazars India for preparing this informative paper. We will continue exploring more opportunities to strengthen our relationship in future.

Siddharth Singh
Chairman
WICS Connect Group



MESSAGE

The concepts of 'manufacturing', 'job creation' and 'investment' have taken a new meaning with the promotion of 'Special Economic Zones' in India. While India had initiated export processing zones as early as 1965, it was not till the passing of the *Special Economic Zones Act, 2005,* that people were made aware of the benefits of establishing their business in such zones.

A number of factors influence the success of Special Economic Zones. The country needs to have a significant advantage in terms of labour productivity; develop an infrastructure to support all SEZ activities as well as provide logistical support; boast of an exports-oriented economy; offer a large domestic market to offset the lull in exports; design a policy that is lucrative not only for the manufacturer, but also the investor; and finally, have in place a legal framework that ensures future security in any developmental activity. The success of a SEZ is entwined with the state of the national economy, its investment environment, and the political equation of time. Implemented properly, these zones can tip the competitiveness balance of a country and make it more attractive to inflow of technology as well as foreign direct investment.

Indian exports have maintained a steady growth, with merchandise exports likely to breach $314 billion mark in 2018-19. Already, the country has improved its ranking in the World Bank's *'Ease of Doing Business, 2018',* from 100 in 2017 to 77 in 2018. The ranking in *'Trading across Borders'* has also shown a substantive improvement from 146 in 2017 to 80 in 2018. The most notable improvement has been in the energy deficit, which shrunk to less than 1 per cent in 2018 from over 4 per cent in 2014. India now ranks 26th in the World Bank's *'Ease of Getting Electricity, 2018'* Index, up from 99 in 2014. These positive developments are due to a series of reforms undertaken by the Government of India in the past year to push business activity.

The knowledge paper, **"Specialising the EZ Footprint"**, draws attention to the existing SEZ scenario in the country, and how policy reforms, both at the Union and State level, are encouraging manufacture, investment and trading activities. It also focuses on aspects that need to be addressed to ensure that the 'economics' works for industries based in such zones, allowing for holistic long-term growth. We are grateful to Mazars India, the global audit, accounting and consulting group, for preparing this knowledge paper.

This partnership presents new opportunities for both Mazars and GEZ expo to share best practices and industry experiences. We hope this association and the resultant knowledge paper will be appreciated by the industry and recognised for its value content. We expect this relationship to allow more such research papers to be developed in the future.

Prem Behl

Prem Behl
Chairman
Exhibitions India Group

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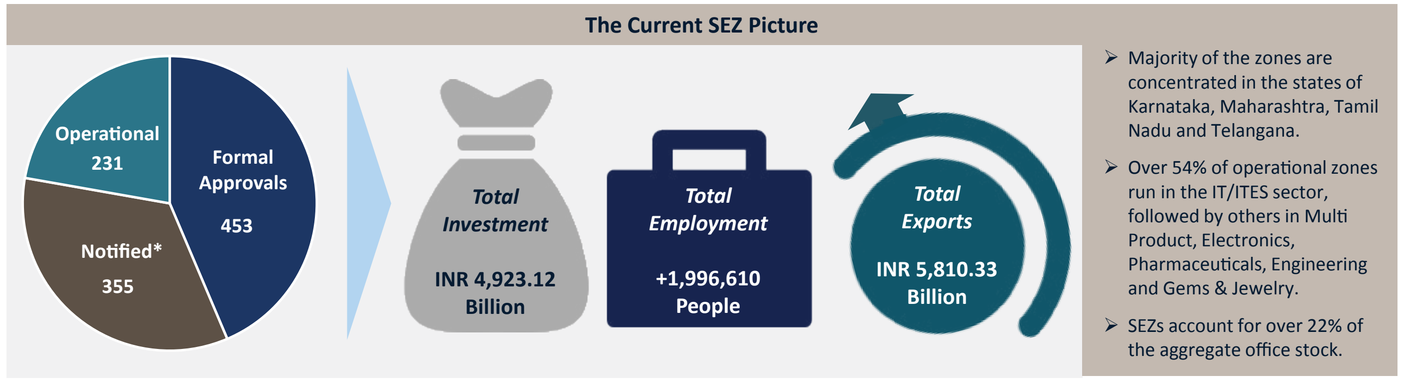
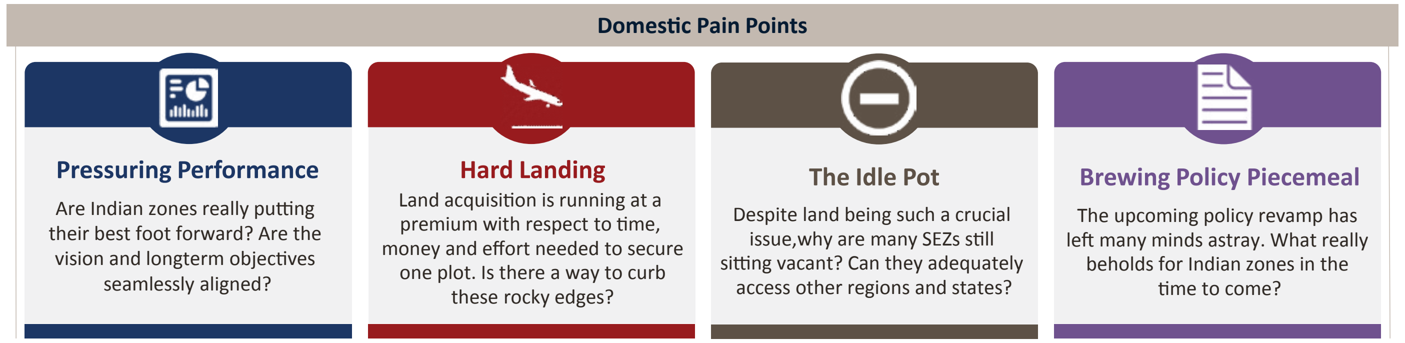
1. Executive Summary

Economic Zones are popularly known as experimental launchpads, which open a country to the outside world. These duty-free enclaves, having a liberalized regulatory regime, can jumpstart production & trade, catalyzing investment, employment and exports. Emerging countries have been quick to adopt this framework, with economic hubs such as Shenzhen – China setting a mark on an international level.

India has also pioneered zonal development, creating the first Asian export processing zone in 1965, which lay the stone for "special economic zones" (SEZs) in the early 2000s. Development ramped up exponentially thereafter, with over 355 notified SEZs standing in the picture to date, out of which 231 are operational. They have helped bring total investment to INR 4,923.12 billion over the last 12 years, creating jobs for over 1.9 million people.



However, the market has recently been engulfed with a questionable future, given the onset of income tax sunsets in its incentive regime. At the same time, operational factors such as ongoing land acquisition protests, along with the proliferation of idle land, have slowed down zonal performance. This has brought about industry-wide speculation on what is to happen next.

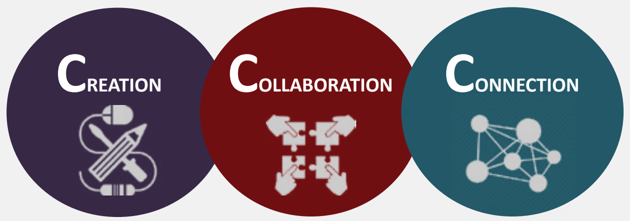


Nevertheless, SEZs are here to stay and develop further, synthesizing nation-wide initiatives such as Make-in-India, Digital India and Skill India within their realm. The key is to revamp their "special" parameters, transforming current zones into Employment & Economic Enclaves.

A possible way forward is to take a Creative, Collaborative and Connected approach, cooking in the right mix of fiscal and long-term non-fiscal incentives that align well within the global sphere, taking up a transparent and multi-functional approach towards operational procurement that minimizes conflict, as well as adjoining key players across the value chain through a proactive logistical network. This will help iron out any time snags and improve economies of scale, putting zonal performance back into action.

The mantra is to establish a concrete and robust framework that expands the SEZ footprint.

Specializing the EZ 3C Approach – Creation, Collaboration & Connection



- **Creating a multi-stakeholder friendly regime that encourages zonal development, yet instills fair competition…**
  Putting in a balanced mix of fiscal and non-fiscal incentives, linking benefits to long-term growth parameters, encouraging nation-wide initiatives such as Make-in-india etc.
- **Collaborating across the value chain to ease frictional gaps and enhance performance…**
  Curbing out conflicts related to land acquisition and usage by paving a clear route that fits in displaced communities and binds all requisite stakeholders
- **Connecting geographic and cyber dots across the country for efficient operations…**
  Aligning zone development with the upcoming logistics drive to create a robust pathway between coastal cities and remote inland areas

2. Introduction

Economic development need not be a uniform process. Avenues such as production, trade and global investment can rather be taken up from a few designated touch points, which ultimately filter in benefits to the entire host country. This will facilitate in achieving optimal growth in a steady manner, without having to disrupt the entire national governance regime.

The establishment of Global Economic Zones have gained much appeal in this regard, allowing countries to design delineated duty-free enclaves, which house a different set of business and trade laws in comparison to the rest of the region. These may further be given "special" names that align best with their core purposes, often being referred to as special economic zones (SEZs) that encompass free trade zones, industrial parks, bonded logistics parks and more. Nevertheless, the core objectives remain inherently in-tact: *to run liberalized hubs as catalysts for increased investment, employment, exports and overall production & infrastructural development, for the entire host nation.*

Globally, there are over 5,000 SEZs operating across 145 different countries, covering a range of industries and markets. India is very much part of this buzz, from its inception of the first Asian EPZ in 1965, paving the way for its radical SEZ reform in 2000. Currently, there are over 231 SEZs operating across the country, with much of the activity concentrated in the southern-most states. Whilst initially these zones were largely centric towards the IT/ITES sector, they have steadily set afoot into other areas as well, covering industries such as Pharmaceuticals, Electronics, Telecom, and Gems & Jewelry.

Up till now, SEZs have helped bring more than INR 4,882 billion worth of investment, which has in-turn led to an employment of over 1.9 million people and over INR 5,800 billion of exports in 2017/18. Apart from the numbers, these specially-created zones have also facilitated foreign participation and knowledge-sharing across the region, which plays a pivotal role for industrial upgradation. Meanwhile, these zones are further encouraging the development of self-reliant manufacturing & automated processing, which goes hand-in-hand with the Make-in-India, Digital India and Skill India initiatives.

In spite of this, the future of Indian SEZs lays on a rocking periphery, given the unclear nature of the incoming policy piecemeal. While the imposition of MAT and DDT had begun to wane off the charts, the looming income tax sunset has brought back concerns and triggered wide-scale speculation. I*s March 2020 really the end of income tax benefits for SEZ units? Wil it be extended? Should projects really be rushed?* At the same time, pressing performance pressures, land acquisitions and connectivity concerns have also put zone development into question. People are rather outguessing on what to do next.

Despite the uncertainty, SEZs have and will continue to remain an integral part of the Indian economy. The mantra is to curb out ambiguity and instill a comprehensive regulatory regime that takes multiple stakeholders into account. This essentially calls for a Creative, Collaborative and Connected approach, with regulators cherry-picking a balanced mix of fiscal and non-fiscal incentives that are closely linked to long-term growth parameters, industry participants joining hands to enable transparent land transfers that minimize conflicts, as well as a proactive logistics network linking all zonal operations under one roof. Cutting back on uncertainty, hiking up efficiency and building up market buoyancy is imperative to sustain any national framework.

Accordingly, transforming fiscal and export-oriented zones into Employment & Economic Enclaves will help India expand its SEZ footprint on a global level.

3. Snapshot of the Special EZ Ecosystem

Free, liberal or special economic zones are essentially tailor-made trade and investment hubs that operate amidst a diverse ecosystem, comprising of a multitude of local and global stakeholders. The success of any such economic zone (EZ) lies upon how well its host government and designated developers/operators are able to attract foreign involvement, fostering international strategic collaboration and dissemination of industry-specific skills across the country. This ultimately becomes the bedrock for infrastructural development, facilitating industrial growth, production & consumption.

The line of difference amongst various types of zones – be it free trade zones (FTZs), export-processing zones (EPZs), industrial parks, economic and technology zones, innovation parks etc. – is rather blurred across countries. This is because each has its own prime objective behind creating and operating delineated areas – generically known as "special economic zones (SEZs) – which altogether run on a different set of principles in comparison to their domestic counterparts.

However, regardless of the motive, all SEZs are designed to act as geographically delimited sections, run by a designated administrative body and a distinct set of regulations, which work upon a multi-factory model. This inherently includes a wide variety of zones, including:

- *Free-Trade Zones (FTZ)*
- *Export Processing Zones (EPZ)*
- *Free Zones/Free Economic Zones (FZ/FEZ)*
- *Industrial Parks/Industrial Estates (IE)*
- *Free Ports*
- *Bonded Logistics Parks (BLP)*
- *Urban Enterprise Zones*

Source: World Bank

Such framework has assimilated well across the globe, meshing in with territorial needs.

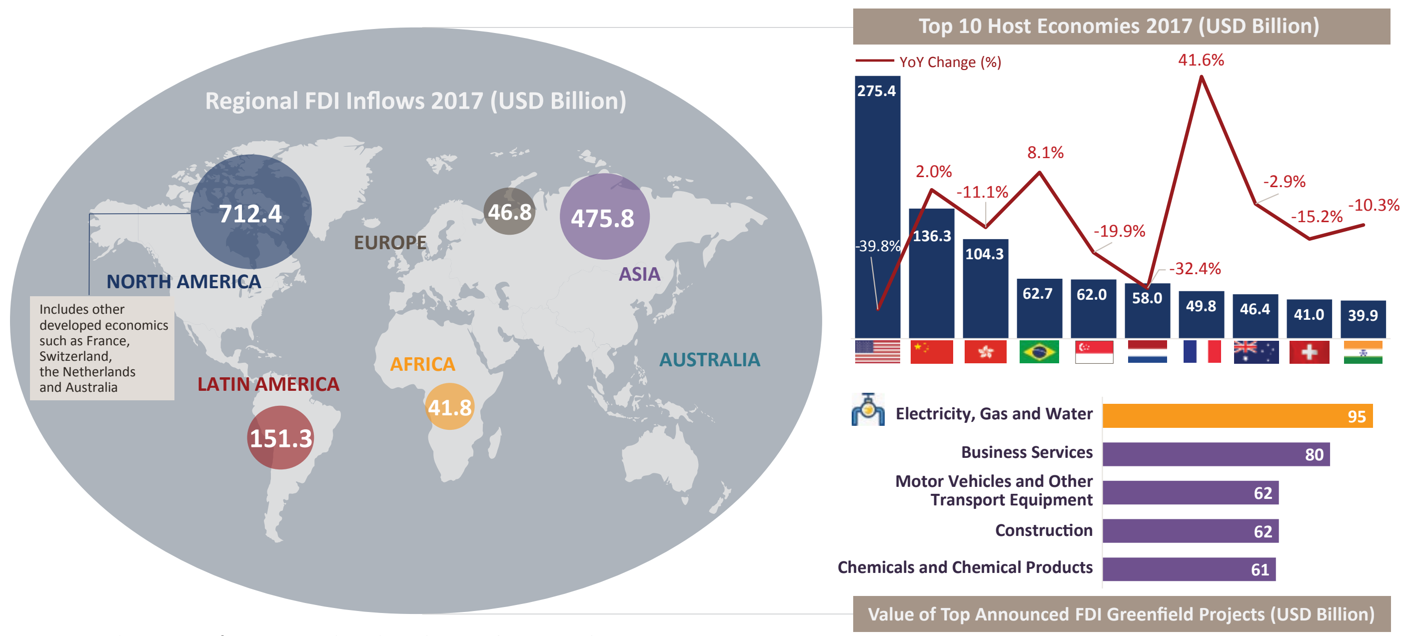
3.1 A Global Bird's-Eye View

EZs are not a recent phenomenon. While the first modern zone emerged in Brooklyn, New York in 1937, it steadily spread over to other continents. This includes the first European zone being developed in Ireland in 1959, followed by Latin America's initial footprint into Columbia in the mid-1960s. Such activity subsequently made a vigorous headway into Asia with the inauguration of Kaohsiung (China) and Kandla (India) in 1965, after which various zones across the African continent – spread over Mauritius, Ghana, Liberia and Senegal – also followed suit.

Zonal activity has therein kicked on a worldwide level, with countries utilizing these "special areas" to boost industrial activity and performance. While traditionally these zones were primarily run by the government to encourage exports, they have steadily extended out to the private sphere, which includes collaborating with Public-Private-Partnerships (PPPs). Emerging economies in Asia have particularly driven in a number of success models over the years, showcasing how the SEZ framework can be channelized to help attract greater funding and create partnerships across nations.

Such an uptake of synergy is largely reflected by a sturdy foreign direct investment (FDI) landscape that continues to drive small but high-growth economies. While aggregate global FDI flows fell by 23% to reach USD 1.43 trillion in 2017 – partly due to a 22% decrease in cross-border M&A activity, coupled with low rates of return – there has nevertheless been a stark improvement in other macro variables such as increased GDP and trade. While it may take some more time for combined investment levels to reach their pre-financial crisis peaks, especially with the recent US tax reform that has repatriated a large amount of foreign capital back to the country, the overall interest and activity in developing markets remains on a promising trajectory.

In fact, countries such as China, the Republic of Korea and other ASEAN members have actually seen a hike in FDI inflows, with their vast number of cross-border transactions. The five largest recipients – China, Hong Kong (China), Singapore, India and Indonesia — absorbed four-fifths of the region's FDI, with direct investment in China reaching USD 136 billion in 2017.

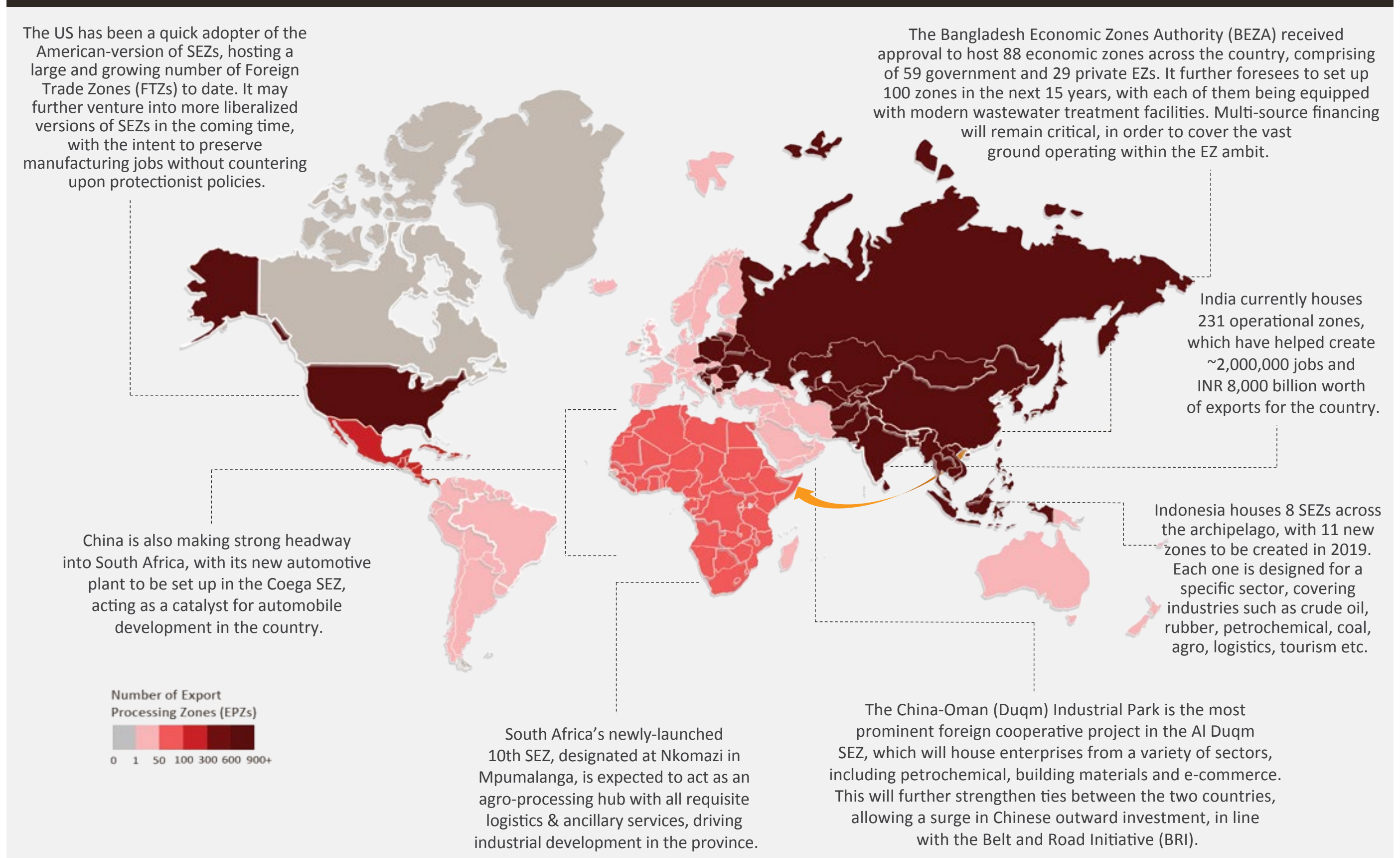


Source: United Nations Conference On Trade And Development & Press Articles

This includes growing involvement in the country's free trade zones such as Shanghai, Guangdong, Chongqing etc., which primarily aim to attract a geographically balanced spread of funding across provinces. The Chinese economy continues to strategize upon this blueprint, experimenting with a range of zonal hubs that include economic & technological development zones (ETDZs), FTZs and EPZs. The goal is to streamline domestic growth, while simultaneously partnering up on outward engagement.

Such foreign interest extends out to other countries as well. For example, Japan is one of the key investors in India while Singapore remains keen to invest in the zones of neighboring countries such as Malaysia and Indonesia. At the same time, SEZs in Bangladesh are a prominent hotbed for Korean companies, which is closely followed by firms from Japan, China and Taiwan. Such collaboration has paved the way for a multitude of new zones as well, with the intent of joining continents to promote the movement of goods, people, knowledge and technology. Many countries have taken an active stance on building tailor-made hubs, with over 5,000 SEZs running in over 145 different countries till date. Such a number is expected to grow further ahead.

Developments in the Global Economic Zone Ecosystem



Source: Press Articles

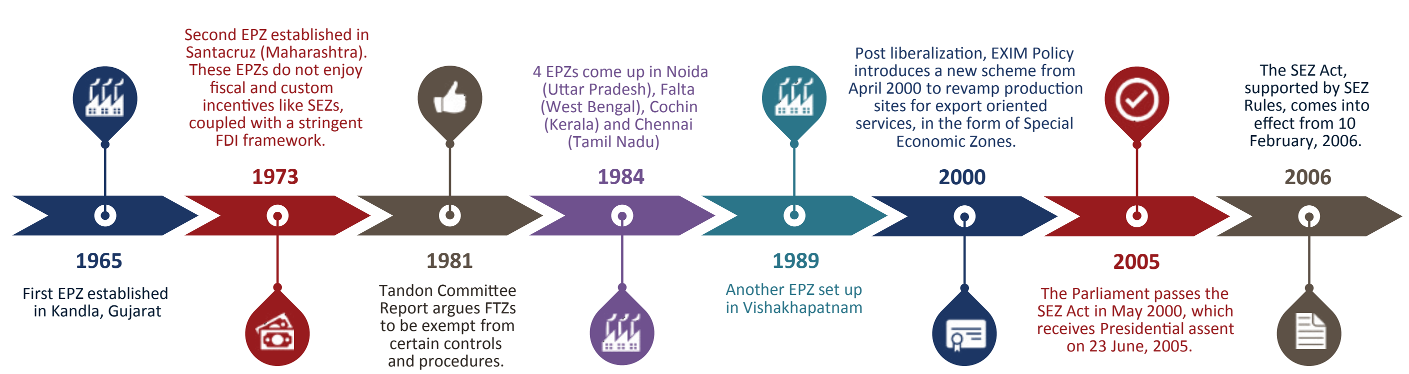
3.2 The Indian Zonal Landscape

From Where it Began

India has had a jumpstart when it comes to economic zones, with the first Asian EPZ set up in Kandla in 1965. While a series of other EPZs followed shortly thereafter, setting afoot in the states of Mumbai, Uttar Pradesh, West Bengal, Kerala, and Tamil Nadu, the radical shift came about post the 1991 liberalization reforms. The EXIM Policy put forward a new-era for production & trade that could encourage a more holistic development of the Indian economy. This required broadening the purview of EPZs to a range of other zones that are more autonomous and self-sustaining in nature, bestowed with a simpler compliance environment and a host of fiscal/non-fiscal incentives.

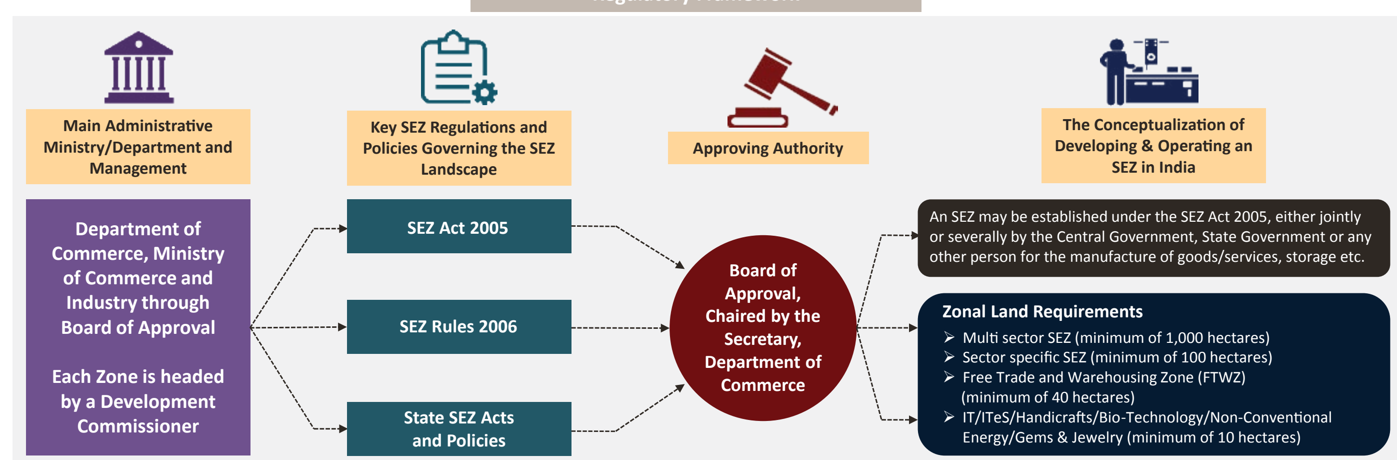
The introduction of "special economic zones" accordingly came about in April 2000, bringing together both existing and new zones under a single umbrella concept. This led to the development of the overarching SEZ Act in 2005, followed by the enactment of SEZ Rules in 2006. The Act specifies a list of fiscal incentives provisioned to SEZ developers and their contained units, which include both direct & indirect tax benefits (i.e. exemptions on duties, imports, procurement or income tax for a certain time period), as well as procedural ease in obtaining relevant licenses to conduct business. Such a regulatory framework has become the backbone for developing domestic economic zones, clearly defining all fundamental principles and guidelines related to the creation, design and operation of SEZs in the Indian landscape. While this law has been subject to continuous modification to stay in line with current trends, the essence of the SEZ system remains in-tact.

The SEZ Developmental Timeline



Source: Press Articles

Regulatory Framework



Source: Ministry Of Commerce & Industry

Indian zones were initially developed to promote domestic manufacturing and exports through a cluster-based approach that encourages economies of scale, as well as address infrastructural issues and complex business procedures arising from bureaucratic hassles/barriers. However, this purpose has steadily evolved overtime, with SEZs not only expected to catalyze production but also encourage domestic consumption through the dissemination of cutting-edge technological accelerators and expertise throughout the country. This is distilled into the 5 Key Objectives of the SEZ Act, which include:

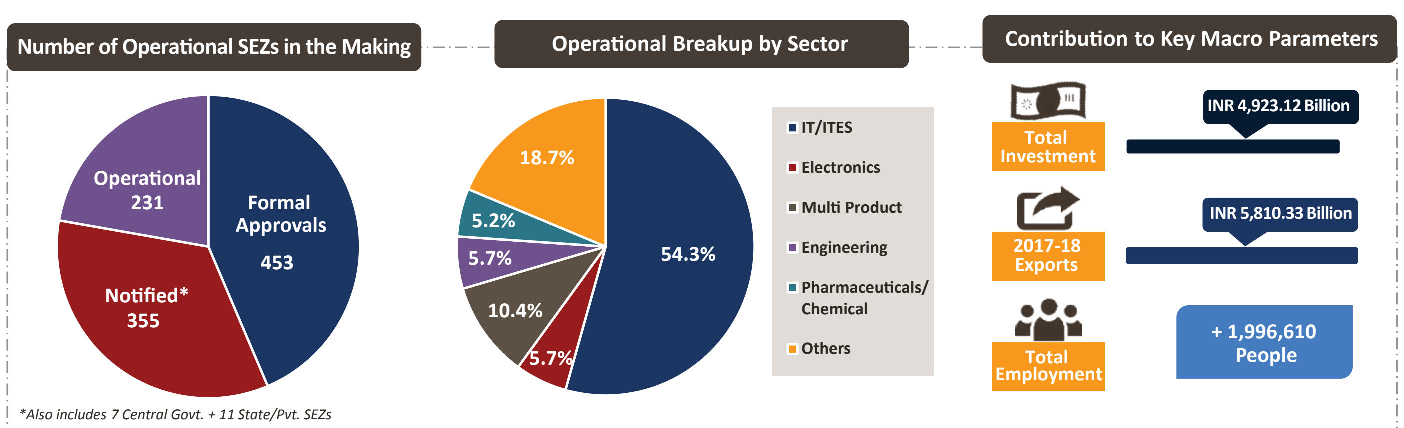
In addition, these "free" ports are also conceived to become the hotbed for new ideas and practices, which can eventually seep through the entire economy.

The Current Scenario

The imposition of various tax holidays and statutory exemptions have undeviatingly made SEZs a buzzword in the Indian market, as developers vie to secure areas over a multitude of regions and localities. While a host of controversial issues around the announcement of new policy uptakes, ongoing land acquisition from agricultural sectors, as well as the rise of environmental/social impacts have kept volatility high – with the registration of SEZ units falling by almost 73% from 2013 to 2014 amidst a considerable amount of de-notifications – overall zonal coverage has steadily climbed its way through.

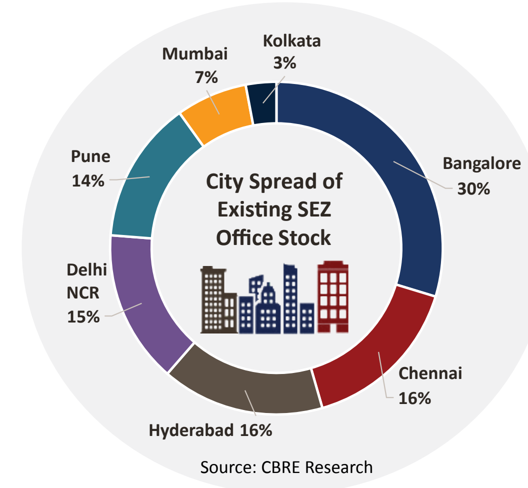
As of 2018, there are over 355 notified and 231 operational SEZs across the country, alongside 453 that have been formally/in principally approved. Meanwhile, over 5,024 SEZ units have been approved, with a large part of the activity concentrated in the states of Karnataka, Maharashtra, Tamil Nadu and Telangana. In term of sectors, over 54% of operational zones are directed in IT/ITES, followed by ~10% in Multi Product. A host of other industries such as Electronics, Pharmaceuticals, Engineering, Gems & Jewelry, Apparel etc. accordingly follow suit.

They have inherently generated an aggregate incremental investment of over INR 4,882.77 billion since inception in 2006, making the total over INR 4,923.12 billion, and created jobs for over 1,996,610 people. Exports have accordingly increased by over 24% in the last 3 years, standing at INR 5,810.33 billion in 2017/18.



Source: Ministry of Commerce & Industry

In terms of space, SEZs currently account for over 22% of the aggregate office stock in India, spread amongst 7 mega cities. Within this, Bangalore, Chennai, Delhi-NCR and Hyderabad house almost 77% of the lot. This penetration is to surge further ahead as SEZs have booked over 20% of the upcoming office stock supply in the next 2 years, with more than 80% of the pipeline expected in Bangalore, Hyderabad, Delhi-NCR and Chennai. Such growing demand for commercial real estate particularly stems from those in sectors such as Technology, Research & Consulting, Engineering, Banking and Financial Services.



3.3 Taxing Ground and Special Privileges

India, in line with other global SEZ host countries, offers a mix of fiscal and non-fiscal incentives to promote the growth of economic zones within the country. These include providing substantial tax breaks, reduced customs duties, expedited procedural clearances, direct manufacturing, as well as a flexible financing structure. This may further be supported by other non-direct benefits, such as getting preferential land availability (subject to the type and scope of project), access to a wider talent pool, setup off-shore units etc.

Prior to the onset of GST, all goods imported by SEZs were exempt from the levy of basic customs duty, countervailing duty (CVD) and special additional duty (SAD); these have now transferred over to IGST post 1 July, 2017. Thereafter, IGST notifications – no.64/2017 and no. 18/2017 – have come into force, exempting the import of goods and services undertaken by SEZs for authorized operations. At the same time, supplies to SEZs are zero rated as per Section 16 of the IGST Act 2017, which means deemed suppliers cannot charge GST to SEZ receivers.

SEZ India Incentive Regime

FOR SEZ UNITS	FOR SEZ DEVELOPERS
Duty Free Import and Domestic Procurement • Applicable on goods for the development, operation and maintenance of SEZ units	**Exemption from Customs/Excise Duties** • For the development of SEZs, on authorized operations, as approved by the Board of Approval
Exemption on Income Tax (Section 10AA of the Income Tax Act) • 100% exemption on export income for the first 5 years • 50% for the next 5 years thereafter and 50% of the ploughed back export profit for the next 5 years • Sunset Clause for Units will become effective 1/4/2020	**Exemption on Income Tax (Section 80-IAB of the Income Tax Act)** • On income derived from the business of development of the SEZ, in a block of 10 years in 15 years • Sunset Clause for Developers effective from 1/4/2017
Benefit under Integrated Goods & Services Tax • Exemption from Central Sales Tax, Service Tax and State Sales Tax, which have now subsumed into GST • Supplies to SEZ are zero rated under the IGST Act, 2017	**Benefits on External Commercial Borrowing** • SEZ Developers may avail the ECB channel upon government approval, solely for the purposes of providing infrastructural facilities in the zone
Single Window Clearance • Applicable for all Central and State level approvals	**Exemption from Central Sales Tax (CST) and Service Tax** • Section 7, 26 and Schedule II of the SEZ Act

Exemptions Withdrawn

- Exemption from the Minimum Alternate Tax (MAT) and Dividend Distribution Tax (DDT), w.e.f. 1/4/2012 and 1/6/2011 respectively
- MAT is charged at 18.5% (+ Surcharge & CESS) and DDT at 15%

Source: Ministry of Commerce & Industry, India & Colliers International

The design and provision of such incentives remains a critical topic on a global level, given that they can become actionable under the WTO's Subsidies and Countervailing Measures (SCM) Agreement. Though SEZs are not directly covered in the SCM, they can come into the picture if their designated incentives skew the amount of compensation provided to exporters in any given market. While benefits such as exempting exported & stored products from import duties and indirect taxes are not actionable under the SCM, providing direct subsidies contingent upon export performance, giving preferential freight & transport charges for export shipments, as well as putting in special direct tax deductions, can come under multilateral scrutiny. Hence, it is always favorable to design benefits that are linked with organizational performance as opposed to export volume, which may include providing training programs, bearing a part of employees' transportation costs, facilitating greater infrastructure etc.

India is therefore steadily working towards a phased out compliance program to align its benefits with the SCM, especially pertaining to ones listed in the Merchandise Export from India Scheme (MEIS), the Export Promotion Capital Goods Scheme as well as designated Special Economic Zone concessions. The Union Ministry set up a committee headed by Bharat Forge Chairman – Baba Kalyani – in June 2018, in order to revamp its SEZ policy and make it compatible with the WTO. The committee submitted its report in November 2018, providing recommendations on the lines of better utilizing vacant areas of land as well as merging the policy with other government schemes such as coastal economic zones, the Delhi-Mumbai industrial corridor, national industrial manufacturing zones, and food & textile parks. Suggestions were also made to adopt international best practices wherever applicable, making the policy fit well within the multilateral domain.

At the same time, India is also in the process of shifting some existing tax incentives from the current regime, which includes the impending income tax sunset, coupled with the earlier cancellation of MAT and DDT. This can bring sudden disruption into the picture as SEZ units and developers forgo long-standing benefits. The ultimate success lies in how well these former incentives can be exchanged with forthcoming provisions that bring in new avenues of support, without distorting the market or posing a strain on the country's fiscal net.

3.4 Incoming Projects and Developments

Evolution is not merely limited to policy. The Baba Kalyani committee's report also suggests extending the success of economic zones in IT and ITES to other industries as well, promoting it into services such as Healthcare, Financial Services, Legal, Repair, and Design. Meanwhile, developers are also keen to roll out many projects before the sunset deadline, while the Government of India (GoI) is looking towards widening the operational scope of economic zones in the domestic sphere. A string of new ventures and investment are therefore on the cards, swinging in greater participation on both a local and global level.

The SEZ Progression Pipeline

Approving More Zones & Units
The GoI has approved AIGP Developers (Pune) to set up an IT/ITES SEZ in Maharashtra, covering 6.69 hectares. In addition, the Board has also given more time to seven units – including Q3 Infotech, JBP Petrochemicals and Temple Packaging – to complete their projects.

Encouraging Trade
A joint venture (JV) of DP World Ltd and India's National Investment and Infrastructure Fund (NIIF) has secured the bid to develop a free trade warehousing zone (FTWZ) at the Jawaharlal Nehru Port Trust (JNPT) SEZ. The port-based, multi-product SEZ will be spread over 277 hectares, with a focus on trade, manufacturing & warehousing.

Becoming Eco Friendly
The GoI is on a lookout to uptake large-scale industrialization in Kerala, making use of its high literacy rate, trained human capital and vibrant socio-economic development. The Union Minister has accordingly laid the foundation for a Zero Liquid Discharge (ZLD) and solar plant for the Cochin SEZ in the region, helping reduce its overall carbon footprint.

Undertaking Industrialization
Haldia Petrochemicals Ltd. (HPL) has announced to set up a INR 60,000 crore (600 billion) refinery and a range of petrochemical projects at the Kakinada SEZ (Andhra Pradesh), over a 5-year period. This project is expected to generate over 5 lakh (500,000) jobs and facilitate the port in handling significant liquid cargo traffic.

Expanding the Pharma Footprint
Par Pharmaceuticals, a New York-based pharma company, has proposed to invest INR 400 crore (4 billion) to set up a facility for generic drugs, spanning 40 acres of land at the Indore SEZ. This will complement the wide number of other pharma manufacturers in the region.

Building a Global Reach
Uzbekistan is set to host a new economic zone for India. Various Indian pharmaceutical companies have accordingly become partners and are investing outward in the new free economic zone (FEZ) – Andijon-farm – in Uzbekistan, with the aim of creating modern medicinal facilities in the country. This will in-turn foster greater connection amongst both the markets.

Source: Press Articles

At the same time, SMART practices are also making way into the SEZ landscape. Such includes initiatives like the Commerce Ministry's recently launched mobile app – SEZ India – that aims to facilitate units and developers to locate important information and track their transactions online. This also extends to importers & exporters, helping them track the status of their Bill of Entry/Shipping Bill integration and process in the EDI system of ICEGATE.

Digitization here can become the backbone of sound data management & oversight, helping turn daily processes and activities on-the-go.

4. Special Zones as Economic Spark Plugs

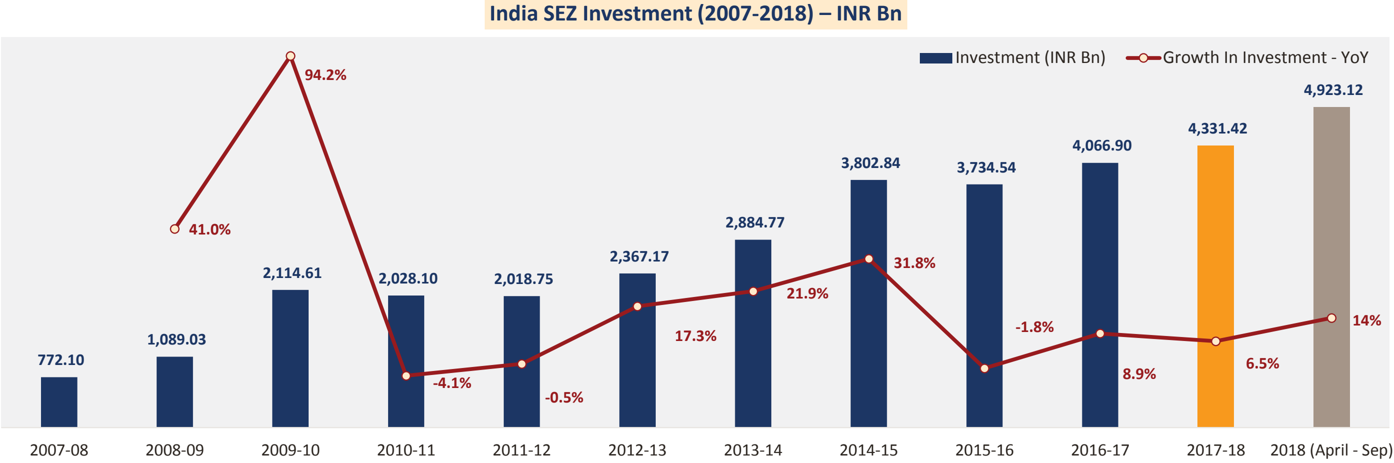
The Indian buzz behind zonal development is multidimensional. These duty-free enclaves have essentially brought about a host of benefits from their formal inception in the early 2000s, ranging from increased foreign investment, collaboration, employment, infrastructural growth, as well as enhanced exports. Foreign capital has accordingly increased by USD 855 million in November 2018, while around 405,229 new jobs have been created from April 2016 to September 2018. These have continued to fuel in economic development, with India poised to become a USD 5 trillion market by 2025.

4.1 Encouraging Multifaceted Investment

SEZs have facilitated streamlined business development for the nation, enabling incoming capital from a range of overseas enterprises, as well as generating outward investment opportunities. The government has allowed 100% FDI – under the automatic route – for the manufacturing sector in SEZ units, along with removing foreign funding caps for small scale industries and MSMEs.

Economic zones have thereby received an incremental investment of over ~INR 264.52 billion (26,452.3 crore) in 2017-18, backed by a substantial uptake in foreign activity and expansion. SEZs backed by the central government have garnered a cumulative investment of ~INR 193.8 billion (19,381 crore) over the last 12 years, while incremental investment in notified SEZs surmounted to INR 4,599.79 billion (459,979 crore). Industries such as IT/ITES, Electronic Hardware, Engineering and Pharmaceuticals have gained majority of the share, utilizing foreign-led capital and active knowledge-sharing platforms to scale up operations.

India SEZ Investment (2007-2018) – INR Bn



Source: Ministry Of Commerce & Industry

Big Ticket Investments in the Indian SEZ Landscape

Guizhou International Investment Corp. – Chinese Company
(Investment – USD 500 Mn)
(Manufacturing - Power & Electronics Equipment)
– Kakinada – Andhra Pradesh)

MBDA International – French Company
(Investment – INR 400 Cr)
(Manufacturing – Assembly and Export - Missiles)
(SEZ – Coimbatore Aspen Andhra Pradesh)

Toray Industries, Inc. – Japanese Company
(Investment – INR 1,000 Cr)
(Manufacturing – Diaper, Engineered Plastics Resin Compound)
(SEZ – Sri City, Chennai, Tamil Nadu)

Ford Motor Company
(Investment – INR 1,300Cr)
(Establish - Global Engineering Centre)
(SEZ - ELCOT Chennai, Tamil Nadu)

East Hope Group – Chinese Company
(Investment – USD 300 Mn)
(Solar Power Generation, Manufacturing - Chemical, Aluminium and Animal Feed)
(SEZ – Mundra, Gujarat)

Dassault-Reliance – Indo-French JV Company
(Investment – € 100 Mn)
(Manufacturing & Assembly - Rafale Fighter Jets and Falcon Civilian Aircraft)
(SEZ – Nagpur, Mihan Madhya Pradesh)

THK – Japanese Company
(Investment – USD 200 Mn)
(Manufacturing - Linear Motion Systems & Industrial Machinery)
(SEZ – Sri City , Andhra Pradesh)

PepsiCo
(Investment of INR 2,000 Cr)
(SEZ - Sri City Nellore, Andhra Pradesh)

Isuzu Motors – Japanese Company
(Investment – INR 1,500 Cr)
(SEZ – Sri City Nellore)

Colgate Palmolive
(Investment - INR 11.4 Cr)
(SEZ - Sri City Nellore, Andhra Pradesh)

Dalian Wanda Group – Chinese Company
(Investment – USD 10 Bn)
(Project - Wanda Industrial New City)
(SEZ – Jhajjar Haryana)

Saint-Gobain – French Company
(Investment –INR 1,000 Cr)
(Manufacturing - Float Glass + Value Added Glass)
(SEZ – Sriperumbudur, Chennai Tamil Nadu)

PAR Pharmaceuticals
(Investment – INR 400 Cr)
(Manufacturing – Generic Drugs)
(SEZ – Indore, Madhya Pradesh)

Kia Motors – Korean Company
(Investment – USD 1.6 Bn)
(SEZ – Andhra Pradesh)

Micron Technology Inc.
(Investment – INR 300 Cr)
(Manufacturing – Generic Drugs)
(SEZ – Madhapur, Telangana)

Foxconn – Taiwanese Company
(Investment – INR 1,500 Cr)
(Manufacturing Plant - iPhones)
Sriperumbudur – Tamil Nadu)

Singapore International Arbitration Centre – Singaporean Company
(Investment – USD 10 Bn)
(Project - Wanda Industrial New City)
(SEZ – Jhajjar Haryana)

Danieli – Italian Company
(Investment – INR 400 - 500 Cr)
(SEZ – Sri City Nellore Andhra Pradesh)

Oracle and Maxim Integrated
(SEZ – Gujarat International Finance Tec – City)

Source: Press Articles

Key Indian Outward Investment in Global Economic Zones

Heightened foreign investment in Indian SEZs has simultaneously created a pool of opportunities for domestic players to form suitable joint ventures and partnerships with companies across the globe. This has led to a surge in outbound activity, creating strategic partnerships that synthesize an effective platform for sharing expertise, as well as creating a number of new jobs.

Uzbekistan is set to establish a country-specific Special Economic Zone at Tashkent, exclusively for Indian companies. The purpose here is to encourage investment from India, along with modernizing the host economy. The SEZ will further be prioritized for Indian pharmaceutical entities, which look towards establishing a manufacturing base in Uzbekistan. Additionally, the Uzbek Foreign Ministry is also interested in bilateral engagements that will enhance partnerships across sectors such as Health, ICT, Silk, Food Processing, Tourism and Leather. On the other end of the spectrum, India sees the Tashkent SEZ as an effective means to increase trade and commerce across Central Asian countries.

India has partnered with Iran to explore trade opportunities in the Energy and Oil industry, operating through the Chabahar Port, which is situated in the east coast of the country. This would offer India access to the Afghan and Central Asian markets, helping it expand its energy ties beyond oil imports and the Farzad-B gas field. India has thereby declared endowing ~USD 20 Bn in the Iranian economy to build new facilities for petrochemical, fertilizer and liquefied natural gas manufacturing, which may be channeled in for domestic consumption and exports abroad. All these investments are planned along the Chabahar port SEZ, which aim to put in globally competitive pricing and enable streamlined procurement.

The SEZ Duqm Project is a gateway for India to approach the Gulf countries, as well as settlements from Middle East and Africa. Investment opportunities offered by Oman can further strengthen bilateral ties between the two nations, providing India with requisite logistical and military support. In effect, the two nations have already established a joint refinery and fertilizer plant in Bina and Sohar respectively, scaling up inward FDI from Oman to USD 476.64 Mn from April 2000 to June 2018. India can concurrently look towards leveraging the Free Trade Agreement between Onam and the US, to establish manufacturing facilities that export to the American market.

Bangladesh has identified two SEZ locations, located in the Mongla port that connect with the Indian city of Murshidabad, Bihar by road, primarily focusing on trade with the Indian nation. With this, it is also keen to endow a sum of USD 7 Bn – namely the Overseas Investment Fund – to further enhance its connections with India. Entities such as the Bashundhara Group, Pran group etc. have currently queued in seeking approval to jumpstart operations. Simultaneously, Indian entities such as Tata Motors, Hero MotoCorp, Sun Pharma, Airtel, Aditya Birla Cement and Reliance ADAG have already invested nearly ~3 Bn in the Bangladesh economy.

India is set to streamline its bilateral strategic alliance with Rwanda, with the NDA government chair seeking to establish a High Commission overseas that will ease passport and visa affairs amongst the nations. Additionally, the Indian Government has bestowed a USD 200 Mn line of credit in Rwanda, signing collaborative agreements in Defence, Trade, Agriculture and Animal Resources. Within this, USD 100 Mn would be utilized to develop the Kigali SEZ and other industrial parks in Rwanda, while the remaining credit would be dedicated to its agricultural economy. The two nations have thereby signed a number of MoUs in the areas of dairy cooperation, leather & allied sectors, as well as an agricultural research and educational collaboration between the Rwanda Agricultural Board (RAB) and the Indian Council of Agricultural Research (ICAR).

India has signed multiple investment proposals with Malaysia, worth USD 36 Bn, inclined towards the Oil & Gas, Infrastructure and Engineering sectors. Indian corporate entities – namely Adani Ports, Andhra Pradesh Gas Distribution Corporation and Natco Pharma – have signed ~31 MoUs with Malaysian counterparts, in order to establish facilities and explore cost effective trade channels. This includes projects such as the development of the Carey Island Port and integrated maritime city in Selangor, cumulatively worth ~USD 32 Bn.

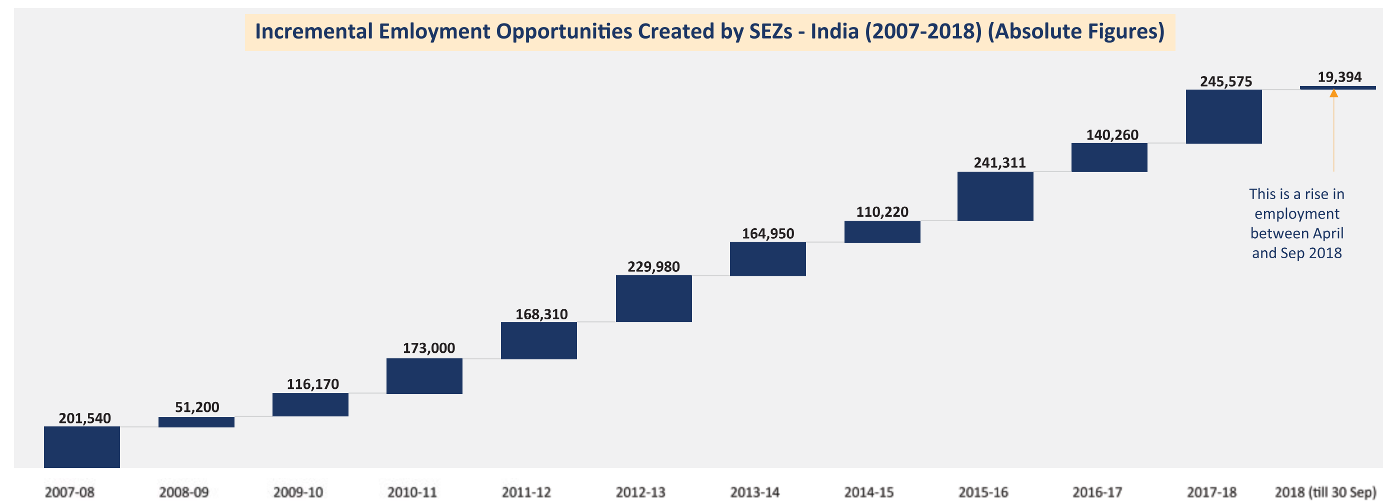
Source: Press Articles

4.2 Unearthing Employment Opportunities

One of the core objectives behind setting up SEZs in India is to catalyze the manufacturing and service industries, which in-turn creates a host of new facilities, projects and employment. Large-scale joint ventures/foreign collaborations can lead to massive skill development for the host country, which becomes a major faucet for upgrading the local youth. This is of pertinent importance to a country like India, which stands par on a blooming demographic dividend ahead.

Notified and private/state led SEZs have accordingly generated around 1.75 million (17.56 lakh) incremental jobs over the last decade, helping curb unemployment rates in a range of industries. While employment in central government SEZs constituted over 90% of aggregate employment in 2006 (employing ~122,240 heads), the dynamics have now changed. Notified SEZs under the 2005 Act took up ~83% of the share in September 2018 (1,656,071 heads), along with ~12% by central government zones (239,870 heads) and ~5% by state/private led (100,669 heads).

In fact, incremental employment offered by all zones has steadily increased over the years, from a growth rate of 25% in 2008-09, to 47% in 2010-11. While this rate marginally slowed down in 2013-14, owing to volatile market conditions across the globe, zonal performance has continued to keep employment upbeat. This trend is expected to proliferate ahead, especially as zones are geared towards creating multi-factory hubs that put India forward into a range of sectors and new product markets. Within this, the service sector appears pertinently promising, with players such as WIPRO, Infosys etc. stepping into the domestic landscape and opening technological avenues beyond the popular IT/ITES.



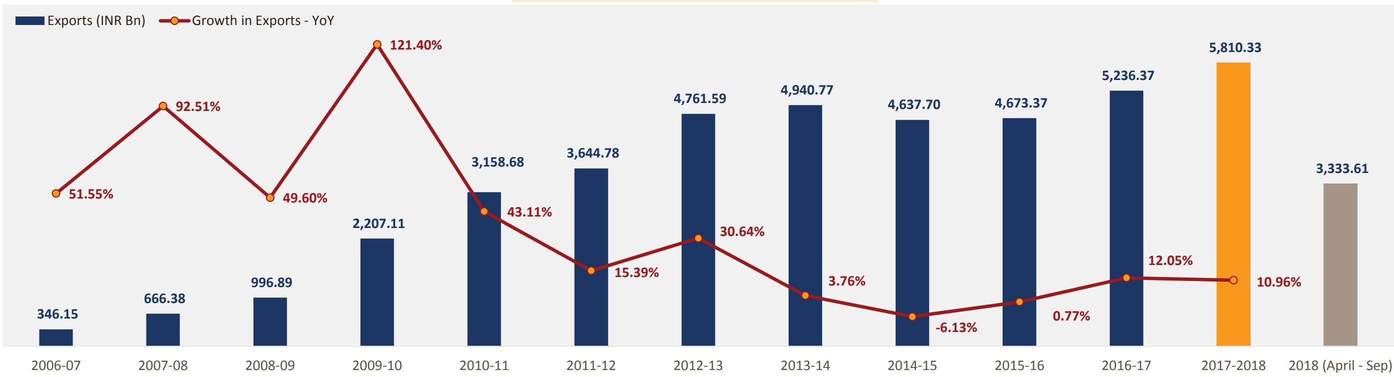
Source: Ministry Of Commerce & Industry

4.3 Driving Up Exports

Export has been an inherent purpose for setting up economic zones, with liberalized norms and foreign involvement acting as drivers for production and trade. In India, SEZs contribute around 33% of the aggregate national shipment volume, catering to major global economies such as the UAE, US, UK, Australia and Singapore.

SEZ exports have grown by a CAGR of 31% from 2005 to 2018, standing close to INR 6,000 billion in 2017-18. This exemplifies a rise of ~11%, consisting of "Goods Shipment" and "Service Related Shipment" at INR 2,740 billion and INR 2,780 billion respectively. Within this, the combined value of exports in merchandize and software touched INR 5,513.44 billion (as against INR 4,685.67 billion in 2016-17), with much of the growth coming from FALTA (61%), Cochin (33%), Vizag (19%), Kandla (13%), DC SEEPZ (12%) and MEPZ & Noida (8%).

India SEZs - Exports - (2006 - 2018 Sep'30)



Source: Ministry Of Commerce & Industry

Globally, a number of export destinations recorded a drastic hike in demand for Indian manufactured goods, including the UK (92.12%), Belgium (91.51%), Singapore (80.29%), China (75.62%%), Malaysia (69.09%), Australia (65.53%), Saudi Arabia (57.05%) and the UAE (29.82%). The market here has largely been inclined towards biotech, chemical, pharmaceuticals, computers, electronics, non-conventional energy, plastic, rubber, trading and service industries.

Such a rise in exports is primarily attributable to an increased ease of doing business in India, which enables zones to get single window clearances, collaborate with development commissioners, and receive expedited approval of new units, reducing the time frame for offshore players to settle in. This ease, coupled with the availability of basic utilities such as power, water and trained manpower, position India as a vibrant manufacturing destination.

Governmental Initiatives Keeping the SEZ Buzz In-Tact

The Government of India is set to modify current SEZ rules, enabling standalone power plants to export electricity across borders, receiving tax benefits for the same. This came about with Adani Power approaching the ministry for approval to build a SEZ in Jharkhand, which will export 100% electricity to Bangladesh through a dedicated transmission line.

The GoI plans to establish at least one SEZ in each state under the proposed Electronic Policy 2018, in an effort to enhance the country's electronic manufacturing segment.

The Government of India intends signing Free Trade Agreements (FTAs) with Europe and Africa, which currently import electronic products in small quantities from India. This will facilitate better export prospects and a balanced trade outcome amongst the nations, leading to increased efficiency and economies of scale.

Source: Press Articles

4.4 Fostering International Relations

India's active stance towards collaborating with global zones has helped it build lasting strategic ties with a range of countries. Foreign players continue to expand operations in the Indian market, given the presence of key growth parameters such as high aggregate consumer demand, availability of skilled & cost-effective labor, infrastructural opportunities and an increasingly encouraging regulatory ambit.

In terms of zone development, India has created a number of country-specific SEZs for its neighbors such as China & Japan, with many forthcoming projects in the pipeline. This includes establishments such as the Electricity Exporting Facility, which is to be developed and operated by Adani Enterprises in Bangladesh, as well as the Gujarat SEZ for housing SMEs and MSMEs from Singapore. On the same lines, India continues to benefit from its own dedicated SEZs in Oman and Uzbekistan, which act as a gateway for it reach the African and Middle Eastern markets.

The drive towards creating synergistic ties that enable active knowledge-sharing is expected to foster even strengthened relations ahead.

4.5 Spurring in Overall Infrastructural Development

Infrastructure remains of top priority in the Indian landscape, with the government and private players dedicating a sizeable share of their budgets for the development of roads, railways, logistical hubs, warehouses and cold storage. SEZs in this sense are effective infra hotbeds, channelizing capital, technology and expertise from a range of local and global players, which provides impetus to upgrade the domestic institutional and infrastructural framework. For example, the development of Coastal Economic Zones (CEZs) with modern infrastructural facilities is set to boost agro and aqua exports in the short-term, while further plans to establish desalination plants, upgrade freight carriage facilities, generate renewable energy sources and launch cruise operations can promote national tourism along CEZs in the long-term.

Infra and SEZs share a *double-bound relation* in this sense – zone development spurs up the need to upgrade current infrastructure and vice-versa.

International Alliances and Domestic Participation Towards Infra Development

International Alliances

The **Government of Japan** has stepped up to invest in the Indian infrastructural and manufacturing space. It has identified 11 sites for setting up industrial townships in India, which would serve as manufacturing hubs. These sites are located in Tumkur in Karnataka, Ghilot in Rajasthan, Mandal in Gujarat and Supa in Maharashtra. The GoI has extended concessions to such Japanese firms in return, with respective state governments – such as the Department of Industrial Policy & Promotion, as well as Japan's Ministry of Economy, Trade & Industry – supervising the entire project.

Xander has acquired an IT SEZ in Perungalathur, Chennai, at an investment of ~INR 23 Bn (2,300 Cr). The project covers an area of 1.7 Mn sq. ft. of functional SEZ, along with 1.9 Mn sq. ft. under construction for the Shriram Gateway. This Gateway is an integrated township, housing 4.6 Mn sq. ft. of SEZ and IT office space.

Sydney's **LOGOS Group** and Singapore's **Assetz Property Group** have partnered up in 2017 to invest USD 400 Mn in building logistics and industrial parks in India.

US aircraft maker **Boeing,** along with **Air India,** has set up a maintenance, repair and overhaul (MRO) facility, at an investment of INR 8 Bn (800 Cr) in MIHAN, with respect to maintaining the national carrier fleet, as well some aircrafts from private players such as Spicejet.

The **National Investment and Infrastructure Fund** (NIIF) is missioned to drive capital from international and domestic investors, into the energy, transportation, housing, water, waste management and other infrastructure and allied sectors in India. NIIF and **DP World Pvt. Ltd** (Dubai) have announced the creation of an investment platform to invest up to USD 3 Bn in ports, terminals, transportation and logistics businesses in India. Meanwhile, the Abu Dhabi Investment Authority will also invest USD 75 billion in the Indian market, over a 10-year period.

National Endowments

- **The Lodha Group** is establishing a Logistics and Value-added Industrial Park in the Mumbai Metropolitan region, located just 45 minutes away from the Jawaharlal Nehru Port Trust (JNPT).
- **L&T Realty** is to develop a SEZ in Bengaluru, over a stretch of 3 Mn sq. ft. of commercial office space.
- **Mahindra World City** is developing self-contained SEZs in Chennai and Jaipur, constituting large-format integrated cities.
- **The Ascendas-Singbridge Group** has signed a JV with **Firstspace Realty** to enter into the industrial logistics and warehousing market in India and jointly invest ~USD 600 Mn towards developing around 15 Mn sq. ft. of space.
- **AIGP** has a target asset size of SGD 600 Mn in its investment at the International Tech Park, Gurgaon (comprising an area of 2.2 Mn sq. ft.), which will be developed into an IT specific SEZ with supporting amenities.
- **The Embassy Group** has received approval to function as the co-developer for the Notified SEZ at Chennai. The project, for a 30-acre SEZ property near Vel's university on Thoraipakkam-Pallavaram radial road in Chennai, will be known as Embassy Splendid TechZone.
- **MEP Infrastructure Developers** signed a pact with **CIDB Holdings**, a fully-owned subsidiary of Malaysia's Construction Industry Development Board, for joint development of sustainable highways, expressways and related investments in India.
- **Reliance Industries (RIL), Jai Corp Limited, and Nikhil Gandhi's SKIL Infrastructure Limited,** along with the City and Industrial Development Corporation, would be responsible for converting the Navi Mumbai Special Economic Zone (NMSEZ) – spread across 5,288 acres of land – into an industrial city. Nearly 85% of this space would be endowed with IT parks, manufacturing units, research facilities, warehouses, as well as start-up hubs.
- **Paranjape Schemes** is developing an IT oriented SEZ at Hinjewadi, Pune. The company will be investing ~ INR 6 Bn (600 Cr) to develop around 1.5 Mn sq. ft. of leasable space. The firm has been granted approval for the proposed development near its Blue Ridge township.

Source: Press Articles

4.6 Synergizing with the Make-in-India Objective

Given their inherent nature, SEZs can be a prime catalyst towards the ongoing Make-in-India drive, encouraging indigenous manufacturing & trade. The Ministry is thereby focused in revamping the policy framework that facilitates zonal establishment and operation. Possible considerations range from lowering tax brackets, reducing minimum area requirements and including special category states in the SEZ ambit, which facilitate carrying out nation-wide manufacturing reforms. This also includes initiatives such as the relaxation of special area requirement from 25 hectares to 4 hectares pertaining to sector-specific SEZs in biotech, agro food-processing, energy equipment manufacturing, as well as service sectors, in places such as Goa, Kashmir, Uttarakhand and various North-Eastern states.

Meanwhile, initiatives geared towards streamlining pan India logistics or having domestic players garner industry-specific skills continue to generate a host of ancillary benefits, resulting in a surge of new employment, export and big ticket global projects that are essentially *Made in India.*

SAGARMALA
PORT-LED PROSPERITY

The Sagarmala Project 2016

The **Sagarmala Project** of the NDA government is expected to receive **INR 15 lakh Cr** (15,000 Bn), driven towards **port modernization**. This project encapsulates all existing special economic zones, coastal zones and industrial clusters, built along the country's coastal periphery.

The **National Technology Centre for Ports, Waterways and Coasts (NTCPWC)** in Chennai is missioned to become the **tech arm** of the **Ministry of Shipping**, offering engineering and technological inputs to develop indigenous maritime technology.

The GoI is also keen to offer similar **SEZ tax incentives** to Coastal Economic Zones (CEZs), in order to encourage greater investment that upgrades their logistical and warehousing facilities.

India's 12 ports have cumulatively garnered a profit of ~INR 70 Bn (7,000 Cr) in 2017, clocking a 40% growth from 2016. This has in-turn generated a multitude of job opportunities, along with achieving significant growth in export linked profits.

The proposed development of CEZs under the **Sagarmala project** till **2025** is expected to drive **port-led industrialization,** providing much impetus to **Make in India,** as well as generating huge employment opportunities **(>40 lakh (4,000,000) direct jobs and >60 lakh (6,000,000) indirect jobs).**

ELECTRONICS INDIA
Billion Needs Million Chips

The Electronics Policy 2018

The **Electronic Design and Design Manufacturing** segment is poised to generate significant demand over the next few years, backed by rising disposable incomes and electronic usability. The GoI thereby plans to **attain self-sufficiency** in its **electronics manufacturing sector** by 2025, in order to offset the forecasted fiscal deficit caused by importing electronic goods. The **policy targets** production of **~1 Bn mobile handsets** by **2025**, with a cumulative value of USD 190 Bn. This includes an export agenda of 600 Mn mobile handset units, with an estimated value of USD 110 Bn.

Federal policies, including the **Modified Special Incentive Package Scheme** (M-SIPS) and **Electronic Manufacturing Clusters** (EMC), are focused to enlarge the country's sectoral production capacity, improving industry competitiveness and fueling exports through Make in India. M-SIPS offer a 20% subsidy on capital expenses incurred by operational SEZs.

Xiaomi has opted to establish its **Surface Mount Technology Plant** in **Sriperumbudur**, Tamil Nadu, with the intention to partner with Foxconn and manufacture **100%** of **Printed Circuit Boards domestically**. This project is envisioned to further **Make in India** and create nearly 50,000 jobs locally.

Nearly **268 factories** have been set up in the **Phased Manufacturing Plan – PMP,** consisting of foreign electronic manufacturing participants such as **Vivo, Oppo, Samsung and Wistron**, at an **investment** of **~INR 50 Bn (5,000 Cr)**. The **GoI** has also identified **12 mobile phone components** (such as printed circuit boards, camera modules, connectors, display assembly, touch panels, vibrator motors and ringers) to be **assembled domestically** in the market.

Source: Press Articles

SEZ-Based Make in India Projects

MAKE IN INDIA

TATA STEEL

Tata Steel is collaborating with foreign companies to induce funds of around INR 200 Bn (20,000 Cr) in heavy industries, at the 2,970 acre **SEZ** in **Gopalpur, Odisha**. The investment will be bestowed in Defence, Metal Downstream, Electronics, as well as for Chemical and Pharmaceutical Manufacturing capabilities. **Midget Corporations** (UK) is also setting up an assembly plant for unmanned aerial vehicle targets. The Gopalpur SEZ would be designed alongside a Singaporean model for industrial development, offering a variety of land parcels for industries.

ALSTOM

Alstom Transport (France) has setup a facility in **Sri City SEZ** to build a metro rail coach. It has bagged the project worth INR 1,431 Cr (14.31 Bn) for manufacturing an order of 42 train sets to be deployed with the Chennai Metro Rail Ltd. (CMRL). Alstom has invested nearly EUR 30 Mn to build the facility on a 52 acre site in Sri City SEZ. The rail cars have a ~35% indigenization rate, creating new jobs in the facility.

RELIANCE

Reliance Aerostructure has engaged in the development of Dhirubhai Ambani Aerospace Park – DAAP, with associated infrastructure facilities and services at the **SEZ in Mihan,** Nagpur. DAAP, spread over 289 acres of land in Mihan, is the largest greenfield aerospace park in the country, housing Dassault Reliance Aerospace Limited. It is to build state-of-the-art integrated eco structure, in order to execute the INR 30,000 Cr (300 Bn) offset program linked with the sale of 36 Rafale Fighter Jets. Reliance has proposed to undertake an investment INR 6,500 Cr (65 Bn) in the aerospace park, which is missioned to generate ~10,000 skilled employment opportunities, promoting Make in India.

adani

Adani Enterprises is prepared for market entry into electric bus manufacturing. The group has tied up with a Taiwanese player to leverage technological expertise and build products in India. Adani enterprises has proposed to develop its manufacturing base in the **SEZ at Mundra** in Gujarat. Target is to cater to the domestic and export markets, including Africa and the Middle East, propelling Make in India.

Mahindra

Mahindra World City (MWC) has received multi-product notification for its SEZ in Jaipur, which currently houses players in Engineering & Related Industries, IT/ITeS, Handicrafts, and Gems & Jewelry. The **MWC Jaipur** is a joint venture between Mahindra Lifespace Developers (MLDL) and the Rajasthan State Industrial Development and Investment Corporation (RIICO). Multi-product notification for SEZ Jaipur has attracted nearly ~80 global and domestic companies across the industrial zone. This has created employment for ~35,000 individuals and has generated cumulative exports worth INR 7,097 Cr (~71 Bn). Companies that have signed up at MWC Jaipur range from SMEs, entrepreneur-driven businesses and local/global players, including Ball Corporation, Deutsche Bank, Gravita, Infosys, Jaipur Crafts, JCB, KnitPro International, Mahindra & Mahindra, Metlife, Perto, Poly Medicure, TTK Healthcare and Yasen Lighting.

Source: Press Articles

5. Sunrise or Sunset of the Policy Piecemeal

While tailor-made economic zones continue to drive growth in the Indian market, they do meet up with potential pitfalls. Some industries are wary of duty-free enclaves eating away income from domestic tariff areas, while others believe the marginal utility provided by each zone to be declining in several parameters. Meanwhile, the upcoming restructure of the policy framework has also nailed in a fair amount of apprehension in the market. This can hamper the growth of long-term projects.

Domestic Pain Points

Pressurizing Performance
Are Indian zones really putting their best foot forward? Are the vision and long-term objectives seamlessly aligned?

Brewing Policy Piecemeal
The upcoming policy revamp has left many minds astray. What really beholds for Indian zones in the time to come?

Hard Landing
Land acquisition is running at a premium with respect to the time, money and effort needed to secure one plot. Is there a way to curb these rocky edges?

The Idle Pot
Despite land being such a crucial issue, why are many SEZs still sitting vacant? Can they adequately access other regions and areas?

Source: Press Articles

5.1 A Presumable Performance Plateau

Despite laying the foundation for Asia's first EPZ, India has not been able to reap the complete benefits of zonal performance. While investment, employment and exports did see a substantial hike post the implementation of the SEZ policy (with over 200 operational zones being setup over the last 10-15 years), the marginal gain provided by each zone has been on a downward trajectory. On the other hand, other regional players such as China, Korea, Malaysia and Singapore have been able to transform their economic models by expanding their multidimensional EZ footprint, with successes like Shenzhen creating a mark in the global arena.

Clinching onto the Fiscal Purse

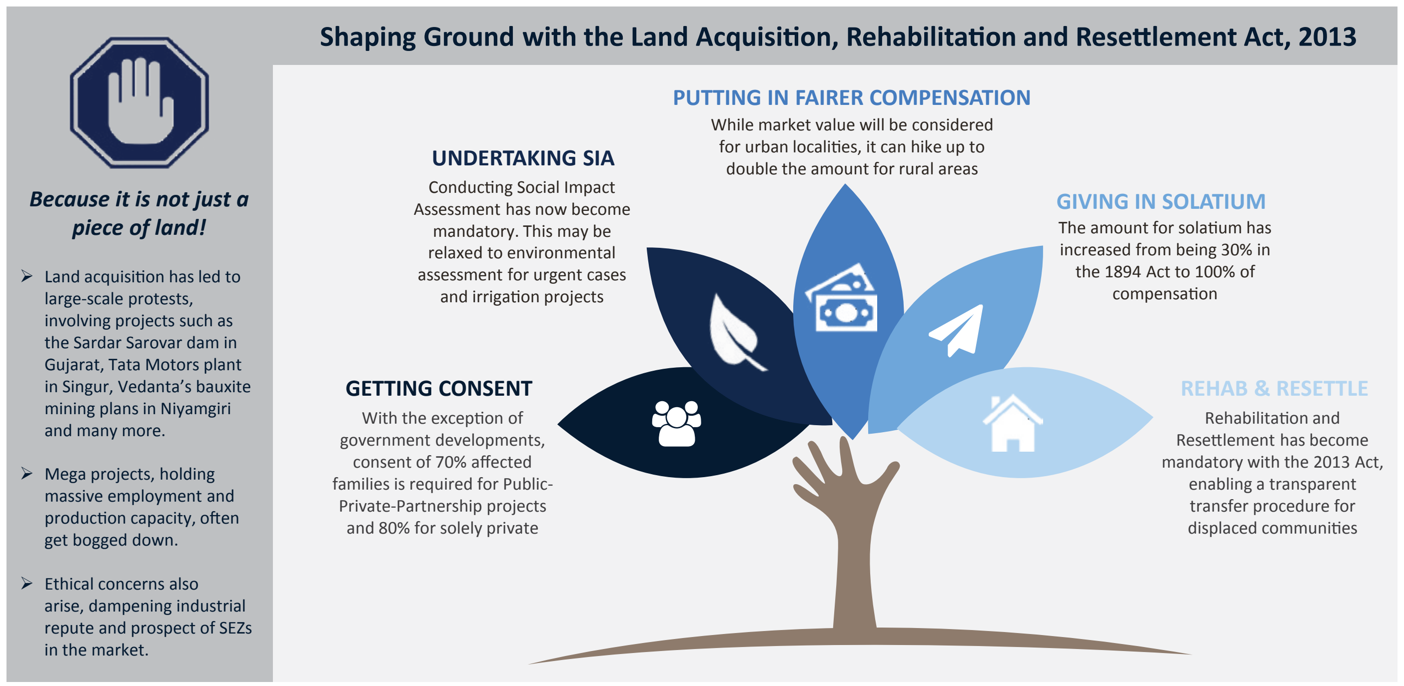
While each country takes its own course and time for zonal development, there are certain factors that can nevertheless be improved upon to enhance productivity. In this case, the Indian performance plateau chiefly stems from the intention behind setting up these zones in the first place. For example, many of the country's new-generation SEZs were not designed for the purposes of driving exports but rather obtaining relief from central and state taxes. Hence, many companies – especially in IT – simply shifted operations from Software or Electronic Hardware Technology Parks to continue enjoying tax exemptions, keeping other factors at bay. Such fiscal-driven motives may thereby have impaired developers and producers from utilizing these duty-free enclaves to their full potential.

Running over Land Woes

Challenges exist on the operational front as well. Getting the necessary grounding can be difficult, given the great controversy underlying land acquisition in India. Large-scale projects such as the Sardar Sarovar dam in Gujarat, the SEZ in Nandigram and a Tata Motors plant in Singur generated equally large-scale protests, resulting in years of agro-industrial backlash and multi-sectoral disputes.

While the debatable Land Acquisition Act of 1894 has accordingly been replaced by The Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013 (also known as the Land Acquisition Act, 2013), the matter has not reached complete resettlement. The socio-economic impacts of transferring agricultural land from farmers to developers/producers for industrial purposes continue to attract opposition, especially with India housing roots as an agrarian society.

The Land Acquisition Act of 2013 aims to clear the sphere by emphasizing upon the criteria of social impact assessment and majority ownership consent for specific partnership models, facilitating a fair & transparent transfer market. Acquirers are required to make due compensation and root back any displaced communities. Nevertheless, the introduction of the 2014-15 bill that relaxes certain categories from the aforementioned criteria – including economic corridors and common infrastructure for industrial parks and SEZs – has again instilled a conflicting arena, with a host of scholars and activists contemplating on the actual effectiveness of the new act. Many are concerned on whether it would only end up in deadlock debates and procedural bottlenecks, as acquirers and owners hover over the "right" price and terms. For the SEZ landscape, it could mean having to gnaw upon more time amidst greater agricultural outcry. This may also hamper the social standing of economic zones in the long-run, which can eventually drill down into operational performance. Building back public confidence and support has become imperative.



Source: Government of India & Press Articles

Letting Systems Run Dry

Acquiring land is not the end of the story; it must ideally be set to work in a timely manner. Unfortunately this speed has significantly dampened in the Indian periphery, with over 52% of notified SEZ land lying vacant across the country.

Out of the 355 notified SEZs as of 30 September 2018, only ~65% (231) are operational, with ~23,780 hectares of land sitting idle in the market. This has put a number of stakeholders at the grips, as they ponder upon the ability of upcoming SEZs to deliver projected investment, employment and export returns.

Theoretically, there can be a number of reasons for SEZs to delay commencement, which includes taking a longer than anticipated time to obtain requisite state/statutory approvals, keeping a watch during volatile/adverse economic conditions or shifting gears during a change in the fiscal incentive regime.

At the same time, having inadequate linkages can also stagnate growth. Many coastal SEZs face challenges with connecting to the hinterlands and vice versa, resulting in greater lag time.

Greater collaboration is therefore needed between the government and privately-run developers/producers to identify all impending gaps and rectify the same. This is especially critical when India is already underway in its nation-wide logistics shift to bring together fragmented sectors and markets. After all, nothing can be delivered on barren, isolated land.

5.2 Upturn of Key Policies

Apart from performance, piecemeal policy reforms have inherently become the talk of the town, with a range of past, present and future developments shaping up the domestic SEZ landscape. This includes the implementation of the GST in 2017 that subsumed a number of taxes under one umbrella, as well as the restructuring of a number of other direct tax provisions stipulated in the SEZ Act, 2005. These can eventually become a game changer for the entire zonal landscape.

Putting off MAT and DDT Blues

The policy drive kicked off with the sudden imposition of the Minimum Alternate Tax (MAT) and Dividend Distribution Tax (DDT) in 2011-12, which hit the entire market by surprise. These had been part of the various income tax exemptions enjoyed by zones under the SEZ Act, carrying no sunset date. Developers believed them to continue indefinitely, which did not turn out to be the case.

Wielding in this unexpected policy upturn drew in mixed responses from a number of participants. Some developers quoted having lower profitability, while some referred to grappling with a lower working capital and reduced cash flow – all of which led to a sudden drop in export, investment and employment. Nevertheless, the market has rebounded back in the last 2-3 years. While a number of SEZs became de-notified from 2011 to 2014, a lot more have become operational. At the same time, exports jumped by 11% in 2017-18, while a wave of new zonal investments stand in line.

The exact nature of the MAT policy is still under review, as players argue for reduced rates to expand operations and obtain other fiscal benefits that are aligned with more holistic growth parameters. It is yet to be seen how this translates into the future policy net.

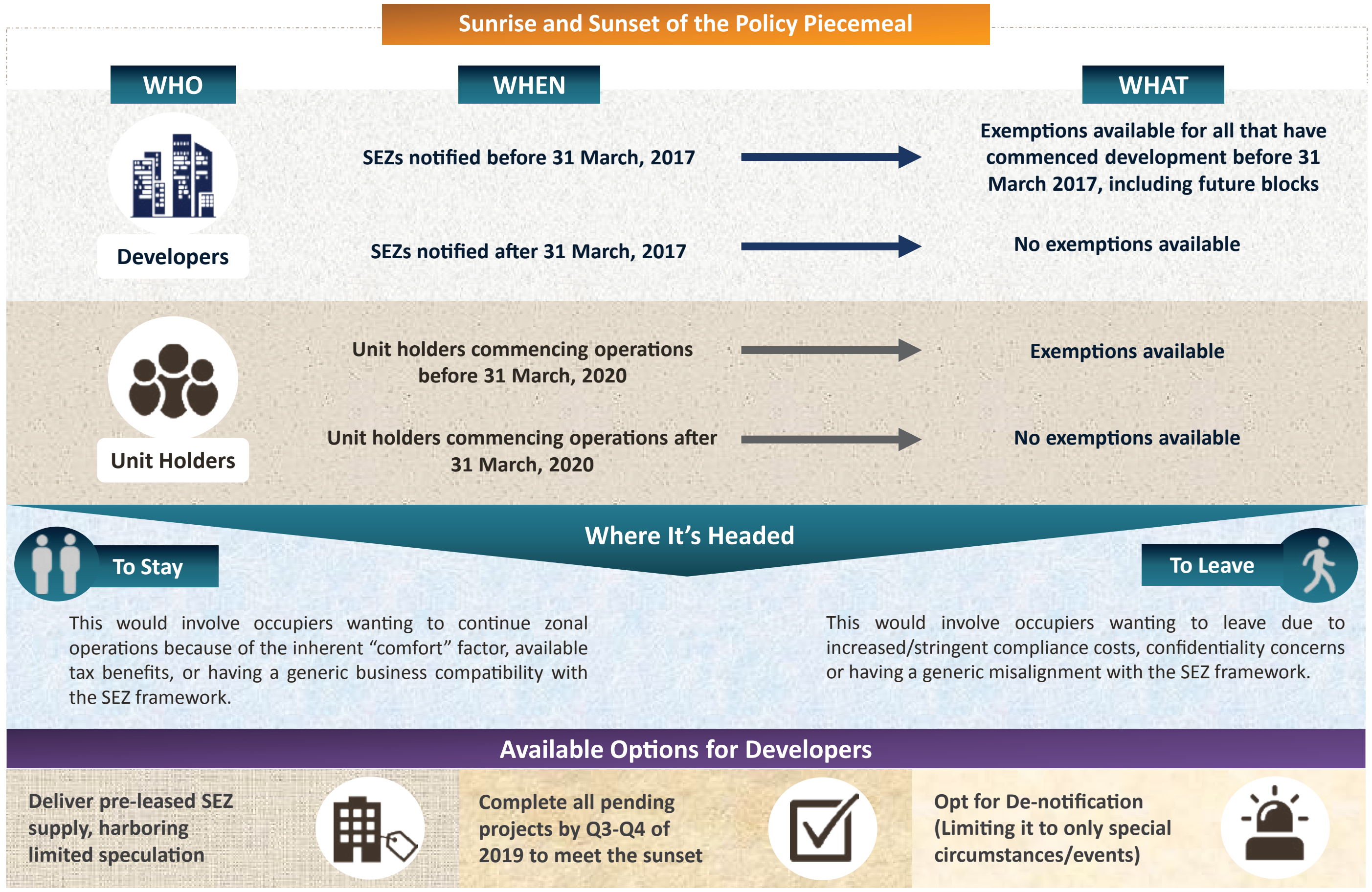
Pushing Back the Impending Sunset

Apart from MAT, market sentiments are also running high with the onset of two prominent sunset clauses that have a significant impact on income tax liability. As per the new regime, exemptions granted to developers under Section 80-IAB of the Income Tax Act would only apply to SEZs becoming notified by 31 March, 2017 (equating to an effective sunset of 1 April, 2017). Meanwhile, exemptions granted to SEZ units under Section 10AA of the Income Tax Act would only apply to unit holders commencing operations before 31 March, 2020 (equating to an effective sunset of 1 April, 2020).

This shift has caused a whirlwind of anxiety amongst stakeholders, with developers rushing to get operations started before the second sunset (completing any pending projects by Q4 of 2019), occupiers piling upon all expansion plans within the next one year and new entrants seeking to get plots on advanced areas that can meet the fiscal deadline. At the same time, those with a longer pipeline are contemplating whether to begin the groundwork or go for straight de-notification.

Currently, over 40 million sq. ft. of new supply is scheduled for completion before next March, which may be putting more than one can handle on the plate.

While some stakeholders are optimistic about receiving a further extension on the 2020 deadline, others remain concerned on the future of further zonal development, in the event the benefits cease to exist.



Source: CBRE Research

The GST Take

The **Goods and Services Tax** has been one of the greatest reforms in the regulatory framework, bringing the entire economy under one unified tax net. While this has also meshed smoothly within the SEZ system, holding a streamlined exemption procedure under the IGST Act, there may be some impending gaps that require greater clarity. This includes procedural issues such as envisaging a clearer refund procedure for small suppliers who cannot take a Letter of Undertaking (under Section 16(3) of the Act), addressing zonal procurement from composite dealers who otherwise cannot make inter-state outward supply, as well as providing detailed disclosure upon what supplies constitutes towards "authorized operations of the SEZ" to qualify for exemption. Addressing even the minutest gray area can create a much greater difference. Cutting back upon unambiguity is the ultimate policy mantra.

5.3 Speculation at the Fulcrum

While the intent behind revamping the current SEZ regime is to bring in greater alignment with the WTO, helping India establish a stronger global footing, it does come with strings attached.

Any shift in policy inevitably disrupts the market in the short run, bringing a range of questions and concerns at the forefront. While some stakeholders may be hesitant towards the proposed pace of change, some may not favor the change itself. This has largely been the case in India, with the future of SEZs becoming a debatable economic buzzword. Some investors believe the sun will not set in March 2020 while others continue to scramble with meeting project pipelines in the next one year. Meanwhile, a host of other unit holders believe the provision of fiscal incentives to be a fundamental feature of SEZs, the absence of which can leave the entire market astray. Hence, they are keen towards pushing for reduced MAT and DDT rates in the coming time, which can bring back a certain level of financial support. However, nothing here is certain.

Such continued speculation can significantly hamper the stability of zonal production and trade, with people only "second-guessing" what is to happen next. Cutting out this vulnerability with a clearer regulatory timeline, which addresses the concerns of all requisite stakeholders and keeps the overall interest in SEZs in-tact, has become the need of the hour.

6. Carving in through Creation, Collaboration & Connection

Every sunset is followed by a sunrise. Similarly, dispositions in the Indian regulatory landscape are essentially a turnpike for an inevitable overhaul of the SEZ policy framework. Delinking fiscal incentives from exports to investment and employment would be the ideal shift that helps fuel in development of domestic economic zones in the time to come.

6.1 The Pressing Call for Assurance

Change is bound to resistance. However, aiming for progress in a gradual and multifaceted manner, which addresses the needs of a wide range of stakeholders, can help smoothen transition hiccups. This could mean settling in for a new 2020 sunset; however, one that is not bound to further modification. It could also mean retaining tax benefits by sliding down MAT and DDT rates; however, figures that help drive down tax-related controversies for Indian SEZs. These fiscal steps can further be complemented by industry-driven initiatives, such as allowing supplies to the domestic market in Indian currency, which creates parity between goods and services.

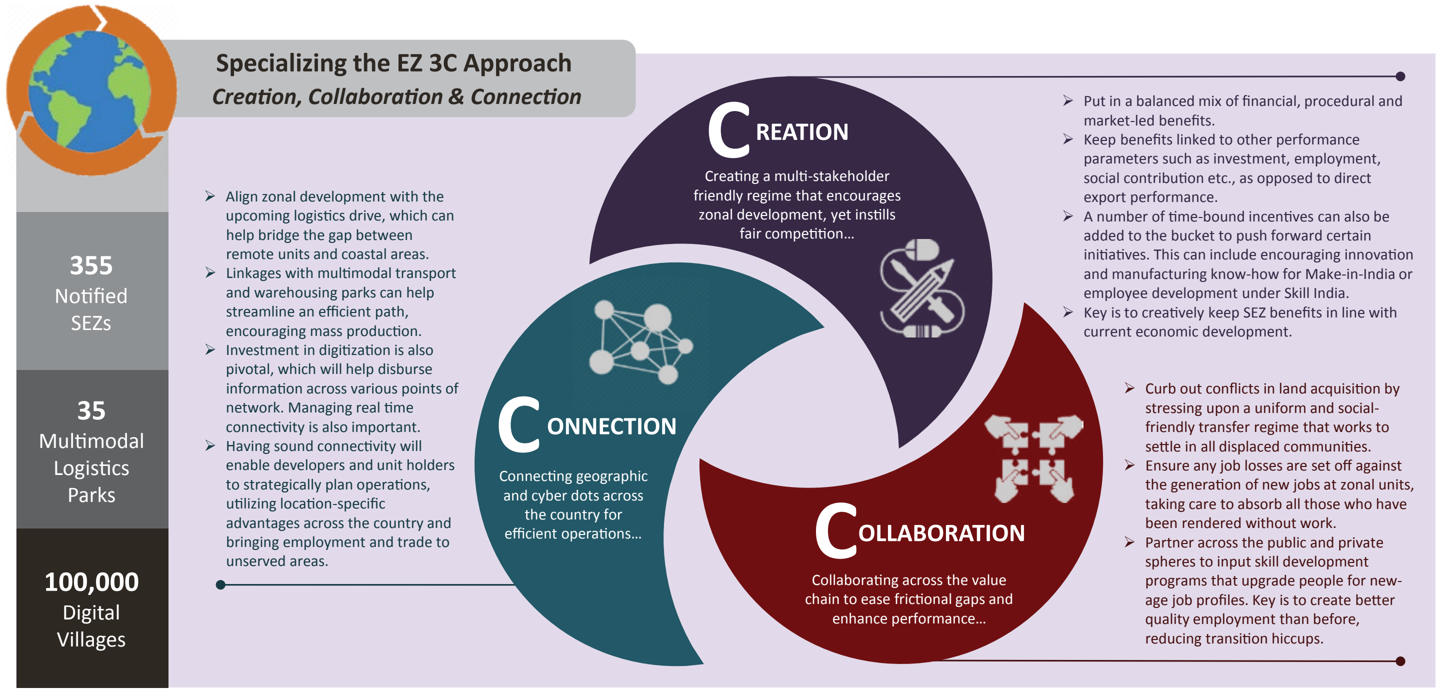
As per the Baba Kalyani review committee, the ultimate objective is not just to become WTO compliant but also transform SEZs into Employment and Economic Enclaves (3Es), becoming a catalyst for domestic production, manufacturing, service, employment, as well as technological advancement. The provision of incentives is fundamental to further development and is here to stay; it is only the nature of benefits that will vary over time, not the presence of benefits themselves.

At the same time, a refinement in ancillary industries and processes is also crucial. These new-age, SMART zones need to be adequately supplied (having uninterrupted water and power supply), digitally integrated (receiving simpler entry/exit, online approval support) and geographically connected (housing robust transport infrastructure) across the country, in order to generate positive results.

Overall, the current Indian SEZ ecosystem is in dire need for an assurance framework, bringing forth changes that do not hamper stability.

6.2 Adoption of a Creative, Collaborative & Connected Approach

Mazars believes that the way forward for Indian SEZs rests upon taking a three-pronged approach that fosters Creation, Collaboration and Connection. This means creating a consistent SEZ policy ambit that focuses on the overall usage and furtherance of nation-wide zones, which are strategically located across both remote and coastal areas. While greater clarity should be provided on the longevity and applicability of fiscal incentives such as the sunset clause to curb unnecessary speculation, the provision of non-fiscal incentives should also be stressed upon, keeping investor sentiments in-tact. These incentives/exemptions can largely be linked to growth-led parameters such as the high-technology & value-added manufacturing sectors, which assimilate well with the Make-in-India perspective.



Source: Mazars' Analysis

CREATION

It is a good time to get creative in the design of the SEZ incentive regime, playing around with a blend of financial, procedural, and market-led benefits. This may include further enhancing expedited fast-track clearances for sensitive areas such as pollution, power usage, land, storage of restricted items, underground extraction etc., as well as providing 24/7 online support for compliance related matters on the same. Other non-fiscal benefits can focus on increasing the ease and scope of zonal operation, which includes providing greater flexibility on long-term lease arrangements for developers/tenants, giving fast-track approvals with relaxed caps for sub-contracting service arrangements, and even adding in special supply preferences for materials specifically forwarding the Make-in-India initiative.

COLLABORATION

1 + 1 = 11. Direct incentives are not the only driver; rather, creating an encouraging platform that fosters effective partnerships and synergistic relations across the value chain is imperative for maintaining sustained performance. It is high time for regulators to cut out controversies in land acquisition by streamlining a user-friendly approach towards efficient transfers, compensation and rehabilitation. Developers should map out the number of displaced agricultural workers and collaboratively fit them in new jobs, amicably ironing out potential clashes and retaliation. In fact, this can also be utilized as an opportunity for effective skill upgradation (in line with the Skill India initiative), channelizing current labor into new-age job roles. Dedicated bodies such as the National Skill Development Corporation can work together with developers and unit holders to carry forward the skilling drive. Such support can bear greater benefits than any one single fiscal incentive.

CONNECTION

Working in silos is never fruitful. This is one of the crucial reasons why, despite having a number of dispersed zones, the marginal performance of each SEZ is inherently declining – those in the hinterlands end up having inadequate connection with coastal touch points. Working on a sound logistical network is crucial in this regard, which sits well at a time when India is already making a radical shift towards multimodal transport and warehousing. Aligning this nation-wide Logistics 4.0 drive within the SEZ framework can tremendously transform a host of macro indicators, helping remote areas power up production with responsive first and last mile connectivity. Zones such as Sri City Andhra have already benefitted from establishing multi-modal connections with the hinterland. Meanwhile, the current policy initiative of integrating existing coastal SEZs into the overarching Sagarmala development plan can enhance back-end connectivity with remote geographic areas. These networks should ultimately be established on a pan India basis, facilitating zones to capitalize upon locational advantages.

The ultimate goal is to utilize SEZs as not merely an export hotbed but as a launchpad for domestic production & consumption. Proper collaboration across the value chain is pivotal, which encourages the adoption of technological accelerators, as well as capitalizes upon ancillary industries such as energy, information services and logistics, connecting these zones on both a local and global level.

3C Enabling Policy Road Map

- **Transforming SEZs into Economic and Employment Enclaves**
- **Providing special subsidies for investment in "Key Target Segments." Namely, Direct Manufacturing for Make-in-India, High-Technology for "Digital India", Defence-Related Equipment for "Self-Reliant India" and Employee Innovation for "Skill India."**
- **Linking Zone Development with Logistics 4.0, which enables first and last connectivity through multimodal logistics parks, digital platforms and real-time databases.**
- **Encouraging participation by MSMEs through provision of fast-track approvals and online clearances, especially for socially-sensitive matters such as pollution, power consumption, land usage etc. Extra benefits may also be given to firms taking dedicated steps to reduce negative externalities.**
- **Giving greater flexibility on long-term lease agreements and relaxed caps for sub-contracting service arrangements. The key is to facilitate units to seamlessly support businesses outside the zones.**
- **Partnering with state-wise housing boards and pan India bodies such as the National Skill Development Corporation, to create structured plans for displaced communities and workers.**
- **Retaining key tax benefits and providing tangible clarity on the regime ahead for minimal speculation.**

Source: Baba Kalyani Committee Report, Press Articles & Mazars' Analysis

7. Domestic Landscape

The trajectory of Indian SEZs will eventually shape up many other factors in next few years, including the geographic spread of production sites, operational processes, sectoral expansion, as well as the number of people that can be employed in a single area. Demand for SEZ commercial stock will also play into real-estate prices, which will have a larger impact in key metro cities that host a wide range of commercial activities. This becomes increasingly critical with developers trying to get projects kick-started in cost-efficient locations, before the looming sunset.

The current state of affairs, coupled with incoming projects/developments, will ultimately determine the zonal city-scape in the time to come.

7.1 Bengaluru

Operational Stock	New Supply	Average Vacancy
55.0 msf	9.7 msf	5.3%

Key Projects Under Construction

- Embassy Tech Village 8A
- Gopalan Fortune
- ITPL
- North Gate II L&T Tech Park
- Brigade Tech Garden

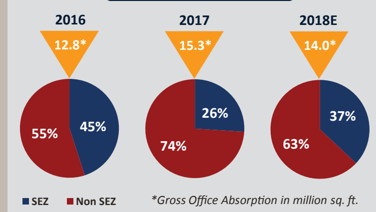
What It Is

- Known as the Silicon Valley of India, accounting for 39% of total IT SEZ space in the country, situated in multi-purpose IT parks.
- While office space absorption from new entrants went down in 2017, demand will continue to be driven by occupiers looking to relocate premises or expand current SEZ operations.

What It Is To Be

- Wipro has planned a new 50-acre campus at Kodathi on Sarjapur Road, having a capacity of over 30,000 workers. This new facility is a SEZ, which aims to balance costs and ramp up digitization in a growing competitive landscape.
- WF48 (Whitefield Suburban Area of Bangalore) is a joint venture between Ozone Group and Elegant Properties, which aims to become a luxury spot for today's home-buyers, being surrounded by large IT parks such as ITPL, EPIP Zone, Bagmane World Technology Centre, Prestige Tech Park etc. This can become another punch-in for the city's zonal real-estate market.

Demand Breakup



Major Transactions

Client	Building	Area (Sq. Ft.)
Lowe's Services	Manyata Business Park	489,000
KPMG	RMZ Ecoworld	460,000
Synechron	Bhartiya City	400,000

Source: Colliers International & Press Articles

7.2 National Capital Region

	Operational Stock	New Supply	Average Vacancy
Gurgaon	14.5 msf	6.2 msf	14%
Noida	5.6 msf	2.4 msf	4%

Key Projects Under Construction

- Ascendas SEZ
- Ireo SEZ
- Brookfield Infospace SEZ
- 3C
- Oxygen SEZ
- NSL Techzone SEZ

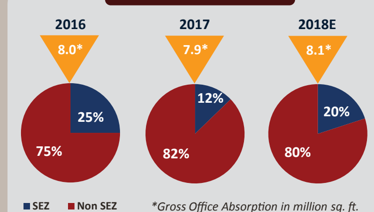
What It Is

- All SEZs are located in the satellite cities of Gurgaon and NOIDA. Within this, over 20.1 million sq. ft. of operational stock is currently distributed across 12 zones, with Gurgaon housing over 72% of the mix.
- Demand is kicking in further with large SEZ developers setting their eyes on the NCR market. Ascendas and Ireo are coming up with new developments while Brookfield and DLF are expanding existing projects.

What It Is To Be

- Over 9 million sq. ft. of new supply is planned to be developed over the next 5 years, with 6 million sq. ft. to be completed by 2020. IT/ITES occupiers looking to hedge against rent increases in existing facilities are actively seeking out available plots on Golf Course Extension Road.
- The Gurgaon-Manesar Global City Project, initially envisaged as a SEZ, has gone through massive restructuring. The area will now be a special zone with a 300% floor area ratio and mixed land usage, along with having a new parcel of land for the NH-8 and Dwarka Expressway. This will put it closer to fruition.

Demand Breakup



Major Transactions

Client	Building	Area (Sq. Ft.)
Amazon	Brookfiled Infospace	150,000
EXL	DLF Building 14	60,000
Accretive Health	Brookfiled Infospace	60,000

Source: Colliers International & Press Articles

7.3 Hyderabad

Operational Stock	New Supply	Average Vacancy
20.0 msf	9.1 msf	4.0%

Key Projects Under Construction

- My Home Divija
- Laxmi Infobahn
- NSL IT SEZ
- Divya Sree Orion
- Mindspace Pocharam

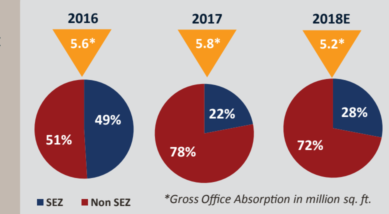
What It Is

- Over 20.0 million sq. ft. of operational multi-tenanted SEZ stock is currently operational, primarily located in the Secondary Business District (SBD). Factors such as cheaper rents, occupier-friendly state government policies and a robust supply pipeline has built market momentum in the last 3 years.
- Office-space completions surged in Q4 of 2018, which included 2 medium-sized SEZ developments in Kokapet and Raidurg, in the extended IT corridor.

What It Is To Be

- While the SEZ share in new office leasing fell from being 49% in 2016 to 22% in 2017, this was largely driven by a low vacancy rate. Nevertheless, zonal absorption is expected to increase in the coming years, with a considerable portion of traffic being routed from cities such as Bangalore.
- Meanwhile land usage will be another prime issue, with Telangana topping the charts for having the highest number of non-operational SEZs. Activity will spike high as legal battles culminate and developers secure lands by getting certain units into business.

Demand Breakup



Major Transactions

Client	Building	Area (Sq. Ft.)
Ness Technologies	Divyasree Orion	102,500
Cyient	Lanco-Sez	60,000
Infosys	Mantri Casmos	50,600

Source: Colliers International & Press Articles

7.4 Pune

Operational Stock	New Supply	Average Vacancy
17.5 msf	3.3 msf	9.0%

Key Projects Under Construction

- Eon Free Zone
- Embassy Tech Zone
- GERA, Kharadi

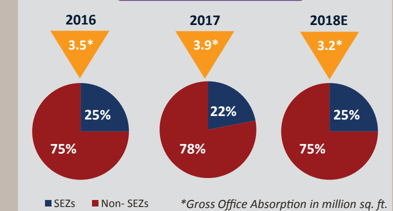
What It Is

- Pune houses major technology players across its 7 operational, multi-tenanted SEZs and ~20 private SEZ land holdings.
- The IT SEZ plot, spread across 3.3 million sq. ft., is under development and scheduled for 2020. It is distributed over Kharadi (58%) and Hinjewadi (42%).
- Pune is currently facing a shortage of stock, with rental billing having soared by ~40-70% over the last two years. This, however, is deemed to moderate down with a rise in Grade A SEZ building supply.

What It Is To Be

- The completion of Grade A SEZ property by 2020 is to create a prominent variation in demand, turning around the current city-level vacancy rate that is below 5%.
- Upcoming zones in Hinjewadi and Kharadi are also set to upgrade the city-wise infrastructural landscape, with investors keen to bring in state-of-the-art facilities that make operating processes more efficient.

Demand Breakup



Major Transactions

Client	Building	Area (Sq. Ft.)
Barclays Technology Centre	Eon Free Zone	100,000
Crisil	Blue Ridge	27,338
Quantam Solutions	Embassy Nile	27,000

Source: Colliers International & Press Articles

7.5 Chennai

Operational Stock	New Supply	Average Vacancy
19.0 msf	8.3 msf	10.0%

Key Projects Under Construction

- Embassy Splendid Tech Zones
- Brigade WTC
- IG3 Chennai One SEZ
- DLF Cybercity
- Xander –the Gateway Office Parks

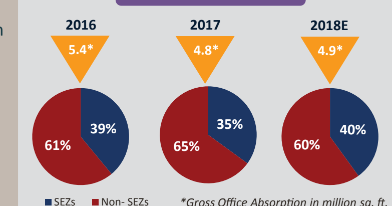
What It Is

- Chennai houses a 12% share of total IT SEZ stock in India, spread across ~19.0 million sq. ft. of operational SEZs. These SEZs are spread across micro markets in Old Mahabalipuram Road (OMR) Pre-Toll, OMR Post-Toll, Mount Poonamalle High (MPH) Road and the Grand Southern Trunk (GST) Road.
- SEZs represent ~35% of the total office leasing space, quoting higher rents than non-SEZs. Meanwhile, vacancy levels have dropped to 10% in 2017, owing to higher occupancy and demand.

What It Is To Be

- Prominent players such as Embassy, DLF, Brigade, Green Grid Group (IG3) and Xander are keen on new SEZ expansion, which can create an additional supply of 8 million sq. ft. by 2020, primarily concentrated in the OMR Post-Toll zone.
- Rent in the OMR Post-Toll district is likely remain ~35-45% cheaper than the that in the Pre-Toll district over the next three years, considering the rollout of new supply in the market.

Demand Breakup



Major Transactions

Client	Building	Area (Sq. Ft.)
Amazon	Ramanujan IT SEZ	450,000
BNY Mellon	DLF Cybercity	188,000
Wells Fargo	Chennai One SEZ	123,000
Renault Nissan	Ascendas Cybervale	120,000
Mphasis	DLF Cybercity	120,000

Source: Colliers International & Press Articles

7.6 Mumbai

Operational Stock	New Supply	Average Vacancy
7.3 msf	1.8 msf	8.0%

Key Projects Under Construction

- Raheja Construction Airoli

What It Is

- Mumbai presently houses two operational IT SEZs in the city, with an aggregate stock of ~7.3 million sq. ft., located in Powai and Airoli. Meanwhile, around 1.8 million sq. ft. of new supply is expected in Airoli by 2019.
- State-wise dynamics have changed, following the closure of 80 special economic zones. Nevertheless, of the remaining 67 SEZs, 28 units – having garnered an investment of INR 350.23 billion – are operational.

What It Is To Be

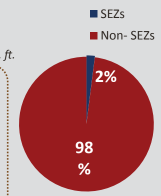
- The Navi Mumbai Special Economic Zone has been scheduled completion in phases, with industrial units out in 2019. The proposed SEZ is spread across 2,140 hectares in Dronagiri, Ulwe, and Kalamboli nodes in Navi Mumbai, having an assigned usage of 40% for commercial and residential purposes.
- DP World, a global port operator, has formed a joint venture with NIIF to develop a Free Trade Warehousing Zone at JNPT Mumbai, at an investment of USD 78 million. This is proposed to be operational by 2020.

Demand Breakup

2017

4.9*

*Gross Office Absorption in million sq. ft.



Demand for SEZs is passive, caused by stalled projects, land acquisition constrains and the consequent failure to materialize proposals. Prospects may stabilize with uniform taxation and incentives

Major Transactions

Client	Building	Area (Sq. Ft.)
GE	Kendington	40,000
LafargeHolcim	Kendington	50,000

Source: Colliers International & Press Articles

7.7 Kolkata

Operational Stock	New Supply	Average Vacancy
4.0 msf	2.7 msf	9.0%

Key Projects Under Construction

- Dlf SEZ
- Candor Techspace

What It Is

- Presently, Kolkata has five functional SEZs, with 2 being multi-tenanted. These are largely concentrated in the Rajarhat area. Within this, developers are offering built-to-suit options, which has garnered much appeal by IT players such as TCS, Infosys and Wipro, for their respective captive spaces.
- Total SEZ stock stood at ~4 million sq. ft. in 2017, with another 2.7 million sq. ft. under construction, to be readied by 2020.

What It Is To Be

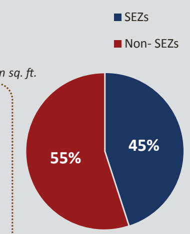
- The proposed Silicon Valley Hub of Kolkata has attracted a hefty investment from 4 players; namely, Reliance Jio, Tata Consultancy Services, Capgemini and Firstsource. This can step up zone development ahead.
- A host of other projects are seeping in. For example, the Kolkata Port Trust (KoPT) is setting up a terminal-cum-economic zone at Balagarh, ~40 km upstream from the Ganga. Meanwhile, the Inland Waterways Authority of India (IWAI) is developing an all-weather fairway from Varanasi to Haldia, in order to enhance river cargo movement from being 4.5 mt currently to 45 mt by 2030.

Demand Breakup

2017

0.8*

*Gross Office Absorption in million sq. ft.



Future SEZ expansion is low in Kolkata in comparison to other cities, due to political constraints and state government apprehension around zonal benefits

Major Transactions

Client	Building	Area (Sq. Ft.)
Cognizant	Candor infospace	360,000

Source: Colliers International & Press Articles

8. Concluding Remarks

Economic zones, or namely “special” economic zones, are undoubtedly here to stay. They present a robust opportunity for countries to extend global collaboration and production, which goes more than simply acting as a bedrock for enhanced export activity. Proper zone development and coordination can in essence help channel capital, technology, knowledge and people across multiple regions, as well as foster strategic ties on a global level. Such a framework has therefore been the lifeblood for many emerging countries, helping them expand their presence in a structured and gradual manner.

India has accordingly pioneered zonal development, marking in its first EPZ in 1965 that sprouted up a range of other “special” areas across the country. Nevertheless, zonal performance only gained pace when further liberalized reforms were taken in 1991, which opened the door for a structured SEZ policy. History repeats itself, with India standing again at the cusp of undertaking substantial regulatory reforms that is to shape its SEZ trajectory in the upcoming years. Part of it involves making incentives WTO compliant, as well as taking out onerous tax benefits that instill a competitive ground for both zonal and domestic-tariff area players.

However, all this needs to be taken up in an unambiguous and gradual manner that limits speculation and prevents developers from taking up multiple projects in a haste. At the same time, operational bottlenecks involving land controversies, inadequate networks and unreasonably idle spaces need to be ironed out. This may be achieved by Creatively, Collaboratively and Connectively designing a comprehensive domestic SEZ ecosystem that helps Indian players carry out businesses in a certain, friendly and efficient environment.

Attaining a streamlined SEZ habitat can also cultivate a range of nation-wide goals, which include taking forward the Make-in-India drive through self-reliant manufacturing or powering Digital India by bringing in new technological accelerators. The crux is to intricately cook the perfect regulatory and operational recipe that effectively extends Indian zones, *both locally and globally.*

ABOUT MAZARS

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