

# **An Enabling Environment and Economic Zones for Private Sector Development in Bangladesh**

Lessons Learned in South Asian Free  
Zone Implementation

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# 1 Global lessons on SEZ Implementation

Many countries such as Hong Kong, Taiwan, Malaysia, Indonesia and South Korea adopted the model of export oriented economic growth in the 1960s along with creation of special export oriented facilities such as what is seen in Export Processing Zones (EPZs). Export processing zones (EPZs) are geographically earmarked enclaves wherein a preferential policy framework is put in place to make the operations of businesses internationally competitive. These enclaves are normally established by the government but in many cases have been established by the private sector as well. These zones have traditionally provided suitable fiscal and regulatory measures meant only for such zones. Over time, the use of this model for economic and policy reform led to a significant increase in the income levels of these countries, coupled with high economic growth rates averaging 7% - 8% per annum.

In other countries such as Costa Rica, Mauritius, and Sri Lanka, zones have had a significant impact in promoting exports, particularly for manufactured products. In the case of Mauritius, zones accounted for fully 62% of the country's total exports as recently as 1998. Similarly, the growth rate of Jebel Ali Free Trade Zone in Dubai has been very high and has accounted for a 23% contribution to the Emirates outward trade in 2001.

In Malaysia, EPZs have been instrumental in building and developing the electronics sector starting in the early 1970s despite the fact that Malaysia had no particular skill in electronics production. To illustrate this point, it should be mentioned that many U.S. manufacturers moved the most labor-intensive parts of their production process to Malaysia. Even though Malaysia could not design or produce computer chips, it was able to assemble and, later, test these computer chips - both labor-intensive operations. When Intel invested in Malaysia in 1972, the country was quickly brought into a world-class production system that drew on its comparative advantages. It now produces many more sophisticated electronics products than it did in the early 1970s, because Malaysian workers and managers have become more skilled at various aspects of the production chain and because Malaysian firms have access to the latest technology available on world markets. As a result, wages for workers in the manufacturing sector in Malaysia have grown rapidly over several decades.

## A. *China's experience with SEZs*

The biggest success story at an overall level when it comes to zones, however, is that of China. From a largely underdeveloped country in the late 1980s with poor infrastructure, China has successfully improved its infrastructure to world-class standards to become the primary investment destination for global manufacturing needs.

Such a transformation has been successfully achieved only through the development of infrastructure in small pocket areas. This targeted approach to development of infrastructure enabled the Chinese to experiment with a variety of investment and business friendly laws in these areas, by creating small, but significant economic zones in various locations in the country, catering to multinational organizations interested primarily in serving the domestic market and in exports.

These zones were initially modeled along the lines of various EPZs around the world. In the case of China, however, it was determined that the impact of traditional EPZs could not be significant in its large economy due to its restricted permitted activities. To overcome these limitations, the zone model proposed involved enlarging the area and scope of activities from just EPZs to zones that promoted real estate, tourism, infrastructure development and banking, besides manufacturing for exports. In order to differentiate these multi-purpose enclaves from EPZs, these modern entities were designated as *Special Economic Zones (SEZs)*.

SEZs are ‘special’ because the investment structure, labour laws, management practices, and wage rate policies designed for them are different from the rest of the economy. They are also ‘special’ because an exclusive package of preferential policies is applicable to them. They encompass a much broader array of economic activities as compared to traditional EPZs.

The critical factors underlying the success of Chinese SEZs are as follows:

- Locational advantage of being nearer to Hong Kong, a major consumer of Chinese goods, significantly helped Chinese SEZs. Hong Kong provided a platform for re-exports and trans-shipment for Chinese exports. Hong Kong also provided these Chinese SEZs with professional expertise in marketing, finance and production management;
- Flexible labor laws under which the Federal Government of China delegated the powers to the City and Provincial Governments to enact legislation specifically applicable to Special Economic Zones
- The trade-related infrastructure (power, water, roads, ports, etc.) and social infrastructure (housing, hospitals, educational institutions, etc.) provided by the Chinese government have been of tremendous benefit and have been an integral part of the SEZs.
- SEZs have much stronger linkages with the domestic economy due to a more diversified industrial base. The SEZs, by virtue of their large size, had large requirements in terms of raw material, manpower, etc. and these requirements were economically provided by units from the mainland, thereby creating backward linkages with the whole economy.
- Full convertibility of Chinese currency in SEZs with Hong-Kong currency. Full convertibility has made it easier for multi-national firms

to repatriate profits into a currency that is stable and in which holdings are secure. This is a major incentive to attract international firms to the SEZs.

- Zone specific fiscal incentives suited to meet the requirements of the zones. These included exemptions from paying all customs duties and certain taxes, such as the tax on all capital expenditures for establishing manufacturing facilities.

### ***B. Reasons for Failed Zones***

In contrast to China, zones in many countries such as Senegal, Ivory Coast, Pakistan and India have not succeeded in the past due to following factors:

- *Political instability*: The prevailing political instability in the African countries has been one of the major reasons for the failure of their EPZs.
- *High crime rate, excessive corruption and administrative burdens*:. EPZs in Thailand failed to take off due to high administrative problems on account of the duty drawback scheme. Ghana's drawbacks system was fraught with delays and administrative costs and actually added to exporters' total costs on zones.
- *Failure to develop backward linkages*: Using the example of Ghana once again, the country did not provide indirect export benefit to manufacturers in the domestic area and consequently the development of the backward linkages by zones was limited, due to the high cost of domestic raw material, and led to the failure of the country's EPZs.
- *Lack of reliable utilities and infrastructure*: Electricity failures can seriously affect industries like food processing, computer chips manufacturing etc. In the Dominican Republic, blackouts raised textile production costs by 3-5%. Asian countries with successful experience in SEZs all invested heavily in improved roads, ports, power supplies, and telecommunications facilities.
- *Macroeconomic factors*: Manufactured exports from Egypt did not respond to the introduction of export zones, as the Egyptian pound was overvalued. This was, at one point, true in the case of Kenya as well, where export growth had stagnated in the 1980s largely because of macroeconomic distortions. The introduction of reasonably well functioning duty exemption and bonded warehouse systems, vastly improved macroeconomic policies, and the discontinuation of trade licensing and foreign exchange allocation for imports led to a rapid expansion of manufactured exports between 1993-96. But when macroeconomic policies deteriorated and the exchange rate became overvalued, the export boom fizzled out. Kenya had over 70 bonded warehouses operating in 1993; by 1997, all but 10 had closed down. It

should, however, be noted that the Kenyan EPZ program saw another takeoff when the US adopted the African Growth and Opportunity Act (AGOA), stimulating exports of garments within Kenyan EPZs in the late 1990s.

- *Location:* The Bataan EPZ in the Philippines was, for a time, the leading case of zone failure anywhere, since it suffered from high initial construction and operating costs because of its remote location, and as a result, failed the costs-benefit analysis test. While investment levels have improved in recent times, it is still true that remote enclaves designed as “growth poles” generally cost more in infrastructure development than the investment they generate justifies.
- *Extra-territoriality:* A peculiar reason for early failure of Kenya's EPZs was that they were considered to be outside the country's customs territory, and therefore were not considered to be of Kenyan origin under the rules of the Common market for Eastern and Southern Africa (COMESA). As a result, exports from the EPZs were ineligible for COMESA's duty preferences.
- *Bureaucracy and Restrictive policy frameworks:* The Dakar EPZ in Senegal failed for a number of reasons. First, bureaucratic red tape delayed the potential investors' application processes. Second, minimum employment (150 workers) and investment (\$100,000) levels discouraged many national and foreign entrepreneurs. Third, labor market rigidities made hiring and firing of workers difficult. Fourth, the Government did not provide Standard Factory Buildings, leaving this area instead to the investors, thereby increasing their business risks. Finally, the high cost of utility and transportation (25% of the cost of final export goods) deterred investors.

While many of these factors are country specific due to a country's political system or geographical limitations, many others can be attributed to the lack of, or wrongly directed, government initiatives.

## **2 Evolution of the SEZ concept in India- an overview**

At the outset, it should be noted that infrastructure development in India has not kept pace with demand, primarily due to the decreasing focus on development in later 5-year plans of the country. In addition, infrastructure has not been able to maintain the burden of an ever-increasing population. Furthermore, the Government's foray into the industrial sector created mammoth public sector entities riddled with many systemic inefficiencies.

India's attempts at improving the business environment in the country have been focused on the introduction of various trade promotion schemes. Among

them has been the quota regime of the famous *licence raj* era, and other schemes for import - substitution and export promotion. However, these schemes restricted the access to specific entities, thereby creating a monopolistic environment, with wide scale red-tapism. This factor, over the years, has hampered Indian industry to a very large extent, thereby rendering it non-competitive internationally.

In the early 1990s, large fiscal deficits and burgeoning debt payments caused arrears in the Indian economy. It was then that the Government of India adopted its policy of liberalization. In this first phase of economic reforms, a slew of economic measures were announced paving the way for private investments into the country. These measures opened the access to markets for all investors. Among them was increasing the role for private parties in the creation and development of infrastructure. Since then, the Government has focused more on creation of infrastructure through public-private partnerships. This format has had, among other positives, the major upside of required infrastructure being created without any spending from the Government.

Learning from the Chinese experience outlined earlier, India's economic reforms identified building world-class economic-infrastructure as a critical requirement for attaining the economic objectives of:

- Rapid economic development;
- Improving living standards; and
- Improving the infrastructure of the country

Towards this end, a comprehensive package of concessions, exemptions, tax holidays and transparent regulatory frameworks are being brought into place relating to the power, telecommunication, port, road, and civil aviation infrastructure. However, improving the infrastructure for the nation at large may take a fairly long time. Hence, there has been a strong need for a practical result-oriented strategy so as to encourage the building of world-class, integrated, immediately-deployable economic infrastructure in specific zones in a concentrated manner, as has been conceptualized through the SEZ format, which would eventually attract substantial FDI and boost exports.

India first ventured in the direction of EPZs in the mid-1960's when it set up the Free Trade Zone in Kandla. This measure was soon followed by the establishment of seven other EPZs, but so far these EPZs have met with little success. The SEZs now proposed are an outcome of the success achieved by China, and have been crafted after a detailed analysis by senior strategists of the country's strengths, weaknesses, opportunities, and threats.

Thus, applying the successful Chinese model of SEZs, the Indian Ministry of Commerce in March 2000 announced its decision to promote SEZs in India with support from the various state governments through the private or joint sector. This has resulted in the government enabling an efficient policy framework and a hassle-free operating environment for doing business.

Traditionally, the government's export initiatives have been announced through its Export Import Policy (EXIM Policy), using powers conferred on the government in the Foreign Trade (Development and Regulation) Act, 1992. In 2000, the policy introduced language related to the establishment of SEZs so as to attract investments in export production and to boost exports, and reflect the commitment of the government towards SEZs. They were defined as "a specifically delineated duty free enclave ... deemed to be foreign territory for the purposes of trade operations and duties and tariffs." They have been positioned as "*Engines for export led Economic Growth*" by the Ministry of Commerce & Industries (MoCI).

These goals were finally consolidated into a Special Economic Zones Bill in 2004 by the Government of India, which has since been approved by the Cabinet and will be tabled before the Parliament of India. The bill provides for the establishment, development and management of Special Economic Zones in India. Once approved by Parliament (likely a formality), this Bill will serve as the nodal legislation governing SEZs providing Regulatory Framework.

Given the multi-layered nature of Indian administration, wherein part of governance is controlled by the central government (e.g. Income Tax, Customs, etc), and the remaining portion is controlled by the respective state governments (e.g. property tax, planning, infrastructure, etc), the Central Government has requested all state governments to enact their own state SEZ Acts to make them compatible with the overall proposed Central SEZ Bill. Many states have prepared draft bills concerning the establishment, operations and administration of SEZs. This includes the state of Maharashtra, where the proposed Mumbai integrated Special Economic Zone (MiSEZ – the latter focus of this paper) by the SKIL Infrastructure Ltd. (SKIL) group is located.

Besides enabling the buildup of integrated infrastructure, the new focus on integrated SEZs will help realize the other immediate term economic goals of India, which include :

- attracting Private & Foreign Direct Investment for building economic-infrastructure;
- accelerating the inflow of FDI for manufacturing, processing, services, healthcare, and tourism due to the integrated nature of SEZ concept;
- enabling economies of scale and consequent sustainable growth in exports;
- generation of quality employment opportunities ;
- sustainable GDP growth;
- decongestion of existing metropolitan areas; and
- accelerated local area developments.

**A. *Indian SEZ Policy Framework: Incentives to developers/lenders/end-users***

An SEZ in India may be set up in the public, private, or joint-sector. The existing Export Processing Zones (EPZ) may also be converted into SEZs by

the Ministry of Commerce and Industry through the issue of a notification. Permission to set up an SEZ will be given by the Board of Approval in the Department of Commerce.

In order to make policy more robust and business friendly, the Central Government of India and various state Governments have announced various policy initiatives concerning fiscal and non fiscal benefits. The following key fiscal concessions and benefits have already been announced:

*Fiscal Benefits to Developers/Lenders under the proposed Central Government SEZ Bill:*

- 100% exemption of profits from income tax for 10 years from the date of commencement of operation;
- Exemption of custom and excise duties, service tax, and sales tax on capital expenditures for setting up of an SEZ;
- 100% FDI in real estate;
- Exemption of Capital gains arising out of SEZ investments;
- Exemption of income by way of interest on lending, guarantees, commission, etc. from taxation
- Investment income in the form of dividends, interest or long term capital gains, of an infrastructure capital company from investments made in an enterprise engaged in the development, operation or maintenance of a SEZ are exempt from tax.

*Fiscal benefits to end-users operating in SEZs under the proposed Central Government SEZ Bill:*

- No minimum value addition norms. Only “Net Foreign Exchange Profit” (NFEP) positive requirement
- Tax holiday with different exemption slabs for a period of 20 years
- Exemption from all duties and taxes on all capital expenditures necessary for setting up of manufacturing facilities
- Exemption from all duties and taxes on material inputs meant for exports
- Exemption from all duties and levies on inter-unit transfer of goods
- Exemption from payment of service tax
- Permission of Domestic Tariff Area (DTA) Sale as long as Net Foreign Exchange Profit (NFEP) is positive
- 100% FDI through automatic approval route except for 3 restricted items
- Freedom to retain all Foreign Exchange Earnings
- Access to international finance through Offshore Banking Units within the SEZ area, and of an International Financial Services Centre (IFSC) for value added services at international cost

*Operational Advantages to SEZ users under the proposed Central Government SEZ Bill:*

- Exemption from restrictions on manufacturing activities
- Single window clearance through the Development Commissioner’s Office

- All SEZ activities are regulated on self-certification basis
- Permission of setting up of subsidiaries outside the SEZ area and in other countries
- Permission of Sub-contracting outside of the SEZ and outside the country without payment of duty
- Permission of Inter unit transfer of goods
- Permission of Contract Labour and the usage of relaxed labour laws
- National linkages through permission of outsourcing

*Financial sector benefits provided under the proposed Central Government SEZ Bill:*

- Banks having a presence in India will be allowed to set up Offshore Banking Units within SEZs subject to the requirement of a base capital of US\$ 10 million.
- Banks can raise capital from all over the world and can invest to 25% in India.

***B. Policy Framework linking Indian SEZs with the Domestic Tariff Area and with other SEZs***

The following incentives have been provided to encourage linkages between the SEZ and domestic enterprises (as vendors, suppliers, re-processors, distributors, or otherwise):

- *Sales from Domestic Tariff Area (DTA) to SEZ Units and between Units in SEZs are treated as physical exports under the Income-tax Act, 1961. This will provide units in the DTA fiscal benefits as well as bring down costs on the sale of goods to SEZs.*
- *Sales to the DTA are treated as imports, and are allowed on payment of the basic customs duty, safeguard duty, and anti-dumping duty leviable on imports in accordance with the provisions of Central Excise Act. This will enable units in SEZs to sell goods in the DTA.*
- *In any SEZ, goods may be imported, or procured from the DTA, without payment of duty for activities related to manufacturing, production, processing, assembling, repair/reconditioning, re-engineering, packaging and trading in manufacturing goods.*
- *Subcontracting to the DTA is allowed without much procedural hassle. This will enable many SEZ units to offload work to DTA units and thus transfer knowledge and know-how.*
- *Sales to another SEZ unit are treated as exports, enabling many of the ancillaries of a mother unit to be located within the SEZ and reduce any transactions time and cost.*
- *Exemption from the customs duty on import from the DTA of capital goods, raw materials, consumables, office equipment, or such other*

*items as may be required for the setting up, operation and maintenance of units.*

- *Exemption from central excise duty on the procurement from the DTA of capital goods, raw materials, consumables, office equipment or such other items as may be required for the setting up, operation and maintenance of units.*

### **C. Trade Policy Framework**

Due to the above major concessions to units in SEZs, it becomes essential to safeguard revenues. The following measures have been envisaged as further concessions:

- All goods imported or domestically procured will be assessed on the basis of documents furnished by the units without any physical examination of goods. Similarly, for exports, there will be no routine examination of export consignments by customs authorities, and exports will be allowed on the basis of self-certification by units;
- SEZ units will be given freedom in their day-to-day operations and will not be subjected to routine inspections by the customs authorities. Customs officials are not permitted to visit the units for verification of records unless there is specific information/intelligence which, prima facie, shows that there is fraud, collusion, mis-declaration, suppression of information, etc., having a bearing on the export performance of the unit, or where there is specific information regarding clandestine/unauthorized removal of goods into the DTA, etc. For this purpose, orders of the Assistant Commissioner/Deputy Commissioner of Customs will have to be obtained. The SEZ units operate under a single all-purpose bond;
- The units will be required to maintain a proper account of all foreign exchange inflow by way of exports and other receipts, all foreign exchange outflows on account of imports, payment of dividends, royalties, fees, etc., consumption and utilization of materials and sales in the DTA;
- The units will need to submit quarterly statements to the Development Commissioner and the Customs in this regard. For high value items such as gems and jewelry, computer hardware, etc., a monthly statement shall be submitted to the Development Commissioner and Customs; and
- Units can file information electronically, eliminating physical movement of people and paper.

### 3 Mumbai Integrated Special Economic Zone (MiSEZ)

#### A. *Introduction*

The Mumbai Integrated Special Economic Zone is India's largest and first private Special Economic Zone. MahaMumbai SEZ, a proposed private SEZ, due to certain exigencies, was forced into a public-private partnership with nearby publicly-owned Navi Mumbai SEZ, which ultimately created MiSEZ. Developed by an Indian consortium led by Sea King Infrastructure, City and Industrial Development Corporation (CIDCO) and the Hiranani Group, MiSEZ covers 2500 hectares expandable up to 10,000 hectares over the next two years of project development. Investments of US\$1.1 billion have been undertaken for the creation of supporting infrastructure. MiSEZ envisages attracting multi-sectoral foreign investments, and bringing about all-round regional development, promoting foreign capital inflow, export promotion, technology transfer, and significant employment generation.

The model upon which MiSEZ is based is simple: adopt a liberal economic framework and provide integrated infrastructure at competitive prices, exactly like what China did twenty years ago. The results so far, with MiSEZ still in its 1<sup>st</sup> Phase of a Three Phase construction, have been very encouraging.

The first phase of construction which began towards the end of 2004 will cover a total area of 2,576 hectares with an investment of Rs. 4.8 billion (approximately \$1.1 billion). Forty-six global consultants have already done surveys and groundwork. A special purpose vehicle has been formed to handle the conceptualisation, planning, commissioning and marketing of MiSEZ. International SEZ experts like Parsons Brinckerhoff and the Singapore-based Jurong Township have been appointed as project management consultants to draw up a master plan.

In addition, negotiations are currently being held aimed at operating the zone on concession for the first five years, so as to introduce world-class operational standards, efficiency and corporate governance. Tenants are lining up as well. Already, 152 companies in business process outsourcing, biotechnology, information technology, and light engineering have signed memorandums to set up units covering 800 acres of land.

The reason everyone is queuing up even before construction has begun is the location of MiSEZ - close to Mumbai, Jawaharlal Nehru Port, the Mumbai international airport, and highways. In addition, there are proposals to build another international airport, in Navi Mumbai, and a trans-harbour link. There are also discussions surrounding the building of a cargo and charter airport within the SEZ that would levy no aviation fuel tax - one reason why air freight from the Dubai SEZ is extremely competitive. Tenants are also enthused by the fact that MiSEZ will have a municipality of its own, presided by a special development commissioner.

## **B. Physical Development Framework**

*MiSEZ is truly planned on a global scale with a global perspective.*

It has the following locational advantages:

- It is based near Mumbai, India's financial and commercial capital.
- The site is located in the business friendly state of Maharashtra.
- The site is located in a vast sparsely populated area, well-served by road and rail.
- The zone is to be a fully bonded area with proximity to India's most modern port with an exclusive corridor available to Jawaharlal Nehru Port Trust (JNPT) which is only 15 kilometers away.
- National Highways 4, 4B and 8B as well as State Highway 41 pass through Navi Mumbai. Further, India's first expressway connecting Mumbai to Pune, Maharashtra's second largest city, as well as the major Konkan Railway section pass through the Navi Mumbai region, are located near the zone.
- These linkages enable ready access to existing industrial areas in proximity.
- Air connectivity is available through the existing International Airport at Mumbai, and through the dedicated airstrip within the zone.
- There is availability of a skilled workforce from adjoining Mumbai and Navi Mumbai.
- The zone is located close to the Mumbai-Pune knowledge corridor, and hence can draw highly qualified and skilled workforce from its immediate region
- Mumbai has a large pool of educated, skilled and unskilled labor.
- Proximity to Mumbai's schools, colleges and other educational / training institutions.
- Vast and naturally protected sea coast.
- Strategic location and Trans Harbor link presents an opportunity to create a "new South Mumbai."

- All utilities, such as water, power, solid waste management, and sewage treatment for industrial and residential sectors, have been made available for MiSEZ's use or are well-planned for.

**C. *Institutional Development Framework for MiSEZ Development and Regulation***

The following are some of the institutional development features that characterize MiSEZ:

- The SEZ will operate and be under the administrative control of an independent Development Commissioner, who will act as an interface between the units, the central government/ state government/ local authorities, and customs.
- The SEZ Development Commissioner has been granted a number of powers including grant of approval for setting up units in the zone, control on post approval operation of the units, powers of adjudication in case of disputes, valuation of exports and issuing employment visas to certain categories of workers.
- The SEZ Developer is the authority for planning, designing and awarding right to develop infrastructure on concession basis.
- With the Zone being privately promoted, power generation, transmission & distribution rights are vested with developer.

**D. *Envisioned Economic and Social Impact Assessment of MiSEZ***

It is anticipated that MiSEZ is likely to have the following various economic and social impacts:

- The project will *create direct employment*, both during the construction as well as the operation phase, for all categories of workers - skilled, semi skilled and unskilled workers. Once the SEZ becomes operational, there would also be sufficient self-employment opportunities for many local people. The estimated employment creation, on a conservative growth forecast, is estimated at around 100,000 jobs in a five year period.
- The development of MiSEZ will have a *catalysing impact on the socio-economic, political and cultural transformation of the area*. The land-use pattern will undergo a significant change; as a result, the economic resources, means of livelihood, community life and standard of living will also undergo a sea change. When complete, MiSEZ is expected to serve as home to over 220,000 persons.

- As estimated by the US-based consulting group KPMG Consulting, about US\$12 billion in total is expected to be invested over a period of ten years. This will create employment, for which MiSEZ intends to set up training centres for the local population to become part of the skilled workforce that it will later absorb.
- The project is expected to witness the *emergence of a new township with adequate demand for agricultural produce*. This may provide an opportunity to local farmers to diversify and commercialise their agricultural production to cater to the population of the Zone. There will also be scope for animal husbandry within the zone to meet the demands of its resident population in terms of its dairy products, poultry, fisheries, etc. from the population in the Zone.
- The emergence of the new township is likely to create *better educational facilities*, including schools, colleges and vocational training facilities, and *medical facilities*, including hospitals and clinics.
- The project is expected to bring about *wide-ranging regional development* while promoting foreign capital inflow, export promotion, and technology transfer.
- Creation of infrastructure facilities and subsequent business investments as a result of the project are expected to result in the *establishment of ancillary industries outside the zone*, which will act as a multiplier in boosting the overall economy in the region.
- MiSEZ will mainly attract export-oriented industries, which will secure a steady flow of foreign currency reserves into the domestic economy.

In summary, MiSEZ is India's first private sector greenfield SEZ. The Central government of India clearly feels that the SEZ recipe is perfect for India's trade push. While India's EPZs have not had much impact, MiSEZ is very likely to serve as a platform to test bold new initiatives. It could very well create a role model for the rest of the country. It would appear that rapid strides are being made in promoting similar SEZs elsewhere in the country as well. In Maharashtra alone, the state government is in the process of promoting as many as 8 SEZs in the state after seeing the initial spurt of success. The trend towards increasing the number of SEZs in the country would suggest that MiSEZ has "pushed the envelope" further than done previously, and might cause further economic reform in India.

## 4 Conclusion

As of now, India attracts an average FDI of USD 3.9 billion per annum- a trend it has shown over the past 8 years. It lags behind other emerging markets such as China which attracts \$43.2 billion a year, Brazil at \$19.3 billion per year, Malaysia at \$4.6 billion per year and Poland \$ 4.9 billion a year. Not only is the absolute amount of FDI for these countries higher, but their FDI inflow as a percentage of GDP is also greater, at around 3-6 % as compared to India at 0.5%.

The emergence of MiSEZ and other similar SEZs is likely to, in time, serve as a catalyst of growth for FDI in India and help India in emerging as an attractive investment destination. However, to enable this to happen, new SEZs need to be located in areas that pass minimum cost-benefit tests and provide favorable financial returns to investors; where infrastructure has been made readily available and on favorable terms to the project developers; where there is proximity to financial centers; where there is a skilled technical workforce available; and where transformation of the regional economy is one of the stated goals of the promoters of the project. Only then will India reach the high standards that China set for itself in the late 1980s, and bring about economic growth which can be channeled towards much needed poverty alleviation efforts.