Export Promotion Council for EOUs & SEZs (EPCES)
Ministry of Commerce & Industry,
Government of India

Study on Service Sector SEZs and EOUs
Final Report
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Final Report
Study on Service Sector SEZs and EOU

Commissioned by
Export Promotion Council for EOU & SEZs (EPCES)

Prepared by
Frost & Sullivan Growth Consulting
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<td>Abbreviation</td>
<td>Expansion</td>
</tr>
<tr>
<td>--------------</td>
<td>--------------------------------------------------</td>
</tr>
<tr>
<td>BCD</td>
<td>Basic Customs Duty</td>
</tr>
<tr>
<td>BOE</td>
<td>Bill of Exchange</td>
</tr>
<tr>
<td>CAGR</td>
<td>Compound Annual Growth Rate</td>
</tr>
<tr>
<td>CBDT</td>
<td>Central Board of Direct Taxes</td>
</tr>
<tr>
<td>CBEC</td>
<td>Central Board of Excise and Customs</td>
</tr>
<tr>
<td>CIT</td>
<td>Corporate Income Tax</td>
</tr>
<tr>
<td>DTA</td>
<td>Domestic Tariff Area</td>
</tr>
<tr>
<td>EOU</td>
<td>Export Oriented Unit</td>
</tr>
<tr>
<td>EPCES</td>
<td>Export Promotion Council for EOUs &amp; SEZs</td>
</tr>
<tr>
<td>EPZ</td>
<td>Export Promotion Zone</td>
</tr>
<tr>
<td>FBO</td>
<td>Fixed Base Operation</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>FTZ</td>
<td>Free Trade Zone</td>
</tr>
<tr>
<td>GATS</td>
<td>General Agreement on Trade in Services</td>
</tr>
<tr>
<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross domestic product</td>
</tr>
<tr>
<td>GOI</td>
<td>Government of India</td>
</tr>
<tr>
<td>GST</td>
<td>Goods and Services Tax</td>
</tr>
<tr>
<td>JV</td>
<td>Joint Venture</td>
</tr>
<tr>
<td>MOCI</td>
<td>Ministry of Commerce and Industry</td>
</tr>
<tr>
<td>MOSPI</td>
<td>Ministry of Statistics and Programme Implementation</td>
</tr>
<tr>
<td>MRO</td>
<td>Maintenance, Repair, and Overhaul</td>
</tr>
<tr>
<td>RBI</td>
<td>Reserve Bank of India</td>
</tr>
<tr>
<td>SEZ</td>
<td>Special Economic Zone</td>
</tr>
<tr>
<td>VAT</td>
<td>Value Added Tax</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organization</td>
</tr>
</tbody>
</table>
1. INTRODUCTION

1.1 Overview

Services sector contributes more than 60% to India's economy and 28% to the total employment. Attracting highest Foreign Direct Investment (FDI) inflows, services sector is on a growth trajectory driven by digital efforts of the government and highly skilled and low cost manpower. Some of the growing service sectors such as tourism, healthcare, telecom, information technology, banking, finance, education and space have witnessed good revenue generation over the years. India has the fastest growing (9.2% in 2015-16) service sector in the world and contributes about 66% to Indian Gross domestic product (GDP). The services sector, which stands at about $1.48 trillion, has a potential for exponential growth riding on various government initiatives like Make in India, Skill India, Start-up India and Digital India.

Table 1: Trade Performance of India’s Major Services in 2016-17

<table>
<thead>
<tr>
<th>Service</th>
<th>Service Exports</th>
<th>Service Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Travel</td>
<td>23.20</td>
<td>15.90</td>
</tr>
<tr>
<td>Transportation</td>
<td>16.40</td>
<td>14.10</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>14.10</td>
<td>6.30</td>
</tr>
<tr>
<td>Software Services</td>
<td>63.00</td>
<td>73.70</td>
</tr>
<tr>
<td>Business Services</td>
<td>32.90</td>
<td>32.30</td>
</tr>
<tr>
<td>Financial Services</td>
<td>5.10</td>
<td>5.90</td>
</tr>
<tr>
<td>Total</td>
<td>163.10</td>
<td>95.70</td>
</tr>
</tbody>
</table>

Source: Economic Survey 2016-17

These government initiatives are creating an enabling environment giving further push to the services sectors such as communication, healthcare, environment, technology, energy, and banking to name a few. With the right regulatory and policy framework to create a climate that will ease the way of doing business in India, the services sector can achieve new heights and hold an enlarged share of the global services trade pie.

SEZ development in India

A Special Economic Zone (SEZ) is a demarcated area of land that provides impetus to manufacturing and services, with the primary objective of boosting exports. SEZs typically feature
liberal tax laws and economic policies. Units situated in SEZs are deemed to be outside the customs territory of India. Therefore, goods and services coming into SEZs from the Domestic Tariff Area (DTA) are treated as exports from India, while goods and services rendered from the SEZ to the DTA are treated as imports into India.

SEZs have generated interest in developing countries with regards to boosting international trade and encouraging economic activity in the country’s domestic market. China and Korea have successfully implemented the SEZ models during 1960-70 to the early nineties. Successful SEZs create new jobs for citizens, provide laboratories for governments to run controlled trade policy experiments, attract FDI, strengthen industries, and help countries avoid potentially defective domestic laws and institutions that act as a barrier to growth.

Asia’s first Export Promotion Zone (EPZ) was set up in Kandla in 1965. Seven more zones were set up thereafter. However, according to the Department of Commerce, Government of India (GoI), these zones were unable to do much for export promotion on account of the multiplicity of controls and clearances, the absence of world-class infrastructure, and an unstable fiscal regime. The SEZ policy which was introduced in 2006 had taken care of the shortcomings in the EPZ model.

The key features of the SEZ policy include:
- 10-year tax holiday in a block of the first 20 years
- Exemption from duties on all imports for project development
- Exemption from excise / VAT on domestic sourcing of capital goods for project development
- No foreign ownership restrictions in developing zone infrastructure and no restrictions on repatriation

As on March 2017, India has 354 notified SEZ's with 222 operational SEZs with close to 4,500 units. There was an investment of INR 4.3 lakh Crore in developing SEZs in India.

Performance of SEZs in India

In India, SEZs have played an important role in facilitating exports, thereby enabling the country to be a part of globalisation. Exports from SEZs during 2015-16 stand at INR 5.23 lakh crore indicating a growth of 15% over exports of the preceding year. The period during FY06-FY12, exports from SEZs increased at a CAGR of 59 per cent. The growth rate showed a decline in the subsequent years owing to withdrawal of tax incentives. This aside, SEZ exports still constitute a major portion of the overall exports.

Reportedly, SEZs in India have generated employment to 17.5 lakh persons as on March 2017. Data for April-June 2017 indicates that the services sector attracted the highest FDI equity inflow of US$ 1.88 billion, followed by computer software and hardware – US$ 1.32 billion and trading – US$ 769 million.

Key factors influencing the overall trade environment going forward:

Goods and Services Tax (GST):

As per economic theory, GST should not have an impact on the terms of trade rather it should lead to overall improvements. However, for a large number of countries, international trade came down with the introduction of GST.

The recent introduction of GST has these implications for SEZs and EOUs in India:
- Two separate set of compliances is required
- All supplies made to a SEZ are considered “zero rated”
Onus of filing refund shifted from SEZ units to suppliers

Any procurement of raw material, goods or services made by SEZ from outside India for its authorized operations have been exempted from both Basic Customs Duty (BCD) and IGST

If a SEZ makes domestic clearances, the customer will have to file a BoE, pay BCD and IGST.

If a SEZ makes a domestic clearance without the BoE cover, such transactions will be required to be reported by SEZ as its outward supply.

World Trade Organization:
While WTO and its roles have evolved from the earlier limited setup of GATT some of the issues have been persistent. One such issue has been the ‘anti-dumping’ law. Anti-dumping actions have been on a rise over the past three decades. While most developed countries made use of these measures up to 1990, the recent trends indicate developing countries taking a major chunk of it as well post the establishment of WTO. The trends indicate that the mutual anti-dumping actions among developing countries have been much more than the anti-dumping actions between developed and developing countries as well as between developed countries itself. Although India has mostly acted under the limitations of the WTO’s anti-dumping policies it is still regarded as the third biggest initiator of anti-dumping actions after US and EU in the world. There are several disputes lodged at WTO, some of which are:

- WTO struck down India’s local content requirements for solar cells and modules
- Washington’s alleged barriers on the movement of short-term services providers, or non-immigrant visas. (2016)
- Certain measures on imports of iron and steel products - Constitution of the Panel established at the request of Japan (2016)
- Anti-dumping duties on USB Flash Drives - Request for consultations by the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (2015)

As trade barriers and protectionist measures increase, it is vital for India to get its export promotion measures in shape and in line with global needs. In the same vein, if opportunities thrown open by globalization are to be grabbed, policies that ensure a predictable business environment and in tune with the needs of the private sector has to be top priority in policy agenda.

While India’s anti-dumping actions have been primarily focused on the developing nations, a growing number of anti-dumping actions have been placed on Indian exports by the developed nations especially US and EU. India’s one third of export earning is contributed by the small scale industries which most likely cannot afford the legal costs of anti-dumping hearings. Thus the increasing numbers of anti-dumping actions against India are not only an immediate concern but a future threat as well which can impact Indian exports exponentially in the long run.

Emerging future trade scenario:
Some of the future trends that can be arrived at from the current analysis are:

- The share of developing countries is likely to rise in world trade with their increasing in intra-regional trade.
- Services increasingly are likely to play a more important role for world trade for both developed and developing nations.
• Despite the regionalization of trade, multilateral trade agreements are likely to increase significantly with the increasing sophistication of world trade.

1.2 Aim and Objective of the study
With the above context, in order to improve and encourage growth of service sector in India and SEZs, there is a need to look at the effectiveness of the current policy and where we stand in terms of service exports. How can India become a service export-driven economy with the right government support and regulations backing SEZs? What else is needed to promote service sector SEZs?

This study attempts to get a bird's eye view of the scenario in India by analyzing the service sector in India, its growth potential, analyse the challenges faced by SEZs with regard to government approvals and clearances, tax regime, fraudulent/ corrupt practices, bank loans, cluster development, and infrastructure. The objective of the study is to provide EPCES the required support with a good fact-based knowledge on service SEZs in India and globally.

1.3 Proposed Methodology
A four-pronged approach has been adopted for the basis of this study:
• Understanding Service Sector, SEZs through primary and secondary research. Interviews with SEZ developers, SEZ units, Development Commissioners, EOU officials and stakeholders in the trade value chain wherever required. Not only this, face-to-face interviews with the relevant stakeholders forms a solid base for this study
• Review and comparison of country specific SEZ policies that will support in a final consensus on the way forward
• Global benchmarking – Best practices that India can learn and adapt from
• End-user perceptions are vital for a study of this nature. Workshops and interactions enable varied points of view to be heard and assimilated which can then be presented to EPCES in a concise format.

Figure 1: Proposed Study Methodology
2. **EXPORT PROMOTION COUNCIL FOR EOUs & SEZs (EPCES)**

2.1 EPCES

- The mission, visions and objectives

The Export Promotion Council for EOUs & SEZs (EPCES) has been set up to facilitate exports in the country. It services the export promotional needs of SEZs, SEZ Developers, 100% Export Oriented Units (EOUs) in the country and has been recognized by the Ministry of Commerce, Government of India. It has varied objectives concerning the export sector such as promoting exports from India and to earn more foreign exchange for the country. It also facilitates interaction between the exporting community and the Government, both at the Central and State level. EPCES also canalizes financial assistance rendered by the Central Government to members for assisting their export market development efforts. EPCES collaborates with other export promotion councils/ export promotion organizations in India and similar bodies in foreign countries as well as with international organizations working in the field.

Since its inception in 2003, EPCES, along with its members, regularly participates in trade fairs/exhibitions abroad for increasing exports from the country. In order to publicize the concept of SEZ Scheme abroad and for attracting foreign investments in SEZs in India, EPCES also takes delegations of SEZs to different countries. It arranges buyer-seller meets and interaction of SEZ Developers/Units with foreign businessmen and investors.

With approximately 6,000 operational EOUs/SEZ Units/ SEZ Developers spread all over the country, EOU/SEZs contribute INR 5,28,091 crores (US$ 83 Billion) to India’s export basket with a contribution of approximately 30% in national exports. EPCES facilitates exports of its members through its various schemes and activities.

- It provides financial assistance to EOUs/SEZ units through Market Development Assistance (MDA) for export promotion activities abroad.
- It organizes Open Houses/ Seminars/Workshops in different states of the country to resolve their problems and eliciting suggestions for policy making by Government.
- Issues affecting EOUs/SEZs are taken up with various Ministries like Commerce, Finance, CBEC, CBDT, RBI, State Governments, etc.
- EPCES participates in trade fairs/exhibitions in India and abroad.
- It informs members about latest development and changes in the national and international trade scenario.
- EPCES publishes quarterly ‘EPCES News’ focusing on marketing strategies, international trade scenario, latest provisions and procedures relating to export-import, customs and excise, investment opportunities, etc.
- It also organizes buyer-seller meets with EOUs and SEZs for the promotion of exports.
3. Service Sector in India

Economies across the world have realized the importance of their service sector to steer them forward, and India is no exception. Reforms of the 90s gave a boost to services in an otherwise manufacturing-oriented Indian economy. Not only did exports benefit from the sector’s growth as is evident from trade data, but the overall ICT revolution led to a superior quality of services. Quality technology, transportability, and tradability have been the trademark of Indian IT services since the 90s.

India’s service exports grew almost ten-fold in the past 15 years, its share in global services exports (such as IT services) being almost double than that of its share in global merchandise exports. India’s share of global exports of commercial services increased to 3.2% in 2013 from 1.2% in 2000. In fact, during the period from 2001-2013, CAGR of world commercial services exports was 10% with India being at the top amongst the 15 top economies registering growth at 20.1%, followed by China at 16.5%. India stands as the eighth largest services exporter in the world. The services sector is also more open, as calculated by total trade including services as a percentage of GDP, as compared to the merchandise trade sector.

Table 2: Indian exports of commercial services (2006-2015)

<table>
<thead>
<tr>
<th>Year</th>
<th>Indian exports of commercial services ($ billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>69.1</td>
</tr>
<tr>
<td>2007</td>
<td>86.2</td>
</tr>
<tr>
<td>2008</td>
<td>105.6</td>
</tr>
<tr>
<td>2009</td>
<td>92.4</td>
</tr>
<tr>
<td>2010</td>
<td>116.6</td>
</tr>
<tr>
<td>2011</td>
<td>137.9</td>
</tr>
<tr>
<td>2012</td>
<td>145.03</td>
</tr>
<tr>
<td>2013</td>
<td>148.2</td>
</tr>
<tr>
<td>2014</td>
<td>155.7</td>
</tr>
<tr>
<td>2015</td>
<td>155.3</td>
</tr>
</tbody>
</table>

Source: World Trade Organisation

Rapid technology adoption in the country has mainly taken place due to export in services. India’s tech and business services are among the most dynamic in the world with IT forming the majority of services exports.

Foreign Direct Investment (FDI) has played a crucial role in this growth as services have been the main beneficiary.
The combined FDI share of the top 10 service sectors is 53.3% of the cumulative FDI equity inflows during the period April 2000-October 2015. While total FDI inflows grew by 27.3% in FY15, FDI inflows to the services sector, including the top 10 services, grew by 70.4%.

A further expansion can be seen in FDI inflows in core services, which have touched $5.3 billion in FY17 (Apr-Sep), which is close to $6.9 billion that was achieved for the last full financial year of FY16. Services contributed 17.2% to total FDI inflows in FY16, and this figure has grown to almost a quarter of total FDI inflows, or 24.5%, in the first two quarters of FY17.

World Bank’s 2004 study on India also reiterated the positive correlation between the level of liberalisation and growth in services. The more liberalised a country, the more chances of FDI finding a firm footing. Foreign capital investments into the profitable services sector is growing and will soon overtake merchandise trade as well.

As can be gathered from our analysis, a boost to services helps in positive trade flows. But how do you define services? Unlike goods which are quantifiable and can be tracked, services need to measured and classified in a completely different manner.

3.1 Classification of Services
The World Trade Organization (WTO) has come up with a four pronged definition under a General Agreement on Trade in Services (GATS) dependent on the territorial presence of the supplier and the consumer at the time of the transaction.

1. Mode 1 — Cross border trade: from the territory of one member into the territory of any other member

2. Mode 2 — Consumption abroad: in the territory of one Member to the service consumer of any other Member

3. Mode 3 — Commercial presence: by a service supplier of one Member, through commercial presence, in the territory of any other Member

4. Mode 4 — Presence of natural persons: by a service supplier of one Member, through the presence of natural persons of a Member in the territory of any other Member

These definitions are significantly broader than the concept of services in Balance of Payments and essential to further understand how trade in services can evolve.

3.2 Global Industry Potential and Market Growth
An analysis on the global industry potential, market size, and market growth of several industry sectors has been conducted and the table below depicts the same.
Table 3: Global market size and growth of industry sectors

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Diamond beneficiation</td>
<td>74.20</td>
<td>4.5%</td>
</tr>
<tr>
<td>Metals and minerals</td>
<td>5,433.76</td>
<td>-4.9%</td>
</tr>
<tr>
<td>Logistics</td>
<td>8,100.00</td>
<td>7.9%</td>
</tr>
<tr>
<td><strong>Financial services</strong></td>
<td><strong>11,000.00</strong></td>
<td><strong>6.0%</strong></td>
</tr>
<tr>
<td>ICT/BPO</td>
<td>4,300.80</td>
<td>4.9%</td>
</tr>
<tr>
<td>Meat processing</td>
<td>361.00</td>
<td>14.3%</td>
</tr>
<tr>
<td>Leather</td>
<td>200.00</td>
<td>4.0%</td>
</tr>
<tr>
<td>Biogas</td>
<td>19.50</td>
<td>6.0%</td>
</tr>
<tr>
<td>Coal mining</td>
<td>601.00</td>
<td>-14.1%</td>
</tr>
<tr>
<td>Other energy</td>
<td>285.90</td>
<td>2.7%</td>
</tr>
<tr>
<td>Horticulture</td>
<td>187.61</td>
<td>9.8%</td>
</tr>
<tr>
<td>Food processing</td>
<td>2,431.43</td>
<td>4.5%</td>
</tr>
<tr>
<td>Textile</td>
<td>1,662.51</td>
<td>5.9%</td>
</tr>
<tr>
<td>Automotive</td>
<td>9,000.00</td>
<td>3.2%</td>
</tr>
<tr>
<td>Heavy machinery</td>
<td>181.00</td>
<td>6.0%</td>
</tr>
<tr>
<td><strong>Aircraft MRO</strong></td>
<td><strong>63.00</strong></td>
<td><strong>3.5%</strong></td>
</tr>
<tr>
<td>Biotech</td>
<td>323.00</td>
<td>3.7%</td>
</tr>
<tr>
<td>Pharmaceuticals &amp; medical devices</td>
<td>1,072.00</td>
<td>3.0%</td>
</tr>
<tr>
<td>Construction materials</td>
<td>825.87</td>
<td>5.9%</td>
</tr>
<tr>
<td>Chemicals manufacturing</td>
<td>5,225.60</td>
<td>1.2%</td>
</tr>
<tr>
<td>Electrical equipment</td>
<td>1,352.71</td>
<td>15.6%</td>
</tr>
<tr>
<td>Electronics</td>
<td>8,290.69</td>
<td>6.0%</td>
</tr>
<tr>
<td><strong>Tourism</strong></td>
<td><strong>2,230.00</strong></td>
<td><strong>2.9%</strong></td>
</tr>
<tr>
<td><strong>Education</strong></td>
<td><strong>5,400.00</strong></td>
<td><strong>7.4%</strong></td>
</tr>
<tr>
<td>Healthcare</td>
<td><strong>9,590.00</strong></td>
<td><strong>5.3%</strong></td>
</tr>
</tbody>
</table>

Source: Frost & Sullivan

For the purpose of this study we have shortlisted the following service industry sectors keeping in mind the market size, market growth, market potential and also the need with respect to India.

1. Healthcare
2. Education
3. Tourism and Hospitality
4. Media and Entertainment
5. Banking and Financial Services
3.3 Overview and Comparative Analysis of major service sector contributors – Global vis-à-vis India

3.3.1 Healthcare

<table>
<thead>
<tr>
<th>Global Industry</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• The global healthcare market had a turnover of $9.5 trillion in 2015</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Indian Industry</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• In 2016, the Indian healthcare market had a turnover of $110 billion and is expected to touch $280 billion by 2020. Healthcare delivery constitutes 65% of the overall Indian healthcare market.</td>
<td></td>
</tr>
<tr>
<td>• FDI in hospital and diagnostic centers: $4 billion (April 2000 and September 2016)</td>
<td></td>
</tr>
<tr>
<td>• Medical tourism in India</td>
<td></td>
</tr>
<tr>
<td>• Current: $3.9 billion (2016)</td>
<td></td>
</tr>
<tr>
<td>• Projected: $8 billion (2020)</td>
<td></td>
</tr>
<tr>
<td>• Tourist arrivals: ~230,000 (2016)</td>
<td></td>
</tr>
</tbody>
</table>

3.3.2 Education

<table>
<thead>
<tr>
<th>Global Industry</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• The global education market, in terms of revenue, stood at $4.4 trillion in 2013.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Indian Industry</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• The Indian education market, in terms of revenue, stood at $97.8 billion in 2016</td>
<td></td>
</tr>
<tr>
<td>• FDI in education sector in India: $1.4 billion (April 2000-Dec 2016)</td>
<td></td>
</tr>
<tr>
<td>• One of the world's largest higher education systems with enrollments of ~33.3 million students in colleges, institutions, across 50,000+ higher education institutes and 750+ universities.</td>
<td></td>
</tr>
</tbody>
</table>
3.3.3 Tourism and Hospitality

**Indian Industry:**
- Tourism sector’s direct contribution to India’s GDP: $47 billion in 2016
- In 2016, Foreign Tourist Arrivals (FTAs) were 8.9 million as compared to 8.3 million in 2015
- Foreign Exchange Earnings (FEEs) from tourism was INR 1,556.50 billion ($24.4 billion) in 2016
- Tourism and hospitality sector generated FDI inflows of INR 73.5 billion ($1.1 billion) in 2016
- Improvement in Tourism rankings from 52nd in 2015 to 40th in 2016 due to liberalized visa regime

3.3.4 Media and Entertainment

**Global Industry**
- Global Media & Entertainment (M&E) industry is expected to touch a market size of $2.14 trillion by 2020

**Indian Industry**
- India M&E industry market size estimated to be $20.5 billion in 2016
- Television, print and films are 3 largest sectors
- Indian film industry: Largest in the world in terms of number of films produced in more than 20 languages, 2nd highest footfall in the world
- 2nd largest television market with 181 million television households in 2016; ~892 television channels in India
- Largest newspaper market with 110,851 registered publications (March 2016)
- FDI inflows: $6.3 billion (April 2000-Dec 2016)

3.3.5 Banking and Financial Services

**Global Industry**
- The global banking industry is expected to be $163 trillion in 2017.

**Indian Industry**
- The Indian Banking and Insurance sector accounted for ~5.8% of GDP (at factor cost, current price) in FY 13.
- Indian GDP in 2015 stood at a whopping $2.095 trillion, valuing the industry’s contribution in GDP at > $121 billion in 2015.
- Based on MOSPI's advanced first estimates of National Income for FY 17, the share of the Financial and insurance sector in GVA stood at INR 7,106.13 billion in FY17.
3.3.6 Information Technology

Global Industry
- Worldwide IT services market will reach $938 billion in 2017
- Global IT spending is expected to reach $3.5 trillion in 2017
- 26 billion internet connected devices and over 4 billion internet users by 2020
- In 2016, IP traffic 1.1 Zeta Bytes (over 1 trillion GB), by 2020 IP traffic is expected

Indian Industry
- Indian IT-BPM sector size is $143 billion and is expected to reach $180 billion by 2018
- Exports market: $108 billion in 2016
- Domestic market: $52 billion
- GDP contribution: 9.5%

3.4 Growth Opportunities and Enablers for the above services

3.4.1 Healthcare

Opportunities
- Increasing penetration of health insurance
- Use of technology for healthcare delivery in remote corners

Enablers
- National Health Policy 2017
  - Comprehensive primary healthcare package
  - Health Card for access to primary healthcare facility services anytime, anywhere
  - Free drugs and diagnostics
  - Free healthcare to victims of gender violence
  - Digital Intervention – tele consultation, National Knowledge Network, National Digital Health Authority and introduction of electronic health records
- AYUSH Ministry is working with various agencies, institutions, Ayurveda researchers and practitioners across the globe to turn India into a global hub for knowledge, research, practice and developmental projects on traditional medicines

3.4.2 Education

Opportunities
- Technological advancements driving innovation in teaching methodologies.
- Tutoring in the schooling segment is expected to grow from $8 billion in 2011 to $26 billion in 2020. Similarly, pre-school segment is at nascent stage, and growing.
- In the next 35-40 years, about 700 million to 1.3 billion youth could potentially go through India’s higher education system.

Enablers
- Government of India allows 100% FDI in the primary education sector under the automatic route. The government has also permitted 100% FDI in construction projects, related to educational institutions.
• Alignment of academic year, course-curriculum and credit system with the leading educational hubs including the US.
• Government's target to increase digital literacy to at least 50% in the next three years from the current 15%.
• Rules and policies by UGC to facilitate the creation of world-class institutes in India which can admit up to 30% foreign students.
• National Education Policy (NEP) 2016 proposed the introduction of a new system of measuring annual learning outcomes in schools, wherein emphasis will be given on science education to promote creativity through innovative content.
• The FY2017-18 budgetary allocation stood at $11.9 billion.

3.4.3 Tourism and Hospitality

Opportunities
• Increase in medical tourism with world class hospitals and skilled medical professionals
• India to host the Under-17 football World Cup in October 2017, aimed at boosting sports tourism
• India’s 7,500 km coastline can be used to tap potential for cruise tourism
• Untapped potential in East and South India (4% tourists visit East India and 18% visit South India)

Enablers
• Provision to offer pre-loaded sim cards to foreign tourists arriving India on e-Visa
• Increased government initiatives such as Swadesh Darshan, Pilgrimage Rejuvenation and Spiritual Augmentation Drive (PRASAD)
• Incentives offered by state governments include subsidised land costs, relaxation in stamp duty, and exemption on sale/lease of land, power tariff incentives, concessional rate of interest on loans, investment subsidies/tax incentives, backward areas subsidies and special incentive packages for mega projects

3.4.4 Media and Entertainment

Opportunities
• Digital adoption across value chain
• Co-production treaties
• Increasing penetration of multiplexes
• Growth potential in animation, VFX, gaming sectors
• Edutainment channels that provide educational content to young minds
• Investments from major film studios in regional cinema
• Distribution of channels by Indian broadcasters in overseas countries

Enablers
• Ministry of Information and Broadcasting has set up the Film Facilitation Office (FFO) to facilitate efficient approvals and improving ease of shooting in India
• Setting up of ‘Centres of Excellence’ with state-of-the-art facilities by state
governments to promote gaming, animation, media & entertainment sector
• Increase of FDI limit to 49% in television news channels and FM radio and 100% FDI allowed in digital cable, DTH services

3.4.5 Banking and Financial Services

Opportunities
• Refinancing capital: Real estate, infra and bad loans
• Innovation capital: Fintech, RPA, cognitive, blockchain
• Investment capital: New banks
• Re-engineering capital: GIC/shared services

Enablers
• Digital India vision to transform India into a digitally empowered society and knowledge economy. Digital payment being key driver of this.
• Strong government and regulator push – GOI has raised FDI cap in Insurance and pension from 26% to 49% and in ARC to 100%; RBI is considering allowing 100% FDI in private sector banks; New Banking licenses; Universal banking license available on tap; Demonetization; NPA management; Aadhaar; and other digital initiatives:
  o Paperless (Digilocker)
  o Presence less (Finger Prints, Retina Scans)
  o Cashless (Aadhaar Enabled Payments Systems - AEPS)
  o Consent Layer (E-Signatures)
• Increased competition
• Strategic arbitrage of Guaranteed Investment Certificate (GICs)
• Foreign banks allowed to operate via Wholly Owned Subsidiary (WOS)

3.4.6 Information Technology

Opportunities
• Digital transformation of industries across the world
• Growing domestic market in India, due to digital economy initiatives

Enablers
• To transform India into a knowledge empowered economy
• Rising domestic demand
• Digital India ($1 trillion dollar opportunity)
• India Stack: Technology for 1.2 billion (Aadhaar, UPI, e-KYC, eSign, DigiLocker)
• Rising popularity of ICT enabled services
• Tech savvy young demography
• Upgradation of talent with new and emerging skills
• Moving to full transparency in online procurement by Government e-market place
• Programming of chatbots and robotic process automation along with applications of machine learning
Global integration and the formation of trade agreements have helped in the growth of services sector and its exports. Agreement on bilateral trade with Japan, Malaysia, Singapore, and South Korea, free trade with ASEAN, and several other negotiations are great catalysts for furthering services sector exports. India also has a free trade agreement (FTA) with ASEAN that came into effect from mid-2015 while also being a part of the mega regional FTA Regional Economic Comprehensive Partnership.

While these initiatives to facilitate trade in services are undertaken, other parameters must be attractive in order for all-round growth in the sector. Ease of doing business, promoting services in special economic zones are some of the other facilitators in the entire trade pie. In addition, India’s logistics industry is highly fragmented and needs to be addressed at the earliest. While there is a growing presence of large pan-India players, the industry is still dependent on multiple small regional players. Even as manufacturing companies in India resort more to logistics service outsourcing, it will take time to catch up with other economies such as the US and China which have a reasonably mature third-party logistics (3PL) market with large service providers managing the entire supply chain across multiple geographies through enhanced use of appropriate technology, thereby reducing cost. India spends around 14.4% of its GDP on logistics and transportation sector as compared to 8.5% in the US, 18% in China and 20% in Singapore.
4. SPECIAL ECONOMIC ZONES AND FOREIGN DIRECT INVESTMENTS

4.1 The Rationale for Special Economic Zones

SEZs are regarded as an ‘engine of growth’

A SEZ can be defined as a contained geographic region within a country with more liberal laws and economic policies aimed to encourage foreign-invested manufacturing and services for export. SEZs may serve as a means for facilitating trade and financial liberalisation, enhancing resource utilisation, and are particularly well placed in promoting economic growth and structural changes.

The main objectives behind setting up of SEZs are generation of economic activity through exports, attracting investments primarily for infrastructure, and generating employment.

Advocates of SEZs argue that well-implemented and well-designed SEZs can bring about many sought-after benefits for a host country i.e. increases in employment, larger inflows of foreign direct investments, general economic growth, foreign exchange earnings, international exposure, and the transfer of new technologies and skills. Furthermore, SEZs attempt to foster agglomeration economies – they promote firm interactions that increase productivity in dense areas – by building clusters or attracting technologically advanced industrial facilities.  

Globally with around 4,300 SEZ established it not surprising that not all have become a success.  

Hence, the following fundamentals (not exhaustive) have to be put in place to increase the likelihood of success for a SEZ:

- Excellent investment and physical infrastructure;
- Stimulate innovation through SEZs through fostering linkages and spillovers with firms within and outside of the SEZs;
- A focused sector strategy with development phases;
- Sector focus aligned with medium-term focus on economic diversification and human resource development;
- Alignment with national and regional plans that is translated into strong political willpower and dynamic approach with favourable public opinion (particularly at the local government level);
- A well-educated bureaucracy that is aware of the complexity and dynamics of SEZ development; and
- Strong management body with high level of autonomy and decision power.

A focused sector strategy is crucial for the development of SEZs. The chief objectives of SEZs are to attract investments to the zones and to create clusters of economic activities whereby firms can benefit from economies of scale or other synergies by investing and operating in the SEZs. To attract investments, it is imperative that the SEZs are focused on industries with high growth potential. The characteristics of industries that SEZ policy should focus on are:

- Fast-growing industry – the focus industries exhibit high historical growth and future growth potential;
- Benefit of scale – the focus industries will benefit from economies of scale;

---

1 (Combes, Duranton and Gobillon 2011)
2 (The Economist 2015)
• **Benefit of cluster and linkages** – industries that will generate economic growth in upstream and downstream industries or sectors;

• **Competitive advantages** – the current industry has comparative advantage compared to other investment destinations, or has potential to realise comparative advantage within the intended investment horizon in the zones;

• **Strategic importance** – industries that have strategic national importance that can affect or threaten sovereignty of the country, for example, the defence industry;

• **Resource abundance** – the country is well-endowed with required resources for the focus industries. These can include raw materials, workforce and skilled labour, among others;

• **Infrastructure readiness** – availability and quality of relevant infrastructure in the zones and the country

Besides serving as an attraction factor for investors, a focused sector strategy also increases the likelihood of success of SEZs as development efforts and resources are concentrated on high-impact industries. According to our analysis, poor sector targeting has been one of the leading causes of failure for SEZs as governments spread their resources too thin without achieving growth momentum in industries.

SEZs can serve as a catalyst to achieve these objectives by providing a conducive environment for new businesses and industries to grow. With excellent investment and physical infrastructures, as well as investment incentives, SEZs are an excellent medium to attract FDI. It should, however, be noted that incentives and excellent infrastructure alone are not sufficient to attract investments. They, along with other auxiliary services like single-window/one-stop-shop, merely serve as “deal sweeteners” to the actual pull factor, which is the strong business case for investments.

A survey of investors conducted by the World Bank revealed that the most important motivation for FDI is new market access, followed by lower production costs, and acquisition of natural resources and inputs.

SEZs are also a good measure to encourage clustering i.e. an area of geometrical concentration of interconnected businesses, suppliers, and associated institutions in a particular field. Its been shown that economic clusters have improved the productivity of companies located in them, as well as stimulate economies of scale for small companies to enjoy as resources and expertise are pooled together. With strong clusters of interconnected businesses and sectors, countries like India will be better positioned to compete regionally and internationally.

### 4.1.1 SEZ scheme – Key highlights

**SEZs growth in India – a mixed bag**

Asia’s first Export Processing Zone (EPZ) was set up in Kandla in 1965 followed by the Santacruz export-processing zone in Mumbai in 1973. Three committees were appointed by the Government of India (The Kaul Committee – 1978, the Review Committee - 1979, Tondon Committee 1981) to review working of these zones. To boost exports, it was decided in 1984 that four more zones would be established. These were at Noida (Uttar Pradesh), Falta (West Bengal), Cochin (Kerala) and Chennai (Tamil Nadu). Thereafter, Visakhapatnam EPZ in Andhra Pradesh was established in 1989, it became operational in 1994. All these zones were set up in industrially backward regions (except Chennai). But due to multiplicity of controls and clearances, absence of world-class infrastructure, and an unstable fiscal regime, some of these zones did not live up to their potential.
So the Government announced the SEZ Policy in April 2000 to encourage exports, provide an internationally competitive and hassle-free business environment, and to overcome the shortcomings of EPZs.

In order to provide a long-term and stable policy framework with a minimum regulatory regime and to provide expeditious and single-window clearance mechanism in line with international best business practices, a central act for SEZs was therefore found to be necessary. The Special Economic Zones Act, 2005 (SEZ Act) thus came into effect in 2006.

The SEZ Policy provides for simplified procedures and single-window clearance mechanism to deal with matters under Central/State enactments. For SEZ developers, there are different minimum-land requirements for different classes of SEZs. Every SEZ is divided into a processing area, within which only the SEZ units would come up, and the non-processing area, where the supporting infrastructure is to be created.

The salient features of the SEZ Policy are as follows:

- Simplified procedures for development, operation, and maintenance of the SEZs and for setting up units and conducting business in SEZs;
- Single-window clearance for setting up an SEZ;
- Single-window clearance for setting up units in an SEZ;
- Single-window clearance on matters relating to Central as well as State Governments; and
- Simplified compliance procedures and documentation with an emphasis on self-certification.

4.1.2 Guiding Principles

*Incentives and facilities offered to SEZs in India to promote exports*

So what is holding this scheme together? After a number of iterations, incentives and facilities offered to SEZ units fall under:

1. Duty free import/domestic procurement of goods for development, operation and maintenance of SEZs and SEZ units
2. 100% Income Tax exemption on export income for SEZ units under Section 10AA of the Income Tax Act for first 5 years, 50% for next 5 years thereafter and 50% of the ploughed back export profit for next 5 years.
3. Exemption from Central Sales Tax.
4. Exemption from Service Tax.
5. Exemption from State sales tax and other levies as extended by the respective State Governments

Most SEZ units are eligible for deduction either under Section 10A or Section 10AA of the Income Tax Act, 1961. These provisions offer tax sops to STPs (software technology parks) as well. The landmark decision of the Supreme Court in the Morgan Stanley case has laid down a few guiding principles regarding taxability of captive BPO (business process outsourcing) operations. The Government is also considering a proposal to amend section 80IAB of the Income Tax Act wherein no deduction will be available for SEZs developed on or after 1st April 2017.

4.2 Key Services that could be promoted through SEZs

4.2.1 Healthcare

Healthcare is another good performer with Indian integrated medical facilities receiving high traction in 2016. With rising healthcare costs across the world, Indian treatments are considered affordable and reliable by medical tourists. This is just a portion of the medical pie, which includes hospitals, clinics and diagnostic centres and healthcare delivery to meet the needs of an ageing population and rising instances of chronic diseases. A turnover of $110 billion in 2016 and expected to reach $280 billion in the next five years, this market is growing rapidly.

Special focus should be on Telehealth & Telemedicine Services and Pharmacovigilance/Drug Safety Services which are emerging sectors and partially present in India. If encouraged in the right manner, India could capture this sector globally. Medical facilities in India are already on par with developed countries, but 70% of the medical tourists visiting India are from Indian Subcontinent, The Commonwealth of Independent States (CIS) and Africa. Elderly/Residential Care Services, Medical (skilled care) and non-medical (social care) are certainly gaining momentum and needs to be explored. For the model of Healthcare SEZ, the Government could explore the option of providing a combined package of Traditional Medicine, Hospitality and Tourism Industry.

Single product/dedicated healthcare SEZ would attract large amount of foreign investments which would also boost local industry and generate employment. This can be further combined with Medical education, tourism and hospitality industry. One notable example is Dubai Healthcare City.

4.2.2 Education

The Educational Services Industry is composed of establishments that provide instruction and training on a wide variety of subjects. These institutions, including schools, colleges, universities and training centers, are either privately or publicly owned. As India continues to transition from a manufacturing-based economy to one reliant on the service sector, for-profit educators stand to gain from offering courses in information technology, healthcare and business management. Companies have the opportunity to tap an enormous under-educated segment across the world population. The need for quality education in India has helped the growth of this sector to $97.8 billion in 2016. India’s large young population implies the need for more colleges and institutions of higher learning apart from the IITs, and IIMs. Digitization and online classes has broken barriers and resulted in
inclusion of more students. Startups have also entered the fray and regularly get funding. There is great potential in this sector once regulations are eased for FDI (FDI stands at around $1.4 billion in 2016).

Education SEZs will help in addressing the shortage of quality higher-education institutions in India and also draw students from other Asian nations and reduce the need for local students to spend large sums of money to study abroad. In FY16, Indian students spent $1.98 billion in education-related overseas expenditure and $2.47 billion in FY15. Despite the presence of large universities in India, Indian students are spending large amount of money on foreign education. Presence of education SEZs will act as an added attraction to foreign education institutions to set up campuses in India. For example: Currently Switzerland is the leading destination globally for Hospitality Management Schools. Through Joint Ventures with industry leaders, India can become key service exporter for the Hospitality Industry globally. Another example would be the ECER SEZ in Malaysia. The East Coast Economic Region started in 2009 has been a key destination for both local and international investors. Education, tourism, manufacturing, agriculture all form the backbone of this initiative. The education cluster is an essential component that supports all of the region’s main development thrusts and plays a dual role as an economic driver and a catalyst for growth.

### 4.2.3 Tourism and Hospitality

Some of the key future prospects of the tourism and hospitality services sector which could be promoted through SEZs are set out below:

- **Medical tourism:** The presence of world-class hospitals and skilled medical professionals makes India a preferred destination for medical tourism. India’s earnings from medical tourism could exceed $8 billion by 2020. Tour operators are teaming up with hospitals to tap this market.

- **Cruise tourism:** Cruise shipping is one of the most dynamic and fastest growing segments of the global leisure industry. Government of India has estimated that India would emerge with a market size of 1.2 million cruise visitors by 2030 – 31. Moreover, India is looking to take advantage of its 7,500 km coastline to tap growth potential of the cruise tourism segment through its Sagarmala Project which was established in July 2015.

- **Rural tourism:** The potential for the development of rural tourism in India is high as most of its population resides in rural areas. This can benefit the local community economically and socially, and facilitate interaction between tourists and locals for a mutually enriching experience.

- **Eco-tourism:** India is often termed as a hotspot of biodiversity and this rich natural heritage is unparalleled in many ways. Such a valuable resource base gives impetus for the practice of variety of alternate tourism forms, many of which are already in existence.

### 4.2.4 Media and Entertainment

The Media business in India’s service sector has seen unprecedented growth. The world’s largest film industry, newspaper market and second largest television market has FDI inflows of around $6.3 billion (2016). This is partly due to the change in regulations that allows FDI in film at 100%
under the automatic route, TV news channels to 49% and 100% in digital cable and DTH services. Not only ‘traditional’ media but also Animation is growing rapidly due to 3D movies, games and commercials. Job opportunities are a positive development with cities such as Mumbai, Pune, Chennai, Bangalore and Trivandrum emerging as animation hubs. The Government has also recognized the potential of this sector and has proposed a SEZ model for Animation, Visual effects, Comics and Gaming (AVCG) parks.

India could learn from Egypt which has a well-established system of special zones, industrial zones and free zones, overseen primarily by the General Authority for Investment and Free Zones (GAFI) primarily catering to the media sector. The current zones system was established in 1997 and includes 10 public free zones clustered in and around Cairo, Alexandria and in areas close to Cairo’s waterways. The Media Public Free Zone, in suburban Cairo, for example, hosts radio and television companies. It also provides employment to 136,000 people, accounted for 20.3 per cent of Egypt’s total exports, and 9.5 per cent of total FDI in 2009.

4.2.5 Aviation-related services

4.2.5.1 Maintenance, Repair, and Overhaul (MRO) Services

In Aviation industry aircraft MRO (Maintenance, Repair, and Overhaul) is one of the critical operations to keep aircraft and its components in sound condition. Globally, the MRO industry has been estimated at around Rs 4,00,000 Cr\(^3\) for the year 2015 and it is growing at CAGR of 3.8% over the period of 2012 -20. At global level, North America is leading geography with market share of approx. 35%\(^4\) followed by Asia and Europe.

Typically, aircraft MRO can be divided into four major segments such as - Airframe heavy maintenance and modification (17%), Engine maintenance (39%), Line maintenance (22%) and Component maintenance (22%).\(^5\) Commercial airlines are major customers to most of the MRO providers followed by governments and defence.

Indian Civil MRO industry accounts for only approximately 1 per cent of total global MRO market. The prospects for Indian MRO industry, however, look positive and are expected to grow at rapid pace due to promising growth in civil aviation, the new National Civil Aviation Policy 2016, with many airlines planning to increase their fleet size. The MRO market in India is estimated at around Rs 5,850 Cr in 2015 is expected to grow approximately five fold at CAGR of 15% to reach Rs 29,000 Cr by year 2025.\(^6\) In comparison to present size of MRO industry in China (Rs 13,000 Cr) and Singapore (32,500 Cr) India is still far too behind.

Out of 4 major types of activities in MRO, engine maintenance contributes approximately Rs 3,800 Cr (50%) for Indian MRO industry. Rest of the three activities in MRO contributes almost in equal by value.

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\(^2\) http://www.defproac.com/?p=1438
\(^4\) http://centreforaviation.com/profiles/hot-issues/mro---maintenance-repair--overhaul
\(^5\) Planning Commission
\(^6\) http://www.defproac.com/?p=1438
4.2.5.2 Fixed Base Operator (FBO)

The term “fixed base operator,” often referred to simply as FBO, refers to commercial businesses allowed to operate on airport grounds in order to provide services to the airport. The below services could be explored to be part of an SEZ through Joint Ventures (JV) with industry leaders.

The long list of services an FBO may provide include a wide range of areas, including:

- Fueling Services
- Tie-Down Services
- Parking
- Hangar Services for Aircraft
- Flight Instruction
- Taxi Services
- Aircraft Rental
- Charter Services
- Aircraft Sales
- Mechanical Services
- Repair and Maintenance Services and Facilities
- Crop Dusting Base of Operations
- Towing Services
- Baggage Handling
- Pilot’s Lounges
- Conference Facilities

4.2.6 Recycling Services – Electronic Waste

With rising levels of discarded electronics, this sector is soon going to be vital. Keeping in mind the precious metal content in electronics, this needs to be looked at as Urban Mining/precious metal extraction. This has a low environmental impact and through JV it could be provided as a service and through stringent monitoring, it can be ensured that there is no dumping of waste in India.
5. **GLOBAL BENCHMARKING & ASSESSMENT OF CURRENT STATE**

5.1 As-is-assessment - India

SEZs have had mixed success in terms of diversified manufacturing, services, and employment generation but have been successful in promoting India’s exports. As on 30 June, 2017, exports stood at INR 1,35,248 crore, a growth of 15.39% over corresponding period of FY 2016-17.

**Table 4: Exports from SEZs during the last eight years**

<table>
<thead>
<tr>
<th>Year</th>
<th>Value (INR Crores)</th>
<th>% Increase over previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-2009</td>
<td>99,689</td>
<td>50</td>
</tr>
<tr>
<td>2009-2010</td>
<td>2,20,711</td>
<td>121.40</td>
</tr>
<tr>
<td>2010-2011</td>
<td>3,15,868</td>
<td>43.11</td>
</tr>
<tr>
<td>2011-2012</td>
<td>3,64,478</td>
<td>15.39</td>
</tr>
<tr>
<td>2012-2013</td>
<td>4,76,159</td>
<td>31</td>
</tr>
<tr>
<td>2013-2014</td>
<td>4,94,077</td>
<td>4</td>
</tr>
<tr>
<td>2014-2015</td>
<td>4,63,770</td>
<td>-6.13</td>
</tr>
<tr>
<td>2015-2016</td>
<td>4,67,337</td>
<td>-0.77</td>
</tr>
</tbody>
</table>

Source: Department of Commerce

States which have contributed maximum to exports include Gujarat, Karnataka, Tamil Nadu (maximum number of operational SEZs), Maharashtra, Telengana and Uttar Pradesh. During this period, 16.88 lakh jobs were generated and INR 4.06 lakh crore was invested.

Of the 36 operational SEZs in Tamil Nadu, 17 were IT/ITES zones, contributing the most to exports. ELCOT Sholinganallur accounted for exports of INR 16,536 crore (2015-16) and TCS Siruseri INR 14,038 crore. Auto ancillary SEZ exports, mainly from Mahindra Chengalpattu SEZ stood at INR 1720 crore (2015-16).

**Success story of NOKIA SEZ (Telecom Equipments & Services), Tamil Nadu:**

- Physical Exports of US$ 8 billion FY 2017
- Investment of US$ 6 billion has already been made in this SEZ, out of which FDI is US$ 0.2 billion.
- Projected investment of US$ 2.4 billion and projected direct employment of 20,000 persons.

- Gujarat has 10 per cent of functional SEZs of the country’s 180 SEZs, while they hold nearly 30 per cent share in the total exports of INR 5 lakh crore from the total SEZs in India.
- The country’s first and only financial services centre SEZ – GIFT IFSC reported exports of INR 265 crore as on February 2017.
- Exports from the country’s oldest SEZ, Kandla SEZ (KASEZ) has increased from INR 1000 crore in 2005-06 to INR 4,227 crore in 2015-16, with expected exports to touch INR 5000 crore this year.
5.1.1 Study of historical trends observed in Service Sector/ SEZ

SEZs contribution to India’s exports increasing

With a view to provide an internationally competitive environment for exports, the Government of India announced the SEZ Policy 2000. This policy intended to make SEZs an engine for economic growth supported by quality infrastructure complemented by an attractive fiscal package, both at the Centre and the State level, with the minimum possible regulations. Since then, the Government has been regulating the export-import policy and has introduced various schemes to promote exports of both goods and services. A brainchild of the Ministry of Commerce and Industry (MOCI), the SEZ Act that was passed in 2005 goes much further than previous policies as it seeks to establish a large number of private industrial townships, each covering hundreds or thousands of hectares of land. SEZs and EOUs are also part of this export promotion strategy.

Table 5: Contribution of SEZs to India’s Exports

<table>
<thead>
<tr>
<th>Year</th>
<th>India’s Exports</th>
<th>SEZ Exports (Merchandise +Services)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000-01</td>
<td>203571</td>
<td>8552</td>
</tr>
<tr>
<td>2001-02</td>
<td>209017</td>
<td>9190</td>
</tr>
<tr>
<td>2002-03</td>
<td>255137</td>
<td>10057</td>
</tr>
<tr>
<td>2003-04</td>
<td>293367.48</td>
<td>13854</td>
</tr>
<tr>
<td>2004-05</td>
<td>375339.53</td>
<td>18309</td>
</tr>
<tr>
<td>2005-06</td>
<td>456417.86</td>
<td>22840</td>
</tr>
<tr>
<td>2006-07</td>
<td>571779.29</td>
<td>34615</td>
</tr>
<tr>
<td>2007-08</td>
<td>655863.52</td>
<td>66338</td>
</tr>
<tr>
<td>2008-09</td>
<td>840755.06</td>
<td>99689</td>
</tr>
<tr>
<td>2009-10</td>
<td>845533.64</td>
<td>220711</td>
</tr>
<tr>
<td>2010-11</td>
<td>1142921.92</td>
<td>315868</td>
</tr>
<tr>
<td>2011-12</td>
<td>1465959.4</td>
<td>364478</td>
</tr>
<tr>
<td>2012-13</td>
<td>1634318.84</td>
<td>476159</td>
</tr>
<tr>
<td>2013-14</td>
<td>1905011.09</td>
<td>494077</td>
</tr>
</tbody>
</table>

Source: DGCIS Calcutta

Table 6: SEZ Impact on Employment and Investment

<table>
<thead>
<tr>
<th>Year</th>
<th>Employment</th>
<th>Investment (in Crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>178763</td>
<td>4958.89</td>
</tr>
<tr>
<td>2007-08</td>
<td>179000</td>
<td>67347</td>
</tr>
<tr>
<td>2008-09</td>
<td>490358</td>
<td>128385.05</td>
</tr>
<tr>
<td>2009-10</td>
<td>620824</td>
<td>176148</td>
</tr>
<tr>
<td>2010-11</td>
<td>676608</td>
<td>212914.36</td>
</tr>
<tr>
<td>2011-12</td>
<td>844916</td>
<td>213605.54</td>
</tr>
<tr>
<td>2012-13</td>
<td>1074904</td>
<td>236716.65</td>
</tr>
<tr>
<td>2013-14</td>
<td>1283309</td>
<td>296663</td>
</tr>
</tbody>
</table>

Source: DGCIS Calcutta
5.1.1.1 Analysis of state-level, national-level and regional-level trends – Current status of Service Sector/ SEZ/ EOU

Maharashtra, Karnataka, Tamil Nadu, and Telengana are front runners in development of SEZs. They have the maximum number of investors as also SEZ units that are operational.

Table 7: State-wise Distribution of Approved Economic Zones (As on 21 November, 2016)

| States/ UTs          | Formal Approvals | In-principle Approvals | Notified SEZs | Exporting SEZs (Central Govt. + State Govt./ Pvt SEZs + Notified SEZs under the SEZ Act 2005) |
|----------------------|------------------|------------------------|---------------|-------------------------------------------------------------------------------------------------
| Andhra Pradesh       | 29               | 4                      | 24            | 19                                                                                                                                                   |
| Chandigarh           | 2                | 0                      | 2             | 2                                                                                                                                                   |
| Chhattisgarh         | 2                | 1                      | 1             | 1                                                                                                                                                   |
| Delhi                | 2                | 0                      | 0             | 0                                                                                                                                                   |
| Goa                  | 7                | 0                      | 3             | 0                                                                                                                                                   |
| Gujarat              | 28               | 4                      | 24            | 18                                                                                                                                                   |
| Haryana              | 23               | 3                      | 20            | 7                                                                                                                                                   |
| Jharkhand            | 1                | 0                      | 1             | 0                                                                                                                                                   |
| Karnataka            | 62               | 0                      | 41            | 25                                                                                                                                                   |
| Kerala               | 29               | 0                      | 25            | 16                                                                                                                                                   |
| Madhya Pradesh       | 9                | 1                      | 5             | 2                                                                                                                                                   |
| Maharashtra          | 55               | 9                      | 50            | 26                                                                                                                                                   |
| Manipur              | 1                | 0                      | 1             | 0                                                                                                                                                   |
| Nagaland             | 2                | 0                      | 2             | 0                                                                                                                                                   |
| Odisha               | 7                | 0                      | 5             | 3                                                                                                                                                   |
| Puducherry           | 1                | 1                      | 0             | 0                                                                                                                                                   |
| Punjab               | 5                | 0                      | 2             | 2                                                                                                                                                   |
| Rajasthan            | 9                | 1                      | 8             | 4                                                                                                                                                   |
| Tamil Nadu           | 48               | 4                      | 46            | 36                                                                                                                                                   |
| Telangana            | 52               | 0                      | 44            | 27                                                                                                                                                   |
| Uttar Pradesh        | 24               | 1                      | 19            | 11                                                                                                                                                   |
| West Bengal          | 7                | 2                      | 5             | 7                                                                                                                                                   |
| TOTAL                | 405              | 31                     | 328           | 206                                                                                                                                                 |

Source: Ministry Of Commerce

SEZs can be categorised on the basis of the sectors they are operating in. Accordingly their incentives and facilities differ. Most of the currently operational SEZs are IT based with Tamil Nadu leading the state list.
Table 8: Sector-wise Distribution of SEZs in India (as on 30 Sept, 2016)

Source: Ministry of Commerce

A SEZ is required to follow two separate set of compliances. Firstly compliances governed by the SEZ Act, 2005, such as submission of periodical progress reports and secondly, compliances required to be undertaken in terms of indirect tax laws. While the former are likely to continue without any major changes, the latter would now be modified in line with the GST law.

5.2 Global benchmarking, International Best Practices and Key Learning

Debunking the Myth of “Build Them, and They will Come” Mentality

Over the last decade, economies around the world have focused strongly on the development of Special Economic Zones (SEZs) to spur economic development and attract both foreign and domestic direct investments. However, the track record of success is low due to various reasons, some of which is highlighted below. The section highlights the challenges faced by SEZs and Industrial Parks across the world.

Figure 3: Challenges of SEZs

7 Even though Industrial Parks are, typically, smaller in scale and private-sector driven as compared to SEZs, the learning from these can be analyzed.
Classic examples of SEZs showing the “Build them, and they will come” mentality include the Ewing Industrial Park in Ewing (Missouri, USA) and various industrial parks in the Mekong Delta (Vietnam). In the example of the Ewing Industrial Park, local authorities designated a parcel of land on the outskirts of the city with highly attractive incentives including large tax abatements (e.g. 100% on personal property taxes, 50% of real estate taxes) and the provisioning of low lease property and land for tenants. However, a key problem arose from the lack of focus on the development of quality critical infrastructure to suit the demand and needs of potential investors. Furthermore, the location of the SEZ was not ideal, as it was located next to the city dump which contributed to a perpetual smell in the surroundings.

In the case of the Mekong Delta SEZ (Vietnam), there were more than 50 industrial parks; of which, only around 20% of the offered space has been taken up. The problems faced by investors and tenants were numerous, ranging from regulatory and bureaucracy to political interference and infrastructure issues.

Figure 4: Barriers Faced by SEZ Investors in Mekong Delta

In general, some of the common pitfalls faced by SEZs include the following:

Figure 5: Common Pitfalls Faced by SEZs
Given these challenges and barriers, it is necessary to review and focus on international best practices when developing the strategy to service sector through SEZs.

**Best Practice #1 – Economic zone strategy should be strongly linked to national development, investment, and industrial strategies**

Special Economic Zones should not be viewed as separate entities from the overall economic development direction of the country. SEZs are enablers which provide an environment and ecosystem where investors can have greater autonomy – in comparison to general business conditions in the country – to facilitate ease of their business operations, as well as gain business/operational cost savings due to direct and indirect incentives granted through the SEZ program.

Hence, the choice of focus industries or sectors for the SEZs should be complementary and not be in competition with existing sectors in the wider economy of the country. Two key principles should guide the choice of focus industries in the SEZs:

1. Is there sufficient export demand for products and services which the SEZ will focus on and
2. Products and services from the SEZ focus industries should enhance the competitiveness of the country and, to a certain extent, the capabilities of existing local businesses.

Once these demand related aspects are addressed, the other aspects of supply (i.e. availability of land, labour, raw material, transport and government support) can be looked at.

**Best Practice #2 – Clearly defined policy and legal framework**

The policy and legal framework should also contain and enable the following:

- The legal framework should establish an unambiguous set of rules and procedures guiding the entire process of site selection, investment, development, licensing, and operations of private development
- The legal framework should also give a legal mandate to the regulatory authority to empower it to carry out the dual role of monitoring and enforcing laws and standards, as well as facilitate investments through a “one-stop shop” service

At an overall level, SEZ policies should be structured around the following key areas:

1. Encourage zones to compete on the basis of facilities and services rather than non-fiscal incentives
2. Zones should be eligible for national certificates of origin and should be able to participate in trade and market access agreements while still being treated as outside the domestic customs territory
3. Labour regimes should be consistent with international norms including ILO standards and obligations including core rights of assembly, organisation, and collective bargaining
4. Indirect Exporter benefits (i.e. duty-free access to the zones) should be given to firms in the local economy, which supply firms located in the zone thereby increasing linkages

**Best Practice #3 – A cohesive incentive management guideline**

Incentives are a critical aspect of a successful SEZ. However, due to globalisation and the multitude of competing SEZs around the world, it is increasingly neither a differentiating nor a key
success factor for SEZs. In certain cases, the provisioning of incentives is viewed as a commodity by potential investors. Frost & Sullivan’s recent interactions with the SEZ stakeholders have shown that incentives are not the only main factor in selecting an investment destination. The availability of talent/skills, quality infrastructure and political and economic stability are also key decision factors for potential investors.

**China’s experiments with SEZ models; lessons for India**

While India was among the first few countries to develop EPZs in the region, it was a relative latecomer in establishing SEZs. India shifted from the EPZ model to the SEZ model only in the year 2000. Compared to this, the development of SEZs in China was part of a broader economic reform programme that started in 1978. Since then, China has experimented with different types of SEZs and has successfully developed SEZs for high-value manufacturing such as Economic and Technological Development Zones (ETDZ).

China adopted an incremental approach to SEZ development and began by creating four SEZs in Shenzhen, Zhuhai, Shantou and Xiamen. Since then, the contribution of SEZs to the overall economic growth of China has been substantial.

SEZ development led to China’s growth in the manufacturing and service sector, enhanced exports, attracted FDI and created employment. SEZs helped China move up the value chain from labour-intensive manufacturing to high-value manufacturing, which has enabled the economy to become a key player in global production networks (Aggarwal 2012; FIAS 2008; Zeng 2011). China is now trying to develop services SEZs that can offer tremendous competition to India in its services exports; in contrast, India has not been able to attract investment in the manufacturing sector in its SEZs. It is, therefore, important for India to examine China’s SEZ policy.

China is India’s largest trade partner. Though skewed in China’s favour, India-China bilateral trade stood at $61.3 billion in 2016-17 with India’s export to China at $10.2 billion. Much of China’s growth can be attributed to its SEZ policy, replete with lessons for India to learn from. Further, a number of countries in Asia such as Philippines are promoting diversification of services and exports through SEZs. These countries offer tough competition to India in export of services such as IT/ITeS.

China also regularly experiments with different types of services SEZ to diversify its services export basket. In spite of drawbacks, we can see certain positives such as –

1. Exports from SEZs account for about 1/4th of India’s exports
2. Indian exports from SEZs accelerated during the economic crisis
3. Development of peripheral infrastructure and growth of small-scale services around SEZs
4. Has helped in the growth of India’s IT sector through various tax exemptions and holidays

5.2.1 Innovative SEZ models/ Services provided across the globe

5.2.1.1 Thematic Tourism- United Arab Emirates

The emirate is offering an ever evolving range of thematic tourism services to its visitors including Green tourism, Halal Tourism and Medical Tourism. For instance, Dubai is quickly transforming into a medical tourism destination. Dubai Health Authority is planning to build 22 hospitals as part of plans to attract 500,000 medical tourists a year and boost its economy by
up to AED 2.6 billion by 2020. In 2012 from 107, 000 medical tourists the country generated AED 652 million which is expected to become AED 1.1 billion by 2016 (1,70,000).

Dubai has also been hosting grand sporting events in order to attract more tourist footfalls. The strategic location of Dubai, located eight (and lower) flying hours away from major international destinations, brings in visitors from all around the world.

Some of the major events hosted by the Dubai Sports City (DSC) were:
- Tennis - Dubai Open Asian Tour’s final event of 2014
- Few T-20 cricket matches for Indian Premier League in 2014
- Cricket test matches between South Africa and Pakistan in 2010
- Apart from lawn tennis and cricket, DSC also includes a rugby park and The Els Club Golf Course Park.
- The International Table Tennis Federation and the UAE Table Tennis Association brought the sport to Dubai by hosting the GAC World Tour Grand Finals at the Al Nasr Sports Club in January 2014.

Cruise Tourism
The Department of Tourism and Commerce Marketing (DTCM) is responsible for promoting cruise tourism in the Emirate. Dubai Cruise Tourism (DCT) is the point of contact for all concerned parties within the Cruise Tourism business including ship agents, tour operators and cruise lines, as well as other government bodies such as Customs, Immigration, Dubai Police, and DP World to ensure smooth, swift and safe port calls.

Cruise Operators in Dubai offer long cruise trips lasting well over an hour, letting tourists enjoy the striking landscape and natural beauty of Dubai. The cruise covers major attractions like Dubai Marina Yacht Club, Burj Al Arab and the Atlantis. Daily trips to Sharjah and Oman are also very popular with tourists.

Dubai ports witnessed arrival of 226 vessels totalling passengers of 226,271 in 2013. The city is investing in cruise docks as it anticipates a rise in cruise tourism. Cruise tourism accounted for 400,000 passengers in 2013, which is expected to rise to 1 million by 2020.

Dubai cruise tourism has fared well during the past few years. In 1998 there were only 10,000 cruise travellers in the city. This went up to 358,000 passengers from 94 cruise ship calls in 2014 and is forecast to touch 425,000 cruise tourists from 115 ship calls by the end of 2015. Affordability, a luxurious travelling experience and multiple entry visas for cruise travellers are the main attractions. Now, Dubai is a major destination of choice to many global cruise lines, such as Costa Cruises, Costa Deliziosa, and US Royal Caribbean International (RCI).

8 www.visitedubai.com, DTCM
Prominent shipping agents in Cruise Tourism include Gulf Agency Company (Dubai) LLC, Inchcape Shipping Services, Kanoo Shipping Agencies, Khimji Ramdas Shipping LLC, Rais Hassan Saadi LLC, Seamaster Maritime LLC and Wilhelmsen Ships Service. 

**Medical Tourism**

International travel to undergo medical treatments and also engage in tourist offerings of the destination is an upcoming trend. This is especially true for Asian countries which usually tend to have lower treatment costs when compared to western countries. Such initiatives have the strong support of medical practitioners and the Government of Dubai. In September 2015, Dubai won the ‘Destination of the Year’ award for Medical Tourism at the 10th World Health Tourism Congress. Dubai attracted 260,000 medical tourists in the first half of 2015 and the revenues generated during this period exceeded AED 1 billion. This has enabled tour operators and travel agents to organise medical tour packages. The Government is planning to build 22 hospitals as part of plans to attract 500,000 medical tourists a year by 2020.

**Halal Tourism**

An upcoming trend not just in the Dubai, but perhaps the entire region is Halal tourism. The market for Muslim travellers was worth US$145 billion last year and is expected to grow to $200bn by 2020. Halal, meaning ‘permissible’ in Arabic, is not just applied to food, but it includes all Shariah (Islamic Law) compliant products ranging from bank dealings to cosmetics, vaccines and tourism. Halal Tourism (with components like Halal hotel, Halal transportation, Halal food premises, Halal logistics, Islamic finance, Islamic travel packages, and Halal spa) is a niche service with its own audience. Halal tourism mandates separate women-only or women-with-kids places and enclosures, parks, beaches, activities and alcohol-free ambiances that can be enjoyed by the family as a whole.

Increasing demand for halal compliant services makes it imperative for countries that seek to attract this tourist segment to develop suitable concepts, packages, and programmes. This has seen success, especially during the month of Ramadan, when religious/spiritual excursions are undertaken. Increasing travel by this segment has necessitated the creation of services that match their needs; and travel agencies in Dubai have hopped onto the trend.

**Key learning’s**

Dubai Government has played an active role in the promotion of tourism. As Dubai prepares to welcome 20 million annual visitors by 2020, the emirate had announced a 

- The pre-approval process for hotel construction which used to take approximately six months earlier is now expected to take two months
- This will be aided by a single streamlined system managed by Dubai Municipality

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10 [www.visidadubai.com, DTCM](http://www.visidadubai.com)
11 WHTC 2015
• Fees on ‘Change of use of land’ for hotels have been scrapped
• 10% exemption on Dubai municipality fee for 3 star and 4 star hotels has been offered
• Various Projects to boost tourism:
  – Mega events such as Dubai Shopping festival and Dubai Summer Surprise, during which hotels offer deep discounts and focus on tourist engagement activities
  – Investments in some major projects such as Free zones, Dubai International Financial Centre, Dubai Healthcare city, ultra-luxurious developments like Burj Khalifa, Burj Al Arab, Palm Island, Dubai Island and shopping malls.

5.2.1.2 Dubai International Academic City (DIAC)

DIAC is the largest free zone in the world, solely dedicated to higher education in Dubai. It is spread across an area of approximately 20 million square feet and was set up by the TECOM group in 2007 to promote the UAE’s talent pool and turn it into a knowledge based economy.

The campus hosts around 25 internationally acclaimed universities and caters to 24,000 students belonging to 145 nationalities. With more than 400 undergraduate and post-graduate courses offered, it has some of the renowned universities in the world such as Heriot-Watt University, London Business School, Manchester Business School, and Harvard Medical School Dubai Centre, among others.

The Ministry Of Education oversees the development of the education sector in the UAE. The Knowledge and Human Development Authority (KHDA) is the responsible authority for the development of education in the Emirate of Dubai. The education sector, which previously had very limited access, evolved from a simple traditional mode to one with international standards due to the various Government initiatives to cater the educational needs of the growing population.

5.2.1.3 Gabon-Africa

An integrated industrial ecosystem with world-class infrastructure

Gabon in West Central Africa is primarily known for its timber, one of the driving forces of its economy. Gabon SEZ is a successful Public Private Partnership project between Olam International Ltd (Singapore) and the Gabonese Republic, the outcome of a shared vision to help Gabon towards industrialization. Nkok SEZ, a 1126 hectare SEZ where 500 hectares is fully operational, is managed by GSEZ. It has received US$ 1.7 Billion FDI across industrial, commercial and residential zones with a potential of generating 7,500 jobs. With necessary environmental and social impact

12 DIAC Website
13 DIAC Website
assessments completed, 80 companies, both domestic and international, have already settled in Nkok SEZ. The main sectors in which companies have invested in are timber, metallurgy, recycling, civil engineering and construction, pharmaceutical and cosmetics, IT and telecommunications, hydrocarbon, finance, tertiary services, and many more.

Nkok SEZ is known for its effective logistics facilities, flexible labour code, reliable and subsidized energy and water, tax exemptions and fiscal incentives.

Key Learning’s

Some of the many tax incentives are:

- 0% tax on dividends
- 0% tax on land properties
- 0% tax on income for the first 10 years
- 10% for the next 5 years
- 100% repatriation of funds allowed
- 100% exemption on income tax
- 100% exemption on corporate tax
- 100% exemption from capital gains tax
- 100% foreign ownership permitted
- No Customs duty on import of plant and machinery or spare parts for industries
- Electricity on subsidized rates

With a view to attract more FDI/ companies, the Gabonese government has simplified the investing process - It only takes a maximum of 21 days to start a business in Nkok SEZ.

5.2.1.4 Jebel Ali Free Zone (JAFZA)

Today's sustainability, tomorrow’s prosperity mantra

Dubai’s Jebel Ali Free Zone (JAFZA) was created in 1985 as an industrial area surrounding the port. International companies that relocate there enjoy the special privileges of a free zone. These include exemption from corporate tax for
50 years, no personal income tax, no import or re-export duties, no restriction on currency, and easy labour recruitment. Among the infrastructure projects built to support the port and town is the world's largest desalination plant, the Jebel Ali Desalination Plant (Phase 2), providing an ample supply of fresh water. Jafza Building and Construction sectors registered a 14% growth this year. This Free Zone also contains a HR representative within the premises to deal with internal issues.

5.2.1.5 Dubai Multi Commodities Centre (DMCC)
The DMCC is a free zone established in 2002 by the Government of Dubai. The DMCC was established to create an industry specific market place for commodities such as diamonds, gold, precious metals, and other commodities. The main goal of the DMCC is to increase the trade value and trade volume of different commodities traded in and through the region. The DMCC provides a business friendly environment for companies and supports the businesses through various incentives such as 100% ownership and tax free income. There are more than 12,000 companies operating from the DMCC and it is the largest free zone in the UAE. The main commodities that are traded in the DMCC are:

**Gold** – The establishment of the DMCC has enhanced the trade of gold in Dubai and currently the volume of gold traded through Dubai is 1,200 tonnes, earning it the nickname ‘City of Gold’. The trade of gold has been enhanced through several innovations such as Dubai Gold and Commodities Exchange (DGCX), regional gold options trading and DMCC Trade flow. The DMCC also provides with the entire gold value chain from refining, manufacturing to trading.

**Diamond** - Dubai Diamond Exchange (DDE) is the region's only trading platform, which brings together all the diamond and coloured stoned markets in the Middle East region. DDE is the only bourse in the Middle East region that is associated with the World Federation of Diamond Bourses (WFDB).

**Tea** - Due to the strategic location between the tea producers and tea consumers, Dubai has become an international gateway for tea trade. Dubai is the world’s largest re-exporter of tea and has a 60% share in the market. The DMCC Tea Centre has world-class infrastructure and provides services that facilitate the trade of tea. In 2015, the import volume of tea in Dubai was 125,898 tonnes while the export volume was 31,461 tonnes.

**Pearl** - In order to promote the trade of pearl the DMCC started the DMCC Pearl Exchange (DPE) initiative, which is dedicated for facilitating the growth of pearl trade. The pearl trade in Dubai has been active since early days and the launch of DPE has raised the industry to the global level.

5.2.1.6 Digital SEZ - Malaysia
Malaysia launched the world's first Digital Free Trade Zone in March 2017 to accelerate the country's digital roadmap. This is a joint initiative by Malaysian Government and Alibaba Group to accelerate Malaysia's digital roadmap. Through DFTZ, the purchase of goods via the Internet worth a fixed ceiling amount and below will be exempted from paying tax.

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14 DMCC  
15 DMCC  
16 DMCC
## 5.3 Comparative analysis of Policy & Regulations – Global vis-à-vis India

<table>
<thead>
<tr>
<th>Country</th>
<th>Bangladesh</th>
<th>India</th>
<th>Republic of Korea</th>
<th>Philippines</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Objectives of the Act</strong></td>
<td>The primary objective of EPZ is to provide special areas where potential investors would find a congenial investment climate, and location free of cumbersome procedures.</td>
<td>The main objectives are: • Generation of additional economic activity • Promotion of exports of goods and services • Promotion of investment from domestic and foreign sources • Creation of employment opportunities • Development of infrastructure facilities</td>
<td>The main purpose is to facilitate foreign investment, strengthen national competitiveness and seek balanced development among regions, by improving the business environment for foreign invested enterprises and living conditions for foreigners through the designation and management of free economic zones.</td>
<td>The purpose, intent and objective: • To establish legal framework and mechanisms for the integration, co-ordination, planning and monitoring of special economic zones, industrial estates/parks, export processing zones and other economic zones. • To transform selected areas in the country into highly developed agro-industrial, commercial, tourist, banking, investment and financial centres, where highly trained workers and efficient services will be available to commercial enterprises. • To promote the flow of investors, both foreign and local, into special economic zones, this would generate employment opportunities and establish back ward and forward linkages among industries in and around the economic zones. • To stimulate the repatriation of Filipino capital by providing an attractive climate and incentives for business activity. • To promote financial and industrial co-operation between the Philippines and industrialized countries through technology-intensive industries that will modernize the country’s industrial sector and improve productivity levels by utilizing new technological and managerial know-how. • To vest the special economic zones in certain areas thereof with the status of a separate customs territory within the framework of the Constitution and the national sovereignty and territorial integrity of the Philippines.</td>
</tr>
</tbody>
</table>
5.4.1 Comparative analysis—Global vis-à-vis India

The below table indicates the some of the specific initiatives undertaken by the peer countries vis-à-vis India.

<table>
<thead>
<tr>
<th>Country</th>
<th>Poland</th>
<th>India</th>
<th>China</th>
<th>Bangladesh</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incentive Regime</td>
<td>SEZ units are exempt from real estate and other state/regional taxes.</td>
<td>SEZ units are exempt from GST, and Customs duty. Some municipal bodies have also granted exemption from electricity duty and stamp duty on property transactions. The SEZ Act also directs the states to exempt zones from all local taxes.</td>
<td></td>
<td>Exemption from VAT, import duties, or supplementary taxes. No stamp duty is levied on the transfer of land within an EPZ. These include a subsidy of 50% on land and factory rents and a 30% cash incentive for agro-industries.</td>
</tr>
<tr>
<td>Country</td>
<td>Poland</td>
<td>India</td>
<td>China</td>
<td>Bangladesh</td>
</tr>
<tr>
<td>--------------</td>
<td>------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------</td>
<td>-------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Profits and Dividends</td>
<td>Corporate Income Tax (CIT) rate is at 19% for normal units, the IT exemption is calculated on the basis of state aid availed by the investor.</td>
<td>Complete tax exemption for 5 years and following this 50% profits are exempted for next 5 years.</td>
<td>A 5-year tax holiday (exemption for the first 2 years and 50% reduction for the next 3 years), for some sectors may be extended to 10 years (exemption for the first 5 years and 50% reduction for the next 5 years). Specified industries can benefit from a 5-year tax holiday. 150% of qualified costs incurred for research and development of new technologies and products can be deductible.</td>
<td>Income Tax Holiday for 1st and 2nd year at 100%, 3rd year 80%, and thereafter 10% year on year decrease in tax exemption is applied up to 10th year of operation. Dividend tax exemption is also provided.</td>
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<tr>
<td>Country</td>
<td>Procedure for application</td>
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<tr>
<td>Poland</td>
<td>To apply for a SEZ permit the company has to prepare formal documentation (‘the Offer’). In the Offer the company shall present:</td>
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<td>- The business plan that describes its new investment project to be conducted in the SEZ, including an incentive effect analysis and financial projections</td>
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<td>Some additional formal documents (e.g. a decision granting the taxpayer identification number, REGON number, valid transcript from the National Court Register, documentation confirming the source of financing)</td>
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<td>The content of the Offer may differ to a certain extent for particular SEZs.</td>
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<td>- Within the Offer, the company declares the main commitments for the activity to be conducted in the SEZ</td>
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<td>- the amount of capital expenditures to be incurred and the number of new jobs to be created. Such commitments are then listed in the SEZ permit as the obligations to be fulfilled by the company. The average time taken to obtain SEZ permit is 35 days.</td>
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<td>India</td>
<td>An application for setting up of a Unit shall be made to the Development Commissioner. Such an application must seek clearances for the following:</td>
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<td>- Setting up of unit in a Special Economic Zone;</td>
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<td>- Annual permission for sub-contracting;</td>
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<td>- Allotment of Importer-Exporter Code number;</td>
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<td>- Allotment of land / industrial sheds in the Special Economic Zone;</td>
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<td>- Water connection;</td>
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<td>- Registration-cum-Membership Certificate;</td>
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<td>- Small Scale Industries Registration;</td>
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<td>- Registration with Central Pollution Control Board;</td>
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<td>- Power connection;</td>
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<td>- Building approval plan;</td>
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<td>- Approval from inspectorate of factories;</td>
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<td>- Pollution control clearance, wherever required;</td>
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<td>- Any other approval as may be required from the State Government.</td>
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<td>The application shall be made in 5 copies and a copy shall be sent to the Developer.</td>
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<td>China</td>
<td>After application is accepted the BOI (Board of Investments) is responsible for processing investment proposal.</td>
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<tr>
<td>Bangladesh</td>
<td>Units though individually have to seek permission from authorities like Inspectorate of factories, environment, and etc.</td>
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<tr>
<td>Country</td>
<td>Poland</td>
<td>India</td>
<td>China</td>
<td>Bangladesh</td>
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<tr>
<td>Administrative setup</td>
<td>&quot;SEZ Manager&quot;  &quot;Council of Minister&quot;</td>
<td>&quot;Unit Approval Committee&quot;  &quot;Development Commissioner&quot;  &quot;SEZ&quot;  &quot;Section Officer&quot;  &quot;Under Secretary&quot;  &quot;Director&quot;  &quot;Under Secretary&quot;</td>
<td></td>
<td>&quot;Board of Governors&quot;  &quot;BEPZA&quot;  &quot;Zone Administration&quot;</td>
</tr>
</tbody>
</table>
5.5 Key learning’s & action to be taken with respect to India for promoting SEZ in Service Sector

India’s growth in the post-liberalisation period has been propelled by the services sector and India enjoys a positive trade balance in services, as opposed to trade in goods. The services sector has the largest share in foreign investment. It is, therefore, prudent for the country to promote services SEZs to enhance exports, investment and employment.

There are a number of reasons to promote services SEZs. First, services such as logistics are key inputs into manufacturing sector. Therefore, by subsidising services, countries can not only enhance the global competitiveness of their manufacturing sector but can also establish global production networks. Hence, many countries are expanding the range of services within the existing SEZs or are creating specialised SEZs for services such as warehousing and other business services to make their manufacturing sector globally competitive. Second, services SEZs can be used to incentivise domestic businesses to become export competitive and attract foreign investment in certain services such as infrastructure services in developing countries, which in turn can help to promote trade. Since the World Trade Organisation (WTO) is yet to develop a discipline on subsidies in services, countries can subsidise services to enhance its export capabilities. Third, services SEZs can help in liberalising the services sector of a country in a phased manner and thereby promote trade. These SEZs can be used as test-beds for reforms as has been done by countries such as China. Once the reforms are successful in a closed enclave, they can then be implemented in the whole country.

While SEZs will continue to play an important role in supporting IT/ITeS exports from India and the IT/ITeS sector is likely to dominate the exports of services from Indian SEZs, it is important for India to use SEZs to diversify its export base of services, enhance the competitiveness of manufacturing sector, establish value chains and remove barriers to trade in services. (ICRIER)

5.5.1 Cluster Policies in China - Planning Commission 2012

The key experiences of China’s SEZs and industrial clusters can best be summarized as gradualism with an experimental approach; a strong commitment from central leadership and the active, pragmatic facilitation of the state. It is also characterized by broad institutional autonomy, recognizing the importance of preferential policies, rigorous benchmarking, monitoring, and competition.

A crosscutting theme across special economic zones and industrial clusters in China is the independence afforded to the local administrative body. SEZs tend to have an independent committee that has complete control over economic planning, pricing, labor wages, business management, and foreign economic activities. The ‘township governments’ that manage other industrial clusters, also have significant powers in terms of taxation and market regulation. The SEZs also lead the way in policy experimentation sharing their experiences with rest of the country to build upon.

Another feature that stood out in Chinese clusters was the presence of active industry associations. They bridge the gap between government and private enterprise. In most cases, these associations are quasi-government bodies being led by a govt. appointed or a party nominated secretary. In some clusters, the industry association would take over some responsibilities of the government like publicizing the regional brand, hosting lectures on new techniques and equipment and inviting delegations from developed countries.
Key Lessons:

The success of Chinese industrial clusters is inseparable from local governments’ strong support and nurturing. This support often come during the middle or later stages when the clusters have demonstrated their potential. The prerequisite for this support is however a capable, invested and powerful civil society at the local government level and the administrative efficiency in the governance apparatus.

- **Upgrading clusters through Infrastructure investment**
  Local governments in China have tried to build a specialized market or industrial park to facilitate business activities. Such a market brings suppliers, producers, sellers, and buyers together and helps build the forward and backward linkages, thus greatly facilitating the scaling up of the clusters. For example, in Wenzhou, the municipal government invested RMB 557 million to build an industrial zone—the “Chinese Shoe Capital”—in Shuangyu Town Lu Cheng City, a large industrial complex integrating technological training, trading, testing, production, information services, and shoe-related cultural exhibitions.

- **Investing in skilled labor and technology**
  Since majority of the clusters in China are labour intensive with little innovation capacity, the local governments considered it worthwhile to invest directly into innovation and skill development. In Guangdong since 2000, the provincial government has invested RMB 300,000 in each specialized town, with matching funds from local governments, to build a public technology innovation center (TIC) to support the clusters’ innovation and technology activities.

- **Preferential policies and financial support**
  To attract qualified enterprises to the clusters, local governments often offer certain incentives, including desirable land, tax reduction or exemption, and access to credits and loans. In the Puyuan sweater cluster, the local government set up an industrial park and granted preferential land, tax, and credit policies to attract enterprises with famous brands to locate in the cluster.

- **Branding cluster and Regulating Quality**
  Local governments in China often enact specific regulations, especially those related to investment type, product quality, and standards, to ensure that the products made in the clusters have a market future. They simultaneously invest in branding the cluster products to the rest of the world. This two pronged approach ensures that their get maximum bang for their buck. In the 1980s, Wenzhou shoes experienced a rapid expansion of quantity without quality; as a result, they offered low prices but suffered from a bad reputation. To correct this problem, the municipal government issued strict regulations and quality standards for Wenzhou shoes and helped firms develop branded products.
6. END-USER PERCEPTIONS

6.1 Interactive Workshop

Key points which would be analyzed through stakeholder workshops are as follows:

- Issues and Challenges in India from SEZ developers point of view
- What steps does the Indian Government need to undertake to encourage service oriented exports
- What are some good benchmark countries from where some learning’s can be absorbed into India
- Demand and Need Assessment of such innovative SEZs – from Indian SEZ developers point of view
- What type of fiscal benefits/ initiatives needs to be taken up by the Indian Government in order to promote such SEZs based on the demand assessment
- How can the exports by EPCES diversified and not be restricted to only Information Technology (IT)?
- Issues and challenges faced by EOU Units

Having studied the experience of China, SEZs were conceived in India to get over the problems of lack of infrastructure, multiplicity of controls, clearances and an unfriendly tax policy, acquiring fertile land for industry, and to promote productive enterprises, and also to attract investments from foreign countries. SEZs are aimed at developing industries in different states based on their potentialities, to improve competitiveness of the local industry, generate more employment avenues to the local people and also upgrade their skills and competencies, absorption of modern technology as well.

Problems/ challenges

1. Large scale forced acquisition of land and promotion of real estate business.
2. Loss of local agriculture and other traditional livelihoods.
3. Lack of equal and non-exploitative employment opportunities for local communities in SEZs.
4. Increasing burden on natural resources like land, water, forests besides the threat of environmental destruction.
5. Revenue losses and lack of real economic development of the country and people.
6. Breakdown of Governance system especially of the local self governments with the creation of foreign enclaves.
5. Absence of Government initiative to start dialogue and open public consultants on the matter of exports from SEZs during the last eight years.

The growths of SEZs are often hampered by a lack of clear cut approvals and clearances. With constant revisions of the policy, it only becomes more confusing for a unit or developer to enter into this sector. ’Implement don’t impediment’ is a cry from most SEZ developers who have to constantly battle changing regulations.
End-User perceptions gathered during interactive sessions and one-on-one meetings held by Frost and Sullivan are appended in Annexure below.
7. Recommendations

In value-added terms, services now account for nearly half of world trade, and have become a critical part of the growing global value chain. In India, identifying and addressing the specific SEZ services choke points such as the lack of focused policy planning tools, overly burdensome domestic regulatory regimes, and insufficient intergovernmental agency co-ordination, among others needs to be addressed on an urgent basis. A holistic approach would be to strictly align these policies with the country’s future economic orientation.

Frost & Sullivan has analyzed the recommendations that can be looked at short term

Recommendation #1: Development of logistics-related infrastructure

- Development of transportation and logistics-related infrastructure such as dedicated freight corridors, logistics parks, free trade warehousing zones, and container freight stations will improve efficiency and transform the services sector in India.

- India, as a country offers significant opportunities in the logistics sector both from the point of view of attracting private and foreign players as also for expansion of Indian start-ups and logistics service providers. The Government should make use of this opportunity in the best possible manner.

- Focused approach on improving infrastructure across India and efficiency in policy and regulations will provide the much needed boost to the logistics service sector.

Recommendation #2: Technology to propel Ease of Doing Business

For lower income countries such as India, services may provide a platform to ‘leap-frog’ stages of development if the government can help to create conditions necessary for developing this sector.

- For an improvement in India’s performance on the ease of doing business – currently ranked 130 out of 190 countries – and particularly on the parameter of ‘trading across borders’ – currently ranked at a dismal 143, it is imperative to deploy digital technology to transform the experience of doing business in the country.

- In line with the government’s principle of ‘minimum government, maximum governance’, the focus on digital transformation should be on minimization of exporter interaction with various stakeholders in the value chain, understandably without sacrificing the effectiveness and integrity of the process.
  - One-stop shop: To make this possible, there is a need to have a single integrated view of trade related activities preferably through a single website on the lines of SISCOMEX – the integrated trade system in Brazil.

- In both existing and potential SEZs, the government must invest in making local firms and the economy technology-ready. This calls for substantial investment in local universities and research institutions and the provision of incentives for firms to train their workers, adopt best management practices to restructure and innovate.
**Recommendation #3: Capacity Building**

- Personnel must be trained continuously to troubleshoot any issues faced by the stakeholders
  - The officers should be trained to provide a wide array of services apart from providing clarity on the SEZ related policy and its implications.
  - Technology related trainings also need to be part of the capacity building curriculum.

**Recommendation #4: Unambiguous Policies and Procedures**

- All policies and procedures for doing business with respect to Service Sector and SEZs must be clearly outlined.
  - Apart from clearly providing a handbook of processes for exporters, it also needs to provide similar information for importers looking to import from India.
  - Any kind of policy changes and announcements must be issued from a centralized online system on the trade-related portal.

- Periodical review of the policies must be delivered real-time to this portal removing any ambiguity in the mind of the users.
  - There should be a regular standardized process of seeking feedback from the exporter community on the performance on the SEZ Policy as well as export procedures in the country.
  - More importantly, the results of such a survey should be made public and be followed by various policy actions and announcements that address any pain areas highlighted in the surveys.

**Recommendation #5: Uniformity in Duty/ Tax exemptions and Reassessment of Minimum Alternative Tax (MAT)**

- There is lack of political will and/or the absence of a coherent incentive framework to support SEZs. If the zones are not integrated into the country's national development strategy, they will struggle to achieve the desired impact. One example often cited is the constant changes in SEZ's “free trade” policies. With the introduction of MAT, the very concept of the no-tax regime was under threat. The long-pending proposal to reduce MAT to 7% from the current 18% needs to be revisited/ evaluated. This move will certainly help to boost the Service Sector.

- Uniformity in Duty/ tax exemptions - Each state levies its own set of duties which causes cost overruns for the SEZ. For example, Maharashtra levies stamp duty, whereas Gujarat and other states do not. This is a cost and credit cannot be availed for this.
Improvement in tax exemption structure for Small and Medium Scale industries will encourage more participation from this sector. A criteria for exemption of Tax needs to be incorporated by giving a proper definition, be it employment generation or capital investments, etc.

**Recommendation #6: Procedural changes with respect to approvals & clearances**

- As seen in SEZ’s worldwide, they operate or are granted status equivalent of a municipality/ province. A system needs to be setup wherein units inside of SEZ need not have to interact with State/local bodies such as pollution board/ water board/ inspectorate of factories and state electricity department.

- Studies should be conducted for the feasibly of certain regulatory/documentary requirement and if not required to be done away with. For example, Private Bonded Warehouse and Manufacturing Inbound licenses were replaced by B-17 bond. Regulatory regimes should be examined for their appropriateness and strengthened where necessary thus.

**Recommendation #7: Relaxing norms for broad-banding**

- Broad banding as a concept allows the SEZ/ EOU units or the manufacturers to use similar goods and activities mentioned in the Letter of Permission (LOP) or to provide for backward or forward linkages to the existing line of manufacture. However, in today’s global competitive market there is a need to relook at relaxing the norms for broad-banding as that would provide new opportunities with respect to diversification of line of manufacture.

**Recommendation #8: Demand Assessment study needs to be conducted to understand the interest levels of the SEZ stakeholders with respect to Service Sector**

- Demand assessment for a service SEZ needs to be conducted followed by stringent due diligence measures before approving and notifying the SEZ.

- SEZs with similar synergies should be placed together for better valuations, performance, and profits. For instance, if the notifying authority sees a latent demand for automobile manufacturing SEZ and if this SEZ is approved in Mangalore instead of a state that has the infrastructure for it like Tamil Nadu (Chennai), it will help neither the developer nor the unit that is expecting to run a successful business.

- International capacity building efforts should be directed to identifying and leveraging the factors that impact on services competitiveness overall as well as in individual prospective services growth sectors in tandem with trade policy reform.
Recommendation #9: Timely Review of notified SEZs and EOUs

- Timely review of each of the SEZs and EOUs can bring to light the genuine players versus the scamsters.

- Fraudulent practices with regard to the demarcation of Processing and Non-Processing Areas needs to be immediately addressed through reviews.

- Some SEZ/EOU projects have turned their land into a real estate and commercial venture despite existing rules and such defaulters can be caught and necessary actions needs to be taken on the defaulters.

- A Ranking system needs to be established for SEZ’s/EOUs in order to make them more competitive.
  - The rankings to be measured on the basis of drivers of competitiveness such as: endowments, especially human capital, investment in intangible assets (corporate intellectual property, enabling digital infrastructure, quality of institutions, efficiency of domestic regulation, connectedness with the international market) etc.
8. CONCLUSION AND WAY FORWARD

India’s growth in the post-liberalisation period has been propelled by the services sector and India enjoys a positive trade balance in services, as opposed to trade in goods. The services sector has the largest share in foreign investment. It is, therefore, prudent for the country to promote services SEZs to enhance exports, investment and employment.

There are a number of reasons to promote services SEZs. Services such as logistics are key inputs into manufacturing sector. Therefore, by subsidising services, countries can not only enhance the global competitiveness of their manufacturing sector but can also establish global production networks. Hence, many countries are expanding the range of services within the existing SEZs or are creating specialised SEZs for services.

However, India’s experience in establishing SEZs differs from those of other countries in terms of institutional framework, role of the nodal agency and objective of the SEZ regulation, among others. Further, Indian SEZs do not have measurable performance targets against which they can be benchmarked. Unlike countries such as China, Indian SEZs do not compete among themselves and they have no external pressure that would ensure performance.

Indian SEZs are also different from SEZs in countries such as China in terms of the number and size of SEZs. Most countries have an incremental approach to SEZ development where governments approve a specific number of zones; based on the success or failure of these zones, decisions are taken to replicate the model. India has the largest number of SEZs among the peer countries. However, most SEZs in India are much smaller than SEZs in countries such as China, and therefore, the zones lack economies of scale.

The location of SEZs is important for its success and to promote manufacturing exports. The SEZs have to be connected through a well-developed transport infrastructure including ports and airports. Since land is a scarce resource and all countries face issues related to land acquisition, most countries have realised that such projects need government support. In India, the Department of Commerce plays no role in facilitating land acquisition; however, the state governments sometimes offer support to private developers for acquiring land. Global experiences show that performance of SEZs depends on several measurable and non-measurable indicators that can vary across SEZs in the same country. Factors such as location, availability of land, price of land, connectivity, infrastructure within and outside the SEZs, autonomy of the SEZs, fiscal and other incentives, supporting regulations and type of governance affect the success or failure of an SEZ.

To conclude, SEZs are measures to facilitate trade and investment and to support the development of global production networks and value chains. They are important components of cross-country economic corridor development and trade agreements. They can attract investment in high-technology products, lead to product diversification and promote exports. SEZs can create employment and infrastructure and lead to the growth of the manufacturing and services sector in developing countries such as India if they are supported by the right policy. The Indian government should not only take policy initiatives, but it should also aggressively market its SEZ policy. In most countries, the government, SEZ developers and SEZ - specific authorities work together to attract units and foreign investment to SEZs. They aggressively market the SEZs through the websites of their embassies and other investment portals. India is the only country (apart from Dubai, UAE) that has established a specialised
body—the Export Promotion Council for EOUs and SEZs (EPCES) under the Department of Commerce—to promote SEZs. EPCES should have a clear mandate to attract investment in SEZs (including FDI) and to market Indian SEZs abroad in order to attract units to SEZs. This will enable the country to attract investment in SEZs.

8.1 Need for further study / analysis

There is a need for a detailed analysis to understand the implications and therefore undertake further analysis

- Study on business transformation of EPCES as an investment authority for SEZs and FDI, strategic analysis on the pros and cons.
- Study on SMEs should be conducted with the objective of increasing their involvement in the Indian Trade environment
9. ANNEXURE – INTERACTIVE WORKSHOP AND MEETINGS

Growth Opportunities for SEZs in INDIA

(Brainstorming session to uncover new/innovative ideas)

Global consulting firm Frost & Sullivan invites your esteemed organization to an interactive workshop on uncovering new/innovative growth opportunities for SEZ in India. Details of the event are as follows:

ATTENDEES INCLUDE:
- CSuite of SEZ Developers
- CXO of International companies
- SEZ Development Commissioners

AGENDA
9:00-9:15am  Registration
9:15-9:45am  Opening Session
  SEZ development in India
  - Evolution of SEZ in India
  - Global SEZ benchmarking and Innovative models
9:45-10:30am  Session 1:
  - The future of SEZs and uncovering new/innovative growth opportunities
  - Shortlisting 5 new ideas
10:30-10:45am  Break
10:45-11:30am  Session 2:
  - Roadmap for implementing the shortlisted ideas
  - Expectations / Support from Government
11:45-12:00pm  Thank you and close

Speakers:
- Muni James
  Vice President, Frost & Sullivan
- Srikant Bhat
  Senior Consultant, Frost & Sullivan

Venue:
Frost & Sullivan
ASV Hansa, #53 Greams Road
Chennai - 600 006

Date:
15th September, 2017
Time: 9am – 12noon

For more information, please contact:
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Sri Ramya Malladi
Email: srikantbh@frost.com
Mob: +91 99490 19778

www.frost.com
9.1 Chennai Workshop

With an objective to uncover the growth opportunities for SEZs in India, to understand the prevalent issues and challenges faced by private sector players within the SEZ domain, Frost & Sullivan commenced an interactive session with the relevant stakeholders on 15th September, 2017 in Chennai.

The following were present in the interactive session

1) Mr. Sanjay Shrivastava, Head, Business Development, Marg Group, New Chennai Township
2) Mr. Raman Gill, Manager, Sricity Developers
3) Mr. Ganesh B, Manager, MARG Group, New Chennai Township
4) Mr. Ananda Velu, Manager, TCS, Sipcot IT Park
5) Frost & Sullivan Project Team

1. **Introduction** – At the onset Frost & Sullivan made a presentation to the participants on SEZ development in India, key government initiatives, global best practices, and the future of SEZs in uncovering new innovative growth opportunities.

2. Subsequent to the briefing by Frost & Sullivan, the floor was opened for an interactive session. The following feedback was expressed by the participants as set out in the below:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Issues/ Challenges faced</th>
<th>Support expected from the Government</th>
</tr>
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<tbody>
<tr>
<td>Approvals and Clearances</td>
<td>In spite of the SEZ developer</td>
<td>SEZ Developers are to be</td>
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<table>
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<tr>
<th>Particulars</th>
<th>Issues/ Challenges faced</th>
<th>Support expected from the Government</th>
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<tr>
<td><strong>Tax Regimes</strong></td>
<td>Introduction of MAT and DDT defeats the basic purpose of the concept of SEZ</td>
<td>Relook at revoking the MAT and DDT as it was in the original SEZ Policy</td>
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<td><strong>Fraudulent and Corrupt Practices</strong></td>
<td>No proper demarcation of Processing Area and Non-Processing Area – as seen in some of the SEZ projects in the country which have turned into a Real Estate/ Commercial Venture</td>
<td>Annual review of notified SEZs and necessary actions needs to be taken on the defaulters.</td>
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<tr>
<td><strong>Bank Loans/ FI Support</strong></td>
<td>Bank do not accept SEZ land as security and SEZs are treated as real estate projects</td>
<td>This need to be addressed at the policy level, the Government may look at redefining SEZ in the modern context.</td>
</tr>
<tr>
<td><strong>Lack of Focus</strong></td>
<td>No proper due diligence conducted before notifying the SEZs</td>
<td>Proper need and demand assessment, overall operational costs to be incurred needs to be looked at before notifying SEZs</td>
</tr>
<tr>
<td><strong>SEZ Cluster</strong></td>
<td>Not enough focus on cluster development. Mutually complimenting industries could be part of the ecosystem</td>
<td>Government could undertake market due diligence to identify the focus industries and strengthen the Industry promotion.</td>
</tr>
<tr>
<td><strong>Overall Infrastructure</strong></td>
<td>Logistics and overall connectivity</td>
<td>Government could study on more viable and easy to implement Industry Corridors</td>
</tr>
<tr>
<td><strong>Management Consultant/ Admin Support</strong></td>
<td>In view of the changing tax regime, even the established developers and unit holders are facing issues in adaptation. Startup companies would find the environment increasingly Logistical connectivity needs to be developed. Need to relook and re-assess overall logistics. Management consultancy support to facilitate – shifts in policy/tax regimes.</td>
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<tr>
<td>Particulars</td>
<td>Issues/ Challenges faced</td>
<td>Support expected from the Government</td>
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<td>challenging in identifying right skill set, adapting to the operational frameworks.</td>
<td>Further, data base of labour market could be made accessible to developers.</td>
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<tr>
<td>Government as Competition</td>
<td>In several cases the Government special purpose vehicles developed for SEZs or economic cities are turning to be a competitive threat to the stand alone SEZ developers. Few developers opined that the Government body was offering the land and other amenities at much lower prices than the private developer.</td>
<td>Government should carry out regular land valuations.</td>
</tr>
<tr>
<td>Inter-Ministry conflicts</td>
<td>Conflicting interests by each Ministry, each Ministry working as silos with individual targets</td>
<td>The Government could look at creating a separate arm under the Ministry of Commerce which is accountable for SEZs alone.</td>
</tr>
</tbody>
</table>

3. Feedback on EOUs

- EOUs are not a complete failure, felt some participants. What is needed is a paradigm shift in policy – a shift “from diploma to degree”.
- There are huge operational malfunctions that stem from ambiguities arising from misrepresentation of facts by EOUs. This results in huge losses in government revenues. For example, major malpractice in the tax exemption area was one of the key points discussed.
- Need to incorporate EOUs into SEZ Policy, not just give the policies fancy names but ensure that those policies/ rules are actually followed on ground through a monitoring mechanism.

4. Feedback related to Policy:

- Frequent changes to government policies
- DTC: allow more tax benefits to units with higher investment, this amount setback to units with low investment and high job employment like textile, garment and toy making.
- No chapter 3 benefit to SEZ units.
- FTA agreement to allow import of goods freely into India, SEZ units to allow lower duty than FTA.
- Counter veiling duty is higher than import duty, should be reduced to boost SEZ industries.
- Stamp duty in SEZ is notional, now most of the states allow refund of stamp duty.
- SEZ incremental incentives over DTA are too small and have resulted in slowdown in demand of SEZ land since the compliance requirement are too stringent
- Banks do not accept SEZ land as security and SEZ’s are treated as Real estate projects.
- Tax benefits to be extended on change in product line, as no technology can survive for more than 5 years.
• Policy to address issue (change in product) and provide certain additional concession, boosting confidence in SEZ units.
• NPA facilities to be allowed to other customers, if no duty benefits are availed.
• Removal of MAT or incentives to neutralize MAT effect.
• Dividend distribution tax to be removed.
• MoC can help project SEZ in India through Trade summits & Embassy’s.

5. Discussion on global successful SEZ models:
   • Gabon, Africa - Gabon is primarily known for its timber, hard and softwood (Ocume). Ocume is hi-end timber used to make luxury yachts. SEZ in Gabon is focused on timber production with Ramki Group involved in an EPC survey. An oil refinery in an SEZ is also being developed by Samsung for the oil-rich country. There is a suggestion to start an agro SEZ focusing on rubber and palm oil as well after the success of the existing SEZs. Complete tax exemption for 10 years, investors can bring in used machinery as well, and contain a HR representative within the premises to deal with internal issues. These SEZs are performing very well.
   • Tangier, Morocco - 3,000 acres has been set aside for an auto SEZ in this city. Renault, Dachia, Nissan are some of the big players here. Auto ancillary manufacturing is also part of this cluster. This makes logistics easier. Tax free and several SEZ incentives make this a popular investment destination. SEZs with synergies have been clubbed together
   • Malta islands - Much focused SEZ working on Malta’s core strengths of yacht building and handmade jewelry has resulted in a booming ecosystem.
   • Malaysia, Digital Free Trade Zone - Malaysia launched the world’s first Digital Free Trade Zone in March 2017 to accelerate Malaysia's digital roadmap. This is a joint initiative by Malaysian Government and Alibaba Group to accelerate Malaysia’s digital roadmap. Through DFTZ, the purchase of goods via the Internet worth a fixed ceiling amount and below will be exempted from paying tax.
   • Jebel Ali, Dubai - In 1985, the JAFZA was created as an industrial area surrounding the port. International companies that relocate there enjoy the special privileges of a free zone. These include exemption from corporate tax for 50 years, no personal income tax, no import or re-export duties, no restriction on currency, and easy labour recruitment. Among the infrastructure projects built to support the port and town is the world’s largest desalination plant, the Jebel Ali Desalination Plant (Phase 2), providing an ample supply of fresh water. This SEZ contains a HR representative within the premises to deal with internal issues.

The interactive session ended with a vote of thanks to all the participants.
9.2 One-on-One meeting- MEPZ

As part of our stakeholder interactive sessions, Frost & Sullivan met Mr. M. K. Shanmuga Sundaram, Development Commissioner, Madras Export Promotion Zone (MEPZ), Tambaram, Chennai on 25 September 2017.

Initially started as an EPZ in 1984, MEPZ was converted to a SEZ in 2005. Multi product and spread over 265 acres, it has 125 operational SEZ units within and a turnover of INR 6,000 crores. The State SEZs are SIPCOT, ELCOT and MEPZ. 37 operational SEZs in Tamil Nadu contribute INR 82,000 crores in exports (2016-17), up from INR 70,000 crores in 2013-14.

SEZs are growing in Tamil Nadu with 73 new units getting operational (51% filled). A SEZ like the 2,500 acre AMRL in Nanguneri has 22 new units with 10 being operational. Tidel Park in Coimbatore has 950 ‘seats’ and 45 modules and is a top performer in Tamil Nadu.

Other top performers in Tamil Nadu include

- TRIL, Chennai
- Mahindra World City, Chennai
- ELCOT-Coimbatore
- TCS-Siruseri Chennai
- Cheyyar, Tiruvannamalai
- MEPZ, Chennai

Roadshows in Coimbatore, Madurai, Andamans are part of the initiatives undertaken by the Joint Development Commissioner to spread awareness of SEZs.

Policy changes suggested by the Commissioner to make SEZs more viable-

- Developers feel the reason why SEZ exports have not grown as much as in the initial years is because of the introduction of 18.5 % MAT which has worked as a disincentive.
- Amendments required in SEZ Act/ Rules - The Sunset clause which states that units will not get IT exemption after 2020 has also deterred SEZ stakeholders.
- Small suppliers to SEZ find it difficult in the current tax regime as their supplies are ‘zero rated’.
- De notification - state government NOC, duty benefit repayment
- Single window mechanism needs to be fine tuned as it is not working well. Unit Approval Committee needs to be meet every month.
- Make single product SEZ into multi product when it is not performing well or is not operational due to logistics, location or product/ service category.
- Need to review progress of all SEZs every month.
- Need to beat global recession and protectionist measures by encouraging exports with our key trading partners US, UK (in IT/ITES) and China, Korea, South Asia, Middle East (in manufacturing)
- Improvements in current SEZs performance can be through capacity building. Instilling a framework whereby SEZ bodies such as TASID work closely with bodies like NASSCOM, CII etc.
- Suggestion for a single SEZ body for all 7 zones instead of the silos they are currently working in. A consultancy can be engaged to guide in the process.
- Investment promotion activities are restricted to roadshows for now and there is opportunity to diversify into other methods.
• Need to diversify into other forms of service sector SEZs like tourism, education, finance as there is immense untapped potential. Tamil Nadu can be the hub for a Tourism SEZ.
• Inter-related clusters also need to be encouraged in State SEZ as some SEZs are lying vacant due to mismatch of services and capabilities.
• As far as competition between private and state developers goes, it is up to the negotiation skills of each to attract and package their SEZ to foreign investors.

The discussion ended with the Commissioner assuring us of his support and further inputs.
9.3 Mumbai Workshop

With an objective to uncover the growth opportunities in Service Sector, future of SEZs/EOUs within the Service Sector in India, to understand the prevalent issues and challenges faced by private sector players, Frost & Sullivan commenced an interactive session with the relevant stakeholders on 11th October, 2017 in Mumbai.

The following were present in the interactive session

1) Mr. U. Rajkumar, Regional Director, EPCES, Western Region
2) Mr. V.K.V Kumar, Independent Expert on SEZs
3) Mr. Mahesh Kulkarni, Senior Manager – Logistics, ASB
4) Mr. Sanjay Lunia, Frost & Sullivan Project Team
5) Mr. Parth Upadhay, Frost & Sullivan Project Team
6) Mr. Srikanth Bhat, Frost & Sullivan Project Team

1) At the onset Frost & Sullivan made a presentation to the participants on Service Sector, SEZ and EOU development in India, key government initiatives, global best practices, and the future of SEZs in uncovering new innovative growth opportunities.

2) Subsequent to the briefing by Frost & Sullivan, the floor was opened for an interactive session. The following topics/ issues were discussed:

   • Uniformity in Duty/ tax exemption needs to be evaluated: As an example the participants mentioned that Maharashtra levies stamp duty, whereas Gujarat and other states don’t. This is a cost and credit cannot be availed for this.

   • Long pending proposal of lowering MAT rate to 7% from the current 18% needs to be revisited/ evaluated.

   • Need for a fund to be set up for subsidizing of state duty/taxes from Central Government.

   • As seen in SEZ’s worldwide, they operate or are granted status equivalent of a municipality/ province. A system needs to be setup wherein units inside of SEZ need not have to interact with State/local bodies such as pollution board/ water board/ inspectorate of factories and state electricity department.

   • Study being conducted for the feasibly of certain regulatory/documentary requirement and if not required to be done away with. For example, Private Bonded Warehouse and Manufacturing Inbound licenses were replaced by B-17 bond.

   • Diversification within the existing line of manufacture for SEZs/ EOUs be further encouraged by relaxing norms for broad-banding

   • Improvement in Tax exemption structure for Small and Medium Scale industries or criteria for exemption be defined by employment generation/ capital investments.
• SEZ/EOU be notified or units be allowed based of factors like local population employability.

• R&D activities inside SEZ/EOU be further incentivized by introduction of further incentives.

• Autonomy to SEZ Bodies to design specific schemes and outlays.

• Ranking system to be established for SEZ's.

The interactive session ended with a vote of thanks to all the participants.
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