Workshop on Economic Zones - Learning from Global Experience

Development Constraints to SEZs in India

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Key Indian SEZ Characteristics…

- India has announced an SEZ policy after SEZs have proved successful in other countries
- Government / RBI have focused on establishing policy regime for SEZs since 2000
- GoI has encouraged private sector to decide its location, and lead development and financing of SEZs
- DTA access from SEZs on par with imports
- Existing EPZs have been converted to SEZs

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There is a prima facie case for SEZs in India…

- Global Integration of India
  - *India among the aggressively globalising developing countries since 1990s*
- Accelerating Removal of Existing Deficiencies
  - *Infrastructure and customs still perceived as bottlenecks*
  - *Y-o-Y GDP growth rate of at least 7% required to absorb annual additions to work force*
- WTO Compliance

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Investment demand assessment a key issue for private sector developers…

- Accuracy of models for estimating investor demand for SEZ land
- No reliable data/benchmarks on financial performance of SEZs - public / private
  - *Most successful SEZs have received government funding, at least in the initial phase*
- Mitigants
  - *Location (Proximity to Economic Hub & Connectivity)*
  - *Anchor investors*

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Land Acquisition, R&R approach have potential to cut dev. cost and time

- Developers tend to follow different land acquisition strategies
  - *Acquisition under the Land Acquisition Act*
  - *Joint venture with a State Government entity*
  - *Negotiated purchase*

- Need to follow due process in PAP identification and in implementation of Rehab Plan

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Control of project size & cost would be key to viability…

- SEZs are, in effect, a constellation of projects, all dependent on a common revenue line
  - *Opportunities for leveraging on existing infrastructure and connectivity*
  - *Master plan to ensure that the facilities planned as per core requirement*
  - *Lenders would, typically, retain strong controls on tender formulation, evaluation, contractor selection and contract monitoring activities*

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The Indian Financial system has its own constraints…

- Issues
  - *Tenure restriction on funds with domestic banks and financial institutions*
  - *Long gestation period and moratoria add to structuring complexity*
  - *High up-front debt commitment*
- Mitigants
  - *Upfront capital subsidy for funding of initial development expenditure*
  - *Debt Service Reserve Fund access upto break even occupancy*

SEZs should be viewed as laboratories in India also…

- SEZs can be viewed as laboratories in a wide sense to judge reforms in
  - *Labour Laws*
  - *Urban planning and city administration*
  - *Immigration procedures*

- Large upfront recoveries by Government / Govt. agencies can be deterrents

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Jurong Chemical Hub has a lot of positive lessons for Indian SEZ projects...

- Total Area Reclaimed & Developed - 2210 ha
  - *Esso and Mobil had already set up refineries*
  - *Singapore EDB and JTC inviting investors*
  - *As of Oct 2000, Jurong Island home to 53 petroleum/ petrochemical/ chemical MNCs*
  - *Concept to Full Occupancy : 1991-2000*
  - ***Total investment Invited - US$ 12 billion***

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SEZs could pan out as...

- 1 or 2 Gateway SEZs
  - *Multi Industry*
  - *Coast, Economic Hub Leveraging*

- Niche SEZs
  - *Industry Specific*
  - *Cluster Leveraging*
  - *Feeding into Gateway SEZs*

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Thank You

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