

Mumbai Integrated Special Economic Zone

Lessons Learnt in South Asian Free Zone Implementation

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SKOL INFRASTRUCTURE LIMITED

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**14-15 December,
2004**

**BRAC Centre
Dhaka, Bangladesh**

- Special Economic Zone have been identified as **“Engines of Growth”** to counter the barriers of growth
- New comprehensive policy framework with a package of incentives
- SEZ initiative provides impetus to and scope for planned growth of not just Business, but also Living, Learning, Healthcare & Recreation
- Leverage local strengths within an international environment
- Administration by Business for Business within a hassle free operating environment

Comprehensive & Integrated Infrastructure under One Umbrella

- Extremely successful Chinese format to promote exports, attract FDI and foster overall economic growth
- Shenzhen SEZ, started in 1981, has achieved 38% GDP growth CAGR (highest recorded in human history) mainly due to:
 - Liberal economic framework
 - Integrated infrastructure at very competitive prices
- SEZs, the engines for export led economic growth in India, defined as:

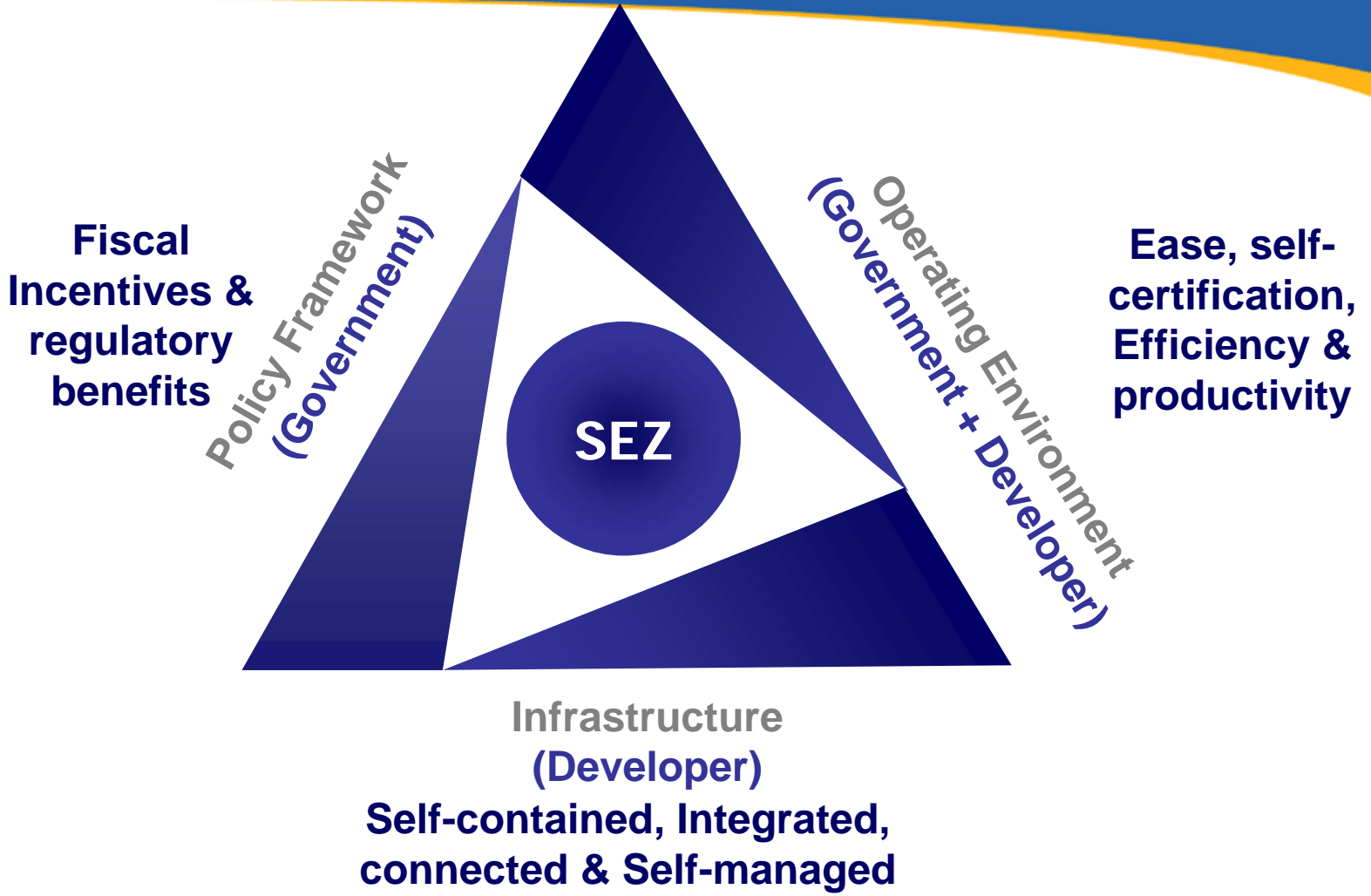
“Specifically delineated duty-free enclave and shall be deemed to be foreign territory for the purposes of trade operations and duties and tariffs”

- EXIM Policy 2000, Chapter 9 Para 30

Success of SEZ will certainly write Economic History

SEZ Framework

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Reduced Investment & Transaction Time & Cost

Developers

- 100% income tax exemption for 10 years in a period of 15 years from the date of commencement of operation
- Duty free import of capital goods and goods required for operations/maintenance
- Access to cheaper global capital through International Financial Services Centre/Offshore Banking Units in SEZ

Lenders / Investors

- Exemption from Income/Capital Gains tax for lenders/investors
- Retail investment eligible for tax rebate

Specialised Services

- Special Courts proposed exclusively for in-zone disputes
- Dedicated police force proposed to maintain law and order
- Development Commissioner entrusted with the responsibilities of the labour commissioner - enabling speedier labour dispute resolution
- Municipal rights to govern the zone vested with the zone developer / zone authority

Fiscal Advantages for SEZ Units

- SEZ Units provided 20-year income tax exemption from date of commencement of operations
 - For first 5 years 100% exemption on export profits
 - For next 5 years 50% exemption on export profits
 - For next 10 years 50% exemption on export profits upon reinvestment of profits
- Reduced input costs as purchases from DTA units exempted from excise tax, sales tax and other levies
- No customs duty on raw materials / capital goods etc.
- SEZ units exempted from state taxes such as turnover tax, sales tax , value added tax, entertainment tax, excise tax for a period of 25 years
- SEZ units allowed to avail External Commercial Borrowings (ECBs)
- Freedom to retain Foreign Exchange Earnings for SEZ units
- Offshore Banking Units (OBUs) permitted to be set up in SEZs with 100% income tax exemption for first 5 years, 80% thereafter for all times

Enhancing Profitability – Facilitating Growth

- 100% FDI allowed through automatic approval route in most sectors
- No sectoral restrictions and / or value addition norms
- DTA sales allowed with incentives on achieving Net Foreign Exchange (NFE) being positive
- Sub-contracting allowed to units in Domestic Tariff Area (DTA)
- All SEZ activities on self certification basis
- Thrust on one-stop clearance
- “Public Utility” status to in-zone units thus preventing flash-strikes by workers
- Flexibility to access, sell or distribute power independently without going through State Electricity Boards
- Development Commissioner (DC) to act as single-point interface for all matters relating to SEZ with powers of various government departments delegated to DC
- Access to cheaper global capital through International Financial Services Centre / Offshore Banking Units in SEZ

Hassle-free Operating Environment for Business

- Bold & path breaking reform policy by Government of India
- SEZ scheme first announced in March 2000; continuously strengthened
- Various concessions and announcements since made
- SEZ Act, to be promulgated shortly, will:
 - consolidate and provide permanence to all incentives and enablers
 - provide a comprehensive policy framework for zone administration
 - delegate powers to Developer to implement the same

India provides boldest policy framework in 55 years

Mumbai integrated Special Economic Zone

MiSEZ

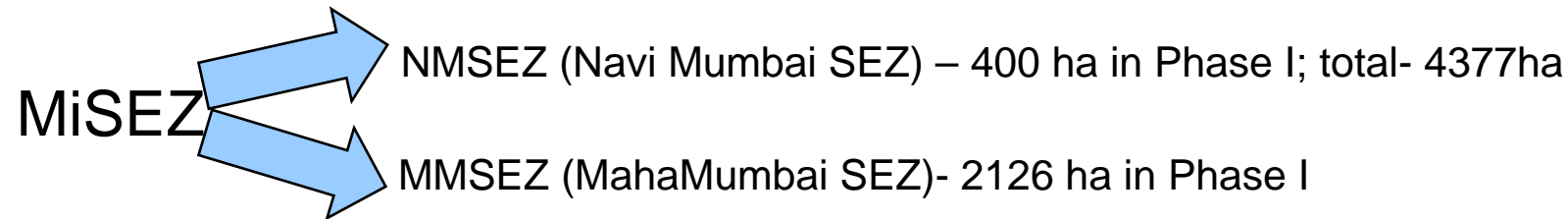
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India's new
economic hub
in the making

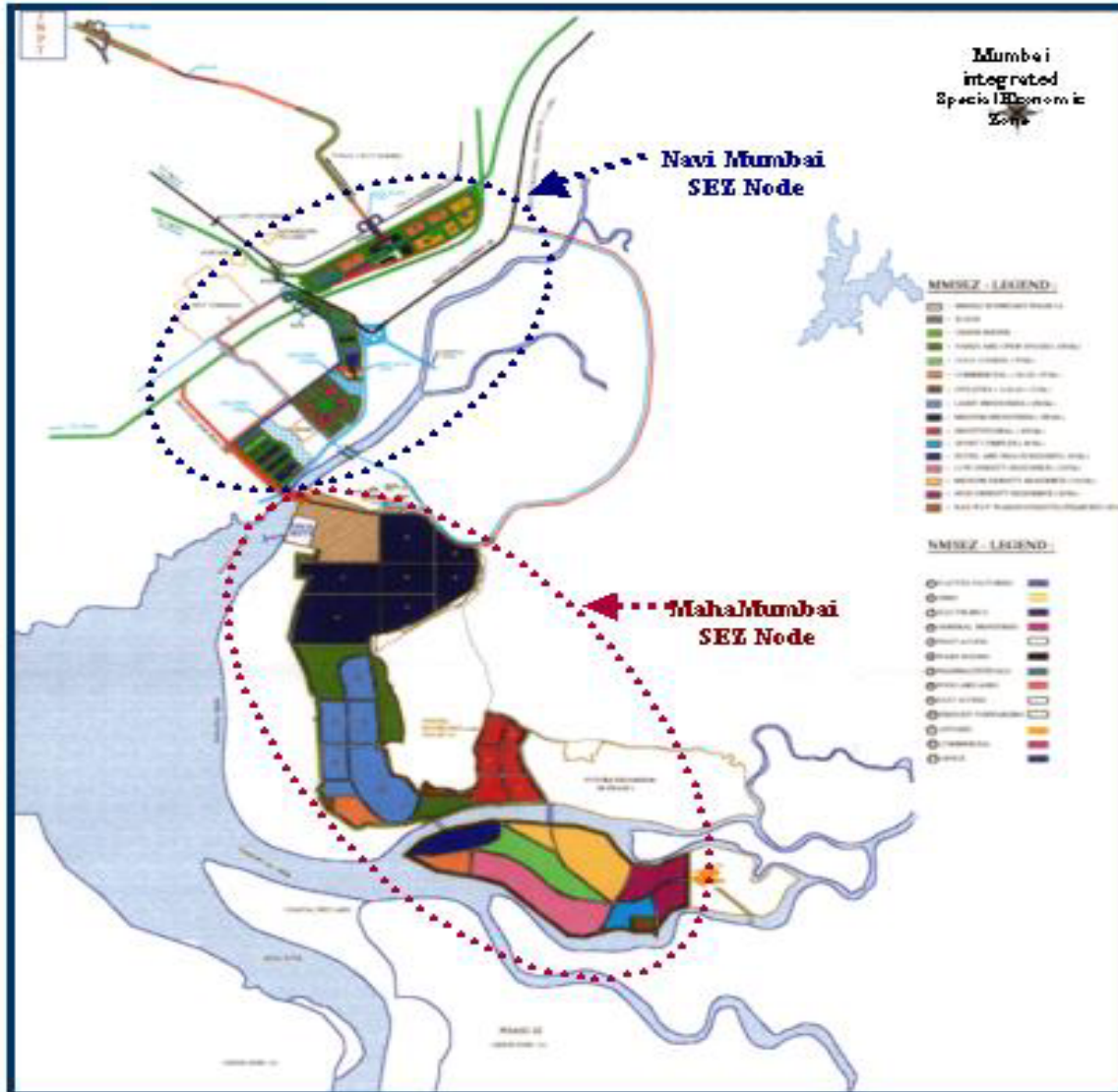
Mumbai integrated Special Economic Zone (MiSEZ)

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- The development of MiSEZ is based on the cluster approach
- MiSEZ- Industrial growth as projected by KPMG in the study- 6.5% (base case scenario) and 8% (high growth scenario)
- MiSEZ- Investment potential as projected by KPMG- USD 0.87 billion in 2007 going up to USD 11.8 billion by 2016 (base case scenario) and USD 31.11 billion by 2016 (high growth scenario)

Location...MiSEZ



MiSEZ – An Overview

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- Located adjacent to Mumbai, the financial and commercial capital of India
- Coverage over 2,500 hectares, development to be completed in in a period of 4 years, as recommended by JTC
- Expandable up to 10,000 hectares
- Investments of US\$ 1.1 billion for creation of world class infrastructure
- Business investments of US\$ 13 billion over next 10 years from potential users (as estimated by KPMG)
- Home to 220,000 persons and employment creation for 100,000 persons

Planned on a Global scale with a Global Perspective

- Site located in business friendly state of Maharashtra
- Located in a vast sparsely populated area, site is well-connected through road and rail linkages
- Zone to be a fully bonded area with proximity to India's most modern port - an exclusive corridor available to JNPT
- Air connectivity through existing International Airport at Mumbai and through dedicated airstrip within zone
- Availability of skilled workforce from adjoining Mumbai and Navi Mumbai
 - Mumbai has a large pool of educated, skilled and unskilled people
 - Existence of renowned schools, colleges and other educational / training institutions
 - Well-trained workforce in all kinds of trade & services including IT services

Proximity to Mumbai – India's Financial & Commercial Capital

Integrated Infrastructure for Business

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- **Industrial**
- **Commercial**
- **Residential**
- **Education**
- **Healthcare**
- **Leisure**
- **Water**
- **Power**
- **Solid Waste Management**
- **Sewage Treatment**
- **Airport**
- **Rail Linkage**
- **Port**
- **Roads**



Providing for a New Way of Life

International Financial Services Centre (IFSC)

- MiSEZ to become next financial hub of the country with International Financial Services Centre (IFSC)
- Banks having presence in India allowed to set up Offshore Banking Units within SEZs - only requirement is a base capital of US\$ 10 million
- Banks can raise capital from all over the world and can invest upto 25% in India, balance 75% within the zone
- IFSC to benefit from India's competitive advantages of educated manpower, time-tested judiciary, and fast maturing financial markets

Targeted Users

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Manufacturing	Services
Auto Components	Health care
Microelectronics	International Financial Services Center
Telecom Equipment, Consumer Electronics & Appliances	Biotechnology
Pharmaceuticals	IT enabled services
Gems, Jewellery & Diamonds	Entertainment and recreation
Food Processing	Education
Readymade garments, Leather products & Cotton & Synthetic Textiles	Organized Retail
Light Engineering	R&D services
Application Engineering	Real Estate

Source: KPMG

MiSEZ will provide a Platform to Compete Globally

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MiSEZ

Forward &
Backward
Linkages

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MiSEZ- A vehicle for transformation of the regional economy

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- An instrument for poverty alleviation
- Employment generation potential
- Development of backward areas and urbanization of the entire rural area
- Better education and health facilities thereby improving educational levels and standards
- Improved infrastructure
- High potential for business and economic opportunities
- Access to new technology
- Boost the quality of life of the people
- Enhance income levels in the region
- Overall- regional development

Triggers for Economic Development

- International quality infrastructure combined with fiscal benefits will provide the impetus for increase in real estate demand.
- Full employment with above average per capita income
- Mumbai-Navi Mumbai linkage through Mumbai Trans Harbour Link
- All-round connectivity - roads, rail, port and airstrip
- Ever increasing economic activities
- FDI in real estate will grow this market by providing access to long term capital at low-cost
- Low Cost and long term funding for housing finance will be a major encouragement
- Alliance with leading global industry players will ensure maintenance and enhancement of real estate value/assets
- Large NRI population will have a internationally comparable destination back home at a competitive prices

Factors enhancing stakeholders value - Key Upsides

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- Master planning for the zone is being undertaken by Jurong Consultants, Singapore
- Project Execution Management by Parsons Brinkerhoff, USA
- Project Execution by one of the top 10 world reputed EPC contractors
- Operations and Management through Jurong Consultants, having long-standing experience in the field will introduce world class efficiencies and operating standards
- Proposed Trans Harbour Link Project will make MiSEZ an extension of South Mumbai

Factors enhancing stakeholders value – Key Upsides contd...

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- **International Financial Services Centre (IFSC) - MiSEZ will be home to India's first IFSC, thus creating a financial hub of world-class standards within the zone**
- **SEZ Developer is the authority for planning, designing and awarding right to develop infrastructure on concession basis**
- **Power - Zone being privately promoted, power generation, transmission & distribution rights are vested with developer**
- **Strategic location and Trans Harbour link; opportunity to create new South Mumbai**
- **Real Estate Opportunities**

- Sale from Domestic Tariff Area to SEZ is physical exports
- Sale to Domestic Tariff Area allowed
- Sub contracting to Domestic Tariff Area allowed
- Sale to another SEZ is treated as exports

- Employment creation – 100,000 jobs in phase I
- Construction period – Semi skilled and unskilled jobs to local population
- Argi goods supply and support service opportunities in the residential township
- Better education and medical facilities
- Natural development of the vicinity due to various associated opportunities
- Growth of ancillaries in the vicinity

- Enhancement of exports
- Externalities of FDI
- New Investments and job opportunities
- Development of ancillaries
- Creation of infrastructure and spill over effects
- Platform to test bold policy initiatives
- Strategy to create a role model for the rest of the country

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MiSEZ

Learnings from SEZ Implementation

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Experience of other South Asian countries

- Many Developing Taiwan, Malaysia, Indonesia and South Korea adopted the model of export oriented economic growth
- Most of them set up special export oriented formats such as Export Processing Zones, (EPZs)/ Free Industrial Zones (FTZ) etc.
- Result - Significant increase in the income levels with high economic growth rates averaging 7% - 8% per annum.
- In countries such as Costa Rica, Mauritius and Sri Lanka (besides China) these zones had significant impact in promoting manufactured products.
- In case of Mauritius, in 1998, these zones accounted for 62% of the country's total export.
- Jebel Ali Free Trade Zone in Dubai has been very high and accounted for 23% contribution to the Emirates outward trade.
- Export Zones in Malaysia were instrumental in building and developing its electronics sector starting in the early 1970s

- Locational advantage
- Flexible labor laws
- Delegation of powers by Federal Government of China to the City and Provincial Governments for Special Economic Zones.
- The trade related infrastructure (power, water, roads, ports etc.) and social infrastructure (housing, hospitals, educational institution etc.) as an integral part of the SEZs.
- Stronger linkages with the domestic economy
- Full convertibility of Chinese currency in SEZ with Hong-Kong currency.
- Zone specific fiscal incentives suited to meet the requirements of the zones/ industry / business

- Inefficient Land Acquisition
- Political instability - African countries EPZs
- High crime rate, excessive corruption and administrative burdens - Hainan (China)
Administrative delays – Ghana & Dakar EPZ (Senegal)
- Failure to develop backward linkages - Ghana
- Lack of reliable utilities and infrastructure - Dominican Republic
- Macroeconomic factors - Egypt & Kenya
- Location - Bataan EPZ in the Philippines
- Poor infrastructure
- Slow pace of development
- Bureaucratic bottle-necks
- Frequent Changes in the Policy frame-work

SEZ Framework – Road To Success

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