

CIRCULAR

Department of Commerce had constituted a Group consisting of SEZ stakeholders under the chairmanship of Shri Baba Kalyani, Chairman & MD, M/s. Bharat Forge Ltd. in Jun-2018 to study the SEZ policy. The Group after deliberations has submitted its report on the issue a copy of which is enclosed herewith.

2. All Stakeholders are requested to send their comments on the recommendations of the report along with the requisite formulations, if any, to email id: moc_epz@nic.in latest by 30th January, 2019.
3. It would be appreciated if the comments are sent only by e-mail along with a soft copy in MS- Word format by 30.01.2019.

Revitalising SEZs: From islands of exports to catalysts of economic and employment growth

Proposed Policy Framework for Employment and Economic Enclaves (3Es) in India



November 2018

Acknowledgements

At the outset the committee wishes to extend its sincere thanks to Shri Suresh Prabhu, Hon'ble Union Minister of Commerce & Industry and Shri C.R. Chaudhary, Hon'ble Minister of State, Commerce & Industry, Government of India, for giving us the opportunity to review the SEZ Policy and provide suitable recommendations.

The Committee was constituted on 4th June, 2018, with a stringent time schedule. A number of people sincerely and tirelessly contributed to the preparation of this Report over the last four months. During our study of more than four months, we interacted with officials from both the Central and State Governments. We have been immensely benefited from their advice and thoughtful inputs.

We hereby would like to particularly extend our deep gratitude for the support and guidance provided to us by Shri Anup Wadhawan, Secretary, Ms. Rita Teotia, Ex-Secretary and Shri Bidyut Behari Swain, Additional Secretary (In-charge of SEZ Division), Ministry of Commerce & Industry ('MOCI').

We would like to place on record our sincere thanks to Shri Sushil Chandra, Chairman, Central Board of Direct Taxes ('CBDT') and Shri S. Ramesh, Chairman, Central Board of Indirect Taxes and Customs ('CBIC') for extending their kind cooperation to the committee by nominating senior representatives to give us the perspective of the Ministry of Finance. We would like to particularly express our sincere gratitude to Shri Rashmi Ranjan Das, Joint Secretary, TPL-1, Ministry of Finance and, Shri Prem Verma, Addtl. Director General (SEZ), DGEP, Ministry of Finance, for joining the consultations and offering their valuable guidance to the committee.

The committee also thanks valuable support received from the senior representatives from the States of Andhra Pradesh, Gujarat, Karnataka, Maharashtra and Tamilnadu, during the course of this study.

We would like to place on record our deep appreciation of their continued administrative support received through this period from Shri Senthil Nathan S, Deputy Secretary, MOCI, Shri G Srinivasan, Under Secretary, MOCI, Shri Aditya Narayan, Under Secretary, MOCI and Shri Piyush, Section Officer (SEZ), MOCI.

Yours sincerely,

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Foreword

During the period 2000-05, the World GDP increased by about 40% from USD 33.57 Trillion to USD 47.41 Trillion, China increased its GDP by about 90% from USD 1.21 Trillion to USD 2.29 Trillion and, India registered an increase by about 75% from USD 460 Billion to USD 810 Billion. In the backdrop of sustained global economic expansion, the two large developing economies from Asia, China and India, were expected to continue to grow at a fast pace and increase their share of World GDP in the decade ahead. During the same period, 2000-05, China increased its share of world merchandise goods exports from approx. 1.8% to 6.7% beginning to make a mark as the "factory of the World". Such increase in China's merchandise trade activity was largely being attributed to the success of the country's Special Economic Zones developed alongside the eastern provinces along the sea coast.

With this backdrop, recognizing the need to promote exports to propel GDP growth of the country, the Government of India, announced the Special Economic Zones (SEZ) Policy in April 2000, as part of the EXIM Policy. A comprehensive legislation, the SEZ Act, was then passed in the parliament in 2005 followed by, the SEZ Rules promulgated in February 2006. The objective, was to bring in foreign investment, develop world-class infrastructure and create a globally competitive and hassle free environment for companies engaged in exports of goods & services; thus, making India an epicenter of manufacturing and services activity, generating multitude of employment avenues for its large young workforce.

Since then, while China's merchandise goods exports has continued to flourish in size from about USD 690 Billion in 2005 contributing 6.7% of world exports to about USD 2.2 Trillion in 2017 commanding 12.7% of world exports, India's merchandise goods exports grew from approx. USD 100 Billion to approx. USD 300 Billion in the same period with corresponding share of world exports growing from a measly 1% in 2005 to approx. 1.7% in 2017. The Indian Manufacturing Sector's contribution to overall GDP has also languished around 15-17% over the last several years as against the stated objective of 25%. However, on the Services front, Indian services exports grew from approx. USD 52 Billion in 2005 with 1.9% world share to approx. 180 Billion in 2017 with a 3.4% world Services share.

It is arguably evident that while the SEZs policy has been leveraged well by companies in the Services sector to garner greater share of world markets, companies in the Manufacturing sector have been unable to replicate a similar export led growth success, thus building a compelling case to review India's SEZ policy and examine what would foster competitiveness in the sector and propel greater economic activity.

Today, as we look ahead to transform India into a USD 5 Trillion economy by 2025 and, target to provide adequate employment and growth avenues to a growing young workforce, it is imperative that the country follows a holistic growth path achieving targeted USD 1 Trillion in manufacturing and about USD 3 Trillion contribution of Services. On the Manufacturing front, a 3-4 fold increase in Manufacturing Value Add can be envisaged only if we are successful in providing an enabling environment and a thriving ecosystem for entrepreneurs and companies to do business and achieve competitiveness. We would thus have to shift from a purely cost competitiveness paradigm based on incentives and tax sops, to a paradigm that provides world-class infrastructure with seamless access to gateways, state of the art technology, skilled manpower, flexible labour laws etc. all of which together enhance ease of doing business and increase the competitiveness in the world market. On the Services front, again, a 2-3 fold increase can be envisaged by attracting investments from new priority sectors with sizeable domestic and exports opportunity like financial services, legal services, tech-enabled healthcare, MRO facilities and several more beyond IT/ITeS.

Taking cognizance of aspirations of a New India set by the Hon'ble Prime Minister and the current global geopolitical and macro-economic outlook, the committee reviewed the relevance of existing SEZ policies of the Government and followed a comprehensive approach (detailed in the main report), focused on secondary data review and primary consultations from various stakeholders including developers, unit holders, service providers etc. and identified salient recommendations. As a first, the committee has suggested a set of exclusive recommendations for stakeholders operating in/for the Manufacturing sector and for those operating in/for the Services sector.

On 4th June 2018, the SEZ Division, Department of Commerce constituted a High Level Committee comprising multiple stakeholders to examine to review the SEZs Policy of India in accordance with the Terms of Reference listed in the said order (enclosed as **Appendix 1**). The Committee deliberated upon relevant issues in depth and drew upon its own research as well as studies and inputs made available from different sources to arrive upon certain recommendations on possible future approach. It is our pleasure to present the Report to the MOCI for its consideration.

PricewaterhouseCoopers Private Limited was appointed as a knowledge partner to support the committee in this endeavour. I would like to thank all the committee members and our knowledge partners for their valuable contributions in bringing out this report. Further, we sincerely thank senior officials from MOCI, Ministry of Finance and from the Industries Departments of various State Governments for providing us with their valuable feedback and inputs during the course of our study.

Baba Kalyani,
Chairman & MD, Bharat Forge Ltd.
Chairman of the constituted group to study the SEZ policy of India

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Glossary

Abbreviations	Terms
3Es	Employment and Economic Enclaves
AD	Authorised Dealer
BEZA	Bangladesh Economic Zone Authority
BoA	Board of Approvals
CBDT	Central Board of Direct Taxes
CBIC	Chennai Bengaluru Industrial Corridor
CEU	Coastal Economic Units
CPCDS	Comprehensive Powerloom Cluster Development Scheme (CPCDS)
DC	Development Commissioner
DDP	Drone Data Processor
DDT	Dividend Distribution tax
DENR	Department of Environment and Natural Resources
DMIC	Delhi-Mumbai Industrial Corridor
DP	Drone Pilot
DTA	Domestic Tariff Area
ECB	External commercial borrowing
ECERDC	East Coast Economic Region Development Council
EEFC	Exchange Earners Foreign Currency
EODB	Ease of Doing Business
EOU	Export Oriented Unit
EPZA	Export Processing Zone Administration
ESR	Export Share Requirement
FEs	Free enterprises
FY	Financial Year
GDP	Gross domestic product
GMA	Greater Metropolitan Area

GNI	Gross National Income
GVA	Gross Value Added
ICT	Information and Communication Technology
IFSC	International Financial Services Centre
IT	Information Technology
ITeS	Information Technology enabled Services
ITH	Income Tax Holiday
LDC	Least Developed Countries
LoA	Letter of Approval
MAH	Major Accident Hazard
MAT	Minimum Alternate Tax
MCS	Manufacturing Cost Statement
MOCI	Ministry of Commerce and Industries
MSE-CDP	Micro & Small Enterprises – Cluster Development Programme
NFE	Net Foreign Exchange Earning
NICDIT	National Industrial Corridor Development & Implementation Trust
NIMZ	National Investment and Manufacturing Zones
NPA	Non Processing Area
ORPSA	Odisha Right to Public Services Act, 2012
PCPIRs	Petroleum, Chemicals and Petrochemical Investment Regions
PE	Permanent Establishment
PEZA	Philippines Economic Zone Authority
PMU	Project Management Unit
RBI	Reserve Bank of India
SEIS	Services Export Incentives Scheme
SEZ	Special Economic Zones
SEZ APTS	Special Economic Zone Andhra Pradesh and Telangana State
SFURTI	Scheme of Fund for Regeneration of Traditional Industries
SITP	Scheme for Integrated Textiles Park (SITP)

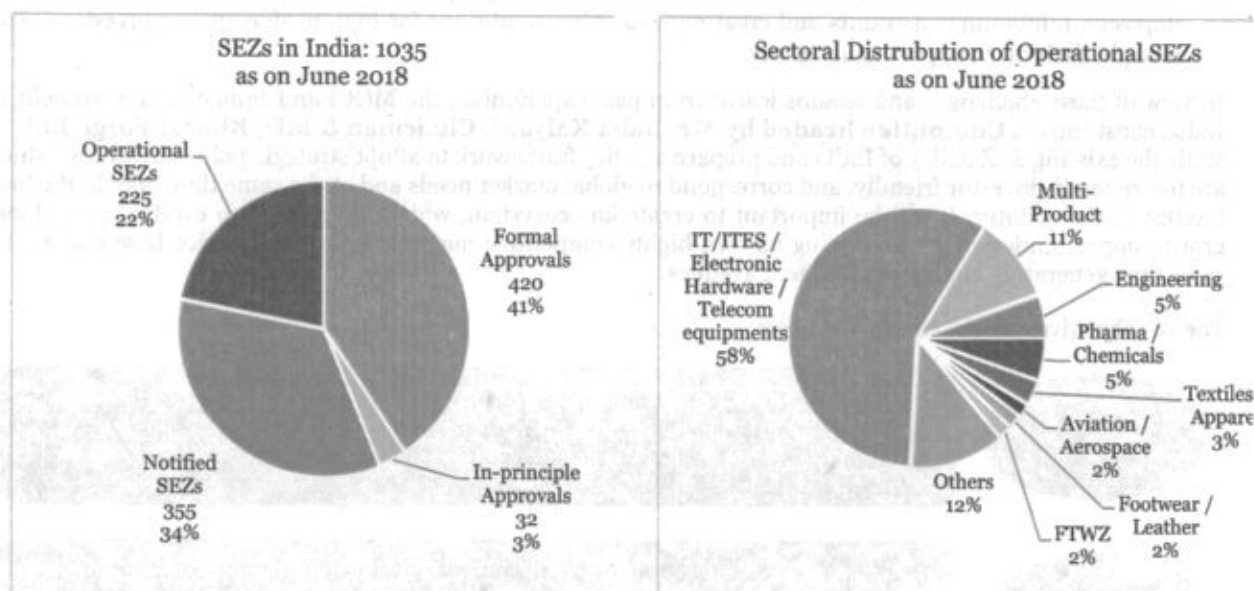
SOW	Statement of Work
SPV	Special Purpose Vehicles
STP	Software Technology Parks
SWIFT	Single Window Interface for Facilitating Trade
TASID	Tamil Nadu Association of SEZ Infrastructure Developers
The Act	Special Economic Zones Act, 2005
The SCM Agreement	The WTO Agreement on Subsidies and Countervailing Measures
The SEZ Rules	Special Economic Zones Rules, 2006
TIDZ	Technological Industrial Development Zones
UAC	Unit Approval Committee
US\$	United States Dollar
VAT	Value Added Tax
WTO	The World Trade Organisation

1. Executive Summary

1.1 Background and Objective

The Government of India has set a target of creating 100 million jobs and achieving 25% of GDP from the manufacturing sector by 2022, as part of its flagship 'Make in India' programme¹. Furthermore, the Government plans to increase manufacturing value to US\$ 1.2 Trillion by 2025². While these are ambitious plans to propel India into a growth trajectory, it requires evaluation of existing policy frameworks to catalyse manufacturing sector growth. At the same time, policy needs to be complied with the relevant WTO regulations.

In 2005, India enacted the Act and notified the SEZ Rules in 2006. The main features of the policy included tax holidays, exemption from import duties and single window clearances for central and state approvals. Currently, the operational SEZs (225) in India and their sectoral breakup is provided below.



Source: Fact Sheet on Special Economic Zones, www.sezindia.nic.in

It is arguably evident that while the SEZs Policy in India has been leveraged well by companies in the Services sector to garner greater share of world markets, companies in the Manufacturing sector have been unable to replicate a similar export led growth success, thus building a compelling case to review the SEZ policy and examine what would foster competitiveness and propel greater economic activity.

Several reasons and challenges that potentially can be attributed to this constrained performance of SEZs include:

- Complexity in undertaking domestic and international business through same units impacting viability of SEZs for manufacturing;
- Uncertainty in government policies, specifically tax e.g., withdrawal of Minimum Alternate Tax and Dividend Distribution Tax exemptions, announcement of sunset date, etc.;
- Multiple regulatory stakeholders (direct tax, indirect tax, exchange controls, State Governments and SEZ authorities) need not necessarily aligned at all times;
- Some provisions of SEZ law not operationalized, though enacted to be single legislation for development of SEZs; and

¹ <https://www.ibef.org/industry/manufacturing-sector-india.aspx>

² NITI Aayog presentation

- Procedural delays and infrastructural bottlenecks.

As compared to India, certain countries leveraged exports as a key driver of economic growth—focusing simultaneously on import substitution and export-led growth. They adopted a differentiated economic policy to attract investments (especially foreign investments), and promote manufacturing and trade. This led to the development of economic zones—with several successful examples in Asia and Latin America. Some of the examples from Asia are outlined below.

- China focused on enabling a limited number of zones (to manage over-supply issues), large size to achieve agglomeration benefits and maintained long-term focus on these zones (for more than three decades).
- Indonesia developed its economic zones in a steady manner to first showcase tangible results and then attract further investments into existing zones, which resulted in a sizeable economic activity offering economies of scale.³
- Vietnam has also leveraged the economic zones concept to propel economic growth and attract FDI by imposing minimum constraints and creating favourable conditions for high-profile anchor investors, who brought their own supporting investors.

In view of these challenges and lessons learnt from past experiences, the MOCI and Industry, Government of India, constituted a **Committee headed by Mr. Baba Kalyani, Chairman & MD, Bharat Forge Ltd.** to study the existing SEZ policy of India and prepare a policy framework to adopt strategic policy measures, which are future ready, investor friendly, and correspond to global market needs and at the same time uphold the best interest of the country. It will be important to create an ecosystem, which helps India to capitalise on global growth opportunities while developing its own highly competitive manufacturing and service base and at the same time generating quality employment avenues.

The key objectives for the committee were:

01

Evaluate the SEZ policy implemented from the year 2000 and suggest the measures to be adopted to cater to the needs of exporters in the present economic scenario and make the SEZ policy WTO compatible

02

Suggest course correction in SEZ policy for encouraging manufacturing and services sectors in SEZs and for maximizing utilization of vacant land in SEZs

03

Make comparative analysis of the SEZ scheme operating in India and SEZ scheme operating elsewhere, specifically SEZs operating in service sector and suggest changes in the SEZ policy based on international experience

04

Dovetail the SEZ policy with other schemes like coastal Economic Zones, Delhi Mumbai Industrial Corridor, National Industrial Manufacturing Zones, food Parks and textile Parks etc.

The committee reviewed the relevance of existing SEZ policies of the Government and followed a comprehensive approach (detailed in the main Report)—focused on secondary data review and primary consultations, to come up with recommendations. PricewaterhouseCoopers Private Limited was appointed as a knowledge partner to support the committee in this endeavour.

³ At present Indonesia has 9 operational SEZs, and plans to increase the number to 25 by 2019
<http://www.indonesiabriefing.com/news/manufacturing-setup-indonesia>

1.2 Key recommendations: strategic shift

In view of the key objectives of this study outlined in the chapter, the Committee had a series of consultations and inputs from various stakeholders to arrive at a set of recommendations, which are broadly categorised into 2X2 matrix categories, that is:

- Fiscal interventions regarding institutional and regulatory alignment
- Fiscal interventions regarding infrastructural inputs
- Non-fiscal interventions regarding institutional and regulatory alignment
- Non-fiscal interventions regarding infrastructural inputs

Given the recommendations towards fundamental shift in purpose and principles of the SEZs in India, appropriate amendments may be required in the Act to incorporate changes and achieve the purpose set out in the very first sentence of the Act, reproduced below:

"An Act to provide for the establishment, development and management of the Special Economic Zones for the promotion of exports and for matters connected therewith or incidental thereto."

With the objective of moving from islands of exports to catalysts of economic and employment growth, the Committee proposed to rename SEZs in India as 3Es – Employment and Economic Enclaves. Today, SEZs are viewed as zones promoting only Exporters with special privileges; rechristening the name to 3Es will enable bringing together all categories of investors that enable economic activity or job creation, not just exporters but also investments targeted towards leveraging the domestic demand.

**"SEZs to be renamed as
Employment and Economic
Enclaves (3Es)"**

The other key view of the committee is to review requirements of Manufacturing enclaves and Services enclaves separately. Given that business nuances and enablers for the manufacturing and services sector are different, the committee recommends separate development frameworks including formulation of separate set of operational rules and procedures for these two types of enclaves.

The committee also recommends that area & sector based requirements (e.g., multi products, sector specific etc.) should be reviewed, and to promote higher demand for sector specific enclaves, similar nature industries or non-polluting industries sectors could be allowed in certain sector focussed enclaves. MOCI could review formulations of rules to this effect.

Manufacturing 3Es and Services 3Es recommendations are therefore categorised into those specific to manufacturing and services sector. Besides, the committee has also suggested general recommendations, which are common to both manufacturing and services with specific reference to 2X2 matrix discussed above. Relevant case studies have been enclosed in Annex 1 and 2.

In addition to amendment in SEZ Act, necessary legislative changes should be undertaken in other applicable laws, simultaneously, to avoid any ambiguities or uncertainties in implementation of proposed framework. This may include FEMA, Income Tax Act, GST regulations, Customs & Excise Act, Foreign Trade Policy, State Laws and relevant sectoral laws etc.

1.2.1 Employment and Economic Enclaves: Strategic Recommendations for both Manufacturing and Services sectors

SEZs are currently export focused, this impacts utilisation of units and also limits their ability to be flexible around managing demand between domestic or export market. The Committee recommends **moving away from island of exports to more integrated hub for employment and economic activities enabled by quality infrastructure and ease of doing business**. The key recommendations from a policy framework perspective have been summarised in the below table:

Table 1: Strategic Recommendations for both Manufacturing and Services sectors

Focus Area	Recommendations
Migration from export focus in SEZs to focus on economic & employment generation	<ul style="list-style-type: none"> Promote investments that create economic activities and job creation, and do not limit it to promoting exports. In future, incentives to be used for creation of manufacturing ecosystem and to be delinked from export performance. These incentives to be in addition to the incentive extended under the State Industrial Policy. Quantum of incentives for units in 3Es to be based on certain parameters and delinked from exports : <ul style="list-style-type: none"> ✓ Investment committed ✓ Job creation ✓ Inclusivity – promoting women in jobs ✓ Value addition ✓ Technology differentiation ✓ Trade potential ✓ Priority industry <p>These benefits/ enablers can be extended to investors basis operationalization achieved vis-à-vis milestone communicated at the time of establishment of 3Es or businesses in 3Es. A Project Management Unit ('PMU') within the MOCI to enable disbursement of incentives</p>
Promote demand driven approach instead of supply driven. Leverage existing inventory of land parcels in various Government initiatives.	<ul style="list-style-type: none"> Tightening the approval process for new enclaves based on minimum development obligations, time-bound investments and operationalisation of businesses with finite number of extensions to deadlines. Beyond private sector driven Enclaves, Central Government could plan focusing on a few but large zones as future zones of excellence in manufacturing (similar to Institute of eminence program in Education sector). These zones can be developed closer to port and in key manufacturing hubs to enable growth of manufacturing and can be supported by anchor investments for trunk and link infrastructure by the Government. Around 5 to 6 zones could be developed by the Government with highest quality infrastructure and connectivity. Till these projects are saturated, no new projects may be taken up by the Central Government. Such priority sector zones may be considered from ready for investments zones in DMICDC, Chennai Bengaluru Industrial Corridor (CBIC) and VCIC, etc. Develop a system to map and monitor operational zones before permitting new Zones and put a geographical restriction between Zones to avoid clustering
Enabling framework for EODB in 3Es	<ul style="list-style-type: none"> The approval process can be automated and integrated with the other ministries and departments at the Centre and states as being implemented by the Customs authorities for trade facilitation (SWIFT) (Annexure 3 to the

<p>One integrated online portal for new investments, operational issues management and exits/de-notification for developers and tenants.</p> <p>States and MOCI to share responsibilities on one online platform with clear timelines for each activity.</p>	<p>executive summary sets out the proposed administrative framework for “integrated online portal”)</p> <ul style="list-style-type: none"> • Entry and exit process should be streamlined and brought under single integrated authority with a standardised application form and documentation requirement for disposal in a time-bound manner and should be brought on to an online platform • Integrate the process with single window approval platform of state governments or an alternative integrated platform of MOCI with state governments as is done by Customs (SWIFT) or GSTN • Larger role of development commissioner in facilitating approval process and in sync with the State’s mechanism for grounding and approving projects. DCs to play the role of a catalyst while States to take larger role in providing approvals, and enablers. • Alternatively, MOCI can review the current functions and roles of the BoA and the UAC for management of standard approach across and enable decision-making on approvals and one-stop shop for facilitation. Learnings from best practices from states can be adopted • Provisional exit should be allowed against an undertaking as currently extended to EOUs under the Foreign Trade Policy • Flexibility in interpretation and application of the concept of authorised operations: Once authorised operations are approved, requirement to seek separate approval for addition or inclusion or modification of authorised operations should not be required if such modifications are within the broad contour of earlier approvals. The entrepreneur should be required to file only an intimation (in prescribed format), authorities to respond within a specified time period (e.g., seven days) in case of concern, otherwise deem approval accorded Alternatively, broad guidelines with negative list of operations can be considered to remove the need for specific approvals • Formalize “de-notification” process for enclaves and delink it’s present mandatory usage for SEZs purpose only
<p>Infrastructure Status to improve access to improved financing options</p>	<ul style="list-style-type: none"> • Infrastructure and Policy & Finance Division of Department of Economic Affairs, has granted “Infrastructure Status” to five main infrastructure sectors and 29 infrastructure sub sectors. This status allows these sectors to be entitled to a number of benefits and concessions. Further, it gives access to improved foreign finance through external commercial borrowing. Infrastructure Status can be extended to all components of a 3E

1.2.2 Employment and Economic Enclaves for Manufacturing Sector: Policy Framework

The Committee recommends incentives to be used for creation of manufacturing ecosystem delinked from exports with seamless interface with domestic economy, which in turns promotes exports in the long run. The key recommendations from a policy framework perspective have been summarised in the table below:

Table 2: Key identified focus areas/recommendations for manufacturing sector

Focus Area	Recommendations
Support funding for Link infrastructure development and maintenance to be provided	<ul style="list-style-type: none"> Link Infrastructure forms a vital part of industrial area development to boost industrial activity. An excellent infrastructure can be considered to act as a fundamental incentive for both developer and tenant or manufacturer. This includes smooth and efficient transport infrastructure, last mile connectivity, uninterrupted supply of quality power and water, and waste management facilities. The Government should enhance competitiveness of the 3Es by enabling ecosystem development by funding high-speed multi modal connectivity, business services and utility infrastructure. It is critical to provide support to create high-quality infrastructure within or linked to the zones e.g., high-speed rail, express roadways, passenger/cargo airports, shipping ports, warehouses etc. For development of link infrastructure in enclaves, MOCI may create pool of funds and have a full time Project Management Unit for disbursement of these funds.
Facility of sub-contracting for customers outside 3Es/SEZs without any restriction or cap at any level	<ul style="list-style-type: none"> To improve utilisation of units in the processing areas, flexibility to be considered to enable 3E units to seamlessly support businesses/sub-contracting outside 3Es. To operationalise it, depending on business requirements (and subject to specific safeguards) reversal of duty or tax benefit on inputs used for manufacture can be considered (scenario 1 of Annexure 2 to the executive summary) as has been done in EOU framework for DTA clearances. This facility should also be made available to SEZ units operating under SEZ framework, to be continued once migrated into 3E framework.
Specified domestic supplies supporting 'Make in India' to be considered in NFE computation	<ul style="list-style-type: none"> In the recent amendment to the rules on 19 September 2018, certain modifications / exclusions were made in the categories that are considered for NFE computation, for instance, supply of goods to any project import of which is permitted at zero (0) % duty provided international competitive bidding procedure is followed. Similarly, supply of goods to DTA against payment of foreign exchange either through EEFC account of DTA customer or payment received from overseas entity is removed. <p>These exclusions can adversely impact the 'Make in India' initiative including projects of national importance e.g. Defence projects. Hence, the status quo prior to 19 September 2018 should be retained. The benefit can be restricted to goods manufactured by the units</p>

Export duty should not be levied on goods supplied to developer and used in manufacture of goods exported	<ul style="list-style-type: none"> In the amendments on 19 September 2018, for goods subjected to export duty, such supplies by domestic seller to businesses in zones is made subject to export duty as well. However, such duty under Customs law is levied on export of goods out of India. Hence, supplies to zones cannot be considered as "exports" as defined in Customs law. In fact in past this aspect has been subject of litigation and courts have struck down such levy. The levy should be reviewed, and if it all it needs to be levied, following categories of supply should be excluded from levy: <ul style="list-style-type: none"> Supplies made to the developer/ co-developer Supplies used for manufacture leading to emergence of a different finished goods (involving substantive transformation/ processing, tariff shift between inputs and finished goods, value addition, etc.)
Broadband existing sector specific SEZs to include other aligned industries	<ul style="list-style-type: none"> Sector specific SEZs have issues of limited export demand. Therefore, explore the possibility of allowing alternate sectors to operate in a sector focussed 3E, subject to fulfilment of conditions as may be prescribed. For instance, a 3Es (erstwhile SEZs) approved for white goods could house another sector's non-polluting industry such as Gems and jewellery, etc. hence, to some extent sector specific 3Ess could be multi-sector.
Flexibility of Long term lease for developers and tenants	<ul style="list-style-type: none"> The current practice of 30 years lease is unattractive for potential investors looking to develop zones including associated infrastructure. Therefore, they opt for alternative options or destinations with more generous terms Hence, flexibility of lease period for units and developers will enable taking a long term view on the project and enable financing for their development

Note:

- No export linked benefits
- Annexure 2** to the executive summary sets out indicative chart of tax structure in the proposed incentive framework that would help integrate units in 3E zone to mainland seamlessly

1.2.3 Employment and Economic Enclaves for Services sector: Policy Framework

The Committee recommends **continuing with the present SEZ policy dispensation** framework for services and **broad-banding with strategic focus on some services**. The key recommendations from a policy framework perspective have been summarised in the table below:

Table 3: Key identified focus areas/recommendations for services sector

Focus Area	Recommendations
Retaining Tax or duty benefits	<ul style="list-style-type: none"> Existing tax or duty benefits to be retained Sunset clause to be extended For identified "sunrise" services benefits in tax laws to be considered in line with those extended for IFSC e.g. 9% MAT and exemption from DDT for IFSC
Broad-banding definition of services/allowing multiple services to come together	<ul style="list-style-type: none"> A list of services from a strategic and growth perspective could be developed through detailed studies involving relevant stakeholders. Such list potentially could be bunched together as: <ul style="list-style-type: none"> Type a: IT / Fintech / Design / Legal / Financial Services / Healthcare / MROs for global aviation or electronics industry / Biotech / Tourism / audio-visual services / legal / communication / media entertainment/education, or Type b: Services for manufacturing entities, Logistics / MRO / leasing / environmental / recycling Analyse current regulatory and procedural bottlenecks restricting growth of the identified services and develop enabling framework e.g., regulatory restrictions on Financial Services or requirement of prior environment clearances approvals for Service 3Es Dispense with the present sectoral based classification/ categorization of services and allow multiservice SEZ. In the proposed framework, allow 3Es the flexibility to house services which can potentially co-exist e.g. healthcare, R&D, etc. or has locational relevance from logistics or turn around perspective e.g. port based logistics services, MRO for ships and electronic goods, etc. as envisaged in flexibility extended in amendments undertaken in 2013
Additional enablers and procedural relaxations	<ul style="list-style-type: none"> Consider incentive (support mechanism) linked with employment, investment committed, technology/ innovation, Inclusivity, Value addition etc. to identified strategic industries on same lines as in manufacturing Provide procedural relaxations including simplification of processes, ease in day to day operations, etc. Annexure 7 to the main report sets out a detailed list of recommendations of the committee. Few examples are stated below: <ul style="list-style-type: none"> Sharing of duty exempted assets and infrastructure should be allowed to entities with specific approval as presently allowed to EOUs/ STPs The requirement of receipt in foreign exchange for services provided in DTA should be dispensed with and should be brought at par with treatment given to clearance of goods to the DTA specially since such services are no longer counted towards NFE As all IFSC units are licensed by Financial Services Regulator to carry out permissible activities, it is proposed that requirement of Net Foreign Exchange under the existing regulations should be exempted for IFSC Units in the proposed framework. For instance, a Re-insurer operating from IFSC receives premium in foreign currency, however, in case of global claim, would be required to pay in foreign currency and thereby it may not be able to achieve positive NFE earning

1.2.4 Employment and Economic Enclaves: Common Policy Framework

The key recommendations common to manufacturing and services 3Es from a policy framework perspective have been summarised in the below table:

Table 4: Key identified common focus areas/recommendations for both the sectors

Focus Area	Recommendations
Development planning and regulations to promote Integrated industrial and urban development	<ul style="list-style-type: none"> Currently, the development planning and regulations framework is linked with export requirements and has industrial focus. To promote integrated industrial-urban enclaves, the development framework to enable, development or urban amenities within the enclaves and SPVs to manage them. The development regulations and institutional framework for enabling development could be aligned with best practices of integrated development as proposed in NICDIT or key projects such as GIFT. State and Centre can cooperate in enabling delivery of the approach
Dispute resolution through arbitration and commercial courts	<ul style="list-style-type: none"> Provide for a swift resolution of disputes through arbitration mode or through commercial courts over other dispute redressal mechanism. Existing legal framework may be amended and aligned with the Arbitration & Conciliation Act, 1996 permitting parties to appoint an arbitrator (Annexure 4 to the executive summary sets out the indicative mechanism of dispute resolution)
Flexibility in usage of NPA by developers	<ul style="list-style-type: none"> With a view to encourage better utilisation and development of the NPA, it is recommended that dual-usage norms for the NPA should be flexible according to the needs of 3Es zone in that particular state. It is also recommended to review the local development regulations in deciding the area mix for NPA
Reimbursement- based mechanism for developers to incentivise utilisation of assets in NPA by businesses in PA	<ul style="list-style-type: none"> Instead of upfront exemptions, specific methodology may be evaluated for incentivising the service provided to users in the PA
Promote MSME investments in 3Es by linking with MSME schemes of Government of India	<ul style="list-style-type: none"> The Government should enable development of competitive supply chains within enclaves. Current Government schemes for MSMEs to be made available in SEZs. Also specific initiatives for MSMEs like cluster development to be promoted. These enclaves could offer Central Government schemes for MSME cluster development and offer utility charges at a lower rate than to large investors
Utility tariffs to units at competitive rates	<ul style="list-style-type: none"> Units within the enclaves to be provided with competitive utilities tariffs to ensure they are not paying rates higher than available through other means.
Support to enable "servicification" in proposed enclaves	<ul style="list-style-type: none"> A fund to support development of essential services in 3Es to be provided by MOCI Services units enabling manufacturing to be allowed in Manufacturing 3Es Support can be given to compensate for the logistics services costs, labour transport costs, labour training costs, advertising and marketing costs, to name a few

Note: The proposed recommendations are for developers as well as units

1.3 Transition of existing SEZs to 3Es framework

Existing SEZ stakeholders (developer or co-developer and units) are currently enjoying fiscal and non-fiscal benefits under SEZ framework. On transition to new framework per the timeline as may be agreed, the policy framework should have a 'transitional clause' ensuring the following to enable a seamless transition, amongst other things:

- Status quo on duty or tax benefits already availed including export benefits;
- No additional conditions on existing operations;
- No penal consequences including recovery proceedings on such transitions;
- Existing SEZ units to migrate to 3E framework and for establishment of new businesses or expansion of operations in 3Es; and
- Pending litigations or disputes to be dealt under the old regime.

Apart from requirement of transition clause as discussed above, specific provisions/ regulations/ procedures under various laws e.g., SEZ, FEMA, Foreign Trade Policy, Customs and GST, etc. will require a review and realignment to adopt the proposed 3E framework.

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1.4 Indicative action points for proposed Zone framework

S. No.	Recommendation	Present Regulation	Responsibility
1.	To develop separate enabling framework and rules for operationalising manufacturing and services SEZs	SEZ Act 2005	MOCI
2.	Shift from incentives based on exports to be based on employment and economic activity creation. Role of State and Center to be evaluated.	-	MOCI /MOF /Line Ministry / State
3.	Broad-banding definition of services / allowing multiple services to come together. Review area requirements zones.	SEZ Rule 5 (2) & (3)	MOCI
4.	Detailed architecture for "Integrated online portal" for operations of Zones - for time bound approvals, exit and day to day compliances and reducing physical interface in line with State models e.g. Andhra Pradesh, Telangana, Orissa.	SEZ Act and Rules	MOCI/ Line Ministry/ State
5.	The application for constructing minimum built up area by Developer or Co-developer beyond a period of ten years from the date of notification of the Special Economic Zone (in which at least fifty percent of such area to be constructed within a period of five years from the date of such notification) to be considered by BOA on merits of each case	SEZ Rule 5 (7)	MOCI
6.	Developer should be allowed flexibility to enter into a long term lease agreement with stakeholders in Zones in line with the State policies	SEZ Rule 11 (9)	MOCI
7.	Receipt of services to customers outside the Zones to be allowed in Indian Rupees. With the recent amendment in exclusion of certain category of services from NFE computation, the requirement to earn foreign exchange is not feasible	Section 2 (z) of the Act read with amendment in SEZ Rule 53 dated 19 September 2018	MOCI/ MOF
8.	Review specific exclusions proposed in NFE computation in light of "Make in India" initiative specially projects of economic importance	Revised Rule 53 (d) notified on 19 September 2018	MOCI
9.	Dispute resolution for all Zone-related matters through a robust arbitration regime - Need amendment in relevant provisions of the act to align with Arbitration & Conciliation Act, 1996 and allowing Contracting parties to decide the dispute resolution mechanism through arbitration at first level or using commercial courts	-	MOCI
10.	"Infrastructure status" to all stakeholders relating to development of Zones	Notification issued by MOF – Harmonized Master List of infrastructure sub-sectors	MOCI/MOF

11.	Flexibility in usage of Non-Processing Area without restriction and alignment with local development regulations. Reimbursement mechanism for taxes/ duties for usage of facility in Non-Processing Area (developed using duty/ tax paid assets) by units	SEZ Rule 11A (notified on 2 January 2015)	MOCI
12.	No export duty should be levied on supplies from Domestic Tariff Area to SEZ as "exports" in terms of Customs Act, 1962 is for goods exported out of India	5th provision to SEZ Rule 27 (1) (c) (notified on 19 September 2018)	MOCI
13.	Sharing of duty exempted assets/ infrastructure between units to be allowed against specific approval	SEZ Rule 27 (5)	MOCI
14.	Units presently allowed sub-contracting for domestic customer in relation to exports. Sub-contracting to be allowed for domestic customers without any restriction with specific safeguards e.g. reversal of duty/ tax benefits on inputs	SEZ Rule 43	MOCI/ MOF
15.	Inclusion of indigenous goods in NFE computation should be excluded as there is no foreign exchange outflow on procurement of indigenous goods and same is contrary to the objective of NFE and principles followed for EOUs	SEZ Rule 53 (notified on 19 September 2018)	MOCI
16.	Enabling provision for transfer of approval from one co-developer to another co-developer should be allowed as presently permitted for units subject to guidelines to be prescribed	SEZ Rule 74A read with instruction 89 and 90 and 31 st and 69 th BoA minutes	MOCI
17.	Formalize "de-notification" process for enclaves and delink it's present mandatory usage for SEZs purpose only	Office Memorandum dated 14 July 2016 and SEZ (Amendment) Rules, 2013 notified on 13 August 2013	MOCI
18.	Develop a system to map and monitor operational zones before permitting new Zones and put a geographical restriction between Zones to avoid clustering	Chapter II of Rules	MOCI
19.	Set up a fund to enable development of last mile connectivity and essential services in SEZs. A PMU to be set up to enable disbursement of funds.	-	MOCI
20.	Existing MSME, skill development policies of Government of India to be integrated with zone policies	-	MOCI and relevant ministries
21.	Support to enable servicification of manufacturing zones. Allowing manufacturing enabling services companies e.g. R&D services, engineering design services, logistics services,	-	MOCI / DIPP

	Development planning and regulations to promote Integrated industrial and urban development –	-	MOCI / Line Ministry/ State
22.	<ul style="list-style-type: none"> SPV can be created as an apex body under the administrative control of MOCI for coordinated and unified development of zones SPV will support project development activities, approval and sanctions of project as per relevant delegations <p>SPV will coordinate and monitor efforts for the development of zones</p>		
23.	<p>Providing utilities to units and developers at competitive rates</p> <p>Evaluate subsidies that may be given on utilities to enable competitiveness of units within zones. Units may be given autonomy to choose between central or state subsidy, whichever is higher</p>	-	MOCI / Ministry of Power/ State
24.	Amendments in FEMA, Income Tax Act, GST regulations, Customs & Excise Act, Foreign Trade Policy, State Laws and relevant sectoral laws to be undertaken simultaneously	-	Respective regulators

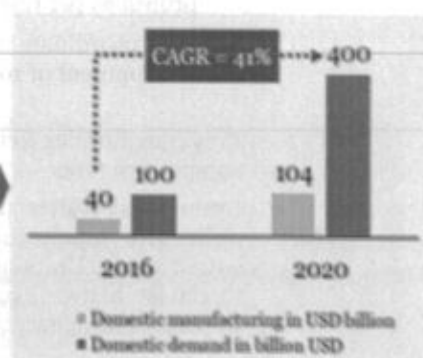
Note: The proposed recommendations are for developers as well as units

Annexure 1

Case study: Developing an ecosystem for electronics manufacturing in Economic and Employment Enclaves (3Es)

Opportunity at hand:

The electronics sector imports in India is among the third highest, in terms of share in India's total imports bill, after petroleum and gold which are resource-based products. Domestic demand for electronics is expected to grow at 41% CAGR till 2020. However, import dependency is expected to increase from 60% to 74%. It is anticipated that in the absence of any corrective measure, electronics imports bill might surpass oil imports expenses by 2020. The Government would need to look at ways to reduce this imports dependency, through a sector-focused roadmap encouraging domestic manufacturing.



At present, of the country's total demand for electronics, imports comprise of 50-60% finished products and 70-80% of components.⁴ Compared with other Asian electronics manufacturing economies like China, Singapore, Japan, Thailand etc., India is mostly an assembler for electronic goods, rather than a participant in the global supply chain as a high value added manufacturer. This can be substantiated with the example of mobile phones (HS-851712). From a finished product exports perspective, China's exports (US\$ 48.3 Billion) are approximately 100 times of India's exports (US\$ 0.48 Billion) in 2017⁵. But, a further comparison in terms of exports of components for mobile phones such as displays (HS-851770), shows that China's exports (US\$ 116 Billion) are a whopping 800 times that of India (US\$ 0.14 Billion of exports). Clearly, there is an opportunity to develop domestic manufacturing capability in this sector, especially around components/intermediates.

Key issues facing the sector

There are multiple issues facing the growth of indigenous manufacturing capabilities in the electronics sector, which are broadly across availability of quality infrastructure, competitive utility costs, logistics costs, skilled labor availability, ecosystem of R&D and regulatory concerns. These have been showcased in the below exhibit.

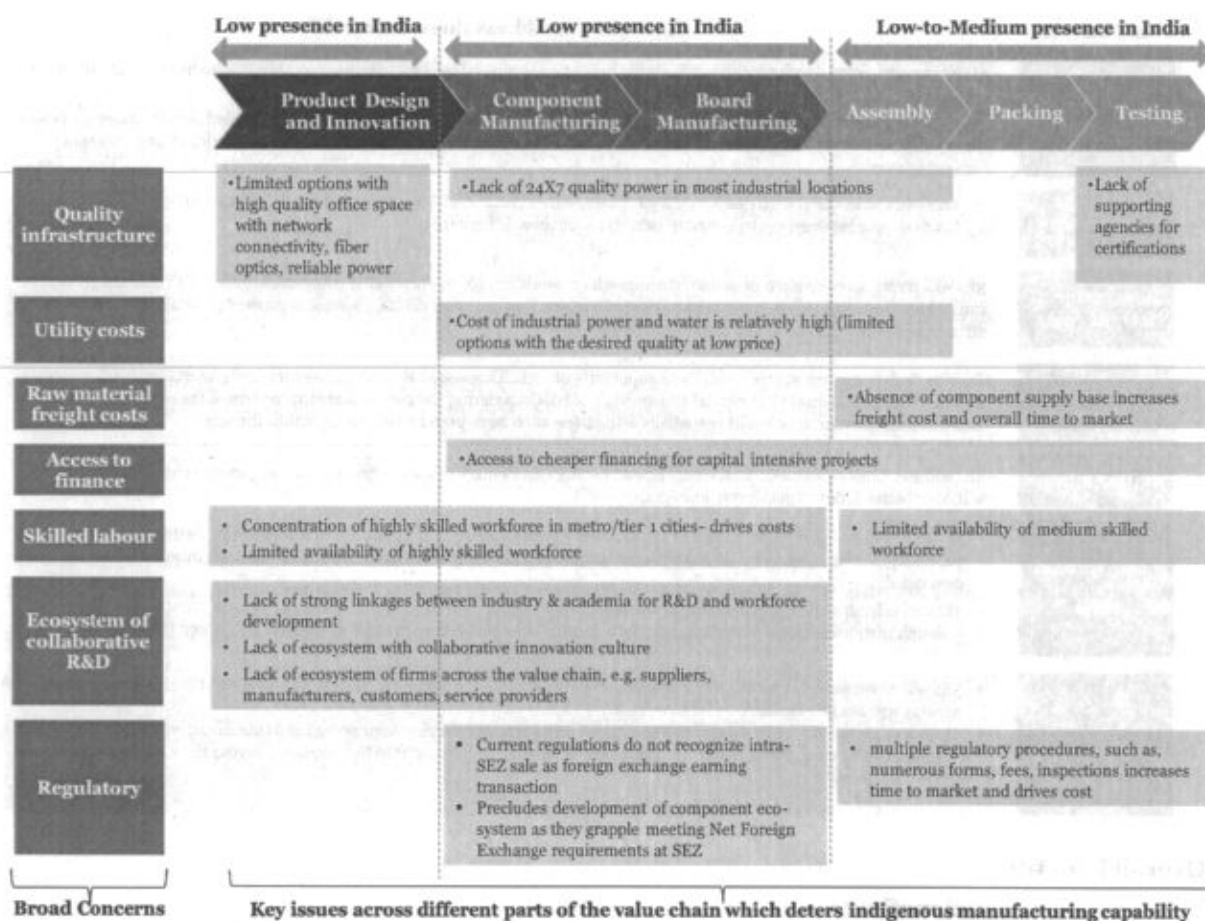
Some of these issues are enmeshed with each other, for instance, factors like lack of quality infrastructure, high utility costs and regulatory issues are considered as some of the key reasons for inability to attract the component manufacturing (semiconductors, displays, printed circuit boards, etc.) units. This in turn has resulted in absence of component supply base, which leads to higher logistics cost for components imports; further reducing country's attractiveness to the finished goods manufacturers to invest. Currently, India has two fabrication units, however none of them are used for commercial use⁶, and this makes the country a net importer of semiconductor chips. Semiconductors are estimated to form about 30% of the cost of an electronic product/system.⁷

⁴ <https://www.livemint.com/Opinion/Cs8AxDoCh8xbJEhYZUK3fP/Electronics-manufacturing-needs-a-policy-push.html>

⁵ ITC Trade Map, PwC analysis

⁶ <https://economictimes.indiatimes.com/small-biz/startups/newsbuzz/govt-to-study-iiscs-rs-2500-crore-semiconductor-fab-proposal/article-show/64742340.cms>

⁷ http://niti.gov.in/writer/readdata/files/document_publication/Electronics%20Policy%20Final%20Circulation.pdf



Further, it is important to note that specific issues around these broader concerns vary across the value chain of electronics manufacturing. For example, product design and innovation driven companies perceive lack of highly skilled workforce as an issue in India, which in turn is emanating from the lack of an ecosystem of manufacturing capabilities and industry-academia linkages. On the other hand, companies involved in assembly, packing and testing, which typically look for tier 2/3 cities as location to save on real estate costs, are grappling with availability of medium skilled manpower in the vicinity.

How Employment and Economic Enclaves can address the issues?

Government can help address the above mentioned industry concerns through 3Es development framework, which looks at harmonizing the regulatory environment, create an ecosystem of collaborative R&D and provides other enablers like skilled workforce development, access to finance etc. For example, extension of "infrastructure status" to all the components of 3Es will enable the units to access cheaper finance through External Commercial Borrowing (ECB), especially addressing the concern of capital intensive segments of electronics manufacturers. Similarly, the improved external and internal infrastructure in these enclaves, can address the issues around infrastructure bottlenecks and logistic inefficiencies.

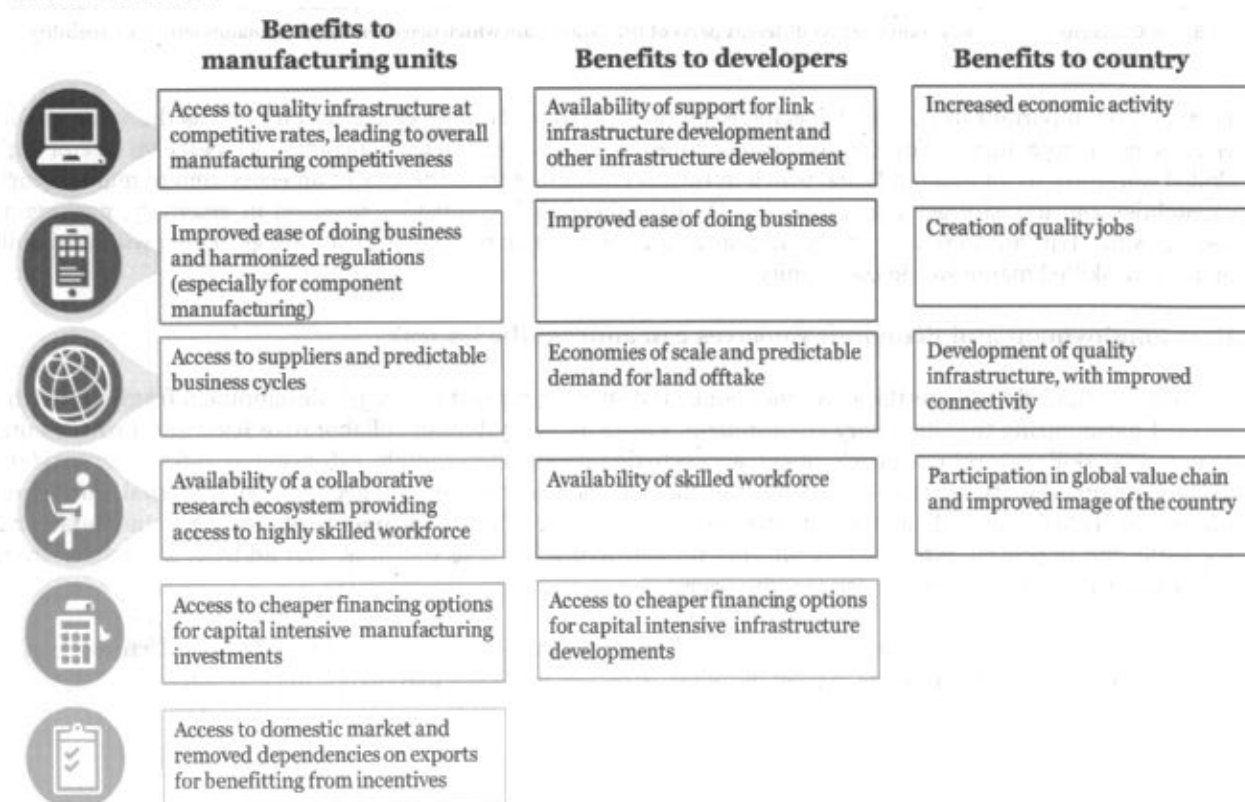
Ability to have one unit serve both domestic market and international market. Component manufacturers can also enjoy the benefit and therefore the market becomes attractive for entire manufacturing ecosystem.

Broad Concerns

How 3Es can address these concerns?

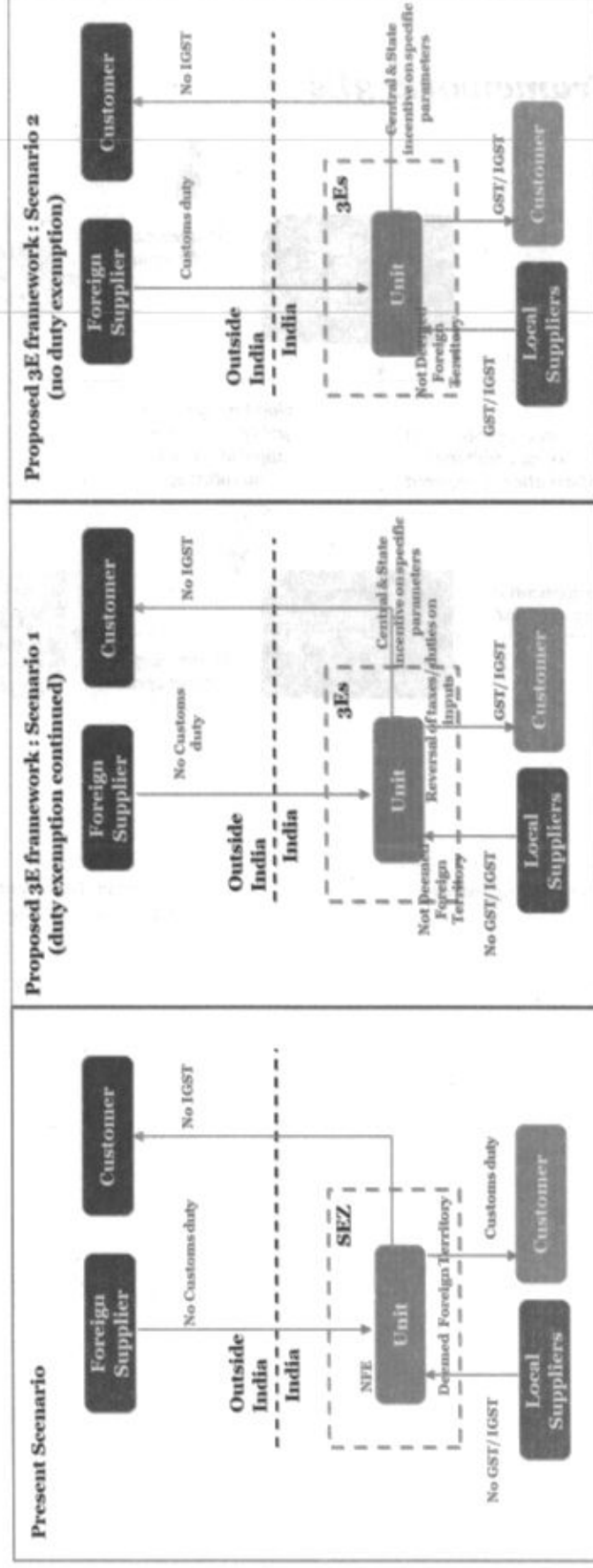
Quality infrastructure	<ul style="list-style-type: none"> • Link infrastructure development for 3Es to be facilitated through MoCI and State Government schemes for infrastructure development • 3Es would offer smooth and efficient transport infrastructure, last mile connectivity, uninterrupted supply of quality power and water, and waste management facilities; all of which are fundamental incentives for both developer and tenant or manufacturer.
Utility costs	3Es can offer subsidized high quality utility services, based on Central Government approval. Units may also be given an option to choose between central or state subsidy, whichever is higher.
Raw material freight costs	3Es will create an ecosystem of manufacturing, which would enable co-location of companies across the value chain. This can reduce the components / raw material logistics costs. Further, 3Es will offer seamless connectivity to bring logistics efficiencies, which would enable further cost reduction.
Access to finance	Provide "infrastructure status" to all the components of a 3E. This would allow the investors/units access to cheaper foreign finance through External Commercial Borrowing (ECB). Considering the capital intensive nature of the component manufacturing sector, this would potentially attract few such large players as anchors within the 3Es
Skilled labour	3Es will have special focus on skill development through its Centres of Excellence, skill development centres, etc. Also, 3Es will offer better industry-academia linkages.
Ecosystem of collaborative R&D	<ul style="list-style-type: none"> • 3Es can help develop an ecosystem of firms across the value chain, e.g. suppliers, manufacturers, customers, service providers, as these enclaves will have the potential to attract anchor investors around which the entire ecosystem may be developed. • 3Es can offer specialized incentives to the industry for engaging in R&D and innovation, in close coordination with the research institutes. Government can help in twinning arrangements with top R&D centres/institutes in the world.
Regulatory	<ul style="list-style-type: none"> • 3Es will move away from the incentive-linkages with exports, and therefore, the condition of Net Foreign Exchange earning will not be required. • 3Es will offer incentives based on investment commitments and employment potential of the investors, within the enclave. To this end, 3Es will offer a harmonized regulatory environment to the investors, across the value chain of electronics sector

Overall benefits



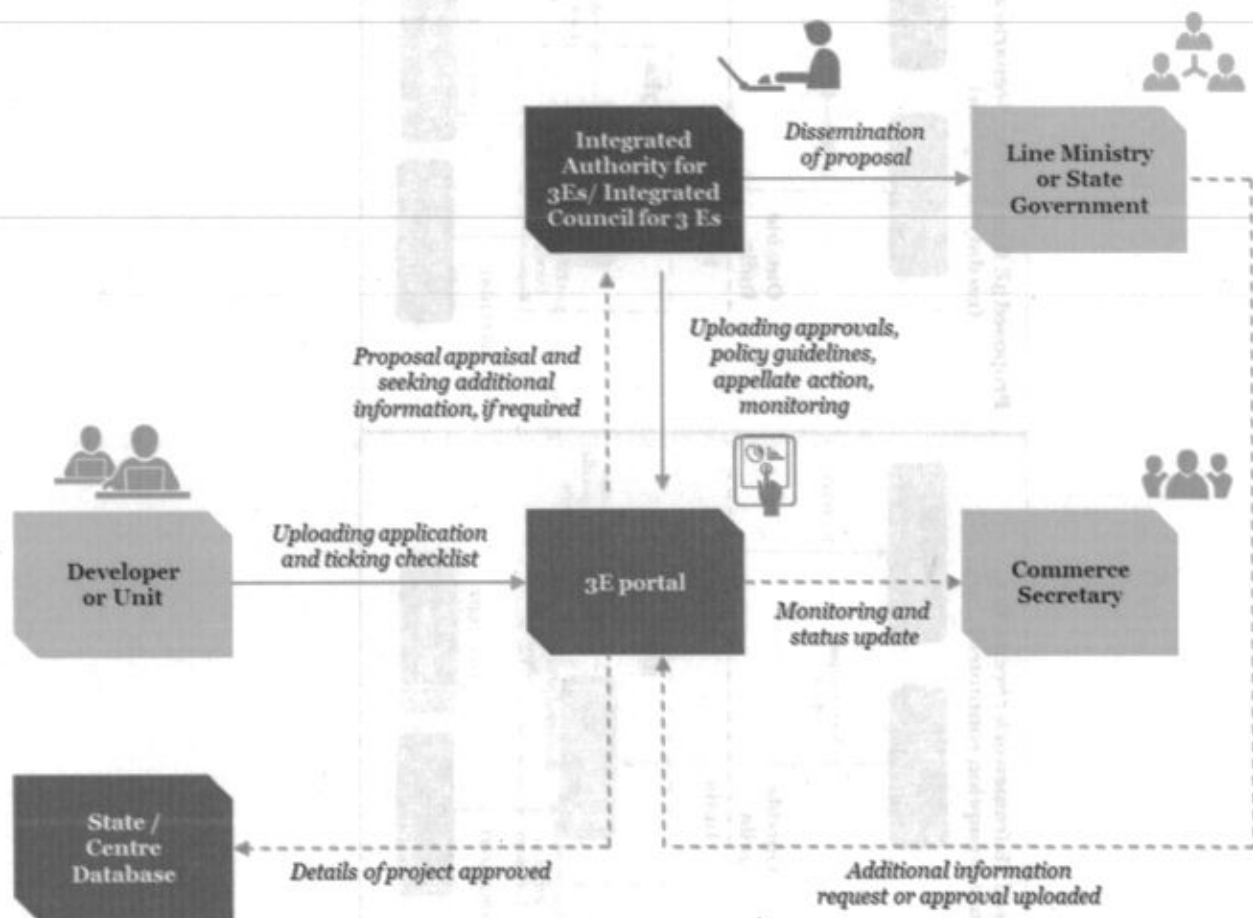
Annexure 2

Migration from export focus



Annexure 3

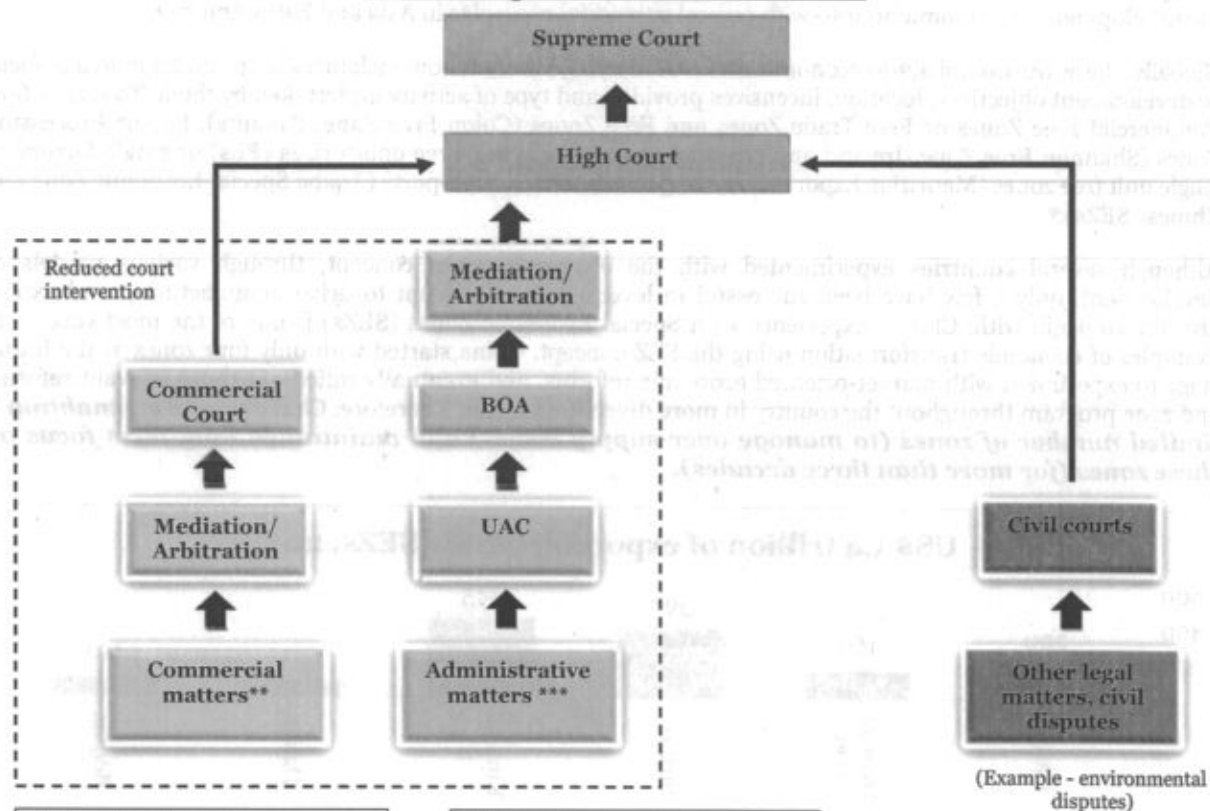
Administrative Framework: 3Es



Annexure 4

Dispute Resolution: 3Es

'TO-BE' dispute resolution mechanism



****For developers & entrepreneurs for disputes/contracts involving:**

- Banking & finance transactions
- Outsourcing & financial services
- Consultancy agreements
- Joint Venture agreement
- Construction & infrastructure contracts
- Technology development agreements
- IPR issues
- Insurance & Re-insurance
- Franchisee agreement
- Service contract
- Rent & tenancy transactions relating to aircraft, aircraft engines, aircraft equipment and helicopters, including sales, leasing

*****For dispute with the authorities involving:**

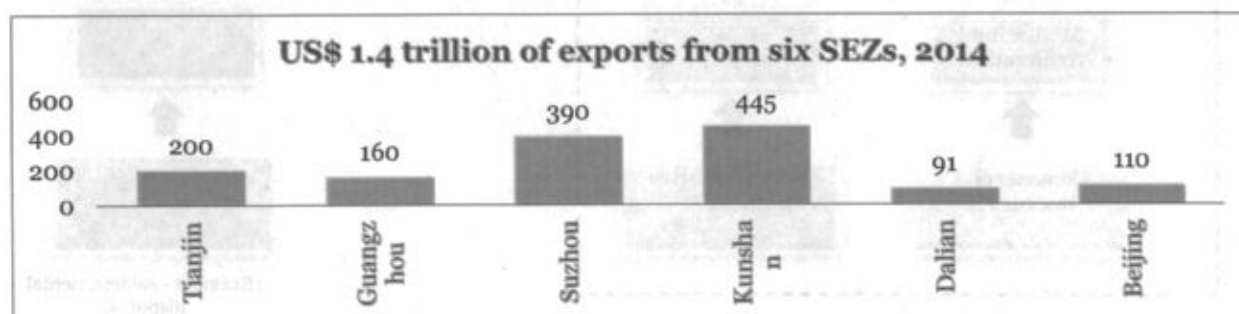
- Approvals
- EODB
- Interpretational issues
- Violation of the policy & regulations

2. Background

As compared to India, certain countries leveraged exports as a key driver of economic growth—focusing simultaneously on import substitution and export-led growth. This involved adopting a differentiated economic policy to attract investments (especially foreign investments), and promote manufacturing and trade. This led to the development of economic zones—with several successful examples in Asia and Latin America.

Globally, there are around 4,300 economic zones⁸, following different nomenclatures based on their area of focus or development objectives, location, incentives provided and type of activity undertaken by them. To state a few, Commercial Free Zones or Free Trade Zones and Free Zones (Colon Free Zone, Panama), Export Processing Zones (Shannon Free Zone, Ireland and Masan Free Zone, Korea), Free enterprises (FEs) or single factory or single unit free zones (Mauritius Export Processing Zone, Africa), Free-ports (Aqaba Special Economic Zone and Chinese SEZs).⁹

Although several countries experimented with the economic zones concept, through various models of development, only a few have been successful in leveraging the concept to drive manufacturing and export growth. To begin with, China's experience with Special Economic Zones (SEZs) is one of the most successful examples of economic transformation using the SEZ concept. China started with only four zones at the initial stage to experiment with market-oriented economic reforms, and eventually rolled out these relevant reforms and zone program throughout the country in more diversified forms. Therefore, China focused on **enabling a limited number of zones (to manage over-supply issues) and maintained long-term focus on these zones (for more than three decades).**



Source: *Experience Gained in the Development of China's Special Economic Zones*, China Development Bank¹⁰

Note: US\$ billion

Similarly, Indonesia developed its economic zones in a steady manner to **first showcase tangible results and then attract further investments into existing zones, which resulted in a sizeable economic activity offering economies of scale.**¹¹ Among developing countries, Vietnam serves as a good example; having leveraged the economic zones concept to propel economic growth. **A key observation is around the framework adopted for according incentives to the investors, which is based on the nature of proposed manufacturing activity, and the choice of location where investments are made, and is not just limited to exports.**

The existing SEZ policy of India requires consideration of such relevant lessons from various global experiences of economic zone development, to identify relevant policy measures suiting the Indian context. The Government of India announced its SEZ policy in the year 2000. A comprehensive legislation, the SEZ Act was passed in 2005 (the Act) and SEZ Rules came into force in February 2006 (the SEZ Rules). The main features of the policy included tax holidays, exemption from import duties and single window clearances for central and state approvals. Subsequently, various states across India enacted state-level SEZ policies, acts and rules.

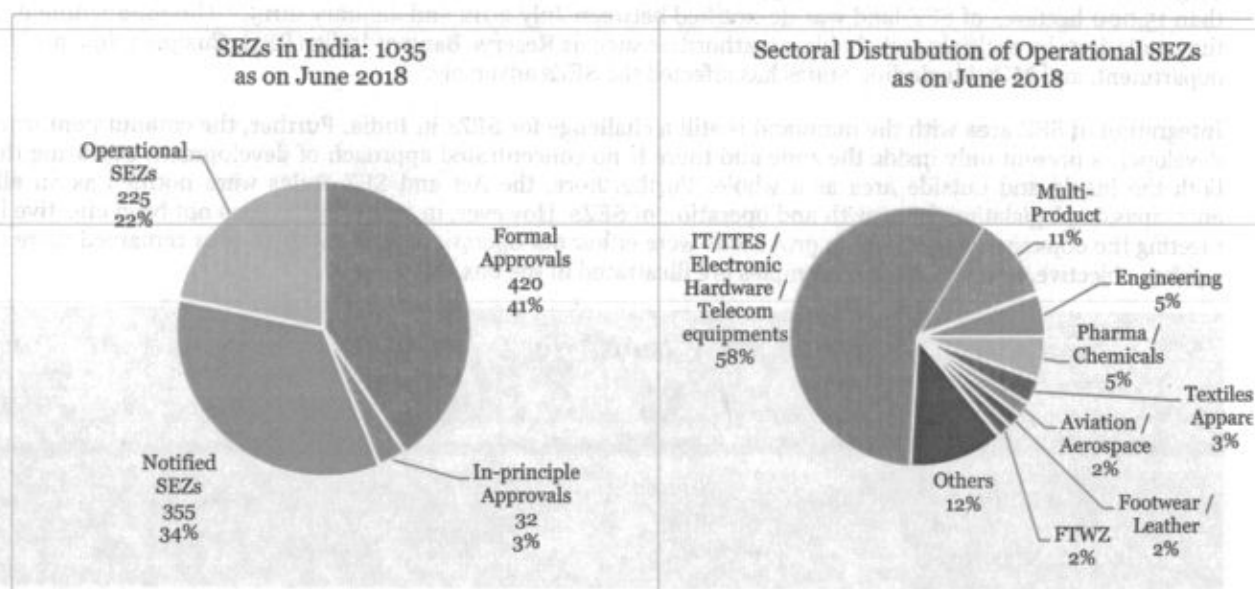
⁸ <https://isdsnet.com/ijds-v7n2-07.pdf>

⁹ <https://openknowledge.worldbank.org/bitstream/handle/10986/2268/600590PUB0ID1810nomic09780821386385.pdf;sequence=1>

¹⁰ <https://www.worldbank.org/content/dam/Worldbank/Event/Africa/Investing%20in%20Africa%20Forum/2015/investing-in-africa-forum-chinas-special-economic-zone.pdf>

¹¹ At present Indonesia has 9 operational SEZs, and plans to increase the number to 25 by 2019. <http://www.indonesiabriefing.com/news/manufacturing-setup-indonesia>

Currently, the number of operational SEZs in India stands at 225. As shown in the exhibits below, the IT and ITes sector is dominating with approximately 58% of total operational SEZs and hosting 4,886 approved units.¹² Multiproduct SEZs account for 11% of all SEZs in the country, followed by sector-specific SEZs in Engineering (5%) and Pharmaceuticals or Chemicals (5%) sectors.



Source: Fact Sheet on Special Economic Zones, www.sezindia.nic.in

From a performance evaluation perspective, SEZs in India have on an overall basis have contributed to employment generation, investments garnered and exports¹³; however, in terms of its objectives of boosting exports led by manufacturing, the performance did not meet the initial expectations. SEZs generated around 1.9 million jobs by FY 2018, which seems significantly lower than the Government's target of creating 100 million new jobs by 2022 under the 'Make in India' program. SEZ performance snapshot outlined in **Appendix 2**

One of the reasons for low employment figures is due to below participation of manufacturing units in SEZs. Similarly, total investment in SEZs (both private and government) stands at INR 4.74 lakh crore as on 31 July 2018, which is much less when compared to the cumulative investments attracted by other economies such as China, Vietnam, Indonesia, etc., in their respective economic zones. Exports from SEZs stands at INR 5.8 lakh crore in 2018; however, **share of goods exports from SEZs remains relatively low compared to SEZ services exports**. It is only 15% (FY 2016-17) of total SEZ exports. Notably in the service sector, it was primarily the IT and ITes sector that significantly contributed to the exports while the focus on other value added services was completely missing, despite regulations allowing host of services, which could have been part of the landscape.

Several other reasons and challenges have been attributed to this limited performance of SEZs in India over the years, which vary from:

- **process inefficiencies** such as lack of single window mechanisms;
- **regulatory hurdles** such as inflexibility in usage of Non-Processing Area (NPA), lack of export benefits on DTA exports by FTWZ units, mandatory foreign exchange earnings for services provided in DTA, etc.
- **infrastructure bottlenecks** such as lack of quality link infrastructure within SEZs to name a few.

A detailed list of such issues have been showcased in **Appendix 3**.

Having said that, a key reason attributed to limited performance of SEZs in India is the inconsistency in government policies in terms of bestowing incentives to investors. For example, initially, there was no sunset date

¹² <http://sezindia.nic.in/upload/5b67f4c187566FACT-SHEET.pdf>

¹³ <http://sezindia.nic.in/upload/5b67f4c187566FACT-SHEET.pdf>

for Minimum Alternate Tax (MAT) exemption¹⁴. However, this exemption was withdrawn on developers of SEZs and units operating in SEZs with effect from 1 April 2012¹⁵ at rate of 18.5% and exemption from dividend distribution tax (DDT)¹⁶ offered to SEZ developers was also rolled back.

By 31 December 2015, the numbers of approved and notified SEZs declined to 412 and 329, respectively. More than 15,000 hectares of SEZ land was de-notified between July 2012 and January 2015.¹⁷ The misalignment of the regulations by multiple stakeholders/authorities such as Reserve Bank of India (RBI), Customs, Income Tax department, and MOCI including States has affected the SEZs adversely.

Integration of SEZ area with the mainland is still a challenge for SEZs in India. Further, the commitment from developer is present only inside the zone and there is no concentrated approach of development capturing the both the inside and outside area as a whole. Furthermore, the Act and SEZ Rules were notified as an all-encompassing legislation for growth and operation of SEZs. However, in reality the law has not been effective in meeting the objective as some of the provisions were either not operationalised completely or remained more of a policy objective. Some of the key examples are illustrated in the box below –

SEZ regulation provisions that were not operationalized or fully implemented

- Timelines for approval and notification of SEZs (Section 3, 4 and 6 of the Act read with Chapter II of the SEZ Rules)
- Single application form for approvals (Section 19 of the Act and Rule 17 of the SEZ Rules)
- Designated Courts to try suits and notified offences (Section 23 of the Act)
- Delegation of power of the State Government to the Development Commissioner

Although some of the operational issues/challenges were addressed through amendments in the SEZ Rules, these were largely facilitated through ad hoc instructions. Nevertheless, this occasionally, led to difference in interpretation by the stakeholders, the Customs, and other Tax authorities. Lack of corresponding amendment to the SEZ Rules at times, also led to divergence in practice followed by the authorities in different geographical regions. This flip-flop and uncertainty has reduced the sheen of SEZs in India. Some of such illustrations are outlined in the box overleaf.

Expansion of SEZ Regulations through instructions

- Setting up of new trading units in SEZ (Instruction No.1, 5 and 7)
- FTWZ-related matters (Instruction No. 60)
- Transfer of units from one SEZ to another (Instruction No. 59)
- Uniform list of services (Instruction No. 79 and 83)
- Policy issues relating to IT and ITeS SEZ units (Instruction No. 70)
- Change in shareholding pattern, name change, etc. of developer or unit (Instruction No. 89 and 90)

In fact, changes in SEZ Rules effected in September 2018 has further impacted operational feasibility of certain businesses in the zones, which needs to be reviewed as well.

In view of these challenges and lessons learnt from past experiences, the MOCI and Industry, Government of India, constituted a **Committee headed by Mr. Baba Kalyani, Chairman & MD, Bharat Forge Ltd.** to study the existing SEZ policy of India and prepare a policy framework to adopt strategic policy measures, which

¹⁴ The MOCI amended the Income-tax Act, 1961 through Special Economic Zones Act, 2005 to provide that MAT should not apply to the income accruing or arising on or after 1 April 2005 from any business carried on or services rendered by an entrepreneur or a developer, in a unit or a SEZ.

¹⁵ vide Finance Act, 2011

¹⁶ Exemption from DDT under Section 115-O of the Income Tax Act was withdrawn from 1st June 2011

¹⁷ <http://www.eastasiaforum.org/2016/02/19/special-economic-zones-in-india-growth-engines-or-missed-opportunity/>

are future ready, investor friendly, and correspond to global market needs and at the same time uphold the best interest of the country. It will be important to create an ecosystem, which helps India to capitalise on global growth opportunities while developing its own highly competitive manufacturing and service base and at the same time generating quality employment avenues.

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3. Setting the objectives

The Government of India has set a target of creating 100 million jobs and achieving 25% of GDP from the manufacturing sector by 2022, as part of its flagship 'Make in India' programme. Furthermore, the Government plans to increase manufacturing value to US\$ 1.2 Trillion by 2025. While these are ambitious plans to propel India into a growth trajectory, it requires evaluation of existing policy frameworks to catalyse manufacturing sector growth. More so, when several indicators do not convince of an accelerated pace of manufacturing sector's growth, some of which are discussed below.

First, India's manufacturing competitiveness has not improved much over the years. In the last two decades, significant global trade liberalisation have been carried out both multilaterally as well as through preferential trade agreements route. Nevertheless, the trade deficit has been significantly increasing over the years as imports have been continuously rising despite aggressive tariff intervention by the Government, as can be seen from the table below –

Import values in US\$ million

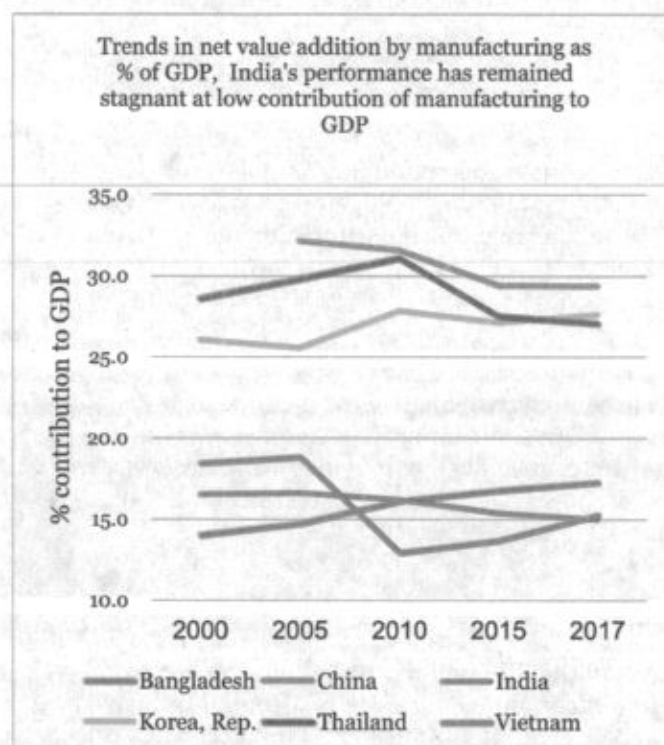
Particulars	2016-17	2017-18	Increase
Metaliferous'ore & other minerals	6,194	9,093	46.79%
Coal coke and briquettes etc.	15,760	22,901	45.31%
Pearls, precious/semi-precious stones	23,809	34,279	43.98%
Non-ferrous metals	9,869	12,812	29.82%
Iron and steel	11,683	14,618	25.12%
Petroleum, crude and products	86,964	108,659	24.95%
Organic & inorganic chemicals	16,598	20,631	24.30%
Electronic goods	42,879	52,891	23.35%
Gold	27,518	33,657	22.31%
Artificial resins, plastic materials	11,964	14,488	21.10%
Machinery electric & non electric	27,497	32,909	19.68%
Vegetable oil	10,893	11,637	6.84%
Transport equipment	22,688	22,733	0.20%
Total imports	384,357	465,578	21.13%

Source: DGCI&S Kolkata

Certain sectors are showing high domestic demand and needs to have a plan for import substitution. One of them being Electronics sector where it is anticipated India will have an excess of US\$ 100 Billion dollars of import by

2020, and this sector can be attracted to the employment and economic enclaves. An illustrative case study in this context is outlined in **Appendix 4**.

Compared to other major economies such as China, India has not been able to achieve much on its manufacturing growth front, which is evident from the stagnant growth in manufacturing contribution to overall GDP of the country. Countries such as China and Korea have maintained their contribution from net value addition to GDP



Source: Study team analysis; World Bank database

As global and technological challenges related to sustaining India's export growth are continuously on the rise, the Government will need to relook at their economic policies, especially around SEZs, to improve their manufacturing competitiveness. India is unarguably seen as one of the major consumption centres by global companies. However, focusing only on exports under SEZs may lead to this opportunity being lost. The policy framework will need to evaluate existing approaches of creating such facilities (which is largely supply driven) and identify ways to respond to the market scenario to make such facilities more attractive to investors. At the same time, it will be important to plan for future modalities for quality supply creation (land bank) to cater to industrial demand.

Even though it is argued that the SEZs in India had limited impact on achieving their intended objective of encouraging manufacturing exports, IT and ITes SEZs contributed significantly to overall SEZ exports. The Government has also set its target of increasing its services sector GDP to US\$ 3 Trillion by 2025. The key enablers for growth in the services sector are different from that of manufacturing—requiring broad basing of sectoral focus to include other services such as financial services, medical tourism, eco-tourism, legal services, repair services, etc. Accordingly, the Government may not require to completely overhaul its existing SEZ policies towards services, rather devise measures in consultation with industry and other stakeholders to make it more attractive for the investors.

In view of these, the MOCI and Industry, Government of India, constituted a **Committee** comprising of eminent persons, **headed by Mr. Baba Kalyani, Chairman & MD, Bharat Forge Ltd.**, to study the SEZ policy of India and prepare a policy framework to address the requirements mentioned below:

ratios at a high level (~25% and above). India, on the other hand, remained stagnant at lower levels (15-16%). Furthermore, even at lower levels, other challengers such as Bangladesh and Vietnam were able to increase this. Secondly, Indian SEZs did not bear the same results as Chinese economic zones. The economic policies followed by India during the early twenty first century were set with an agenda to become part of the global trade. The promotion of export-oriented units and later on SEZs, under the ambit of the Act, was therefore, a strategic and relevant move during that period, aligned to this agenda. It was expected that SEZs will trigger a large in-flow of foreign and domestic investment in infrastructure and production capacity, thereby spurring additional economic activity and creating employment opportunities. However, it became clear that these strategies were not enough for the Indian SEZs to have a competitive edge over the Chinese mega economic zones, which by then had capitalised on the opportunity to create manufacturing hubs providing economies of scale. As gross SEZ exports and employment increased phenomenally in absolute terms, their growth rates were not encouraging over the last decade. In the current scenario, there is a situation of over capacity with many of the existing SEZs facing issues of low utilisation.

The key objectives for the committee were:

01

Evaluate the SEZ policy implemented from the year 2000 and suggest the measures to be adopted to cater to the needs of exporters in the present economic scenario and make the SEZ policy WTO compatible

02

Suggest course correction in SEZ policy for encouraging manufacturing and services sectors in SEZs and for maximizing utilization of vacant land in SEZs

03

Make comparative analysis of the SEZ scheme operating in India and SEZ scheme operating elsewhere, specifically SEZs operating in service sector and suggest changes in the SEZ policy based on international experience

04

Dovetail the SEZ policy with other schemes like coastal Economic Zones, Delhi Mumbai Industrial Corridor, National Industrial Manufacturing Zones, food Parks and textile Parks etc.

The Committee reviewed the relevance of existing SEZ policies of the Government and followed a comprehensive approach (detailed in **Appendix 5**)—focused on secondary data review and primary consultations, to come up with recommendations. PricewaterhouseCoopers Private Limited was appointed as a knowledge partner to support the committee in this endeavour

4. Committee recommendations : Strategic Shift

In view of the key objectives of this study outlined in the chapter, the Committee had a series of consultations and inputs from various stakeholders to arrive at a set of recommendations, which are broadly categorised into 2X2 matrix categories, that is:

1. Fiscal interventions regarding institutional and regulatory alignment
2. Fiscal interventions regarding infrastructural inputs
3. Non-fiscal interventions regarding institutional and regulatory alignment
4. Non-fiscal interventions regarding infrastructural inputs

Given the recommendations towards fundamental shift in purpose and principles of the SEZs in India, appropriate amendments may be required in the Act to incorporate changes and achieve the purpose set out in the very first sentence of the Act, reproduced below:

"An Act to provide for the establishment, development and management of the Special Economic Zones for the promotion of exports and for matters connected therewith or incidental thereto."

With the objective of moving from islands of exports to catalysts of economic and employment growth, the Committee proposed to rename SEZs in India as 3Es – Employment and Economic Enclaves. Today, SEZs are viewed as zones promoting only Exporters with special privileges; rechristening the name to 3Es will enable bringing together all categories of investors that enable economic activity or job creation, not just exporters but also investments targeted towards leveraging the domestic demand.

**"SEZs to be renamed as
Employment and Economic
Enclaves (3Es)"**

The other key view of the committee is to review requirements of Manufacturing enclaves and Services enclaves separately. Given that business nuances and enablers for the manufacturing and services sector are different, the committee recommends separate development frameworks including formulation of separate set of operational rules and procedures for these two types of enclaves.

The committee also recommends that area & sector based requirements (e.g., multi products, sector specific etc.) should be reviewed, and to promote higher demand for sector specific enclaves, similar nature industries or non-polluting industries sectors could be allowed in certain sector focussed enclaves. MOCI could review formulations of rules to this effect.

Manufacturing 3Es and Services 3Es recommendations are therefore categorised into those specific to manufacturing and services sector. Besides, the committee has also suggested general recommendations, which are common to both manufacturing and services with specific reference to 2X2 matrix discussed above. Relevant case studies have been enclosed in **Annexure 1 and 2 to the executive summary**.

In addition to amendment in SEZ Act, necessary legislative changes should be undertaken in other applicable laws, simultaneously, to avoid any ambiguities or uncertainties in implementation of proposed framework. This may include FEMA, Income Tax Act, GST regulations, Customs & Excise Act, Foreign Trade Policy, State Laws and relevant sectoral laws etc.

4.1 General Consideration

4.1.1 Focus on compliance with WTO Agreement on Subsidies and Countervailing Measures

The WTO Agreement on Subsidies and Countervailing Measures (the SCM Agreement)¹⁸ is based on the fundamental principle that a subsidy that distorts allocation of resources within an economy should be subject to its discipline. Where a subsidy is widely available within an economy, such a distortion in the allocation of resources is presumed not to occur. Therefore, only “specific” subsidies are subject matter of compliance with the SCM Agreement while non-specific subsidies are exempted¹⁹.

- a. **Enterprise-specificity** – A government targets a particular company or companies for subsidisation.
- b. **Industry-specificity** – A government targets a particular sector or sectors for subsidisation.
- c. **Regional specificity** – A government targets producers in specified parts of its territory for subsidisation.
- d. **Prohibited subsidies** – A government targets export goods or goods using domestic inputs for subsidisation.

All the specific subsidies fall into below categories²⁰ –

I. **Prohibited subsidies:**

The specific subsidies that directly affect trade and therefore are most likely to have adverse effects on the interests of other members are prohibited. For example, specific subsidies contingent whether wholly or as one of several conditions on export performance are prohibited (“export subsidies”) ²¹. Likewise, specific subsidies contingent upon the use of domestic over imported goods (“local content subsidies”) are also prohibited.

II. **Actionable subsidies:**

Actionable subsidies are not prohibited. However, they are subject to challenge in the WTO, either through multilateral dispute settlement or through countervailing action, in the event that they cause adverse effects to interests of another WTO Member. It has been seen that most member countries affected by imports of products benefiting from actionable subsidies resort to impose countervailing duties.

Export subsidies are prohibited under the SCM Agreement. Limited exception to this rule is for specified developing countries (referred to in Annexure VII of the WTO Agreement) that may continue to provide export subsidies temporarily until they reach a defined economic benchmark. The said exception is applicable to the developing country members which:

- Are least developed countries (LDC) designated as such by the United Nations, which are Members of the WTO; and
- Have Gross National Income (GNI) below US\$ 1,000 (at constant 1990 dollars), for three consecutive years.²²

¹⁸ Article 1 of the SCM defines subsidy to mean a financial contribution by a government or a public body. The definition contains three basic elements i.e. (i) a financial contribution (ii) by a government or any public body within the territory of a Member (iii) which confers a benefit. All three of these elements must be satisfied in order for a subsidy to exist – See text of the SCM at https://www.wto.org/english/docs_e/legal_e/24-scm.pdf

¹⁹ https://www.wto.org/english/tratop_e/scm_e/subs_e.htm

²⁰ https://www.wto.org/english/tratop_e/scm_e/subs_e.htm

²¹ Article 3 of the SCM

²² Exception under Art. 27.2 of the SCM provided LDCs and developing countries with per capita income of less than US\$ 1000 (Annexure VII). In Doha round WTO adopted an alternate methodology for calculating threshold in constant 1990 dollars

Furthermore, export subsidy needs to be phased out in eight years when a country reaches at least 3.25% share in global exports of a certain product for two consecutive years.²³ In 2010, the US made a formal request to the WTO to check export competitiveness of the Indian textiles sector.

Recently, the US requested consultations with India in the WTO alleging that subsidies through various export promotion programmes, including the SEZs,²⁴ appear to be inconsistent with Articles 3.1(a) and 3.2 of the SCM Agreement, as India has graduated from the Annexure VII list of countries on account of crossing the threshold GNI of US\$ 1,000. On 23 March 2018, Canada and the European Union requested to join the consultations. During WTO consultations, India provided a detailed understanding of the schemes implemented under its Foreign Trade Policy by the US. Nevertheless, the country moved forward its request to the WTO Dispute Settlement Body to constitute the Panel, which was constituted on 23 July 2018²⁵.

In this context, it is important to note that the WTO members are very active in dispute settlement, both as complainants and as respondents. The subject matter of disputes brought to the WTO continues to span a wide range of agreements, including the SCM. The table below lists top WTO members actively involved in disputes, from 1995 to 2017:

S. No.	Member	Respondent	Complainant
1	United States	134	115
2	EU	83	97
3	China	39	15
4	India	24	23
5	Canada	22	38

Source: WTO Annual Report 2018

Given that India is one of the top countries that faces disputes at the WTO and the US, the EU and Canada are actively pursuing the case before the WTO Dispute Settlement Body, any export contingent subsidy is at the risk of potentially becoming prohibitive.

Further, both GATT Article XVI and Article 1 of the SCM Agreement allow duty-free import of intermediate goods used for products destined for exports. These are not treated as subsidies in the WTO²⁶. This may allow duty-free import of intermediate goods and other inputs that are used and embedded in the export items by SEZs. However, imports of capital goods (or duty drawbacks) are not treated in the same way as physical inputs. Therefore, exemptions and remissions of duties and indirect taxes given to import of capital goods are at the risk of being construed as subsidy under the SCM Agreement. Hence, **it is essential to evaluate the requirement of a new framework, suggest measures to cater to the needs of manufacturing business in the present economic scenario aligned with WTO framework on subsidy and countervailing agreement.**

In the said context, **Dominican Republic** is a classic example of regulatory reforms aimed to eliminate incentives contingent on export performance for entities in the SEZ. The regulations in the Dominican Republic placed restriction on local sales in the Domestic market as these placed 80% of export share requirement. The General Council of the WTO established December 2015 as the final deadline for elimination of export subsidies in the Dominican Republic²⁷.

²³ Article 27.5 of the SCM

²⁴ The Consultation document uploaded at WTO website specifies the US' allegation as below –

"It appears that India provides export subsidies through: (1) the EOU Scheme and sector specific schemes, including Electronics Hardware Technology Parks Scheme, (2) the Merchandise Exports from India Scheme, (3) the Export Promotion Capital Goods Scheme, (4) Special Economic Zones, and (5) a duty-free imports for exporters program."

²⁵ https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds541_e.htm

²⁶ Footnote 1 of the SCM Agreement says that "the exemption of an exported product from duties or taxes borne by the like product when destined for domestic consumption, or the remission of such duties or taxes in amounts not in excess of those which have accrued, shall not be deemed to be a subsidy".

²⁷ https://www.wto.org/english/news_e/news12_e/scm_23oct12_e.htm

In order to comply with the WTO discipline on prohibition on export subsidies, the country reformed its SEZ Scheme in a phased manner as described below:

01

In 2007, the Government declared leather, textiles and apparel and footwear, as national priority sectors. The minimum export share requirement was removed for the priority-sector entities operating in SEZ. Therefore, these entities could sell in the domestic market.

In addition, these domestic sales were not subject to import duties.

In 2011, the Government completely removed export share requirement.

02

The SEZ entities in priority sectors continued to sell in the Dominican market without duty levy, whereas the non-priority entities were required to pay the import duties

Specific changes in the SEZ Regulations in the Dominican Republic is tabulated in **Appendix 6**.

In this context, it is highlighted that most of the developing countries listed in Annexure VII have incentives for their SEZ/FTZ/EPZ/IPZs. Amongst these, only Pakistan has lower GNI per capita compared to India in the Asia-Pacific region. Notably, countries such as Indonesia, the Philippines, Sri Lanka, Egypt, Bolivia, etc. are at much higher GNI levels compared to India and are continuing with their SEZ policies without any phase out plans (for these incentives) as of June 2018. Despite the lower per capita GNI status of India compared to some of the other Annexure VII countries, the US has initiated formal request before WTO against India and no other country (refer **Appendix 7**).

Keeping in view the current challenge from a WTO perspective, this report outlines a framework that may be adopted by the Government for economic development. This report also outlines other policy and procedural interventions for improving manufacturing and services related activities. Realizing the need to move away from the present policy focus on exports, this report proposes following roadmap for future:

1. Limited success in manufacturing – need to create enablers to attract large manufacturing projects

2. IT/ITeS SEZs successful – need to broaden the scope of services by focusing on areas of opportunity

From an Island development approach to an integrated ecosystem driven approach that focuses on ease of doing business, quality internal and external infrastructure to reduce factor and transaction costs, the committee recommends “Employment and Economic Enclaves” (3Es) as the new terminology for SEZs

First, given the recommendations towards fundamental shift in purpose and principles of the zone (proposed as 3Es), appropriate amendments may be required in the Act, SEZ Rules and other relevant regulations to incorporate changes including the purpose set out above.

Secondly, business nuances and enabler requirements for the manufacturing and services sector are different. Therefore, the Committee recommends separate framework including formulation of separate set of rules and procedures for these two sectors. The Committee also recommends that area & sector based requirements (e.g., multi products, sector specific, etc.) should be done away with. Manufacturing SEZ and Services SEZ recommendations are therefore categorized into those specific to manufacturing and services sector. Besides, the

committee has also suggested general recommendations, which are common to both manufacturing and services with specific reference to 2X2 matrix discussed above.

In addition sector-specific as well as general inputs/ recommendations as received from various stakeholders including trade associations, developers, units, government authorities, etc. are captured in **Appendix 8**.

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4.2 Recommendations – Manufacturing

SEZs are currently export focused, this impacts utilisation of units and limits their ability to be flexible around managing demand between domestic or export market. The Committee recommends **moving away from island of exports to more integrated hub for employment and economic activities enabled by quality infrastructure and ease of doing business**. The key recommendations from a policy framework perspectives have been provided below.

4.2.1 Facility of sub-contracting for businesses outside 3Es may be considered to overcome idle capacity of units

The present statutory provisions permit sub-contracting on behalf of DTA for exports. SEZ units have been requesting permission to allow subcontracting facility for the DTA units for the domestic market needs. This would help to utilise their surplus or idle capacity and will in turn, increase manufacturing activities and employment in SEZs including providing seamless support business outside 3Es/ SEZ.

Given the demand from industry, it is suggested that this recommendation is re-evaluated and a flexible approach is adopted in supporting the business. This may be subject to specific safeguards including, if required, potential reversal of duty or tax benefit availed on inputs used in manufacture of such goods, as has been done in case of DTA clearances by EOUs²⁸. The same is outlined at **Annexure 2** to the Executive Summary earlier.

4.2.2 Domestic supplies critical for specific projects and economy to be considered for NFE computation

Specified supplies to domestic customers is considered for computation of NFE Earnings ('NFE').²⁹ However, by recent amendments on 19 September 2018, modifications/ exclusions were made in these categories. Some of these modifications could potentially impact the business feasibility of the units. To illustrate the revised Rule 53(d) permits supply of goods to any project or for any purpose in respect of which Ministry of Finance notifies from time to time, permitting import of such goods at zero Customs duty subject to conditions specified in the above and provided such supplies are made under procedure of International Competitive Bidding.

The inclusion of requirement of International Competitive Bidding projects of national importance e.g. Ministry of Defence programme for Buy Indian and Buy and Make in India initiative encouraging domestic offset industry. Hence, the requirement of International Competitive Bidding may be removed for project of national importance encouraging "Make in India" programme. Alternatively, the status quo prior to 19 September 2018 may be retained.

Similarly, Rule 53 (n) of the SEZ Rules, which earlier permitted domestic supplies of goods in foreign exchange either by the customer (through his EEFC account) or from overseas is removed. This removal can encourage direct imports by the customer and may not help make in India. Hence, this provision may be reinstated and restricted to goods manufactured by the units and supplied to domestic customer.

4.2.3 Export duty should not be levied on goods supplied to developer and used in manufacture of goods exported

In the amendments on 19 September 2018, for goods subjected to export duty, such supplies by domestic seller to businesses in zones is made subjected to export duty. Export duty under Customs law is levied on export of out of India. Hence, supplies to zones cannot be considered as "exports" as defined in Customs law. In fact in past this aspect has been subject of litigation and courts have struck down such levy.

The levy should be reviewed, and if at all it needs to be levied, following categories of supply should be excluded from levy:

- Supplies made to the developer/ co-developer

²⁸ Notification No 52/2003-Cus dated 31 March 2003 as amended

²⁹ Rule 53 of SEZ Rules, 2006

- Supplies used for manufacture leading to emergence of a different finished goods (involving substantive transformation/ processing, tariff shift between inputs and finished goods, value addition, etc.)

4.2.4 Flexibility of long term lease for developers and tenants

The developer is prohibited to sell land in zone and can only enter into lease arrangements with stakeholders e.g., units/co-developers, etc. The current practice of 30 years lease is unattractive for potential investors looking to develop zones including associated infrastructure. Therefore, they opt for alternative options or destinations with more generous terms

Hence, flexibility on lease period for units and developers will enable taking a long term view on the project and enable financing for their development.

4.2.5 Support funding for link infrastructure development and maintenance to be provided

Link Infrastructure forms a vital part of industrial area development to boost industrial activity. An excellent infrastructure can be considered to act as a fundamental incentive for both developer and tenant or manufacturer. This includes smooth and efficient transport infrastructure, last mile connectivity, uninterrupted supply of quality power and water, and waste management facilities. The Government should enhance competitiveness of the 3Es by enabling ecosystem development by funding high-speed multi modal connectivity, business services and utility infrastructure. It is critical to provide support to create high-quality infrastructure within or linked to the zones e.g., high-speed rail, express roadways, passenger/cargo airports, shipping ports, warehouses etc.

Stakeholder consultations also reveal that various SEZs face last mile connectivity issue, which results in added logistics costs, and delayed deliveries. Absence of proper connectivity results in failure of SEZ developers to attract manufacturing units, leading to demand shifting to competing areas.

SEZs in immediate or close proximity with trade gateway infrastructure place do not give enough importance on the last mile connectivity issue. Other SEZs consider it to be one of the major hurdles to remain competitive. Select developers from such zones are ready to develop the last mile connectivity on their own; however, it is beyond SEZ borders and thus, falls under the state government's purview, which is not always on the top of priority list for development.

For development of link infrastructure in enclaves, MOCI may create pool of funds and have a full time Project Management Unit for disbursement of these funds.

Link infrastructure development for 3Es to be facilitated through MOCI and State Government schemes for infrastructure development

CASES IN HAND

Republic of Korea: Central and local government provide financial assistance for outside zone infrastructure (roads, airports, ports, etc.).³⁰

Government of Gujarat under its scheme, 'Assistance to Industrial Infrastructure' provides around 60-80% of the project cost (up to INR 25 crore) to develop or upgrade infrastructure facilities required in an industrial estate, industry clusters or industrial area and/or linked infrastructure/last mile connectivity for industrial estate/cluster/area.

³⁰ Arpita Mukherjee, SEZ in India: Perception vs Reality

4.3 Recommendations – Services

The Committee recommends **continuing with the present SEZ policy dispensation framework for services and broad-banding with strategic focus on some services**. The key recommendations from a policy framework perspective have been provided below.

4.3.1 Consolidate the gains in service exports by extending the sunset clause AND considering other enablers

It is widely perceived that certain Asian countries are using their competitive tax landscapes to attract businesses from India. To illustrate, the Philippines is attracting Indian IT and ITeS Companies to set up their outsourcing hubs in their country.

Services from the SEZ is a key contributor to foreign exchange and employment generation. Furthermore, IT and ITeS SEZ forms approximately 58% of overall operational SEZs in India. Given the contribution of service to overall exports and GDP of India (53%), it is imperative that these gains are not lost in future, especially as low-cost skilled hub. While the long term objective is to diversify our service bouquet profile, to consolidate and safeguard our advantage of a low-cost skilled hub in the short term, it is necessary that the sunset clause on existing benefits is revisited as demanded by various stakeholders in their recommendations/ suggestions

Additionally, following may be considered:

- Lower tax rates or exemption to identified “sunrise” sectors to be considered for diversification based on specified parameters e.g. concessional rate of 9% MAT and exemption from DDT extended to IFSC.
- Enablers or facilitation measures linked to employment, investment, technology, value addition, infrastructure development, etc. including in terms of deductions on account of capital expenditure, skill development, employment of women/ special category workforce e.g. specially abled, location with potential development (priority districts/ zones), etc.

These benefits/ enablers can be extended basis operationalization achieved vis-à-vis milestone communicated at the time of establishment of 3Es or businesses in 3Es. Similar considerations are adopted in extending benefits/ incentives in other countries and illustrated in **Section 4.4.3.1**.

4.3.2 Diversify sectoral focus to “sunrise” services

Develop large employment generating services to attract global players in 3Es

The present sectoral dispersion of the SEZs indicates that the biggest beneficiary of the service SEZs in India has been the IT and ITeS sector. The overall export performance of SEZs (both the manufacturing and service SEZs together) over the years further shows that majority of exports are from this sector. In other words, the SEZ scheme in India has flourished for the IT and ITeS sector and the contribution of this sector to India's service exports is also well known. While the success story for the IT and ITeS sector in the service SEZs may partially be attributed to India's comparative advantage and competitiveness in this sector, the sector has also received positive intervention from the Government through specific enabling framework. For example, by way of periodic amendments to the SEZ Rules, the Government dispensed with the minimum land requirement criteria for IT and ITeS SEZs, took measures for promoting IT and ITeS SEZs in smaller cities and as a step towards ease of doing business issued instructions for allowing authorized employees of these units to Work from Home or place outside of SEZ³¹, etc.

Given that employment generation was one of the key objectives of the existing policy, it is important that the IT and ITeS SEZs continue to play its vital role in the service exports. However, it is equally important that the future 3Es diversify export base of services in order to generate more number of employment opportunities for different strata of workforce in India, such as employment in the high technology and knowledge-intensive sectors aside from employment for semi-skilled, unskilled and highly skilled workforce. For that reason, it is important to identify service sectors, which are capable of growing fast internationally on providing requisite enablers in the 3Es.

³¹ Instruction No. 85

Paragraphs below outline some of the strategies that could be used to achieve a sustainable expansion/ broad basing of services –

1) The Government will need to reorient its policies and enablers towards service sectors where India has competitive advantage in the existing global business environment or where India has a potential to grow in the near term –

India was the eighth largest exporter of commercial services in the world in 2016 with a share of 3.4%, which is double the share of India's merchandise exports in the world at 1.7%. Despite the visible importance of the service sector exports for the Indian economy, the sector as a whole employs relatively lesser population. According to an estimate by the ILO, services sector accounted for over two-thirds of total employment in 2016 in most of the top 15 economies³², except India and China, with India's share of 30.6% being the lowest³³. Therefore, the sector has vast employment potential in India, more so when the sector can also absorb and generate both semi-skilled as well as highly skilled/educated workforce in highly complex and sophisticated industries (quality employment).

Secondly, Information and Communication Technology (ICT) service exports from India, which comprises significant share of service exports, is facing increasing competition from economies like Philippines, Israel, Brazil, etc.³⁴ Recognizing these aspects, the Government can adopt two pronged strategy to boost and diversify service sectors in the 3Es –

a. Adopt measures for sustainable growth and improvement of the sectors where India already has competitive advantage such as IT and ITeS by way of retaining existing benefits:

In order to promote this sector, the Government is already undertaking numerous initiatives such as establishment of BPO Promotion and Common Services Centres to help create digital inclusion mostly in the small towns with the employment target of 1.45 lakh persons; setting up a separate Northeast BPO promotion scheme with 5000 seats and having employment potential of 15000 persons. 3Es can tie-up with these programmes for participation and provide an already established technology base and infrastructure, especially the existing zones³⁵.

With the objective of retaining the current level of growth in the face of stiff global competition, measures as discussed in **Section 4.3.1** above can be considered.

b. Identify service sectors that could be promoted through 3Es and create an ecosystem for their integrated growth in tandem with other initiatives of the Government such as 'Champion Services Sectors Initiative':

The SEZ regulations carry an exhaustive list of services, however, most of them have not experienced the same growth as IT and ITeS service exports. Thus, as a first step towards diversification, it would be essential to evaluate the eligible list of services contemplated in the SEZ regulations, WTO and GST.

Second, from the list of eligible services, the Government may identify service sectors having global and domestic demand to create a consolidated or "sunrise" list that will be promoted through 3Es. Such a "sunrise" list can be based on thrust service sectors that the Government has already identified for promoting their export growth under initiatives like Champion Service Sectors Initiative, etc. In this context, some of the important services for India based on their significance in terms of GDP, Gross Value Added (GVA), employment, current dominance in the service exports and future export prospect in terms of global market potential are listed below as an example for the "sunrise" list.

Below "sunrise" list of service sectors may be considered by the Government promotion through 3Es. The method of arriving at the "sunrise" list is detailed in **Appendix 9**.

³² Top 15 economies being USA, China, Japan, Germany, UK, France, India, Italy, Brazil, Canada, South Korea, Australia, Russia, Spain and Mexico per UN National Accounts Statistics data

³³ Economic Survey 2017-18 Volume 2 issued by the Ministry of Finance, Government of India

³⁴ Economic Survey 2017-18 Volume 2 issued by the Ministry of Finance, Government of India

³⁵ The Report does not cover an exhaustive list of measures, technology upskilling, policy initiatives to push the IT sector in general nor does the Report provide any strategic insights for the sector to survive and thrive in a global market that is focusing on developing Artificial Intelligence and other innovative technology

- i. Tourism and Hospitality Services;
- ii. Healthcare and medical tourism;
- iii. Transport & Logistics services such as services at port based service SEZ and dry port service SEZ;
- iv. Accounting and Finance Services;
- v. Audio Visual Services;
- vi. Legal Services;
- vii. Construction and Related Engineering Services;
- viii. Environmental Services;
- ix. Recycling Services – Electronic Waste;
- x. Defence and aviation sector services;
- xi. Media & Entertainment services;
- xii. Education services such as training of technicians, paramedical and medical professionals, skill universities, etc.
- xiii. High technology areas such as nanotechnology, etc.

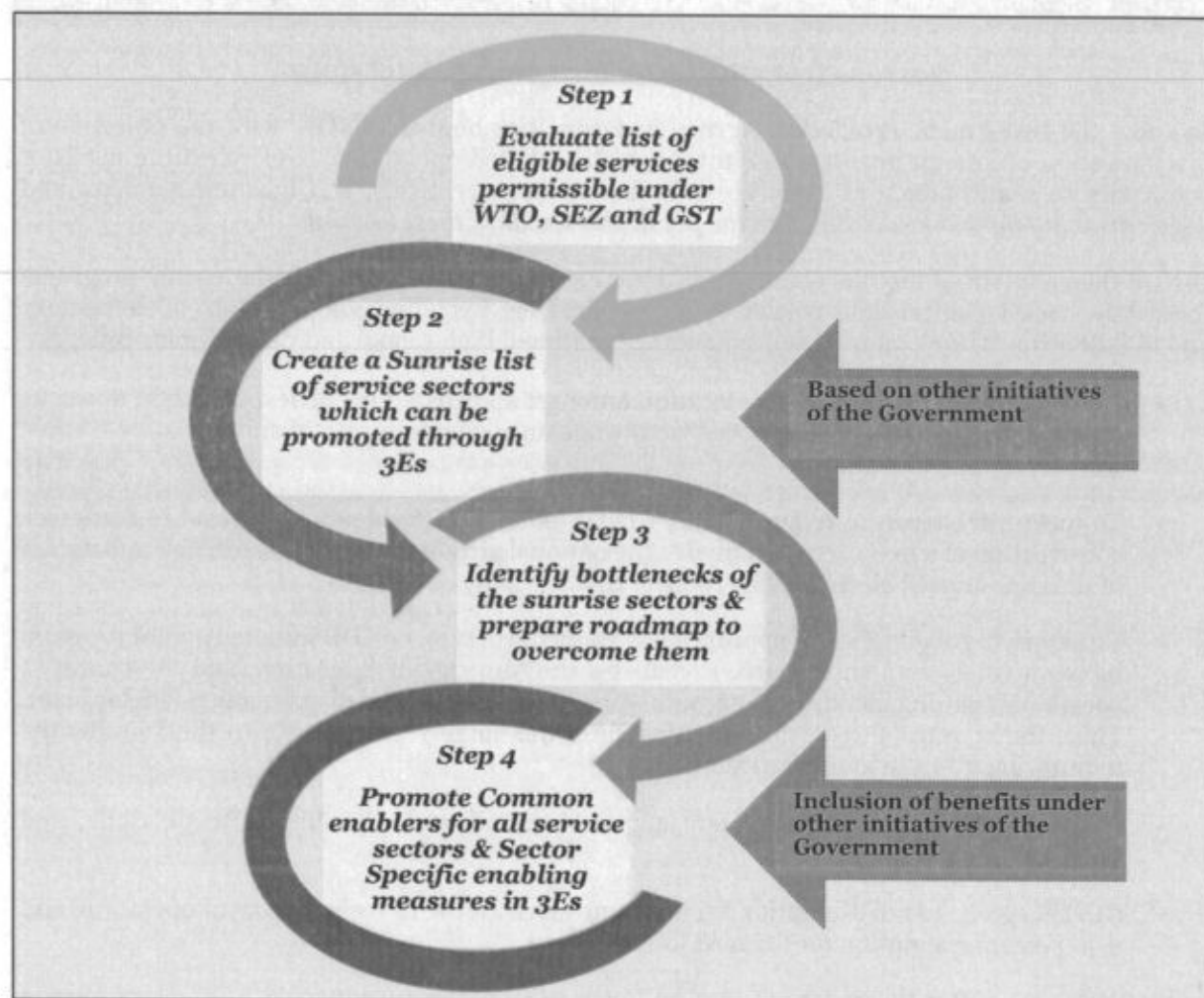
Thereafter, the Government can prepare a roadmap to overcome all kinds of bottlenecks viz. policy related, procedural, infrastructural, demand-related, etc. faced by these sectors in the “sunrise” list. To illustrate, pre-approval requirement under Environment law for services can be dispensed with e.g. in cases the projects acquire “environment accreditation”. Alternatively, the requirement could be made part of post approval compliances, which can be verified before operationalization of 3Es.

The 3Es will provide the necessary platform, existing infrastructure and certain common enablers available within the framework to these “sunrise” sectors.

In addition, enablers or facilitation measures would need to be customized depending upon the need of the sector as each service has its uniqueness. For instance, for Design & Innovation services, there could be requirement of R&D/lab equipment, prototyping equipment, etc., whereas in the port related/logistics sector, a well-trained manpower may be quintessential for handling these services. Thus, government may envisage **customised enablers or facilitation measures** for each of the “sunrise” sector during the incubation/gestation period depending upon nature of services, investment needs, skill requirement of the sector, assets, etc. To illustrate, the tax benefits/ incentives can be considered for a minimum time to start with and could be extended further depending on performance of the sector. Other sector-specific initiatives/ enablers recommended by the stakeholders are outlined in **Appendix 8**.

In addition, these sectors in the 3Es should be entitled to benefit from the incentives under other schemes of the Government such as the Champion Service sector Initiative and other programmes such as Skill India, etc. **Accordingly, under skill development program of GOI, specific courses should be drawn up depending upon services, which are identified for fast track growth.**

A pictorial representation of the proposed approach/recommendation is summarized below –



Box overleaf further illustrates some of the strategies/ measures that were adopted for promoting growth of financial services sector in India and successful efforts of the Costa Rican Government in attracting the global multinational Company, Intel's investment in setting up semi-conduction plant in Costa Rica. These case studies illustrate dimensions that may be adopted for cross-cutting action plans (across existing schemes) for specified service sectors in the 3Es³⁶ –

³⁶ Although the case-study involves manufacturing sector. However, the strategy and approach to attract investment may be relevant to the service sector as well.

CASE STUDIES

Lessons from the Costa Rica model: Intel story

In 1992, the Investment Promotion Agency in Costa Rica named CINDE, with the objective of diversification of foreign investor base toward higher-skilled operations, researched the needs of companies in semiconductors, medical equipment, pharmaceuticals, and business services, and began *drawing up proposals suited to the particular needs of these sectors*.

CINDE then advertised that the country was directing the country's national educational programs toward the basic technical skills needed by these industries, installing computer labs in elementary and middle schools, for example, and expanding vocational high school and public junior colleges.

- In order to zero-in the country location amongst shortlisted countries, Intel laid down its must requirement of reliable infrastructure and an adequate supply of appropriately-trained workers at the plant site.
- ✓ To meet infrastructure requirements, CINDE obtained Presidential approval to fast-track construction of a new cargo terminal at the national airport and to dedicate a new substation of the state-owned electric utility to meet Intel's needs.
- ✓ To assure the availability of appropriately trained workers, CINDE initiated a joint program between Intel's human resource executives, the Ministry of Education, and the country's vocational training institutes to prepare workers with skills needed at a semiconductor plant. Thus, the country success in attracting Intel was largely attributable to the Presidential monitoring over the joint programme.
- Intel also demanded tax treatment at par with Indonesia, Thailand, Brazil, Chile, and Mexico.
- ✓ CINDE agreed to full exemption from income taxes for the first eight years of operation, and a 50 percent exemption for the next four.

In the three years after the arrival of Intel in Costa Rica, the country tripled its stock of foreign investment, to a total of US\$ 1.3 Billion, with annual exports of US\$ 3.3 Billion that propelled the country to surpass Chile as the most export-intensive economy in Latin America³⁷. However, due to shrinking demand of chip-making and increasing market demand of the mobile phone market, the Company decided to close and consolidate its assembly and testing operations from Costa Rica to existing sites in China, Malaysia and Vietnam³⁸.

It is reported that targeted marketing and anchor investment strategies have proven highly effective for Vietnam in attracting companies like Intel. Vietnam actively pursued and created favourable conditions for high-profile anchor investors such as Intel, Canon, Samsung, Panasonic, etc. which brought their own supporting investors. The successful attraction of these companies signalled the competitiveness of Vietnam's zones as an investment location, resulting in many of their competitors also investing³⁹. Details of key success factors for Vietnam is detailed in **Appendix 10**.

³⁷ Theodore H. Moran. 2011. "International Experience with Special Economic Zones; using SEZs to Drive Development in Countries around the World". Centre for Development and Enterprise

³⁸ <https://www.reuters.com/article/us-intel-costa-rica/intel-closes-costa-rica-operation-cuts-1500-jobs-idUSBREA371TJ20140409>

³⁹ Page 206- 207, Thomas Farole. 2011. "Special Economic Zones in Africa; Comparing Performance and Learning from Global Experience". The International Bank for Reconstruction and Development/ The World Bank

In India, Intel has been associated for over 15 years since it established the largest design centre in the World outside of the US. In the year 2017, as a part of Intel's expansion plan, the Company announced investment of over Rs 1000 Cr in India to set-up new R&D facility for computer software development, hardware design services and validation facility for hardware and software products⁴⁰. Given India's competitive advantage in the IT sector and big consumer market for mobile phones and geographical advantages at par with South Asian countries such as Malaysia and Vietnam, the Government can explore possibility of attracting investments from other global players in especially in technology, on the lines of approach followed by Costa Rica and Vietnam.

Some of the successful sector focussed service zones are—

CASES IN HAND

Malaysia - Knowledge Park – Education cluster

Key features

- Generation of a pool of skilled and capable workers, which is able to serve various existing and new industries established in the region.
- Education is a key enabler that supports other sectors such as agriculture, manufacturing and tourism in terms of human resources development.
- The Knowledge Park is an excellent example of Edu-Tourism being promoted by the Malaysian Ministry of Tourism and Tourism Malaysia.

Key Enablers

- A special vehicle has been established through the East Coast Economic Region Development Council (ECERDC). ECERDC acts as a one-stop centre to fast track investment applications and approvals;
- Incentives offered for training and R&D activities such as –
 - Royalty payments to non-residents (franchisors) under franchised education programmes approved by the Ministry of Education R&D;
 - Cash contribution to approved research institutes is eligible for double deduction;
 - Payments made for the use of services of approved research institutes and companies is eligible for double deduction;
 - Research on commercialisation of research findings—50% tax exemption on income

Egypt – Media public free zone

Key features

- The main activities are Media Production Services and Information, Television and Radio broadcasting

Key enablers

- All Suez Canal (SC) Zone investors benefit from a one-stop shop to streamline the registration, licensing and granting of permits in the form of the Suez Canal Economic Development General Authority;
- The SC Zone Authority has been given autonomy over all matters in the zone except national security;

⁴⁰ <https://www.financialexpress.com/industry/technology/intel-investing-rs-1100-crore-in-india-afresh/717196/>

- The zone is surrounded by a network of highways to facilitate commodity transfer and shipment movement as well as tourism and travel movement (for guests/workers in the project)

2) Clustering approach for similar/compatible units – Concept of broad-banding to be further expanded:

The Government introduced some provisions for sectoral broad-banding for specified categories of sectors to encompass similar/ related areas in 2013⁴¹. Although the said amendment in the Rules conceptually allows broader category of similar/compatible units that could be grouped in a sector specific SEZ, this partly addresses the issue. For example, the current provisions allow inclusion of ancillary units and R&D service units in a sector-specific SEZ say Engineering.⁴² Now, say hypothetically the local region has potential/ comparative advantage for audio-visual services. However, sector-specific SEZ as a concept allows clustering of similar products or services of that sector alone, in this case Engineering. Therefore, the current provisions create an embargo to house an audio-visual service unit in an Engineering SEZ. Similarly, another example could be coexistence of Engineering Design R&D unit with Pharmaceutical R&D unit. Thus, a better economies of scale can be achieved by adopting a clustering approach for similar/ compatible units that enables an efficient value-chain, at the same time, not disallowing inclusion of any sector where the region/location of the 3E has comparative advantage. For example, Sector specific Electronics SEZ in Gujarat can go for broad-banding with gems and jewellery or any other sector based upon demand

To sum up, broad-banding can be addressed in below manner –

- a. Encourage broader category of types of units that can be set up together, e.g. IT/Fintech/Design/Legal/Financial Services/Healthcare, etc. – Guidelines on housing of similar/compatible units in 3Es can be prescriptive in nature and not a mandate;
- b. Do not prescribe any specific sectors for SEZs. As sector specific SEZs have issues of limited export demand. Therefore, explore the possibility of allowing alternate sectors to invest in sector specific SEZs subject to fulfilment of conditions as may be prescribed.
- c. Mandate a negative list of sectors that cannot be clustered together for reasons of security, environment standards, safety norms, etc. For example, R&D service unit for chemicals along with a chemical unit may not be set-up with the electronics manufacturing unit. The MOCI may issue a negative list consultation with the guidelines/ requirements of the Ministry of Home Affairs and the Ministry of Environment, Forest and Climate Change. Further, any additional state-specific requirement with respect to the negative list should be addressed at the local authority level (depending on location of the 3E).

The approach outlined above will not only enable optimal utilization of infrastructure, lower costs and competitive value chain but also create diversified job opportunities.

4.3.2.1 Key recommendations – International Financial Services Centre (IFSC)

Recognizing the potential of exports from the Financial Services sector, it was in the year 2017⁴³ that the Government permitted setting-up of IFSC within an SEZ. Given that such Government initiatives for this sector are relatively recent, India currently remains a net importer of financial services. However, it is estimated that the sector has a potential of generating about 10-11 million jobs and GDP contribution of US\$ 350-400 Billion by 2020. The government may provide a focused approach of making IFSC as hub for a number of international financial services such as Aircraft / Shipping Leasing and Financing hub, International Reinsurance hub,

⁴¹ See Page 112 of Annual Report 2017-18 issued by the Department of Commerce, MOCI;

⁴² See proviso to the definition of "sector" in Rule 2(1)(x) of the SEZ Rules, 2006 introduced via amendment Notification G.S.R 540 (E) dated 12.08.2013. The amended definition of single sector now also covers products or services, similar or compatible with each other, including related ancillary services and Research and Development services of the sector and additional combination of products and services of a similar or compatible nature

⁴³ The definition of service was expanded via amendment to Rule 76 of the SEZ Rules on 03.01.2017, whereby legal and accounting services by a unit in SEZ, including an International Financial Services Centre (IFSC) set up within an SEZ, was permitted. Prior to the amendment, legal and accounting services were excluded from the list of eligible services permitted to be rendered through a unit in SEZ. Accordingly, Indian and foreign law firms and accounting firms were previously not allowed to operate in an SEZ.

International Trading Hub, International Bullion / Gold Trading hub, Global Fund business & Fund administration hub, Legal Services / Professional Services, Global Accounting Hub, etc.

Further, it would be imperative to analyse current regulatory and procedural bottlenecks restricting growth of the identified/niche services like financial services and develop enabling framework. In this regard, the Government has operationalised a successful IFSC known as Gujarat International Finance Tec-City, International Financial Services Centre, Special Economic Zone (GIFT IFSC SEZ) for banking, insurance and capital account services. The Government may consider providing various enablers/facilitation measures to boost this sector including:

- ✓ Notification of Unified Regulator for IFSC
- ✓ Providing longer period of tax regime
- ✓ Exemption from filing income tax return by the non-resident participants in the IFSC
- ✓ Exemption from the NFE requirement for IFSC Units
- ✓ Incentives for availing Services from IFSC SEZ by domestic institutions instead of availing such services from overseas centres

Some of the key recommendations for IFSC are outlined below:

- ✓ **Unified Regulator-** Globally, international financial centres have a separate singular regulator looking after the financial services businesses. The creation of this Unified Authority would help in bringing global businesses and institutions in IFSC.
- ✓ **Utilizing Multi Services SEZ IFSC for all the inbound and outbound investment of the country-** At present potential of IFSC is not fully utilized for the benefit of the country. Globally financial centres contribute between 5 to 30% to the GDP and create large number of jobs. The well-defined vision, with aligned efforts of GoI and Regulators is critical for the success of IFSC SEZ in India. China is operating under the same model by creating Hong Kong for all inbound and outbound investment.
- ✓ **Incentives for availing Services from IFSC SEZ by domestic institutions instead of availing such services from overseas centres-** In order to reduce import of financial services and to develop such services in IFSC SEZ, it is proposed that the institutions based in India availing such services from IFSC SEZ be provided 125% deductions on services availed through IFSC SEZ.
- ✓ **IFSC SEZ units be eligible for Services Export Incentives Scheme (SEIS)-** Financial Services can be a key driver of services export from India. In order to expand such services exports from IFSC SEZ it is important to provide SEIS benefits as it would encourage large institutions to set up base in IFSC SEZ and expand global business thereby creating jobs and exports from the IFSC SEZ.
- ✓ **Exemption for filing income tax return by non-resident participants in IFSC-** It is proposed that for Non-Resident Participants tax be deducted at source by the intermediary and they be not required to obtain PAN card or file Income tax return in India

4.3.3 Other regulatory & process related enablers

4.3.3.1 Optimal utilization of assets and infrastructure sharing between units –

The present statutory provisions allow units to import or procure from DTA all types of goods and services, without payment of duty, taxes or cess for creating a central facility for use by units in SEZ and where such facility is created for software development, the same may also be accessed by software exporters of DTA.⁴⁴ However, no detailed guidelines is provided in relation to applicability or operationalization of the provision discussed above. Hence, as a consequence, the units seeking optimization of infrastructure costs, delivery cost, etc. are required to

⁴⁴ Rule 27 (5) of the Special Economic Zone Rules, 2006 ('the SEZ Rules') provides as follows:

"(5) A Unit may import or procure from Domestic Tariff Area, all types of goods and services, without payment of duty, taxes or cess for creating a central facility for use by Units in Special Economic Zone and where such facility is created for software development, the same may also be accessed by software exporters of Domestic Tariff Area."

approach Unit Approval Committee for specific approvals which are given on a case to case basis and entirely dependent on the discretion of the Development Commissioner and the UAC

In case of EOUs/ STPs, the Foreign Trade Policy 2015-2020 in terms of para 6.12(g) permits sharing of infrastructural facilities among EOUs / STPs on specific approvals.

Given that businesses at times looks to optimize their infrastructure cost or delivery cost, flexibility for sharing of infrastructure or assets should be allowed under the proposed dispensation as presently given to EOUs/ STPs. This is becoming more critical under current business environment, as world is moving towards sharing economy. We will see more and more need for the same in technology enabled office space wherein companies can enjoy benefits of cost efficiencies in sharing infrastructure, especially start-ups.

CASE STUDY

Sharing of network infrastructure, common area and assets due to demerger of business and separation of operations into two SEZ Units

A multinational Company decided to demerge its operations due to alignment of business globally. Post demerger, equity in both the business divisions will remain with the same global Group, although both the divisions will operate as separate SEZ units and undertake separate activities.

Due to the present infrastructure layout, it is operationally challenging to completely segregate network infrastructure, common areas and assets and carries incremental cost.

Similarly, dismantling the existing infrastructure items listed below shall cause significant business disruption, delay in commencing business operations, incurrence of additional fixed costs such as employees' salaries, etc. –

- Common area e.g. Cafeteria, Reception, Security Room, Academy Area
- Data Centre/ Hub Rooms
- Server – Server equipment such as domain servers, print server
- Common Network Infrastructure

Presently, the UAC considers and permits request for sharing of common infrastructure strictly on case to case basis, depending on the merit of the case, which results in significant business delays. Situations like these impacts business continuity as well as attractiveness of doing business in the SEZs. Therefore, it will be a good practice to have elaborate guidelines/ operating procedures incorporated under Rule 27(5) of SEZ Rules, 2006 so as to outline the circumstances, conditions and safeguards under such sharing of area and assets by different units can be allowed with adequate safeguards vis-à-vis NFE, exports, etc.

4.3.3.2 Domestic services payment to be allowed in INR to units

In terms of definition of services ⁴⁵ provided in the SEZ Act, an SEZ unit rendering services to a DTA customer requires receipt in foreign exchange. However, the SEZ regulations dealing with DTA sale procedure do not lay down any requirement of foreign exchange earning either for goods or services. In fact, there is no mandatory requirement for receipt in foreign exchange for manufactured goods cleared into DTA.

Hence, the requirement for services is discriminatory vis-à-vis goods. MOCI was aware of the issue since 2012 and after due consultation with RBI an A. P. (DIR Series) Circular No. 46 dated 23 October 2012 and A.P. (DIR Series) Circular No 68 [(1)/23 (R)] dated 12 May 2016 was issued allowing Authorised Dealer (AD) to sell foreign exchange to a unit in the DTA for making payment in foreign exchange to a unit in the SEZ for the goods and services rendered by a unit in SEZ to a DTA unit. The Circular required that in Letter of Approval (LoA) issued to the SEZ unit by the Development Commissioner (DC) of the SEZ, mentions specific provisions pertaining to

⁴⁵ Defined in terms of Section 2(z) of the SEZ Act, 2005

the goods / services supplied by the SEZ unit to the DTA unit and for payment in foreign exchange for the same are mentioned.

It is pertinent to note that aforesaid Circular by RBI permits AD to sell foreign currency to a unit in DTA to make payment against services received from a unit in SEZ but after ensuring the fact that provisions pertaining to the goods/services supplied by SEZ unit to the DTA and for payment in foreign exchange are mentioned in LOA issued by DC of the SEZ. However, this dispensation did not result in significant benefit to units and led to dispute with penal consequences as well.

Further, purchasing foreign exchange from AD does not lead to any enhancement of foreign exchange balance of the country. Also, recently i.e. on 19 September 2019, through amendments in the SEZ Rules, the services rendered in DTA against foreign exchange is no longer to be considered for NFE computation. Therefore, requirement of earning foreign exchange does not lead to any significant overall benefit to economy.

Given the above, in the proposed framework, the requirement to earn foreign exchange on services provided to customer outside 3Es and within 3Es should be dispensed with and aligned with the practice as applicable to clearance of goods.

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4.4 Recommendations – Common enablers

4.4.1 Bring a paradigm shift from export focus in SEZ to focus on economic growth and employment generation

SEZs, being deemed foreign territories, require compliances and documentation in terms of importation, domestic clearances, approvals, etc. This creates several types of operational, regulatory and demand related issues. Thus, there is a need for a changed approach wherein incentives and enablement are provided to the developers and manufacturers based on investment, priority areas and/or employment. Hence, there is requirement to promote investments that create economic activities in terms of value added activities and job creation, and do not limit it to promoting exports. Accordingly, following recommendations have been articulated:

1) Shift from incentives based on exports to enablers/facilitation measures linked to investments, employment generation and exports for units –

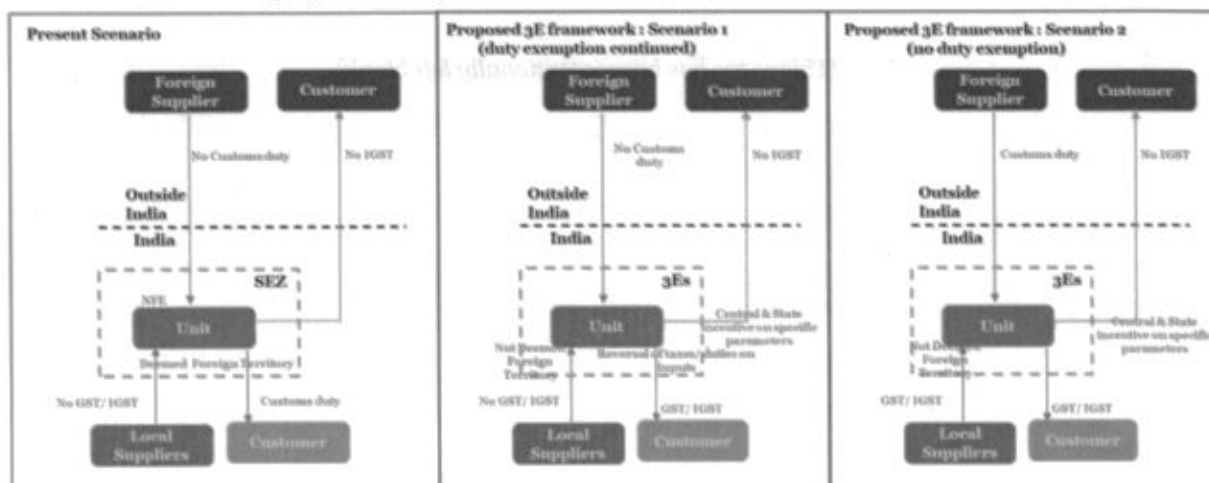
In the current regime, incentives are accorded at two levels viz. –

- Central tax/ duty incentives accorded to firms investing in economic zones (domestic or export oriented zones) is mostly based on exports generated. For example, incentives provided to the SEZ units are based on exports and fulfilment of the NFE criteria; and
- Incentives under Sectoral/ product specific incentive policy administered by the Central Government and State incentive.

Instead, below incentive regime may be considered for:–

- For **central tax/ duty incentives (at Point a)**, the Government may adopt a mechanism to provide incentives (including possibly tax deductions) and other enablers linked to investment, employment commitment, inclusivity- promoting women in job, technology development, product innovation, priority industry/sector, infrastructure development, trade potential, etc. made by individual units/ developers investing in the proposed enclaves. A Project Management Unit (PMU) within the MOCI may be set up to enable disbursement of incentives.

The mechanics of proposed changes in the central tax/ duty incentives depicted in the diagram below:



Note: Scenario 1 and 2 are two suggested alternative framework for central tax/ duty incentives

As for **sectoral/ product specific incentives at Point b)**, same may be retained and integrated within the overall framework. The enabling mechanism for this may be developed by MOCI in coordination with other Ministries and departments including state governments.

In this context, it is important that proposed incentive regime does not lead to substantive curtailment of existing benefits available to the stakeholders. Hence, the impact of dispensing with the current central tax/ duty incentives should be closely evaluated (to ensure that such measures should not jeopardize the stakeholders).

Additionally, **exports from the identified priority sectors can be promoted largely through non-fiscal intervention** (including procedural relaxations and coordinated approach between various authorities) **and limited fiscal intervention** mainly in relation to procedures. For example, a manufacturer-exporter of automobile sector in the 3Es, which is also focus sector in the Make-in-India programme of the Government⁴⁶, may be extended some of additional non-fiscal incentives as⁴⁷:

- I. Bringing in efficiency in the documentation process for duty-drawback brand rate application so as to reduce the number of clarifications sought by the authorities.
- II. Countering dollar unavailability in key African and Latin American markets hampering exports from India on the lines of China's agreement with African countries for payment in RMB;
- III. Need for dedicated auto desks and storage facilities at existing automobile exporting ports viz. Mumbai, JNPT, Chennai & Ennore.

Likewise, sector-specific non-fiscal initiatives may be adopted for other identified priority sectors in the 3Es.

CASES IN HAND

Fast turnaround especially for Electronics Companies registered in the Philippine Economic Zone Authority (PEZA)⁴⁸.

96 hours or 4 days to complete the production cycle:

- Day 1
 - Japanese or Asian company sends raw materials to the Philippines.
 - Raw materials arrive in the Philippines on the same day.
 - Cleared by Customs on the same day.
 - Received by the Economic Zone Company on the same day.
- Day 2 - Day 3
 - Products are manufactured.
- Day 4
 - Finished products brought to the Port.
 - Cleared by Customs on the same day.
 - Shipped to Japan or Asian country on the same day.

⁴⁶ 25 focus sectors have been identified as focus sectors for the Make-in-India programme. See <http://www.makeinindia.com/sectors>

⁴⁷ Reviving and Accelerating India's Exports : Policy issues and suggestions (2017 report of Department of Economic Affairs) and 2013 report of DGFT on Inter-ministerial Committee for boosting exports from MSME

⁴⁸ <http://www.peza.gov.ph/index.php/homepage/2-uncategorised/29-the-peza-edge>

- Arrive in Japan or Asian country on the same day.

*Many companies in the Electronics and Semi-conductors Sector in PEZA are able to make a 2 or 3 days turn-around time

Furthermore, multiple Central Government schemes as per **Appendix 11** could be leveraged for zone development.

Some of the international examples for incentives based on employment, investment, technology, value-addition, etc. are discussed in the table below:

CASES IN HAND

The Free Trade Zone regime in Costa Rica, provides a set of tax and non-tax incentives to following kinds of multinational companies –

- companies and organizations engaged in scientific research
- Manufacturing firms which can export or not (minimum export level is not required), etc.

For example, projects located in Greater Metropolitan Area (GMA) that belong to strategic sectors such as Advanced Manufacturing and Life Sciences projects, R&D activities, Innovation projects are incentivized with reduced rate of income tax for specified period (slab variable depending on small/mid-scale project or large scale project). Other tax incentives are income tax deferral up to 10 years for large-scale projects, 100% exemption in import duties and excise taxes, without any minimum export requirement⁴⁹.

Similar nature of tax and non-tax incentives are available for projects located outside the GMA (but part of the Free Trade Zone regime), although the quantum of incentives and investment threshold may be lesser.

A table of eligibility requirements and key incentives in Costa Rica's Free Trade Zone Regime is detailed in **Appendix 12**.

- **In Philippines⁵⁰, key fiscal incentives available to business operations and entities registered in the PEZA include⁵¹:**
- Income tax holiday for 4 years, 6 years, 3 years, which can be extended on fulfilment of certain conditions. For most sectors, 100% exemption is available from corporate income tax;
- Tax and duty free importation of raw material, capital goods and spare parts;
- Exemption from wharfage dues and export tax;
- Zero percent (0%) value added tax (VAT) on purchases of goods and services for use in the registered activity;
- Exemption from withholding taxes on payments of local buyers from customs territory;

⁴⁹ The Costa Rican zone regime places a minimum requirement of 50% exports in case of services sector.

⁵⁰ Philippines require export manufacturing entities registered in PEZA to export at least 70% of production. However, the example has been considered due to availability of host of fiscal and non-fiscal incentives

⁵¹ <https://www.aseanbriefing.com/news/2017/05/08/philippine-economic-zone-authority-incentives-assistance.html>

- Exemption from payment of any and all local government fees, imposes, licenses, or taxes;
- Other sector-specific fiscal incentives available in PEZA are detailed in **Appendix 13**.
- Key non-fiscal incentives include following:
 - Simplified import - export procedures;
 - Employment of non-resident foreign nationals in supervisory, technical or advisory positions; and,
 - Special non-immigrant Visas to non-resident Foreign Nationals such as investors, company officers, and employees with families with multiple entry privileges

For the table of incentives offered by Vietnam and Thailand, see **Appendix 10 and 14 respectively**.

4.4.2 *Shift from supply-driven to demand-driven approach for 3E's development*

India needs to move to a demand-driven approach for creating new zones for manufacturing and services. India has 473 notified SEZs, more than 3,000 Industrial parks and 1,832 EOUs.⁵² Furthermore, several large scale projects in the form of CEUs, corridor nodes and National Investment and Manufacturing Zones (NIMZ) are in advanced stages of planning.

- The Government may consider tightening the approval process for the new 3Es based on minimum development obligations, time-bound investments and operationalisation of businesses. Moreover, relaxation on commitments may be defined and limited to one-time extension;
- The Government may focus on a limited number of large-sized enclaves to create future hubs of excellence in manufacturing. Some of the criteria that may be considered are:
 - Enclaves with ready masterplan or being operational;
 - Enclaves with completed land acquisition—by private and/or Government

For the success of these enclaves, it may be ensured that not more than five such enclaves are planned and implemented across the country. After land in these enclaves are exhausted, new enclaves may be added. The Government may need to show commitment to such new enclaves by investing heavily (more than US\$ 1 Billion) in each of these enclaves over a period of 10 years;

- Another approach, which the Government can follow, is to promote sectoral or regional hubs for manufacturing by promoting specific enclave within a state, and ensuring no competing land supply is created in immediate vicinity.
- In addition to above, a system can be developed to map and monitor operational enclaves before permitting new enclaves and put a geographical restriction between enclaves to avoid clustering

4.4.3 *Enabling framework for ease of doing business in 3Es*

4.4.3.1 *MOCI to anchor and partner with state and other stakeholders*

One of the main impediments in achieving a fast track development of economic zones is requirement to obtain a host of statutory clearances such as building permission, occupancy certificate, water, power, centralised cooling, height, environment approvals, etc. Such approval processes are not only lengthy but cumbersome too, as it involves interface with multiple authorities both at the central and the state level, and variance in practices

⁵² To be updated

followed by authorities in different jurisdictions. For instance, all the SEZ projects require approvals from several authorities including the MOEF, Special Planning Authority, etc.

While the environment clearance process has been streamlined to a certain extent (which may be improved further), there are other clearances, which may need to be tackled immediately. For some of these laws/statutes there is a need for consolidation of multiplicity of approvals e.g. labour laws, Industries (Development & Regulation) Act, 1951, Explosives Act, 1884 and clearances required under municipal acts of various states for basic infrastructure development. Although mandatory clearances, such as clearance under the Explosives Act, 1884, can be obtained on a case-to-case basis, the clearances under municipal laws can be dealt with far more smoothly and easily.

On one hand, there are various timelines to be complied with by the SEZs, such as sunset dates for direct tax benefits, etc. on the other hand obtaining approval from various government authorities itself is a long-drawn process. As a result, the concept of Single Window Mechanism and coordination amongst departments at the Central and State Government level, as envisaged under the Act becomes ineffective to a great extent.

As a matter of fact, under the current provisions of the SEZ Act, 2005, the Central Government is empowered to prescribe a single application form for obtaining any licence, permission or registration or approval by a developer, or an entrepreneur under one or more Central Acts⁵³. The SEZ Rules further contemplate that a consolidated application may be made for setting up of a unit and other clearances such as below:⁵⁴

- a. Setting up of unit in a SEZ;
- b. Annual permission for sub-contracting;
- c. Allotment of Importer-Exporter Code number;
- d. Allotment of land/industrial sheds in the SEZ;
- e. Water connection;
- f. Registration-cum-membership Certificate;
- g. Small Scale Industries Registration;
- h. Registration with Central Pollution Control Board;
- i. Power connection;
- j. Building approval plan;
- k. GST registration;
- l. Approval from inspectorate of factories;
- m. Pollution control clearance, wherever required;
- n. Any other approval as may be required from the State Government

Furthermore, the approvals for establishment of SEZ and units are dealt by Board of Approvals ('BoA') at the Central level and the Unit Approval Committee ('UAC') at the zone level. The functions of the BoA and the UAC are listed below, respectively –

⁵³ See Section 19 of the SEZ Act, 2005

⁵⁴ See Rule 17 of the SEZ Rules, 2006

Functions of Board of Approvals (BoA)

- Granting of approval or rejecting or modifying proposals for establishment of the Special Economic Zones;
- Granting approval of authorized operations to be carried out in the Special Economic Zones by the developer;
- Granting of approval to the Developers or Units for foreign collaborations and foreign direct investments, in the Special Economic Zone for its development, operation and maintenance;
- Granting of approval or rejecting of proposal for providing infrastructure facilities in a Special Economic Zone or modifying such proposals;
- Granting a licence to an industrial undertaking;
- Suspending the letter of approval granted to a developer and appointment of an administrator;
- Disposing of appeals preferred; and
- Performing such other functions as may be assigned to it by the Central Government.

Functions of the Unit Approval Committee (UAC)

- Approve the import or procurement of goods from the Domestic Tariff Area, in the SEZ for execution of authorised operations by a developer;
- Approve the providing of services by a service provider, from outside India, or from the Domestic Tariff Area, for performing authorised operations by a developer, in the SEZ;
- Monitor the utilisation of goods or services or warehousing or trading in the SEZ;
- Approve, modify or reject proposals to set up units for manufacturing or rendering services or warehousing or trading in the SEZ;
- Allow, on receipt of approval from Board of Approval, foreign collaborations and foreign direct investments to set up a unit;
- Monitor and supervise compliance of conditions subject to which the letter of approval or permission, if any, has been granted to the developer or entrepreneur; and
- Perform such other functions as may be assigned to it by the Central Government or State Government.

However, in actual practice, the role of BoA and UAC has historically been confined to grant approvals for authorised operations and establishment of zones and units. Furthermore, the BoA and UAC typically considers proposals for establishment of SEZ or units in SEZ bi-monthly and monthly basis⁵⁵, respectively, subject to agenda and availability of its members.

For other approvals as stated previously, the developers and units still have to approach local and state bodies at multiple levels such as labour, environment, etc. Hence, despite the enabling provision, the single-window approval system remains a concept restricted to paper in the current SEZ landscape. In other words, in the current set-up, aside from procedural hassles, considerable time involved, the stakeholders also incur significant cost in the process of establishment/ seeking approvals. Therefore, these concerns may be solved through any of the alternate institutional mechanism discussed below:

- ✓ **Option a) Set up an authority or a committee at the state-level with the MOCI as an anchoring authority; or**

⁵⁵ Based on minutes of meetings of BOA and UAC meetings during last 2 years as available in public domain

✓ **Option b) Re-align institutional framework of BOA and UAC into a single integrated online portal**

The paragraphs below outlines these options for improving the business regulatory environment.

For option a), an authority or a committee may be set up at the state-level which may closely work with various State Investment Promotion Boards to facilitate the approval process. The Committee or Authority may consist of concerned Development Commissioners as the representative of MOCI, representatives from concerned State Government and the representatives from department of State for corresponding industries.

The Committee or authority so constituted may be an official committee so that the concerned state governments may notify them for the specific purpose(s) for which they have been constituted.

The significance of contribution of the administrative body to the success of zone programs internationally is best seen in the examples below.

CASES IN HAND

In the **Dominican Republic**, in addition to evaluation, investment promotion and customer services, an important activity of the regulator is the compilation and dissemination of statistics related to the free zone program.

In **Serbia**, the Zone administration is responsible for monitoring and assessing compliance with EU state aid rules. The Free Zones Administration has the overall supervisory and co-ordination authority and serves generally as a first point of contact for investors, along with the Serbian Development Agency. The agency also drafts yearly reports on the functioning and performance of the zones and works together with the Ministry of Finance to propose changes in the zone operations and incentives granted to the zone users. It is also responsible for negotiating incentive packages with each investor. (**Appendix 15**)

In the former **Yugoslav Republic of Macedonia**, the Directorate of the Technological Industrial Development Zones (TIDZs) is responsible for zone development and management, all co-ordination with other government bodies, and facilitating the provision of all government service. The zone administration also has considerable responsibility for investment promotion in the zones, negotiation of incentive contracts with each investor, and aftercare services for all zone investors. (**Appendix 16**)

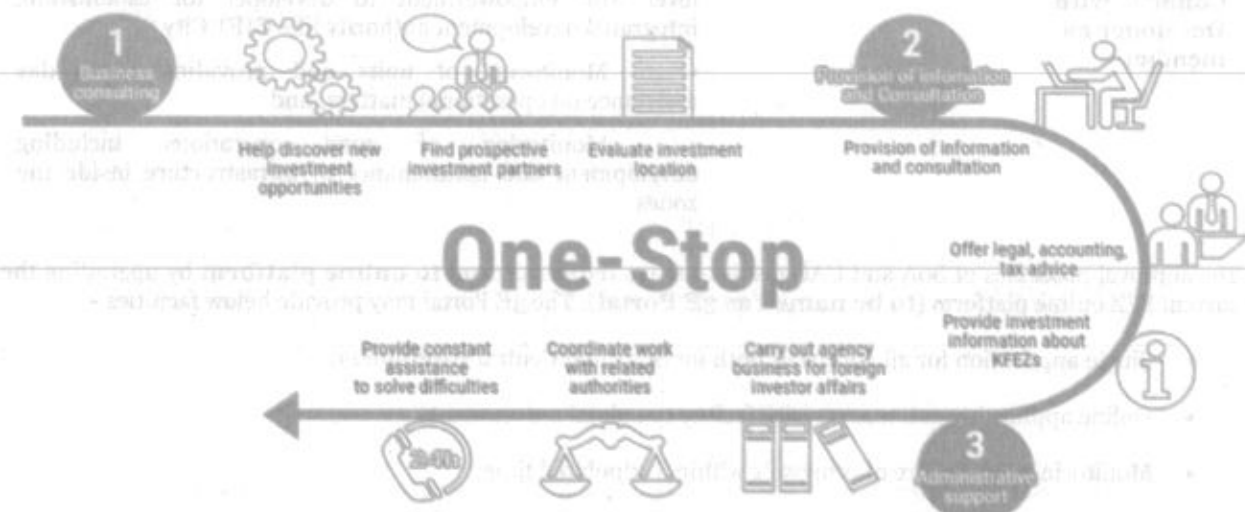
In the **Philippines**, Philippines Economic Zone Authority (PEZA) has signed a Memorandum of Agreement with the Department of Environment and Natural Resources (DENR), which has eased environment clearances.

In **South Korea**, each Free Economic Zone (FEZ) designates individual project managers who support all investment procedures from preliminary review for investment to follow-up management. The project managers not only provide business consulting for new investment opportunities and prospective investment partners, but also administrative support for legal affairs, accounting and tax management⁵⁶. Thus, One-Stop Service Mechanism is one of the important factors for the success of Korean SEZs wherein investors are facilitated by investment consultation and approval of business.

One-stop shop service available to investors and entrepreneurs in Korean FEZs is illustrated in the diagram overleaf.

⁵⁶ http://www.fez.go.kr/assets/pdf/kfez_e-brochures-eng.pdf

One-stop shop service in South Korea:



Source: http://www.fez.go.kr/assets/pdf/kfez_e-brochures-eng.pdf

As an alternative option b), the powers and functions of BoA and UAC may be reviewed and aligned so as to implement the stated objective of consolidation of requisite approvals in a single application (as originally envisaged in the SEZ Act and the Rules⁵⁷).

The specifics of suggested realignment is discussed in the table below –

Administrative Body	Responsible For	Suggested Revised Function
BoA to be renamed as "Integrated Authority for 3Es"	Developers or Co-developers	<ul style="list-style-type: none"> Policy making for 3Es in consultation with other line ministries and government bodies, e.g., NITI Aayog including for connecting infrastructure; Being one-stop approval and facilitator for developers or co-developers in line with Single Window Interface for Trade Facilitation adopted by Customs along with other participating government agencies including those at state and local level; Appointing Appellate authority for dispute resolution and coordinator for Integrated Council for 3Es with other line ministries and departments; Monitoring of Integrated Council for 3Es functions; and Monitoring of zone operations with Integrated Council for 3Es or SIPB

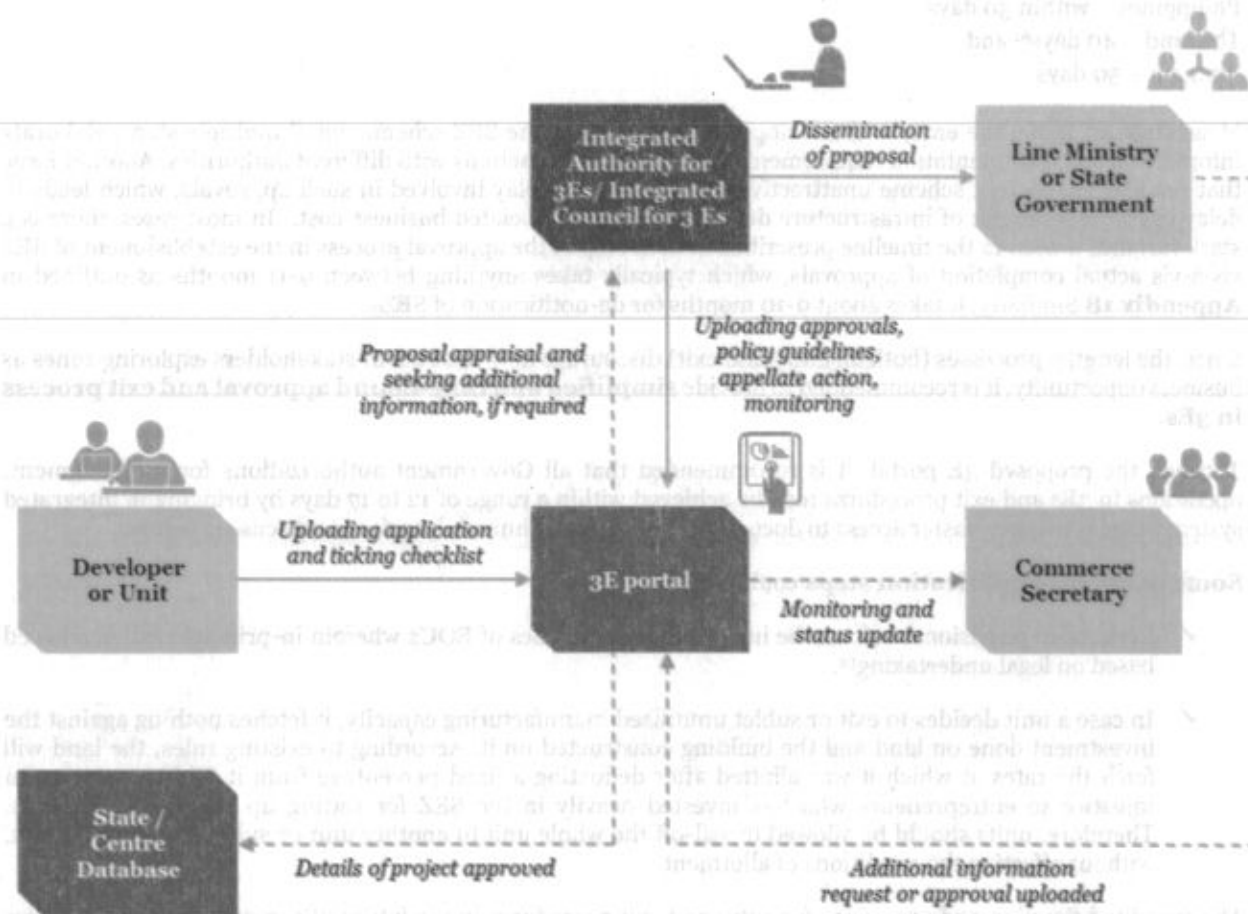
⁵⁷ See Section 19 of the Act read with Rule 17 of the SEZ Rules, 2006

UAC to be renamed as "Integrated 3E Council" with Developer as member	Units	<ul style="list-style-type: none"> • One-stop approval and facilitator for units along with other participating government agencies at State and local level with empowerment to developer for establishing integrated development authority like GIFT City SEZ; • Monitoring of units and providing day-to-day assistance on operational matters; and • Monitoring of zone operations including development and maintenance of infrastructure inside the zones
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The approval processes of BoA and UAC needs to move **from manual to online platform** by upgrading the current SEZ online platform (**to be named as 3E Portal**). The 3E Portal may provide below facilities -

- Single application for all approvals both for State and Central government;
- Online application submission with facility to upload e-documents
- Monitoring and closure of proposals within a stipulated time;
- Resolving issues through web-chat or e-chat;
- Real-time updating of information/uploading of documents; and
- Real-time tracking of application status to the applicants: SMS/e-mail notification to the applicant as and when the application is submitted and/or query is raised and/or application is approved/rejected;
- Proper escalation matrix in case of repeat nature of queries/ unnecessary delays;
- Payment and approvals;
- Online renewal of approvals;

A diagrammatic representation of the proposed mechanism is depicted below –



As can be seen in the digram above for proposed 3E portal based approval/authorization process, such an integrated platform would require coordination between the Central Government level as well as States and efforts towards system integration. It will be relevant to mention here that such integrated platforms are already being provided by the Government of India under the GST and the single-window project of Indian Customs known as Single Window Interface for Facilitating Trade (SWIFT) wherein importers and exporters can file their clearance documents online at a single point. The major import regulatory agencies⁵⁸ in India which are involved in issuing clearances or "No Objection Certificates" for live consignments i.e. post import are being brought in under the ambit of SWIFT. Examples of back-end integration features of GST Network and SWIFT are discussed in **Appendix 17**.

4.4.3.2 Simplification of approval and exit process

In global context, fast-track approval of entry and exit processes in the zone programmes is one of the key attraction for investors. Timelines for approvals followed in some of the popular zone programmes of countries that are often considered comparable with India's economic zones⁵⁹, exhibit much faster approval processes than India -

⁵⁸ Food Safety (FSSAI), Drug Controller, Plant Quarantine, Animal Quarantine, Textile Committee and Wild Life Crime Control Bureau

⁵⁹ SEZs in Select Countries: A Comparison with India- Springer at Page 17 ; Per the said report, country selection was based on suggestions by the Department of Commerce, MOCI, with the rationale that: (a) some of these countries have similar manufacturing and/or factor advantages (such as labour abundance); (b) they specialise in the production of similar commodities such as textiles and apparel; (c) these countries are integrating with each other through trade agreements; and (d) they have institutional engagements to promote physical connectivity in the region through initiatives like the Greater Mekong Sub-region Economic Cooperation Programme of the ADB, which will enhance connectivity between SEZs in China, Thailand and Vietnam and enable the development of production networks across these countries.

Bangladesh – within a week⁶⁰
 Philippines – within 30 days
 Thailand – 40 days⁶¹ and
 Vietnam – 50 days

Meanwhile, in India, the entry and exit approval processes in the SEZ scheme entail multiple steps, elaborate information and documentation requirement, and multiple interactions with different authorities. Another issue that renders the current scheme unattractive for investors is delay involved in such approvals, which leads to delay in commencement of infrastructure development and associated business cost. In most cases, there is a stark variance seen in the timeline prescribed at each step of the approval process in the establishment of SEZ vis-à-vis actual completion of approvals, which typically takes anything between 9-11 months as outlined in **Appendix 18**. Similarly, it takes about 9-10 months for de-notification of SEZs.

Since, the lengthy processes (both on entry and exit) discourage new entrants or stakeholders exploring zones as business opportunity, it is recommended to provide **simplified and time-bound approval and exit process in 3Es**.

Through the proposed 3E portal, it is recommended that all Government authorizations for establishment, operations in 3Es and exit procedures may be achieved within a range of 12 to 17 days by bringing in integrated system based efficiency, faster access to documents and reduced human interface as discussed below.

Some of other simplification steps could be:

- ✓ Concept of provisional exit can be introduced on the lines of EOUs wherein in-principle exit is allowed based on legal undertaking⁶².
- ✓ In case a unit decides to exit or sublet unutilised manufacturing capacity, it fetches nothing against the investment done on land and the building constructed on it. According to existing rules, the land will fetch the rates at which it was allotted after deducting a fixed percentage from it. This is seen as an injustice to entrepreneurs who has invested heavily in the SEZ for setting up manufacturing unit. Therefore, units should be allowed to sell-off the whole unit to another unit or sublet a part of its unit, without affecting the conditions of allotment.

The expedited timeline and procedure for entry and exit procedures in the future 3Es is described in the below diagrams:

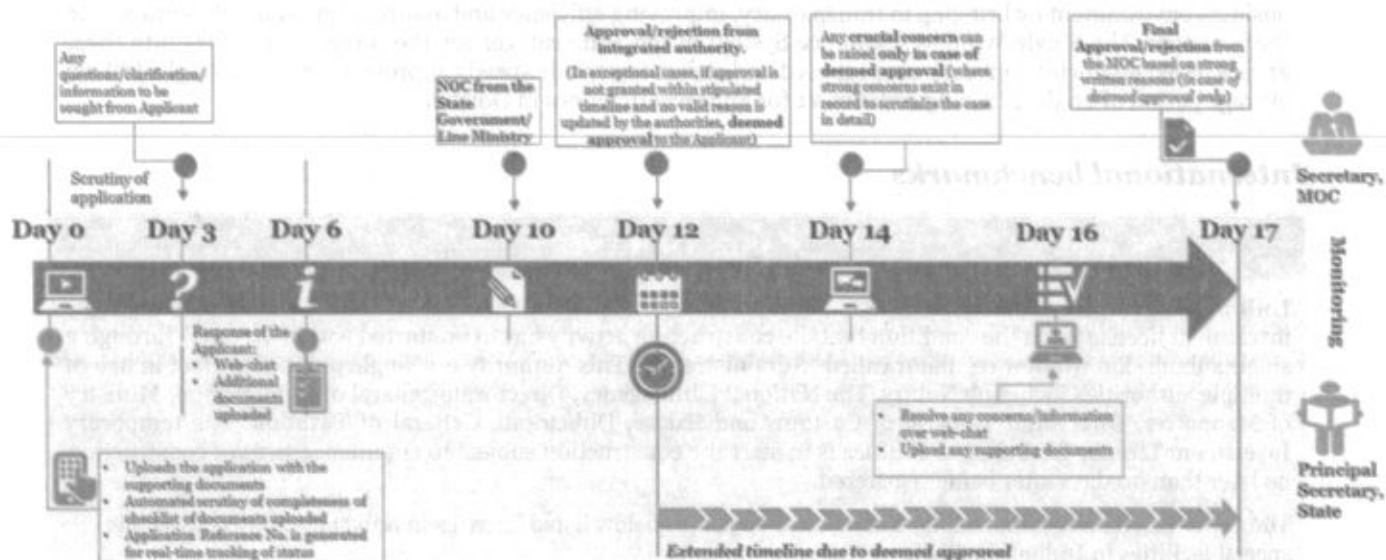
⁶⁰http://siteresources.worldbank.org/INTEXPOMNET/Resources/Walkenhorst_Special_Economic_Zones_in_South_Asia_Industrial_Islands_or_Vehicles_for_Diversification.pdf

⁶¹https://www.google.co.in/search?q=the+role+of+special+economic+zones+in+improving+effectiveness+of+GMS+corridors&rlz=1C1GCEA_enIN800IN800&oq=the+role+of+special+economic+zones+in+improving+effectiveness+of+GMS+c&orridors&aqs=chrome..69i57.20034j0j7&sourceid=chrome&ie=UTF-8&safe=active&ssui=on#

⁶² In terms of Appendix 6 K of Foreign Trade Policy 2015-20 dealing with exit procedure of EOUs provides that in case the unit has failed to fulfill the terms and conditions of LOA and penal proceedings are to be taken up or are in process, a legal undertaking for payment of penalties, that may be imposed, will be executed with the concerned Development Commissioner in the prescribed format.

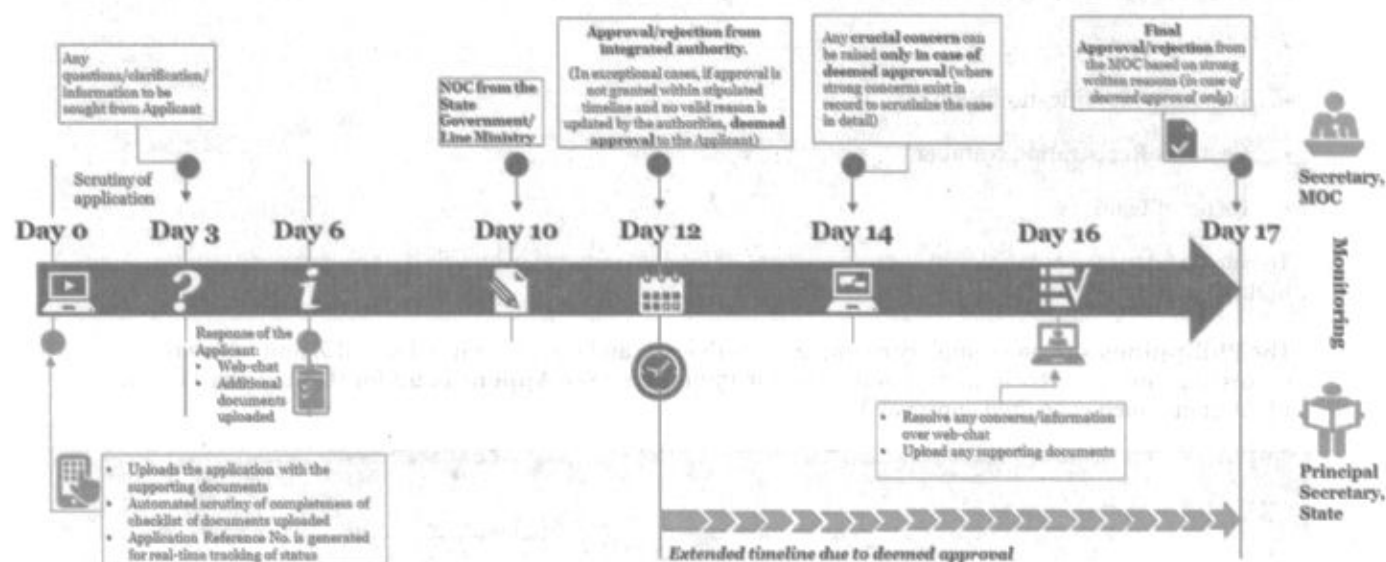
Scenario 1 –

- Approval to be granted in routine cases within 12 days;
- If approvals & clearances are not granted within stipulated timeline of 12 days without recording any valid reason for delay, deemed approval status may be updated/ assumed on the 12th day. In such cases, final approval/ rejection decision (with the reasons) to be communicated by 17th day. The details of the procedure is explained in the diagram below–



Scenario 2 –

- Due to complexity of business proposal/ investment or need for detailed scrutiny that entail rounds of discussion with the authorities over web-chat or a face-to-face interaction, in which case approval to be granted by 17th day. See the diagram below for details of the procedure –



CASES IN HAND

Government of **Andhra Pradesh** has undertaken numerous reforms under the ease of doing business framework. The Single Desk Policy 2015-20 creates conducive ecosystem to provide all clearances to set up industry through a single information technology platform within 21 days. A Single Desk portal has also ensured real time monitoring and course correction. With all these measures, it has become top ranking state as per EODB ranking in India. (See **Appendix 19/20**)

In **Odisha**, Single Window Portal "GO-SWIFT" for Investor Facilitation & Tracking promotes conducive business environment by bringing in transparency, improving efficiency and assuring time-bound clearances to the investors. The Single Window Clearance System in the State categorises the proposed projects into three groups based on the total investment proposed and claims to provide speedy approvals through a single desk on average period of 20 days. See **Appendix 21** for approval timelines in Odisha.

International benchmarks

CASES IN HAND

Indonesia provides approval mechanism in few hours for setting up business in SEZ by providing temporary investment license (with the condition that the construction activity has to be started within 90 days) through a single submission window regulator called "Administrator". This Authority is a single point of contact in lieu of multiple authorities including Notary, The National Land agency, Directorate general of Immigration, Ministry of Manpower, Directorate General of Customs and Excise, Directorate General of Taxation. The temporary Investment License for Business Entities is to start the construction subject to commencement of construction no later than 90 days after being registered.

The above interconnection enables the investor to obtain below listed licenses in only 3 hours (as one of the special facilities in Indonesia SEZ):

- Deed of Establishment and Approval from the Ministry of Law and Human Rights
- Company Tax Registration Number
- Certificate of Company Registration
- The Foreign Workers Recruitment Plan
- Work Permit
- Importer Identification Number
- Customs Registration Number
- Letter of Land

The above feature avoids delay in commencement of business caused primarily on account of obtaining multiple clearances from different authorities

The Philippines sets an exemplary example for both entry and exit procedure for a SEZ unit where the processing time for entry is 30 days and for exit is 15-20 days. (See **Appendix 22** for the step-chart of how PEZA grants such expedited approvals).

Generation of Application Reference Number

- In case of deficiency of documents per the checklist, "Reference No." will be generated
- Applicant can web-chat/ upload document to resolve. In case of special case, e.g. non-applicability of document to a specific enterprise, or any valid reason due to which the applicant is not in a position to submit the document, the portal will provide option to seek a face-to-face meeting
- Application No. to be generated based on completeness of the checklist/resolution of the matter within 3 days.

4.4.3.3 Imparting flexibility in operations and management of 3Es through decentralized model –

a) Authorized operations:

In the proposed framework, ease of doing business can be considered through self –certification and trust based compliances on 3E portal. The stakeholders basis specific criteria like past track record, performance, investment and employment generated, focus sector, etc. can be given “Green Channel” status for priority treatment by all authorities (as presently extended to status holders in the Foreign Trade Policy 2015-20 or Authorized Economic Operator Scheme of Customs).

Some illustrative examples of such facilitation could be:

- **Approval for authorised operations:**

- There can be broad guidelines issued to a Unit/Developer for the activities that it can undertake along with a list of impermissible activities (a kind of negative list outlining don'ts). Therefore, the stakeholder will not need to go back to the authorities for any increased/ new activity within the ambit of the guidelines. For example, a unit undertaking engineering design services can expand to research and development services without seeking a specific approval.
- Alternatively, a concept of one-time approval may be brought in where any expansive/ increased activity can be undertaken by the stakeholder by way of filing an intimation with the authorities. Such an intimation may be considered as deemed approval so long as the expansion is in line with the initial approval. For example, if approval for manufacture of mobile chargers is given initially, diversification to manufacture of TV or set top box chargers should not be required

- **Approval of list of goods and services:**

Since benefits are to be de-linked with exports and upfront exemption based on exports are to be replaced with enablers linked to employment and investment, the requirement of approval for procurement of goods and services should be dispensed with and allowed on self-declaration with maintenance of records. Similarly, movement of goods and services can be on self-assessment and certification basis with periodic audit and the requirement of physical intervention in 3E by authorities should be dispensed with so long as the transactions are in line with the project approved.

b) Development of standard planning and regulations norms to promote Integrated industrial and urban development:

Currently, industrial corridors approval management is under the National Industrial Corridor Development & Implementation Trust (NICDIT) framework. Similarly, port-based Coastal Economic Units (CEUs) are managed under the Sagarmala development framework, while SEZs are under the Board of Approval (BoA). All these institutional approaches can align with one standard development approach, to allow for holistic and integrated planning (for both industrial and urban clusters) and development of industrial hubs in the country.

The institutional framework adopted for the Delhi-Mumbai Industrial Corridor (DMIC) project and GIFT SEZ are a few examples of enabling Special Purpose Vehicles (SPV) to promote integrated development and manage municipal functions at the 3Es level to handle day to day operational issues and coordination with local authorities

GIFT INSTITUTIONAL FRAMEWORK

The State and Central Government has granted the requisite approvals for the entire GIFT SEZ area for unified development. GIFT SEZ has constituted a development committee for grant of permissions in GIFT SEZ Area comprising of following members –

- Managing Director, GIFT SEZ – Chairman;
- Development Commissioner, SEZ – Member; and
- General Manager, District Industries Center, Gandhinagar – Member



The Government may use similar frameworks for planning and regulation of various economic zones in the country in future.

4.4.4 Dispute resolution for all 3Es-related matters through a robust arbitration regime, commercial courts and civil courts, in that order

Provide for a swift resolution of commercial disputes through arbitration mode preferred over other dispute redressal mechanism. Therefore, amend and align the existing legal framework with the Arbitration & Conciliation Act, 1996 and the Commercial Courts, Commercial Division and Commercial Appellate Division of High Courts Act, 2015. Civil and legal disputes (other than commercial) may be resolved at the court level

In the changing face of India's litigation, steep increase in commercial disputes and Government of India's increasing commitment to and initiatives under the Ease of Doing Business (EODB), arbitration is becoming a preferred mode for settlement of commercial disputes. In order to achieve faster resolution of matters relating to commercial disputes, the Government has also enacted the Commercial Courts Act, 2015 for setting-up commercial courts and commercial divisions of high courts to adjudicate commercial disputes with a minimum threshold value of Rupees three lakhs.⁶³ In terms of the said Act, all commercial disputes compulsorily need to go through mediation process before a suit can be filed in the court⁶⁴.

Similarly, at the state-level, Governments have taken plethora of steps towards an efficient and easy dispute resolution mechanism to create an attractive business environment for investors. Over 10 states (including Telangana and Andhra Pradesh) have implemented reforms such as e-filing, issue of e-summons, e-cause, e-payment of fee and digital signed orders, among others and many have started adopting these in a phased manner. Chhattisgarh has built a separate facility at Naya Raipur with infrastructure facilities such as Arbitration centre, Mediation room, Arbitrators and Lawyers waiting room, video conference hall, separate record room, library, etc.

⁶³ The Commercial Courts Act was amended in 2018 to achieve below objectives –

- Reduce the pecuniary jurisdiction of commercial courts from Rs 1 crore to Rs 3 lakh so as to provide option of using commercial dispute resolution to smaller traders also.
- Establishment of Commercial Courts at district Judge level for the territories over which respective High Courts have ordinary original civil jurisdiction i.e in the cities of Chennai, Delhi, Kolkata, Mumbai and State of Himachal Pradesh.
- State Government to notify Commercial Appellate Courts at District Judge level in territories where High Courts do not exercise original civil jurisdiction.

⁶⁴ In specified exceptional circumstances, a suit can be instituted without the mediation process where urgent interim relief is sought

Nevertheless, the dispute resolution mechanism for SEZ related matters still seems to be languishing with stereotypical issues faced by the legal system in India such as costs, delays, etc. Aside from the land acquisition related legal matters, it is seen that most of the disputes that arise in SEZs are commercial in nature, followed by administrative matters involving implementation of regulations by various state agencies. Despite the commercial nature of dispute in most cases, these are best left to civil/ local courts for resolving the same.

Some of the apparent demerits of the present system in these zones are discussed below along with suggested measures of accelerated and efficient dispute resolution

S. No.	Dispute redressal provision under the Act	Problem	Suggested revision
1.	<p>Designated Courts –</p> <p>Courts designated by the State Government shall try suits involving any dispute of civil nature between developers, entrepreneurs or between an entrepreneur and developer in these zones⁶⁵.</p>	<ul style="list-style-type: none"> • Presently none of the States in India have designated courts for SEZ related matter. Therefore, under the present dispute resolution system, the developer, units or entrepreneur mostly seek recourse in the local courts. • Given the workload of civil courts, in normal courts, it will be long time before a dispute can be resolved. 	Suitable amendments may be made in the Act to enable arbitration as primary mode of dispute resolution
	<p>Circumstances when dispute can be settled by arbitration –</p> <p>It is only where the State Government has not designated such courts that a party can go for settlement of dispute via arbitration process⁶⁶</p>	<ul style="list-style-type: none"> • A party has to mandatorily seek dispute redressal at the designated court if such court has been set-up by the State Government. It is another thing that none of the States have designated such courts till now. • Making it legally mandatory for the stakeholders in SEZ to approach the designated court, where in some cases the parties in dispute may be mutually willing to choose arbitration mode of dispute settlement, is against the very spirit of the Arbitration Act and EODB. Such a provision creates a legal embargo to the right of the party to settle a commercial dispute by arbitration mode. 	
2.	<p>Appointment of arbitrator –</p> <p>The Act mandates that where a dispute has been referred to in arbitration (for non-designation of the said courts), the same shall be settled or decided by an arbitrator to be appointed by the Central Government⁶⁷.</p>	<ul style="list-style-type: none"> • Appointment of arbitrator by the Central Government may be more time-consuming process compared to a situation where the parties in dispute are agreeable to mutual appointment of an arbitrator. • The right of the party nomination/right to choose arbitrator also gets restricted when the Act compulsorily requires that such appointment be made by the Central Government. Thus, the said provision defeats the sacrosanct objective of the Arbitration Act that ensures party autonomy on most procedural matters and also has provisions to ensure quick disposal of arbitration cases within a year's time, with an option of 6 month's extension. 	The Act must be amended to align with the Arbitration Act to permit the parties to mutually appoint an arbitrator. In case the parties fail to appoint to appoint arbitrator, then provisions of the Arbitration Act may apply

⁶⁵ Section 42 read with 23 of the SEZ Act

⁶⁶ Section 42(1)(b) read with Proviso to Sub-section (1) of the Section 42 of the SEZ Act

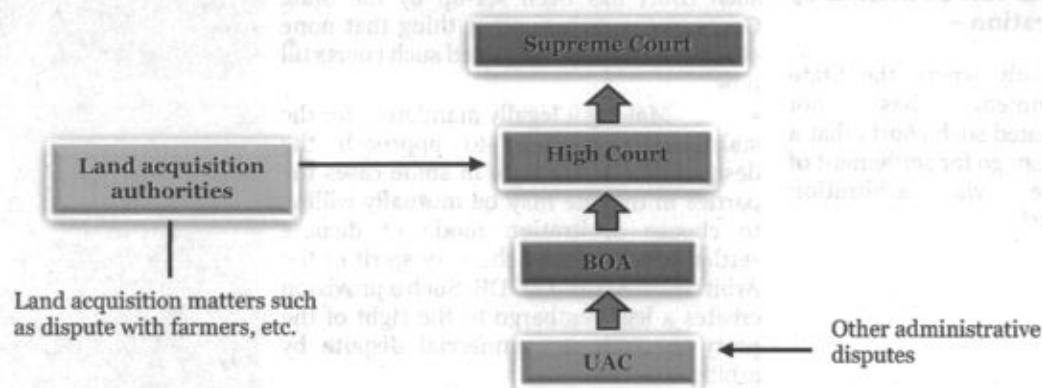
⁶⁷ See Section 42(2) of the Act

3.	Dispute resolution related statutory provisions in the SEZ Act has an overriding effect over any other law in India ⁶⁸ .	<ul style="list-style-type: none"> Although the SEZ Act refers to the provisions of the Arbitration Act for conduct of proceedings/procedures, the reference may be limited due as the provisions of SEZ Act prevails over the Arbitration Act. 	The Act must be amended to align the entire arbitration process in line with the Arbitration Act
4.	Civil disputes (excluding commercial disputes)	<ul style="list-style-type: none"> The current provisions envisage setting-up of designated courts for SEZs. However, these provisions have not been implemented till date. In any case, implementation of these may involve substantial cost, infrastructure, staffing of judges and host of other challenges. 	Align dispute resolution provisions with the Commercial Courts Act, 2015 for cases that cannot be resolved by mode of arbitration

In view of above, it may be recommended to leverage upon and integrate the dispute resolution mechanism for 3Es with the arbitration and the commercial courts' framework so that there is minimal intervention of courts.

A diagrammatic representation of the current dispute resolution mechanism vis-à-vis proposed recommendation is depicted below –

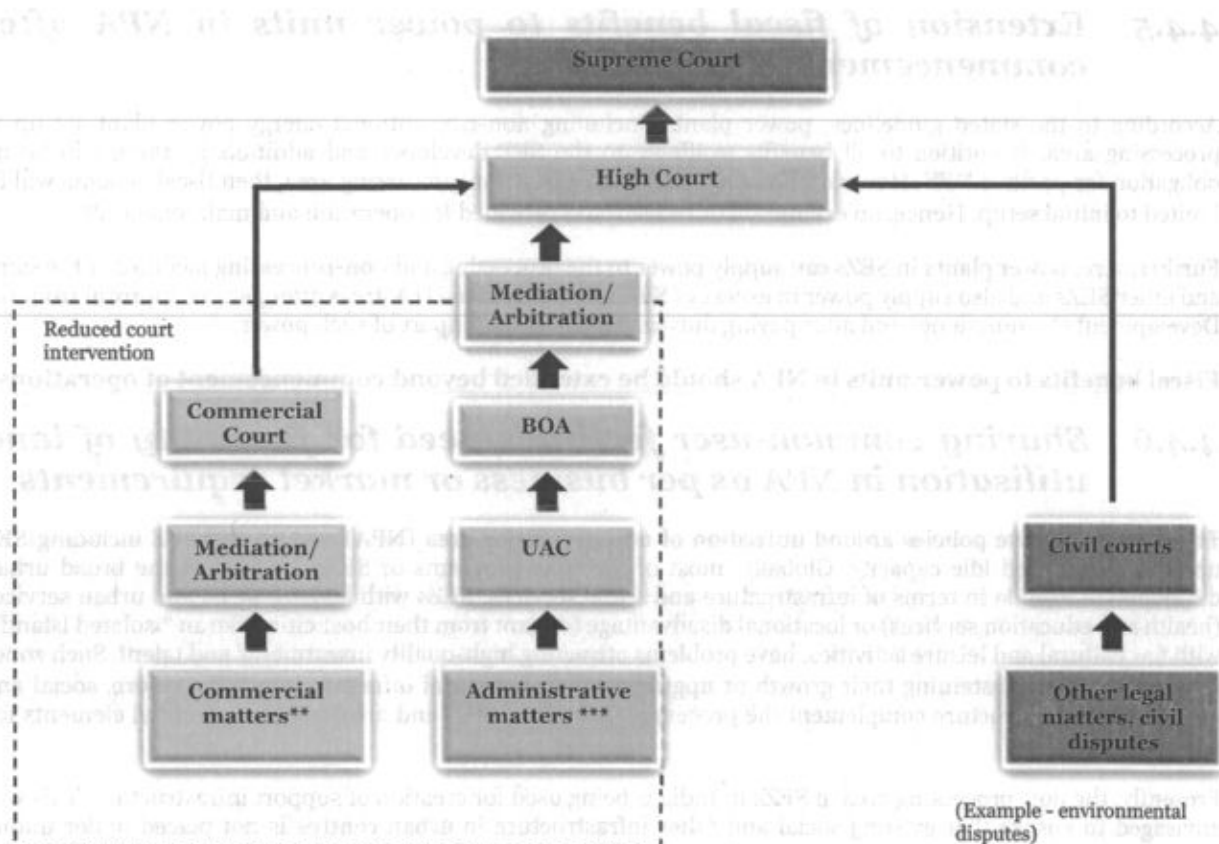
'AS-IS' appellate process in the SEZ in practice –



The proposed alignment of the dispute resolution provisions with the Arbitration Act and Commercial Courts Act may reduce intervention of the courts to a large extent. This is because some of the commercial disputes between developers and entrepreneurs in the 3Es and administrative matters between SEZ entities with the Government authorities may be resolved by way of mediation/ arbitration as diagrammatically depicted below.

⁶⁸ Since it is non-obstante clause, Section 42 of the SEZ Act reads as "Notwithstanding anything contained in any other law for the time being in force... no dispute shall be referred to the arbitration on or after the date of the designation of court...".
⁶⁹ "(3) Save as otherwise provided under this Act, the provisions of the Arbitration and Conciliation Act, 1996 (26 of 1996) shall apply to all arbitration under this Act as if the proceedings for arbitration were referred in settlement or decision under the provisions of the Arbitration and Conciliation Act, 1996."

'TO-BE' dispute resolution mechanism -



****For developers & entrepreneurs for disputes/contracts involving:**

- Banking & finance transactions
- Outsourcing & financial services
- Consultancy agreements
- Joint Venture agreement
- Construction & infrastructure contracts
- Technology development agreements
- IPR issues
- Insurance & Re-insurance
- Franchisee agreement
- Service contract
- Rent & tenancy transactions relating to aircraft, aircraft engines, aircraft equipment and helicopters, including sales, leasing

*****For dispute with the authorities involving:**

- Approvals
- EODB
- Interpretational issues
- Violation of the policy & regulations

4.4.5 *Extension of fiscal benefits to power units in NPA after commencement of operations*

According to the stated guidelines, power plants, including non-conventional energy power plant set up in processing area, is entitled to all benefits available to the SEZ developer and additionally there will be no obligation for positive NFE. However, if the plant is located in a non-processing area, then fiscal benefits will be limited to initial setup. Hence, no exemption or reduction is provided for operation and maintenance.⁶⁹

Furthermore, power plants in SEZs can supply power to the processing and non-processing facilities of the same and other SEZs and also supply power in excess of SEZ requirement to DTA areas after getting approval from the Development Commissioner and after paying duty as applicable on import of such power.

Fiscal benefits to power units in NPA should be extended beyond commencement of operations.

4.4.6 *Sharing common-user facilities/need for flexibility of land utilisation in NPA as per business or market requirements*

There are restrictive policies around utilisation of non-processing area (NPA) and several SEZ including SEZ units have reported idle capacity. Globally, most of the zone programs or SEZs are part of the broad urban development agenda in terms of infrastructure and social services. SEZs with lagging social and urban services (health and education services) or locational disadvantage (distant from their host cities like an "isolated island") with few cultural and leisure activities, have problems attracting high-quality investments and talent. Such zones face challenges in sustaining their growth or upgrading their industrial infrastructure.⁷⁰ Therefore, social and commercial infrastructure complement the processing area for a SEZ, and are therefore, essential elements for their growth.

Presently, the non-processing area in SEZs in India is being used for creation of support infrastructure. This was envisaged to ensure that existing social and other infrastructure in urban centres is not placed under undue pressure due to increased economic activity on account of emerging SEZs. The SEZs, especially the large multisector SEZs, were encouraged to become independent self-contained townships. However, historically the SEZ Rules required that the infrastructure facilities in the non-processing area were to be utilised exclusively for the SEZ. Hence, owing to the limited use, many developers were discouraged from making huge investments to set up facilities such as hospitals, hotels and educational institutes, since it would render them commercially non-viable. To this end, the Government amended the SEZ Rules⁷¹ which now provides the option of dual usage of infrastructure facilities in the non-processing area for both SEZ and non-SEZ clients (provided in case of later, no duty benefit is availed or it is refunded).

Despite certain relaxation introduced regarding dual-usage of the NPA by SEZ as well as DTA entities, there has not been any significant instances of such dual-use. This may be primarily due to variance in the percentage of land use for social and commercial infrastructure (NPA) of the SEZ Rules notified by the Government of India and various other states. One such comparative example for UP is described in the table below:

S.No.	Land-use purpose	Prescribed Norms	
		Per SEZ Rules, 2006	Per the UP SEZ Revised Policy, 2007
1.	Housing/ Residential	Maximum of 25% of NPA	Maximum of 30% of NPA
2.	Commercial	Maximum of 10% of NPA	Maximum of 20% of NPA
3.	Open area and circulation area	Minimum of 45% of NPA	Minimum 25% of the Processing & NPA

⁶⁹ http://sezindia.nic.in/upload/uploadfiles/files/12MX-M452N_20160217_122605.pdf

⁷⁰ *Global Experiences with SEZs - with a focus on China & Africa - World Bank*

⁷¹ The Commerce Ministry issued GSR 5(E) on January 2, 2015

4.	Social and institutional infrastructure including schools, colleges, socio-cultural centres, training institutes, banks, post office, etc.	Balance area of NPA	Balance area of NPA
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Prescribing stringent thresholds for usage of Non-Processing Areas may limit the cohesive growth of SEZs/ 3Es in so far as the social or commercial infrastructure needs of every SEZ/3E will be different based on its location, existing infrastructure around the SEZ, progress of the states, etc. Hence, with a view to encourage better utilisation and development of the NPA, it is recommended that dual-usage norms for NPA should be made flexible according to the needs of the proposed enclave in a given State. It is also recommended to review the local development regulations in deciding the area mix for NPAs. Further, to improve the economic viability of various service facilities (food courts, crèches, gymnasiums, etc.), access to these facilities in the Processing Area may be allowed to DTA entities, provided such services facilities have not availed tax benefits.

Additionally, the reimbursement mechanism for taxes / duties may be evaluated for developers to incentivise utilisation of assets in NPA by businesses in PA since there is no upfront duty/ tax exemption on assets used in NPA.

Following recommendations may also be considered for extending operational flexibility:

- Flexibility to denotify and sale the land in NPA for usage as per local demand/ development requirement on payment of duty/ tax benefits on depreciated value if availed, and develop infrastructure and facilities for use by 3E and non-3E customers or vendors supporting manufacturing or service activities of 3Es.
- Requirement of providing infrastructure facility by co-developer to be dispensed off. Flexibility to permit facility or infrastructure development in NPA by person with proven track record and duly appraised by Integrated Authority

4.4.7 “Infrastructure” status to improve access to cheaper financing options

Infrastructure and Policy & Finance Division of Department of Economic Affairs, has granted ‘Infrastructure Status’ to five main infrastructure sectors and 29 infrastructure sub sectors.⁷² This status allows industry to be entitled to a number of benefits and concessions. Furthermore, it gives access to concessional financing through external commercial borrowing (ECB). The ECB allows developers to get commercial debt at reduced rate and cannot be converted to equity, further protecting the borrower from dilution of his share. This enables developers to get credit at competitive rates and on long-term basis with enhanced limits.⁷³

At present, social and commercial infrastructure in SEZs has been granted Infrastructure status.⁷⁴ Furthermore, SEZ units are also permitted to access ECB for their own requirements.⁷⁵ However, SEZ developers are allowed to avail ECB, under the approval route for providing infrastructure facilities within the SEZ such as:

- Power
- Telecommunication
- Railways
- Roads including bridges
- Sea port and airport
- Industrial parks

⁷² <https://indiakorplaw.in/2018/02/implications-granting-infrastructure-status-logistics-sector.html>

⁷³ <https://indiakorplaw.in/2018/02/implications-granting-infrastructure-status-logistics-sector.html>

⁷⁴ <https://dea.gov.in/sites/default/files/Harmonised%20List%20Infra%20subSec17112017.pdf>

⁷⁵ <https://www.dea.gov.in/pressrelease/review-external-commercial-borrowings-ecb-policy#>

vii. Urban infrastructure (water supply, sanitation and sewage projects)

viii. Mining, exploration and refining

ix. Cold storage or cold room facility, including for farm level pre-cooling, for preservation or storage of agricultural and allied produce, marine products and meat.⁷⁶

Infrastructure status may be extended to all components of 3Es.

4.4.8 Subsidised utility tariffs to 3E's tenants

Globally the SEZ tenants enjoy subsidised utility tariffs, which makes presence in SEZs attractive. In India there is a uniform utility subsidy available; however, additional power tariff subsidies are extended by some State governments. E.g., Maharashtra. Therefore, units within the enclaves to be provided with competitive utilities tariffs to ensure they are not paying rates higher than available through other means.

As part of proposed framework, utility subsidies may be introduced at the Central level. Units may be given autonomy to choose between central or state subsidy, whichever is higher.

Note: The feature of Deemed Distribution Licensee status for developer, as provided in Electricity Act 2003 and Special Economic Zones Act 2005 - should be "maintained" under the amended policy.

CASE IN HAND

Bangladesh Economic Zone Authority (BEZA) purchases power from the national grid and sells it to enterprises inside the zone, with a 10% surcharge. Companies are also allowed to produce power inside the zone.⁷⁷

4.4.9 Support to enable "servicification" of manufacturing in 3Es

With increased 'servicification' of manufacturing, services used by 3E units can be subsidised. Subsidies can be given to compensate for logistics services costs, labour transport costs, labour training costs, advertising and marketing costs, to name a few. A fund to support development of essential services in 3Es to be provided by MOCI.

4.4.10 Research & Development Incentives

R&D incentives are WTO non-actionable, and also form the basis of various start-ups in India. Hence, provision of several incubator facilities can act as a further boost to high-precision and technology-based industries, such as medical devices, electronic and hybrid vehicles and unmanned aerial vehicles to name a few.

4.4.10.1 Aiding through various manufacturing enabling services, with focus on MSME

On-site infrastructure, or internal infrastructure is not limited to power and water supply infrastructure alone. To ensure competitive business environment, industrial areas adopt development of facilities to provide various manufacturing enabling services. They may include variety of facilities, depending on the nature of hosted manufacturing units, for example, 3D design, prototyping and rapid tooling facilities, trade logistics facilities, high-speed telecommunications facilities and internet services, standardisation and testing labs, gamma irradiation service providers, biomaterial testing facilities and more.

⁷⁶ <https://www.bankofbaroda.com/ecb-policy-guidelines.htm>

⁷⁷ Arpita Mukherjee, SEZ in India: Perception vs Reality

CASE IN HAND

Wenzhou, China (Chinese Shoe Capital) – RMB 557 million invested by the municipal government in Shuangyu Town Lu Cheng City, a large industrial complex integrating technological training, trading, testing, production, information services, and shoe-related cultural exhibitions.⁷⁸

4.4.10.2 Aiding through advisory, marketing and branding services to 3E units

Manufacturing entails some ancillary services, which are quite critical for overall functioning of manufacturing units. They may include services from location advisory to providing them branding and marketing support. This becomes more important in case of MSME units, which are currently located in public zones, as many private developers are already providing such dedicated facilities to their units (for example, Mahindra World City).

Several countries have realised the importance of provision of such services, and have been successful in this aspect. Some examples include, **Taiwan**, which provides various services—legal, business planning, marketing, skill training, laboratories, product testing services, management services warehousing, security, technical and other support services.⁷⁹

CASE IN HAND

- **Former Yugoslav Republic of Macedonia** provides business opportunity analysis—identification of project-specific location factors, cost analysis, identification of supplier base and detailed due diligence to units.⁸⁰
- **Albania** provides promotional support to SMEs located inside the economic zones. They help them to establish network, which provides them with business.⁸¹
- **In Bosnia and Herzegovina**, manufacturers can apply for obtaining help for promotion (i.e. grants) for participating in national and international trade fairs.⁸²

Certain services can be provided to all or, at least restricted to MSME units, at subsidised, or no costs.

Facilities to provide manufacturing enabling services should be promoted for development within 3Es and made available to units at subsidised rates.

4.4.10.3 Additional support to highly advanced technological sectors

Certain industries require additional support from the Government, due to their nascent stage of development. In the Indian context, this will include, genomics (pharmaceuticals), medical devices and semi-conductor chips (electronics), electrical and hybrid vehicles (automobiles).

⁷⁸ EPCES Report

⁷⁹ <https://www.epza.gov.tw/english/pagelist.aspx?pageid=4d47d46bfe4focfb&nowid=80482927677db11a>

⁸⁰ <http://fez.unet.mk/why-invest/>

⁸¹ http://www.oecd.org/south-east-europe/SEZ_WB_2017.pdf

⁸² <http://fipa.gov.ba/doc/brosure/HOW%20TO%20ESTABLISH%20A%20BUSINESS%20IN%20BH.pdf>

CASE IN HAND

Republic of Korea provides financial incentives to industries involved in highly advanced technology or high value-added services. These include government subsidies for the purchase of land, construction of facilities, and start-up of businesses and employment of qualified personnel.⁸³

Specific enablers or facilitation measures can be given to promote investments in such industries, through subsidising utility, and or R&D costs.

4.4.10.4 Skilling support

Skilling of workforce acts as an investment to the firm as well as to the country. Acknowledging various government initiatives taken in this regard both at sectoral as well as macro level, have been successful in generating employment.

CASE IN HAND

Taiwan – The Export Processing Zone Administration (EPZA) introduced a 'gym project' for training industrial talents. They build an Academia-Industry cooperation platform, and provide a series of talent training services. This 'gym project' contains pre-employment training, on-the-job training, and human resource enhancement, which can not only help companies to recruit talents in advance, but also richly cultivate local talents, and promote local employments for students in southern Taiwan. The EPZA creates a precedent of Academia-Industry cooperation innovation, assists I-Shou University, Chung Shan Industrial & Commercial School, and Orient Semiconductor Electronics Ltd. to start employment-oriented education programs.⁸⁴

4.4.10.5 Enablers or facilitation measures to promote green technology and green energy

With the advent of an integrated approach to development and environment, fiscal incentives for promotion of green technology are WTO non-actionable. Therefore, the Government can promote use of renewable energy and green manufacturing technologies in zones through provision of appropriate fiscal and policy initiatives.

4.4.11 Integrating MSMEs in 3Es

Government needs to integrate MSMEs as part of 3Es by linking with MSME schemes of government of India and provide focused enablers or facilitation measures

MSMEs account for more than half of all formal jobs worldwide, according to a World Bank publication.⁸⁵

The Indian MSMEs play a significant role in the overall economy of India and account for around 45% of the manufacturing output and 40% (28.24% for SEZ for FY 2016-17) of the country's total export.⁸⁶ The MSMEs accounted for 28.77% share in GDP for 2015-16 with an approximate growth of 7.62% over the previous year.

The major advantage of the sector is its employment potential at low capital cost. On an overall basis (manufacturing and non-manufacturing) this sector employed an estimated 1109.89 lakh people during the year ending 2015-16⁸⁷, making it the largest employer in India after the agriculture sector.

The MSMEs manufacture numerous products, from traditional to high technology items and are considered as the drivers of innovation and competition in a lot of economic sectors such as precision engineering design, food

⁸³ SEZs in Select Countries: A Comparison with India- Springer

⁸⁴ https://www.moi.gov.tw/english/print.aspx?print=eng_news&sn=11614&type=taiwan

⁸⁵ Entrepreneurs and Small Businesses Spur Economic Growth and Create Jobs published on 20 June 2016 at <http://www.worldbank.org/en/news/feature/2016/06/20/entrepreneurs-and-small-businesses-spur-economic-growth-and-create-jobs>

⁸⁶ MOCI - Promotion of exports by MSMEs, PIB - Delhi posted on 27 December 2017

⁸⁷ Annual Report 2017-18, Government of India – Ministry of Micro, Small and Medium Enterprises – 73rd round of National Sample Survey (NSS)

processing, retail, IT and ITES, agriculture and services sector. Hence, the Government has initiated host of steps to provide an impetus to the MSME such as –

- Establish technical centres with bilateral collaboration with Government of Germany and Denmark to provide right stimulus to growth of industries in India
- Set up Technology Centre Systems Programme to expand and upgrade the network of Technology Centres

Despite such importance of MSMEs in the Indian economy and host of steps being taken by the Central Government to promote this sector, ***the current SEZ policy has significant constraints for MSMEs, given the ecosystem and scale they operate in.*** Some of these constraints include minimum area requirement, infrastructure costs, disintegrated sourcing pattern and other associated costs along with host of compliance requirements.

MSMEs can be powerful instruments of economic development and skill-development provided there is an inclusive approach for MSMEs in the SEZ landscape in terms of sustained policies, programmes, institutional and infrastructural support. Inclusion of MSMEs can foster a collaborative working model across different players along the value chain. For example, clustering of small and large manufacturers (essentially customers and suppliers between themselves) operating in close proximity with units (including those providing support services for manufacturers) will enable creation of high value goods.

4.5 Transition of existing SEZ to new framework

Existing SEZ stakeholders (developer or co-developer and units) are presently enjoying fiscal and non-fiscal benefits under the SEZ framework.

On transition to new framework, the policy framework should have a 'transitional clause' ensuring the following:

- Status quo on duty or tax benefits already availed including export benefits
- No additional conditions on existing operations
- No penal consequences including recovery proceedings on such transitions
- Sunset to be defined for claiming benefit under SEZ framework including establishment of new business or expansion of operations or projects under implementation
- Pending litigations or disputes to be dealt under the old regime
- This will help a seamless transition into the new framework. In fact transitional mechanism or 'grand fathering clauses' are part of any new legislation introduced to replace an existing legislation. Illustrative examples of such measures in the past are provided below.
- In 2002 existing Export Processing Zones of Noida, Vizag, Falta, Chennai, Cochin, Kandla, Surat, etc., were converted into SEZs to promote exports from SEZs under new legislation. Pursuant to this conversion, revised guidelines for benefit of 80 IA under Income Tax issued vide S.O.100(E) dated 24 January 2002 gave exemption from minimum area requirement to EPZ converted to SEZs.
- GST regulations has specific transitional provisions in terms of migration of taxpayers, credit of tax, refunds, job work, dispute, stock, price revision, etc.

On notification of new industrial policy, i.e., 'Package scheme of incentives 2013' by Maharashtra Government, through grandfathering provisions it was ensured that existing industrial units availing benefits under erstwhile 'Package Scheme of Incentive – 2007' will continue to enjoy benefits according to the respective scheme. However, for all administrative purposes, the new 'Package scheme of incentives 2013' will continue to apply to existing industrial units.

Apart from requirement of transition clause as discussed above, specific provisions/ regulations/ procedures under various laws e.g. SEZ, FEMA, Foreign Trade Policy, Customs and GST, etc. will require a review and realignment to adopt the proposed 3E framework.

5. Indicative action points - proposed zone framework

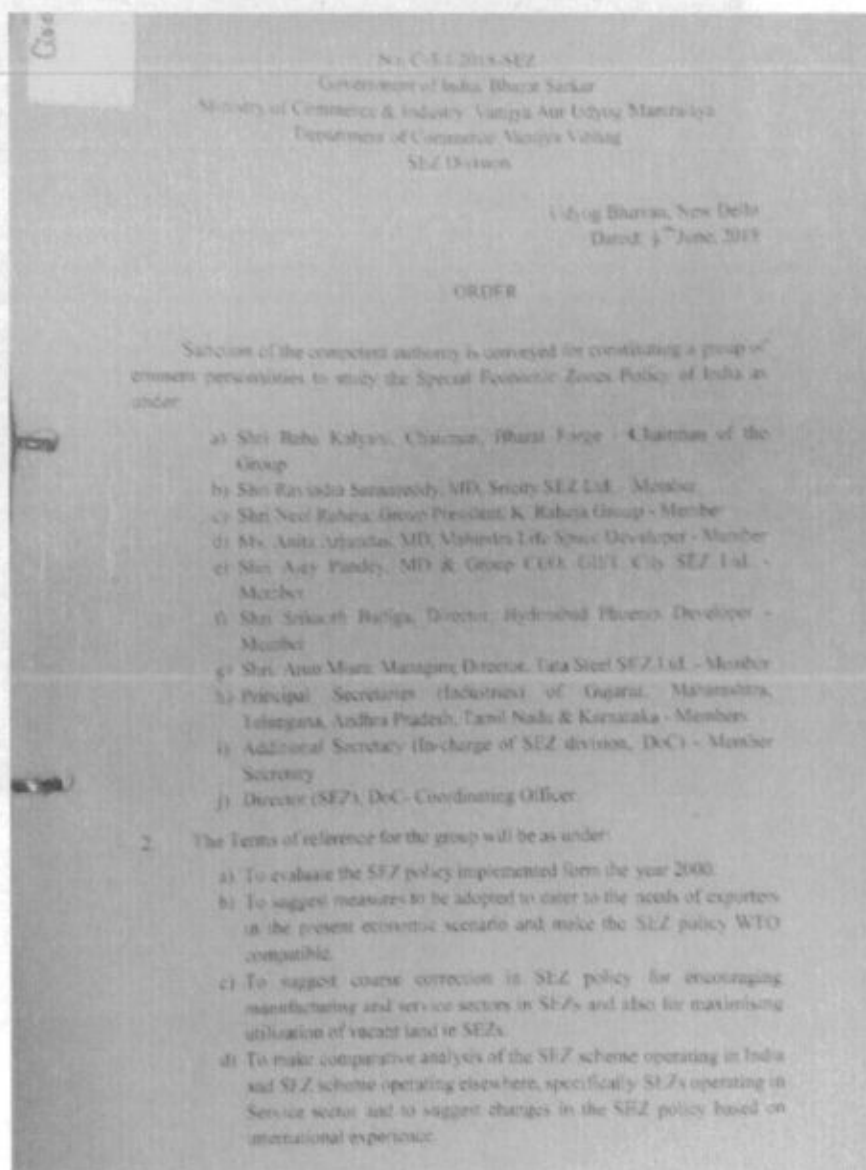
S. No.	Recommendation	Present Regulation	Responsibility
1.	To develop separate enabling framework and rules for operationalising manufacturing and services SEZs	SEZ act 2005	MOCI
2.	Shift from incentives based on exports to be based on employment and economic activity creation. Role of State and Center to be evaluated.	-	MOCI /MOF /Line Ministry / State
3.	Broad-banding definition of services / allowing multiple services to come together. Review area requirements zones.	SEZ Rule 5 (2) & (3)	MOCI
4.	Detailed architecture for "Integrated online portal" for operations of Zones for time bound approvals, exit and day to day compliances and reducing physical interface in line with State models e.g. Andhra Pradesh, Telangana, Orissa.	SEZ Act and Rules	MOCI/ Line Ministry/ State
5.	The application for constructing minimum built up area by Developer or Co-developer beyond a period of ten years from the date of notification of the Special Economic Zone (in which at least fifty percent of such area to be constructed within a period of five years from the date of such notification) to be considered by BOA on merits of each case	SEZ Rule 5 (7)	MOCI
6.	Developer should be allowed flexibility to enter into a long term lease agreement with stakeholders in Zones in line with the State policies	SEZ Rule 11 (9)	MOCI
7.	Receipt of services to customers outside the Zones to be allowed in Indian Rupees. With the recent amendment in exclusion of certain category of services from NFE computation, the requirement to earn foreign exchange is not feasible	Section 2 (z) of the Act read with amendment in SEZ Rule 53 dated 19 September 2018	MOCI/ MOF
8.	Review specific exclusions proposed in NFE computation in light of "Make in India" initiative specially projects of economic importance	Revised Rule 53 (d) notified on 19 September 2018	MOCI
9.	Dispute resolution for all Zone-related matters through a robust arbitration regime - Need amendment in relevant provisions of the act to align with Arbitration & Conciliation Act, 1996 and allowing Contracting parties to decide the dispute resolution mechanism through arbitration at first level or using commercial courts	-	MOCI
10.	"Infrastructure status" to all stakeholders relating to development of Zones	Notification issued by MOF – Harmonized Master List of infrastructure sub-sectors	MOCI/MOF

11.	Flexibility in usage of Non-Processing Area without restriction and alignment with local development regulations. Reimbursement mechanism for taxes/ duties for usage of facility in Non-Processing Area (developed using duty/ tax paid assets) by units	SEZ Rule 11A (notified on 2 January 2015)	MOCI
12.	No export duty should be levied on supplies from Domestic Tariff Area to SEZ as "exports" in terms of Customs Act, 1962 is for goods exported out of India	5th provision to SEZ Rule 27 (1) (c) (notified on 19 September 2018)	MOCI
13.	Sharing of duty exempted assets/ infrastructure between units to be allowed against specific approval	SEZ Rule 27 (5)	MOCI
14.	Units presently allowed sub-contracting for domestic customer in relation to exports. Sub-contracting to be allowed for domestic customers without any restriction with specific safeguards e.g. reversal of duty/ tax benefits on inputs	SEZ Rule 43	MOCI/ MOF
15.	Inclusion of indigenous goods in NFE computation should be excluded as there is no foreign exchange outflow on procurement of indigenous goods and same is contrary to the objective of NFE and principles followed for EOUs	SEZ Rule 53 (notified on 19 September 2018)	MOCI
16.	Enabling provision for transfer of approval from one co-developer to another co-developer should be allowed as presently permitted for units subject to guidelines to be prescribed	SEZ Rule 74A read with instruction 89 and 90 and 31 st and 69 th BoA minutes	MOCI
17.	Formalize "de-notification" process for enclaves and delink it's present mandatory usage for SEZs purpose only	Office Memorandum dated 14 July 2016 and SEZ (Amendment) Rules, 2013 notified on 13 August 2013	MOCI
18.	Develop a system to map and monitor operational zones before permitting new Zones and put a geographical restriction between Zones to avoid clustering	Chapter II of Rules	MOCI
19.	Set up a fund to enable development of last mile connectivity and essential services in SEZs. A PMU to be set up to enable disbursement of funds.	-	MOCI
20.	Existing MSME, skill development policies of Government of India to be integrated with zone policies	-	MOCI and relevant ministries
21.	Support to enable servicification of manufacturing zones. Allowing manufacturing enabling services companies e.g. R&D services, engineering design services, logistics services.	-	MOCI / DIPP

	Development planning and regulations to promote Integrated industrial and urban development –	-	MOCI / Line Ministry/ State
22.	<ul style="list-style-type: none"> SPV can be created as an apex body under the administrative control of MOCI for coordinated and unified development of zones SPV will support project development activities, approval and sanctions of project as per relevant delegations SPV will coordinate and monitor efforts for the development of zones 		
23.	<p>Providing utilities to units and developers at competitive rates</p> <p>Evaluate subsidies that may be given on utilities to enable competitiveness of units within zones. Units may be given autonomy to choose between central or state subsidy, whichever is higher</p>	-	MOCI / Ministry of Power/ State
24.	Amendments in FEMA, Income Tax Act, GST regulations, Customs & Excise Act, Foreign Trade Policy, State Laws and relevant sectoral laws to be undertaken simultaneously	-	Respective regulators

Note: The proposed recommendations apply to developers as well as units

Appendix 1. Government of India order sanctioning for the constitution of a group of eminent personalities to study the SEZ policy of India



to develop the SEZ policy with other schemes like Coastal Economic Zones, Doha Mumbai Industrial Corridor, Mumbai Industrial Manufacturing Zones, Food Parks, Textile Parks, etc.

The Group can co-opt officials from the Government for assistance.

4. The TADA, entitlements of the non-officials of the group shall be regulated under the provisions of Department of Expenditure OM No 19471/2016-E-IV dated 14.09.2017.

5. Group is required to submit its recommendations in 3 months' time from the date of constitution.

6. A knowledge partner will assist the group in the form of field survey, data collection, data analysis, comparison with international practices and any other methodology adopted by the group. Knowledge partner will be engaged under MAF assistance.

7. Two groups with the concurrence of IED vide their ID Note no. 124/ED/018 dated 01.09.2018.

(G. Srinivasan)

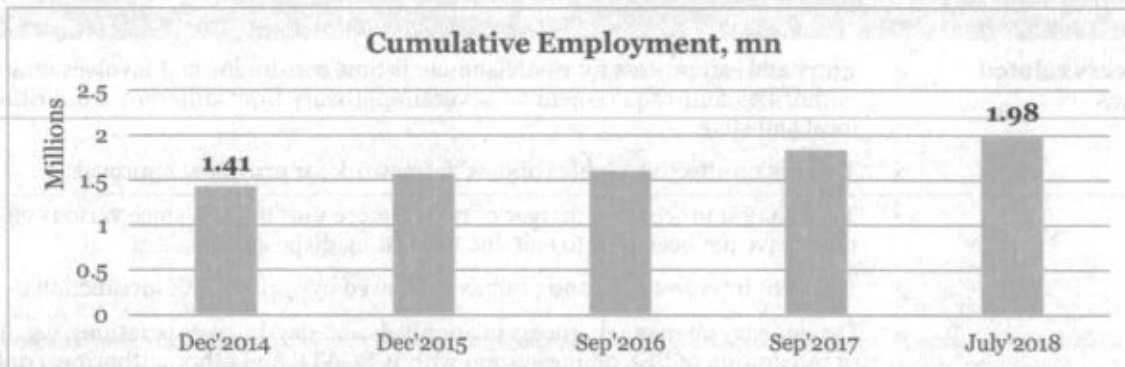
Under Secretary to the Govt. of India
Tel. 011-2306 2496

To,

- a) Shri Balu Kaljani, Chairman, Dhruv Forge, Chairman of the Group
- b) Shri Ravinder Sonnadoli, MD, Sincity SEZ Ltd.
- c) Shri Noel Rabeis, Group President, K. Rabeis Group
- d) Ms. Anita Arjundas, MD, Mahindra Life Space Developer
- e) Shri Ajay Pandey, MD & Group CEO, GIFT City SEZ Ltd.
- f) Shri Anil Mehta, Managing Director, Tata Steel SEZ Ltd.
- g) Shri Srikanth Budiga, Director, Hyderabad Phoenix Developer
- h) Chief Secretaries of the Governments of Gujarat, Maharashtra, Telangana, Andhra Pradesh, Tamil Nadu & Karnataka- It is requested that details of the Principal Secretary (Industries) of your State may please be intimated to the Department of Commerce.
- i) O-2 Minister for Commerce and Industry
- j) Shri Ritu Tandon, Secretary, Department of Commerce
- k) Shri Bidyut Behari Swain, Additional Secretary (SEZ), DoC
- l) Shri T. V. Ravi, Director (SEZ), DoC
- m) IED, Department of Commerce
- n) E&MDA Section, GA Section

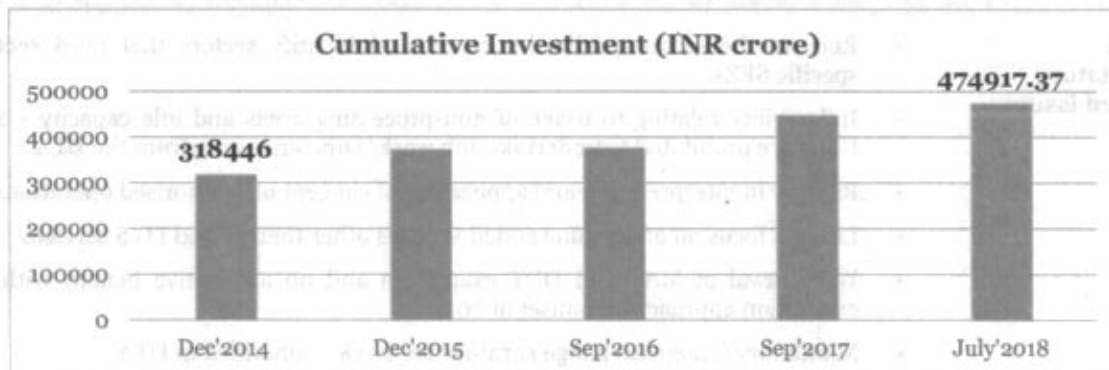
Appendix 2. SEZ performance snapshot

- **Employment Generation:** SEZs in India have witnessed incremental generation of employment from around 0.1 million jobs in FY 2006 to around 1.9 million in FY 2018. This is significantly lower when compared to Government's target of creating 100 million new jobs by 2022 under the 'Make in India' program. Apart from stringent labour laws, which disincentivise units to employ labour for their seasonal and cyclical requirements, the low employment figures can also be explained by low participation of manufacturing units in SEZs.



Source: Fact Sheet on Special Economic Zones, www.sezindia.nic.in

- **Investment generation:** Total investment in SEZs (both private and government) stands at INR 4.74 lakh crore as on 31 July 2018 as compared to INR 4,035 crore as on February 2006. Although this is a large number when viewed in isolation, and implies manifold growth over the decadal period, these investment figures are much lower when compared with the cumulative investments attracted by other economies such as China, Vietnam, Indonesia, etc., in their respective economic zones.



Source: Fact Sheet on Special Economic Zones, www.sezindia.nic.in

- **Exports:**

Exports from SEZs amounted to INR 0.2 lakh crore in FY 2005-06 and grew at a CAGR of 31% by FY 2017-18, when they stood at INR 5.8 lakh crore; thereby accounting for ~25% of India's total exports.

Share of manufacturing exports from SEZs, however, remains relatively low as compared to SEZ services exports. It is only 15% (FY 2016-17) of total SEZ exports (excluding exports from Reliance Jamnagar SEZ and Gems & Jewellery SEZs). On the other hand, global peers like China, Indonesia and Vietnam have developed a strong ecosystem of manufacturing led-exports through their economic zones. This remains a key area of consideration for India as it aims to increase the share of manufacturing to GDP to 25% from the current 16% levels.

Appendix 3. Key challenges in SEZs in India

Some of the key challenges reported by various stakeholders—developers and units operating out of SEZs in India—classified across three broad categories—process, regulatory, and infrastructure.

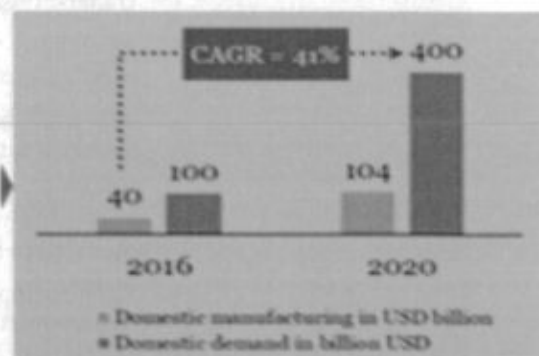
Type of issues	Key issues faced
Process related issues	<ul style="list-style-type: none"> • Entry and exit process for establishment is time consuming and involves multiple authorities and requirement of several approvals from different authorities – local and state. • There is no effective 'single window' framework for providing approvals. • Time-bound process for merger of two or more unit in SEZ, since various closed units have not been able to exit due to pending disposal of assets. • Different interpretation and practices followed by various SEZ jurisdictions. • Dependency on manual process in approvals and day-to-day operations, e.g., lack of integration of SEZ online system with ICEGATE and other authorities, online and hard copy filing of the same data. • Board of Approval and Development Commissioner functions more as administrative bodies. • At present, there are several Central Government schemes, ranging from sector agnostic schemes such as SEZs, EOUs to sub-sector specific schemes such as Scheme for Plastic Parks and Software Technology Parks Scheme. This scenario leads to scatter of funds.
Tax & Regulatory related issues	<ul style="list-style-type: none"> • Remove the sector-specific limitation and identify sectors that need sector-specific SEZs. • Inflexibility relating to usage of non-processing areas and idle capacity - SEZ Units are prohibited to undertake Job work/ subcontracting from the DTA. • Rigidity in interpretation and application of concept of "authorised operations" • Limited focus on other value added services other than IT and ITeS services • Withdrawal of MAT and DDT exemption and no alternative benefit with IT exemption approaching sunset in 2020 • Mandatory foreign exchange earnings for services provided in DTA • No export benefits on DTA exports by FTWZ units • DTA sales disadvantageous vs. stiff competition from imports through Free Trade Agreements • VISA regulations for skilled expats • Government should introduce employment based incentives in SEZ to encourage export of services and generate employment. • Need for separate set of rules for FTWZ – there are issues around PE (Permanent Establishment) for Overseas Entity using FTWZ Unit for their business without any establishment in India • The Developer should be allowed to maintain the part of the processing area as 'incubation centre' for the prospective IT and ITES units- who intend to take the SEZ office on lease for some time without claiming any tax benefits, for the purpose to experience the ease of working within the SEZ, before their taking decision to apply for regular SEZ unit.

	<ul style="list-style-type: none"> Inventory of cut and polished diamond and coloured gemstones procured from DTA units remains unutilised and are of no use. Unutilised raw material should be allowed to be sold to DTA, by surrendering the benefits, if any
Infrastructure issues	<ul style="list-style-type: none"> Remove the minimum-land requirement concept Large quantum of unutilised land (> 25,000 hectares) Under-utilisation of the installed capacity and ineffective utilisation of workforce. Availability and quality of link and internal infrastructure is not meeting expectations of SEZ units Non-availability of infrastructure status to some components of SEZs restricts access to concessional option of financing Provision of loan to SEZ units by banks at higher rates (compared to interest rate applicable in other countries). Subsidised interest rate on borrowings should be provided to SEZ units SEZ developers do not have flexibility of development of NPA area as per their requirement Surge in rents for space and other charges without any improvement in the infrastructure

Appendix 4. Developing an Ecosystem for Electronics Manufacturing in Economic and Employment Enclaves

Opportunity at hand:

The electronics sector imports in India is among the third highest, in terms of share in India's total imports bill, after petroleum and gold which are resource-based products. Domestic demand for electronics is expected to grow at 41% CAGR till 2020. However, import dependency is expected to increase from 60% to 74%. It is anticipated that in the absence of any corrective measure, electronics imports bill might surpass oil imports expenses by 2020. The Government would need to look at ways to reduce this imports dependency, through a sector-focused roadmap encouraging domestic manufacturing.



At present, of the country's total demand for electronics, imports comprise of 50-60% finished products and 70-80% of components.⁸⁸ Compared with other Asian electronics manufacturing economies like China, Singapore, Japan, Thailand etc., India is mostly an assembler for electronic goods, rather than a participant in the global supply chain as a high value added manufacturer. This can be substantiated with the example of mobile phones (HS-851712). From a finished product exports perspective, China's exports (US\$ 48.3 Billion) are approximately 100 times of India's exports (US\$ 0.48 Billion) in 2017⁸⁹. But, a further comparison in terms of exports of components for mobile phones such as displays (HS-851770), shows that China's exports (US\$ 116 Billion) are a whopping 800 times that of India (US\$ 0.14 Billion of exports). Clearly, there is an opportunity to develop domestic manufacturing capability in this sector, especially around components/intermediates.

Key issues facing the sector

There are multiple issues facing the growth of indigenous manufacturing capabilities in the electronics sector, which are broadly across availability of quality infrastructure, competitive utility costs, logistics costs, skilled labor availability, ecosystem of R&D and regulatory concerns. These have been showcased in the below exhibit.

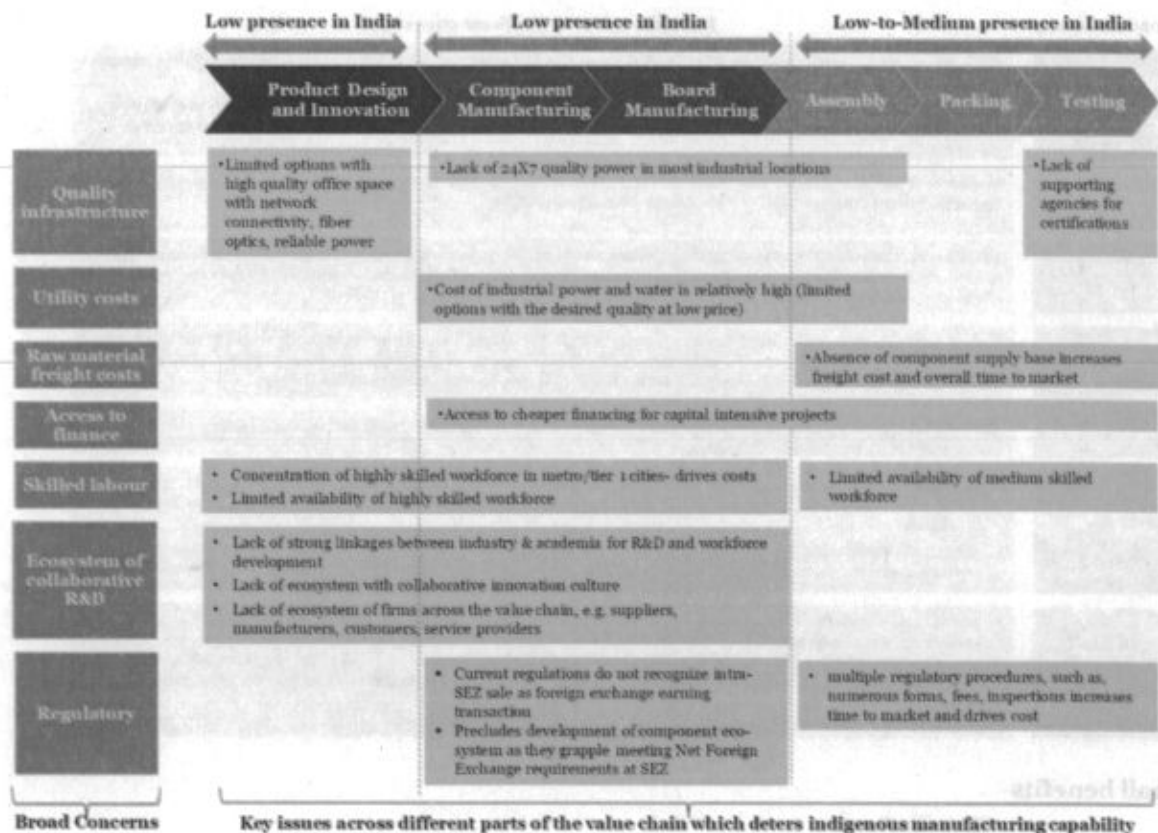
Some of these issues are enmeshed with each other, for instance, factors like lack of quality infrastructure, high utility costs and regulatory issues are considered as some of the key reasons for inability to attract the component manufacturing (semiconductors, displays, printed circuit boards, etc.) units. This in turn has resulted in absence of component supply base, which leads to higher logistics cost for components imports; further reducing country's attractiveness to the finished goods manufacturers to invest. Currently, India has two fabrication units, however none of them are used for commercial use⁹⁰, and this makes the country a net importer of semiconductor chips. Semiconductors are estimated to form about 30% of the cost of an electronic product/system.⁹¹

⁸⁸<https://www.livemint.com/Opinion/Cs8AxDoCh8xbJEhYZUK3fP/Electronics-manufacturing-needs-a-policy-push.html>

⁸⁹ ITC Trade Map, PwC analysis

⁹⁰<https://economictimes.indiatimes.com/small-biz/startups/newsbuzz/govt-to-study-iiscs-rs-2500-crore-semiconductor-fab-proposal/articleshow/64742340.cms>

⁹¹http://niti.gov.in/writereaddata/files/document_publication/Electronics%20Policy%20Final%20Circulation.pdf



Further, it is important to note that specific issues around these broader concerns vary across the value chain of electronics manufacturing. For example, product design and innovation driven companies perceive lack of highly skilled workforce as an issue in India, which in turn is emanating from the lack of an ecosystem of manufacturing capabilities and industry-academia linkages. On the other hand, companies involved in assembly, packing and testing, which typically look for tier 2/3 cities as location to save on real estate costs, are grappling with availability of medium skilled manpower in the vicinity.

How Employment and Economic Enclaves can address the issues?

Government can help address the above mentioned industry concerns through 3Es development framework, which looks at harmonizing the regulatory environment, create an ecosystem of collaborative R&D and provides other enablers like skilled workforce development, access to finance etc. For example, extension of "infrastructure status" to all the components of 3Es will enable the units to access cheaper finance through External Commercial Borrowing (ECB), especially addressing the concern of capital intensive segments of electronics manufacturers. Similarly, the improved external and internal infrastructure in these enclaves, can address the issues around infrastructure bottlenecks and logistic inefficiencies.

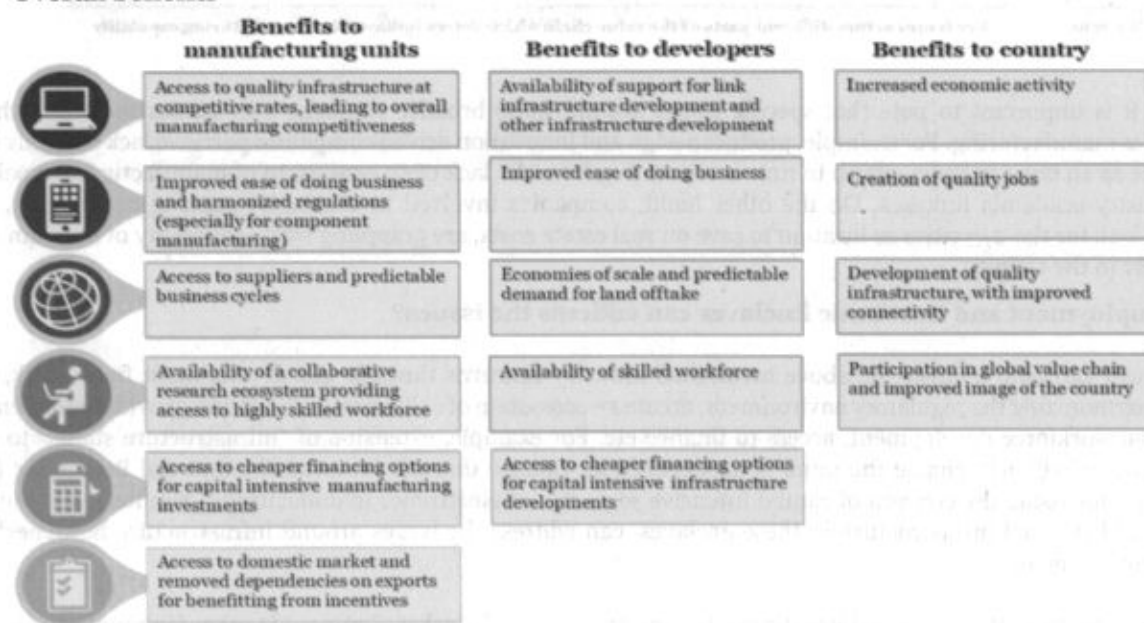
Ability to have one unit serve both domestic market and international market. Component manufacturers can also enjoy the benefit and therefore the market becomes attractive for entire manufacturing ecosystem.

Broad Concerns

How 3Es can address these concerns?

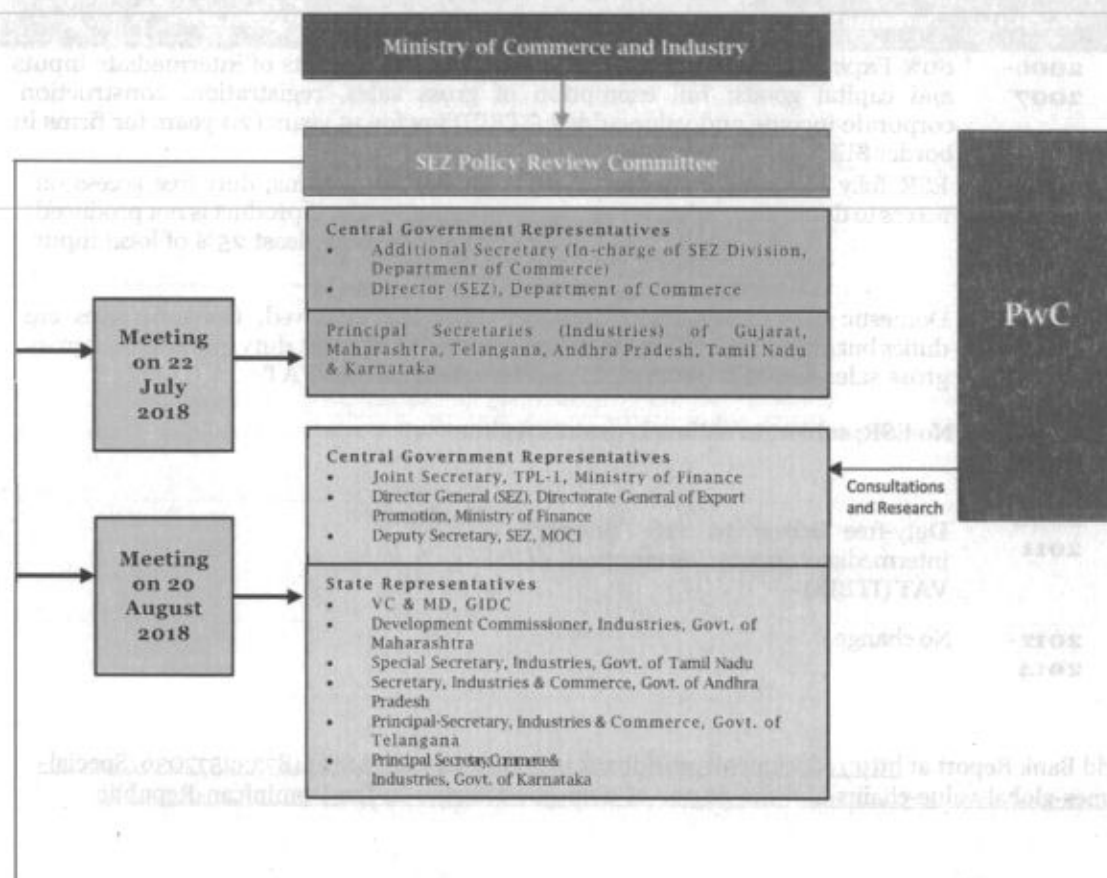
Quality Infrastructure	<ul style="list-style-type: none"> • Link infrastructure development for 3Es to be facilitated through MoCI and State Government schemes for infrastructure development • 3Es would offer smooth and efficient transport infrastructure, last mile connectivity, uninterrupted supply of quality power and water, and waste management facilities; all of which are fundamental incentives for both developer and tenant or manufacturer.
Utility costs	3Es can offer subsidized high quality utility services, based on Central Government approval. Units may also be given an option to choose between central or state subsidy, whichever is higher.
Raw material freight costs	3Es will create an ecosystem of manufacturing, which would enable co-location of companies across the value chain. This can reduce the components / raw material logistics costs. Further, 3Es will offer seamless connectivity to bring logistics efficiencies, which would enable further cost reduction.
Access to finance	Provide "infrastructure status" to all the components of a 3E. This would allow the investors/units access to cheaper foreign finance through External Commercial Borrowing (ECB). Considering the capital intensive nature of the component manufacturing sector, this would potentially attract few such large players as anchors within the 3Es.
Skilled labour	3Es will have special focus on skill development through its Centres of Excellence, skill development centres, etc. Also, 3Es will offer better industry-academia linkages.
Ecosystem of collaborative R&D	<ul style="list-style-type: none"> • 3Es can help develop an ecosystem of firms across the value chain, e.g. suppliers, manufacturers, customers, service providers, as these enclaves will have the potential to attract anchor investors around which the entire ecosystem may be developed. • 3Es can offer specialized incentives to the industry for engaging in R&D and innovation, in close coordination with the research institutes. Government can help in twinning arrangements with top R&D centres/institutes in the world.
Regulatory	<ul style="list-style-type: none"> • 3Es will move away from the incentive-linkages with exports, and therefore, the condition of Net Foreign Exchange earning will not be required. • 3Es will offer incentives based on investment commitments and employment potential of the investors, within the enclave. To this end, 3Es will offer a harmonized regulatory environment to the investors, across the value chain of electronics sector

Overall benefits



Appendix 5. Approach adopted for this study

Aligned to the set objectives above, a comprehensive approach was adopted—focused on secondary data review and primary consultations with some of the key stakeholders. This has been illustrated in the exhibit below.



Developers		SEZ Units		Authorities / Associations
Manufacturing	Services	Manufacturing	Services	
10	5	8	6	7

Inputs were collected through primary sources whereby a survey was conducted during August 2018, to understand the key nuances and challenges facing stakeholders. Using a structured questionnaire to gather the views of different stakeholders—including the SEZ developers, units, government officials, business associations and chambers—key insights were obtained on different aspects of the functioning of SEZs, current issues faced by these stakeholders, their expectations from the Government, and also inputs on possible interventions to improve the SEZ scenario. The questionnaire was disseminated to operating SEZs inclusive of developers and units situated across India. Furthermore, in order to understand and document the information, meetings were also conducted with the concerned entrepreneur or officials. During this course, 28 responses were received, with valuable insights, which have informed some of the recommendations emanating from this study. The details of key SEZ stakeholders surveyed as part of this study have been provided in the **Appendix 23**.

The study reviewed the existing SEZ policy documents and analysed various parameters such as operational status, sectoral distribution, exports generated, employment, among others from various reliable secondary sources including MOCI and other Government databases and reports. Moreover, it looked at the performance and global experiences of economic zones development, across key performing economies, to draw lessons which may be contextualised for India. Insights from such analyses, in tandem with insights from stakeholder consultations, were used to identify some of the key recommendations as part of this study.

Appendix 6. Changes in SEZ in the Dominican Republic for WTO compliance

Firms	Period	National Priority Sectors	Non-priority Sectors
SEZ firms	2006-2007	80% Export Share Requirement (ESR); duty-free imports of intermediate inputs and capital goods; full exemption of gross sales, registration, construction, corporate income and value-added (ITBIS) tax for 15 years (20 years for firms in border SEZ)	
	2008-2011	ESR fully removed; duty-free access to domestic market	80% ESR remains; duty-free access on domestic sales if product is not produced in DR or has at least 25% of local input content
	2012-2014	Domestic sales remain free of import duties but are subject to a 3.5% tax on gross sales and 18% VAT	ESR fully removed; Domestic sales are subject to import duty, 3.5% tax on gross sales and 18% VAT
Non-SEZ firms	2006-2007	No ESR; subject to national customs regime	
	2008-2011	Duty-free access to 126 "priority" intermediate inputs; exemption of VAT (ITBIS)	No change
	2012-2014	No change	

Source: World Bank Report at <http://documents.worldbank.org/curated/en/734421487332577036/Special-economic-zones-global-value-chains-and-the-degree-of-domestic-linkages-in-the-Dominican-Republic>

Appendix 7. Annexure VII countries with higher GNP vs India

Sr. No.	Member country	GNP Per capita, 2016 (US\$, 2011 Constant prices)	Status of SEZs	Incentives	WTO compatible measures
1	Indonesia	3840	SEZ	Existing	Not initiated
2	Philippines	3318	SEZ	Existing	Not initiated
3	Bolivia	2422	FTZ	Existing	Not initiated
4	Honduras	1988	EPZ/FTZ	Existing	Not initiated
5	Nicaragua	1944	FTZ	Existing	Not initiated
6	Egypt, Arab Rep.	2686	FEZ	Existing	Not initiated
7	India	1838	SEZ	Existing	Initiated
8	Pakistan	1250	EPZ	Existing	Not initiated
9	Sri Lanka	3648	EPZ	Existing	Not initiated
10	Cameroon	1465	IFZ	Existing	Not initiated
11	Côte d'Ivoire	1502	SEZ	Existing	Not initiated
12	Kenya	1131	SEZ	Existing	Not initiated
13	Senegal	1056	SEZ	Existing	Not initiated

Source: World Bank, WTO

Appendix 8. Key recommendations of stakeholders

S. No.	Description of Issue/ challenge and proposal from the stakeholders	Name of the Stakeholder
1	<ul style="list-style-type: none"> There is sectoral specific limitation in the SEZ landscape - For example, lot of procedural related restrictions are being imposed for conversion of IT and ITES Zone to multi service zone. Remove the sector-specific limitation and identify sectors that need sector specific SEZs. Area requirement for multi-product SEZ The current requirement of contiguous area of five hundred hectares or more but not exceeding 5000 hectares should be replaced by contiguous area of five hundred hectares or more as the condition does not have any relevance with reference to present land acquisition law. The overall income tax benefits to companies in SEZs can be based on a scoring system depending on size of the land, location, investment amount and number of employees. The scoring system will be based on predetermined criteria for each of the above parameters. <ol style="list-style-type: none"> Size of the land – minimum consideration, additional points for each additional 100 hectares. Location of the land - SEZs located in certain priority districts with relevant development potential as determined by the respective state government depending upon their regional GDP per capita and experiencing low growth but having potential through local raw material availability, mineral resources, labour and other resources to have certain more benefits. Investment amount - exporting companies located in SEZs making investments to avail of certain benefits based on amount invested Employees – companies located in SEZs to obtain certain benefits based on employment generated Innovation & Value Addition – companies located in SEZs to obtain certain benefits based on their innovativeness of products and value addition to existing products/services to make them more export oriented or having genuine demand in foreign markets 	Phoenix Renault TASID Adani EPCES
2	<p>Export benefit linked to receipt in foreign currency –</p> <ul style="list-style-type: none"> Rule 30(8) of SEZ Rules provides that drawback shall be admissible to DTA supplier only if payments for supplies are made from foreign currencies account of unit. Where goods are supplied by DTA suppliers to the Indian entities operating within FTWZ, such transactions are done in INR. However, final export from the FTWZ is being done in foreign currency. Nevertheless, DTA supplier is unable to get drawback despite exports from FTWZ to a foreign country. Amend Rule 30 (8) to allow duty drawback to DTA supplier based on final export from FTWZ. DTA sale of goods against payment in foreign exchange from Exchange Earners Foreign Currency (EEFC) account, then included for NFE computation - Treat manufacturing SEZ at par with Service SEZ and condition to receive payment from EEFC should be removed Supplies to Nepal, Iran and Bhutan are allowed in INR as per FTP and denied for supplies from FTWZ – Allow such supplies in INR MROs in SEZs are required to invoice domestic airlines in US\$ rather than INR – Earning foreign exchange should not be interpreted as a mandatory criteria under the definition of service so long as positive NFE is achieved Relaxation of NFE criteria for units in certain sectors (oil & gas, defense, electronics, etc.) which would primarily cater to domestic market 	Arshiya Phoenix Renault PHD Chamber ICC TASID

3	<p><u>Lack of timely amendments in the SEZ Rules/ Lack of uniformity in interpretation SEZ laws/ Rules, etc. –</u></p> <ul style="list-style-type: none"> At several instances the Government has issued instructions, clarifications, and circulars for implementation of changes / trade facilitation. However, in the absence of corresponding changes in the SEZ Rules for the longest time, there is scope for variance in interpretation and disputes at the ground level/ across jurisdictions. For example, units in FTWZ can hold goods on account of foreign supplier. Later, the Government issued instruction for allowing units to also hold goods on behalf of foreign buyer, DTA supplier and buyer. However, necessary amendments in Rules has not been made, as a result some of the ports still restrict FTWZ from holding goods on behalf of DTA units. It is recommended to timely align the SEZ Rules with the instructions, etc. by way of suitable amendments. 	<p>Arshiya Amity shiplog EPCES DLF Sandvik</p>
4	<ul style="list-style-type: none"> Approval process for SEZ set up is very lengthy as permissions are required from multiple authorities. Entire process takes almost 9 months causing delay in commencement of operations - The investors and units have to approach multiple authorities to get information as well approvals. For example, Environmental approval process is varying between 2 -3 months, even after notification of SEZs. There should be consolidated application at one-stop wherein the administration assumes role of facilitator. Some of the specific suggestions are – <ul style="list-style-type: none"> a) Option of submitting single application for formal approval and notification of the SEZ b) List of goods which developer can procure without the UAC approval should be provided c) Maximum 5,000 Hectare land restriction should be removed d) Delegation of power to approve Co-developer to UAC e) Connected infrastructure to SEZ should be provided by State Government Requirement of industrial license and its approval As per SEZ Rules, issuance of Industrial licence is within the powers of BOA. However, as per past BOA meeting minutes, LOA can be issued by DC office, whereas there is no specific provisions in SEZ rules for the same. Therefore, suitable rules may be incorporated to assign powers to DC/UAC for issuance of LOA post approval of industrial license by BOA. Requirement of approval from UAC for procurement of goods for undertaking authorised operations Developers are required to take approval of the same. Provision to be made for such procurement by giving a formal intimation instead of approval. Rule shall be inserted enabling a SEZ Unit in one particular sector to switch over to another sector and shall be permitted to seek change of its authorized operations. Permission for procurement should not be required if such approvals are part of the approved/ default authorized operations. A negative list of permission for procurement can be considered to remove the need for specific approvals. Further Rule 37 provides that in case of Developer, goods admitted to SEZ shall be utilized within a period of one year which is very short period. It should be made as 5 years instead of one year as applicable to the SEZ units as utilization takes longer time and further depends on the demand of the clients. New Rule 11 A has been inserted in SEZ Rules, 2006 effective 2nd January 2015. Its applicability has to be prospective in operation. Rule 11 A approves bifurcation of Non-Processing Area into two parts. 11A should not made applicable for the projects already implemented and completed, projects under implementation in multiple phases in which some of the phases have been completed and housing units handed over 	<p>Phoenix FICCI Adani PHD Chamber TATA Steel Raheja RR Das Mahindra Lifespaces</p>

	<p>and other phases, where works are in progress. In other words, Rule 11A shall be made applicable for the all the projects for which LOA obtained after the notification of Rule 11A.</p> <p>Rule to be inserted enabling take over of authorized operations of one co-developer by another co-developer in the NPA in line with Rule 74-A of SEZ Rules.</p> <p>Rule to be inserted for de-notification of SEZ notified lands in the NPA with no SEZ restrictions and subject to refund of duty benefits if any already availed.</p> <p>Rule shall be provided enabling sale instead of lease for transactions in the NPA catering to dual use where no duty benefits are allowed.</p> <ul style="list-style-type: none"> Concessional custom duty on 50 % DTA sale or payment of excise duty on DTA sale. Similar to EOU scheme, 50% sale be allowed as DTA sale on 50% rate of applicable custom duty. OR Domestic sale should be allowed on the payment of applicable GST. Exit procedure should be facilitated including usage/releasing denotified/vacant space for other purposes 	
5	<p><u>Disadvantages compared to DTA in terms of exemptions –</u></p> <ul style="list-style-type: none"> DTA manufacturers/ traders can avail concessional duty benefit under FTA as against procurement from SEZ where no such benefit is available. Stakeholders seek minimum BCD under FTA to also apply for SEZ to DTA clearances on goods made in SEZ Provision to be made for sale of restricted importable item to DTA, manufactured in SEZ Necessary amendment should be made in this regard as there is no physical movement of goods from the country to enable SEZ to carry such transactions to facilitate optimum utilization of their production capacities 	<p>Phoenix IL&FS AIAI TASID EPCES TATA Steel Jubilant ICC GIDC</p>
6	<p><u>Restrictions/infrastructure concerns in FTWZ –</u></p> <ul style="list-style-type: none"> MEIS benefits is specifically restricted on supplies made to FTWZ - As goods held in FTWZ are exported outside India, therefore MEIS benefit should be extended on supplies made to FTWZ, subject to final export of goods. Trading of commodities such as cotton, pulses, agro-products, etc. are denied from FTWZ although these commodities are not restricted or prohibited PE (Permanent Establishment) clarity for Overseas Entity using FTWZ Unit for their business without any establishment in India. Suitable notification to be issued to promote and to make more clarity to Overseas Entity using FTWZ Unit Setting up of Free Trade Zone at International Airports having facilities for warehousing, storage and distribution facilities for trade, transshipment and re-export operations. Setting up of Integrated Cargo Terminal. 	<p>Arshiya Sandvik EPCES ICC Kerry Indev GIDC</p>
7	<p><u>GST related issues –</u></p> <ul style="list-style-type: none"> GST is being charged on services rendered to foreign buyers and suppliers operating in FTWZ, which is a cost to the foreign entities, as they cannot take the credit of GST, paid- Exemption from GST to be given to foreign suppliers and buyers as any tax levied on export of services is against the spirit of GST. ITC on GST paid on transportation of employees are taxable under GST- Contractual obligations provided by the employer under contract of employment should not be taxed under GST. Non availability of exemption on IGST on manufacturing Job work carried out in SEZ- Amendment in IGST Act or SEZ Act to remove the anomaly on manufacturing job work and allow exemption from IGST on such transactions. 	<p>Arshiya Sandvik Renault FICCI DLF TATA Steel Sonodyne Jubilant ICC</p>

	<ul style="list-style-type: none"> Supplies from suppliers/vendors located in DTA to SEZ are also required to submit LUT to the GST authorities as these supplies are treated as zero rated. This is a demotivation for occasional/ small vendors to do business with SEZ units. Hence, this requirement should be removed. There is no provision for utilisation of refund of ITC for SEZ units/Developers in GST Act and rules The SEZ Rules permits duty exemption on supply of goods & services to Contractor/sub-contractor, appointed by the Developer or Unit to carry the authorized operations within the SEZs. GST Regulations should be aligned with the same Since under GST laws, intermediary services are deemed to be performed within India and are therefore comes under the ambit of taxability. The same should be given relaxations There should be no GST on such services and also no tax on export of services. No Provision in GST Act regarding claiming refund on tax paid under reverse charge mechanism for SEZ Developer/Unit Provisions should be made to exempt SEZ developer/unit to pay under reverse charge mechanism and if such taxes are paid, the same should be allowed to claim refund. No integration between Authorized operations & in course of furtherance of Business Exemption is provided from tax for undertaking authorised operations under SEZ Act. Under GST Act, exemption is provided for activities in course of furtherance of business. However, there is no integration between the two to claim such exemption. Alignment should be made between the two to avoid confusion. Ambiguity with reference to the provision of job work under SEZ and GST Law Corresponding circulars/notifications should be issued to remove such confusion 	
8	<u>Manual processes –</u> <ul style="list-style-type: none"> Example, the SEZ online system does not provide facility for online payment and manual duty payment is a tedious, time taking and costly affair -Integration of SEZ online system with ICEGATE and providing EDI connectivity in the SEZ. Development of service SEZ inside FTWZ to provide all value added logistics with State of Art facilities like On-line Custom Clearance suitable for micro , small and medium companies No specific option available in SEZ portal to maintain e-bond register- It is recommended to have e-bond register option so as to avoid reconciliation issue Every electronic data filed has to be submitted in the hard copy as well. However, the same should be restricted to electronic and online submission/approvals only. 	Phoenix Arshiya TATA Steel Renault TASID Sonodyne GJEPC Collin Shah Jubilant ICC Kerry Indev GIDC
9	<u>Idle capacity and optimal utilization of operational capacity –</u> <ul style="list-style-type: none"> Sub-contracting from SEZ to DTA is allowed but on reverse provisions are silent wherein manufacturing SEZ may be permitted to undertake subcontracting or job work from domestic tariff area - Considering the under-utilization of SEZ units, guidelines to undertake work sub-contracted by DTA should be issued. Gems and Jewellery: Due to seasonal nature of demand of jewellery, the installed capacity is under utilized which leads to ineffective utilization of workforce therefore permitting reverse job work facility Vacant land which can be put to use for the Solar power plants etc., till it is not being used for the purpose of industry 	Phoenix GJEPC Colin shah EPCES TATA Steel DLF TASID

10	<u>Inconsistency of Charges -</u> <ul style="list-style-type: none"> Example, charges levied by NSDL for SEZ online system on clearance of goods of lesser value from FTWZ to DTA are high, thereby discouraging the suppliers to store their goods at Indian FTWZ - Request for rationalization of charges. As per the revised NSDL charges, a new levy in respect of DTA procurement was introduced which is a huge financial burden for all SEZ units as the units make an average of 10-15 DTA procurements daily 	Arshiya GJEPC Colin Shah
11	<ul style="list-style-type: none"> Set up of manufacturing plant using foreign technology requires skilled trainers from outside India, VISA restrictions applicable if wages are less than US\$ 25,000 per annum - Restriction to be applicable to a maximum limit of 2% of the total work force employed. It is proposed that for Non-Resident Participants tax be deducted at source by the intermediary and should not be required to obtain PAN card or file Income tax return in India. This would promote large participation by non-resident attracting investment. The existing regulation prevents any person earning less than US\$ 25,000 being eligible for a work visa. The corresponding provision should be made by the government since visas are required only for Training purposes we request the Commerce Ministry to grant permission to the Units to bring in such Trainers. This permission may be restricted to a maximum limit of 2% of the total work force employed by the Unit. 	Phoenix TASID
12	<u>Procedural difficulties -</u> <ul style="list-style-type: none"> Difficulty in transfer of assets online from One SEZ unit to other SEZ unit due to business reasons within the statutory threshold. There should be clarity in transfer of assets rules (Rule 74A) regarding its applicability, sale of goods lying for recovery of dues etc. Entry points at SEZ to be linked with RFID access points Units face delay in obtaining ID card for entry to the processing area of a Zone (stipulated section 46 of the SEZ Act). Further, almost all the units, particularly, IT / Ites, have their own ID cards based upon RFID. Therefore, such cards issued by units be accepted as valid ID 	Renault GJEPC Colin shah DLF EPCES Sonodyne
13	<ul style="list-style-type: none"> Incompetitive business environment as presently 24X7 customs clearances and movement of goods does not take place compared to DTA-There should be round the clock operation of customs & movement of goods Business Support Services: An authorised officer for an SEZ should be available on all working days and be exclusively deputed for that particular SEZ 	FICCI SRF Limited Integra software Integra
14	<ul style="list-style-type: none"> Customs duty is levied on scrap clearance to DTA- BCD on scrap should be waived off as no industry can function without generating scrap. Further, realization of such sales proceeds to be allowed in INR 	SRF Limited Collin Shah Raheja
15	<ul style="list-style-type: none"> Cancellation of Shipping bill does not lead to the automatic cancellation of EDF form (this form is for monitoring the remittance of goods exported) and the units have to approach separately to customs appraiser for its cancellation resulting to pendency of same, units are put in the caution list in the EPDMS of RBI- Necessary modifications in the software so that the EDF Form is automatically cancelled when the related shipping bill is cancelled in the system. Requirement to file shipping bill/GR for e-commerce export up to US\$ 800 should be waived. Also, value of jewellery up to US\$ 800 should not be considered precious as per Courier Import Export Regulations 	GJEPC Colin shah Amity Shiplog
16	<ul style="list-style-type: none"> Current law does not permit the unit to inspect the lot of raw material before purchase - viewing/ procurement area in SEZ where DTA suppliers can show the goods to the representatives of SEZ unit. 	GJEPC Colin shah

17	<ul style="list-style-type: none"> Provision of loan to SEZ units by banks at higher rates (compared to interest rate applicable in other countries). Subsidized interest rate should be allowed on borrowings by SEZ units. Finance should be made available to the MSME particularly at attractive terms to enable them compete with other international players 	FICCI EPCES
18	<ul style="list-style-type: none"> Demand for MAT Exemption – Developers are denotifying their SEZs as the government has imposed MAT on manufacturing units located in SEZ- MAT should not be levied on SEZ units as it is against the concept of providing tax concession to industry for promoting investment and exports from India. Sunset clause (Developer) 80 IAB/10AA of the IT Act <p>The tax holiday for developer has been withdrawn on 1st April 2017. Further, the word "Development" has not been defined either in Income Tax Act to SEZ Act. The attractiveness of SEZ developer is taken out. As per Union Budget SEZ Units who undergoes into operations before 1st April 2020 shall be getting Income tax benefit. This is deterrent to SEZ Demand. Removal of Sunset clause for Services SEZs in India. It is proposed that the Sunset clause under the income tax act for Services SEZ be removed. Various services units in the SEZ may start finding global low-cost operating hubs and shift to that location based on the competitive tax incentives offered in that location e.g. Philippines is attracting lot of Indian IT and ITes companies to set up their outsourcing hub. If SEZ policy does not address the issue, it is possible that many of the units in SEZs post April 01, 2020 may start locating their operations overseas. It would be very easy for IT and ITes units to shift because most of these units don't have large investments in the SEZs and operate on a lease rental</p> <ul style="list-style-type: none"> Income tax benefits on additional capital investment Income tax benefits should be given to existing SEZ Unit on additional capital investment/product addition which would reduce the duplication of activities for claiming benefits by setting a new unit Tax benefits to Exporters in SEZs employing women and handicapped workforce irrespective of level of export performance, based on the number of employees. Tax benefits to companies involved in helping supply chain network development (cluster based approach within or outside the zones). Income tax at a predetermined level to transportation companies providing end to end transportation service companies Companies providing services in terms of prototype development, market research and business development services to companies in export business located in SEZs can be exempt from certain direct and indirect taxes Companies supplying green technologies/clean energy products to developers/ companies located in SEZs will be eligible for certain tax benefits. Govt should extend the subsidy for generation of employment, producing the goods or services. In case of SEZ operational units are more than certain operational units with a certain investment and employment then capital subsidy should be granted to Developer/ Co developer. Likewise, an incentive should be given to SEZ units on achievement of given employment/ investment/ export. 	AIAI AdaniIL&FS Jubilant ICC Adani TATA Steel Raheja GIFT City Mahindra Lifespaces

19	Specific Issues relating to the jewellery sector –	GJEPC Colin shah
	<ul style="list-style-type: none"> • Clearance of broken diamond and colored stones into DTA. The SEZ units have been reporting difficulty in clearance of diamonds in DTA which were broken during the course of manufacture of diamond studded jewellery due to payment of duty. For valuation of broken stones during clearance, the Customs can adopt the established practice as used in DTAs i.e., valuation by Government approved valuers • Inventory of cut and polished diamond and coloured gemstones procured from DTA units remains unutilized and are of no use. Unutilised raw material should be allowed to be sold to DTA, by surrendering the benefits, if any • Exclusion of jewellery sector from MEIS benefits because of the volume of exports relating to the said sector. Such benefits should be extended to jewellery sector to gain the competitive edge since it is SME dominated sector and generates employment • Import of precious metal on loan basis by SEZ units should be sourced only from nominated agencies. The lease deed of the land allotted in SEZ should not be linked with the validity of the LOA • Gold supplied by overseas customer through nominated agencies should not be viewed as 'import of precious metal on loan basis' thereby amending MOCI's regulations 	
20	Specific issues relating IT and ITES sector –	DLF GIFT city GIDC
	<ul style="list-style-type: none"> • Currently IT and ITES SEZ Units are denied indirect tax benefits on setting-up of cafeteria facility within their premises. They must be allowed to setup their own cafeteria according their requirement and should be part of setting-up of IT and ITES Unit. • The Developer should be allowed to maintain the part of the processing area as 'incubation center' for the prospective IT and ITES units- who intend to take the SEZ office on lease for some time without claiming any tax benefits, in order to experience the ease of working within the SEZ, before taking final decision to apply for SEZ unit approval. • The processing of softex form is generally assigned to ADC in DC office. However, in few SEZs, the processing of softex forms is through Authorised Officer—wherein the units are facing difficulties. • Employment Based Incentive Scheme Government should introduce employment based incentives in SEZ to encourage export of services and generate employment. E.g., Companies with 1000+ employees may be given weighted deduction of 1.25 times of the investment made. • Removing the requirement of creating boundary wall for Services SEZ The requirement of creating boundary wall in SEZs was mainly for manufacturing SEZs as it would have regular movements of goods in and out from SEZ. Services sector should be exempted from this requirement as it involves huge cost towards the creation of boundary wall. • Developing large job generating services by global players in SEZ At present, SEZs only focus on export of services from SEZs. However, one of the objectives of creating SEZ policy in India was to generate employment in the country. This element can be developed when global players are encouraged to set up base in India for serving domestic market. As a recommendation, introduce incentives for serving domestic market in India through SEZ in India (incentives be provided on the 50% of the revenue generated through serving domestic market in India) 	

21	<ul style="list-style-type: none"> At present, the office of DC is held by officers from various backgrounds including forest, Ordinance factories etc. However, the post of DC should only be reserved from either IAS or from ITS only. Proper orientation of all officers in the SEZ at frequent intervals will help bring in development attitude instead of controlling the business 	EPCES
22	<p>Dual use of Non processing area –</p> <ul style="list-style-type: none"> Since there are no tax benefits available to developers on the development and maintenance of area in NPA marked for dual use, the restriction in the use of such area should be removed. The sub clause 3(c) of Rule 11A wherein ceiling has been provided for area use should be replaced with the following: "the development in NPA will be carried out by the developer as per the area usage policy of the state and will submit the copy of approved master plan within 6 months or such extended time as allowed by Development Commissioner." 	EPCES Artha infratech Raheja
23	<ul style="list-style-type: none"> Surge in rents for space and other charges without any improvement in the infrastructure 	Sonodyne
24	<p>Exit of units –</p> <ul style="list-style-type: none"> The Development Commissioner may permit a Unit, as one time option, to exit from the Special Economic Zone on payment of duty on capital goods under the prevailing Export Promotion Capital Goods scheme under the Foreign Trade Policy subject to the Unit satisfying the eligibility criteria under that scheme. Time Bound and simplification process for merger of two or more unit in SEZ including seamless transfer necessary for consolidation of units Various closed unit have not been able to exit due to pending disposal of assets, the consultation should be done either for revival of such unit or exit from the SEZ so that space can be used by the new entrepreneur. There should be proper process for transfer of assets at the time of exit of units under section 74. The EOUs should be given the option of conversion in SEZ at same place or for shifting of business to SEZ to bring everyone under one roof. The option should also be given for the merger of EOUs in SEZ in case the EOU are adjacent to the SEZ. Such options will help in usage of vacant space and authorities will not have to monitor two schemes. Absence of guidelines in respect of EOU Merger There are no proper guidelines and timelines relating to merger of EOUs. Also, procedural lapses should be viewed leniently where the unit complies with NFE criteria. 	TASID EPCES Sandvik Raheja
25	<p>Making IFSC SEZ a hub for global financial and allied services –</p> <ul style="list-style-type: none"> A focused approached be developed for making IFSC SEZ hub for the following financial services: Aircraft / Shipping Leasing and Financing hub, International Reinsurance hub, International Trading Hub, International Bullion / Gold Trading hub, Global Fund business & Fund administration hub, Legal Services / Professional Services, Global Accounting Hub and Holding Company Structure Unified Regulator – Globally, international financial centres have separate single regulator for financial services business. Hon'ble Finance Minister has already announced in the Union Budget 2018 for setting up of Unified Regulator for IFSC. Early creation of the Authority would help in bringing global institutions in IFSC Incentives for availing Services from IFSC SEZ by domestic institutions instead of availing such services from overseas centres. Introduce incentives for providing financing services to domestic market in India through IFSC SEZ in India (incentives be provided on the 50% of the revenue generated through serving domestic market in India. In order 	GIFT City

to reduce import of financial services and to develop such services in IFSC SEZ, it is proposed that the institutions based in India availing such services from IFSC SEZ be provided 125% deductions on services availed through IFSC SEZ.

- Exemption for filling income tax return by non-resident participants in IFSC It is proposed that for Non-Resident Participants tax be deducted at source by the intermediary and they be not required to obtain PAN card or file Income tax return in India.
- Competitive Tax Regime It is proposed that the existing Tax holiday of 5 years (100%) plus 5 year (50%) be changed to 10 years (100%) and the freedom to choose 10 years block out of first 15 years be provided to the Units. Minimum Alternate Tax of 9% would apply.
- Multi Services IFSC SEZ for all inbound and outbound investment of the country
Government should declare IFSC SEZ as a strategic centre for carrying out all in bound and outbound foreign currency transactions. It is proposed that MOF and MOCI should declare IFSC SEZ as a strategic centre for carrying out all in bound and outbound foreign currency transactions.
- Different incentives for different SEZs Different types of incentives should be provided for attracting different types of global businesses in SEZ. Incentives for catering to needs of domestic market Incentives should be introduced for serving domestic market which would generate employment and foreign investment.
- The requirement of creating a boundary wall for services SEZ should be removed as it involves huge cost
- Develop large job generating services by Global players in SEZs
For instance, global players when set up their operations in SEZs in India, should be provided incentives in two forms:

On export of services to global market from SEZ in India (already covered under the existing SEZ incentives).

- Introduce incentives for serving domestic market in India through SEZ in India (incentives be provided on the 50% of the revenue generated through serving domestic market in India.
- IFSC SEZ to be declared as foreign territory. At present, Reserve Bank of India provides that unit operating from IFSC would be considered as person resident outside India. However, this principal is not applied fully in practice. It is proposed that Govt of India should issue a specific circular stating IFSC SEZ as foreign territory. One of the principals on which an IFSC operates globally is its ability to serve global markets with enabling regulations. The local laws and regulations do not apply to such centre and thereby it provides greater ability to the IFSC to introduce global products and expand global participation.
- Retail Participation in IFSC (International Financial Services Center) SEZ
GoI should enable non-resident individual participation in IFSC and offer them services from IFSC SEZ.
Exemption in Net Foreign Exchange Earning (NFE) requirement for IFSC Units. The requirement of Net Foreign Exchange under the SEZ regulations should be exempted for IFSC Units regulated by Financial Services Regulator.
- Exemption in Net Foreign Exchange Earning (NFE) requirement for IFSC Units
It is proposed that requirement of Net Foreign Exchange under the SEZ regulations should be exempted for IFSC Units regulated by Financial Services Regulator
- Services Export Incentives Scheme (SEIS) for IFSC SEZ units

	<p>This would encourage large institutions to set up base in IFSC SEZ and expand global business thereby creating jobs and exports from the IFSC SEZ.</p> <ul style="list-style-type: none"> • Creation of an advance ruling centre in IFSC SEZ – Advance Ruling centre should be created in SEZ which would provide clarity to foreign and Indian institutions on the points related to regulations, tax clarity, dispute resolution mechanism etc. 	
26	<p><u>Sharing of Infrastructure –</u></p> <ul style="list-style-type: none"> • It should be noted that, depending on the location of the zone, requirement of extensive social amenities would not be necessary (with urban locales having requisite inventory of social facilities). • Considering the focus on 'Employment', it would be pertinent to encourage domestic industry in the surplus area of the non-processing zone. This would also ensure 'optimum utilization of infrastructure' created (such as electric sub-station, water reservoirs, sewage & effluent treatment plants, etc.) for the entire zone 	Raheja
27	<p><u>Remote work place Model –</u></p> <ul style="list-style-type: none"> • The IT and ITeS entities typically operate through 'web-based' infrastructure /platforms. Employees of these units are not confined to 'secluded' area and are permitted to operate from home. Therefore, co-existence of exporting and domestic units within the same zone • With the advancement of technology and advent of remote work-place models such as "cloud computing", the concept of "Virtual Zones" would be a reality. Hence, the Service Zones may be permitted to host servers utilized for authorised operations in data centres; which may be outside the zone premises. • Also, provisioning of this 'remote facility' is mandatory for securing the data from hazards of virus attacks and safety from fire and other natural disasters 	Raheja
28	<p><u>Broad-banding –</u></p> <ul style="list-style-type: none"> • Reference to the definition of services under CGST Act and WTO should be made • For creating an enabling environment for new services, tax concessions (as applicable to IFSC) such as DDT exemption, concessional rate of MAT should be introduced • Dedicated Service SEZs(IFSC) covering other areas like financial, banking, insurance, non-financial/business, outsourcing, research and development, courier and technical test analysis , trading and product development centre, etc. can be consider and further strengthen. 	Raheja GIDC
29	<p><u>Minimum Built Up Area criterion –</u></p> <ul style="list-style-type: none"> • This minimum BUA criterion needs to be eliminated. This is necessary for notified and operational SEZs which would require insulation from the 'Sunset Date' (31/03/2020) if it is made applicable. • Alternatively, a stipulation for 'employment generation' within a location by EOUs & Domestic Units needs to be identified to qualify for "SEZ / 3E Status". • Operational SEZs with part occupancy and existing BUA should be allowed to function as "3E enclaves" (enjoying the duty benefits and without recovery of taxes / levying penalty for non-compliance of BUA) after sunset date of 31/03/2020, if the same is not extended. 	Raheja

30	<u>Lease period regulation –</u> <ul style="list-style-type: none"> The restriction of 30 years for lease period of co-developer needs to be removed. Since, the Co-developer is also involved in infrastructure creation and is responsible for managing specific operations within the SEZ. Hence, discrimination between the developer & co-developer for lease rights should be avoided. 	Raheja
31	<u>Setting up of designated Courts –</u> <ul style="list-style-type: none"> Considering the work-load and resource constraints within the existing system of judiciary, it would be handicapped for the disposal of matters related to SEZs on a fast-track mode. These Designated courts (Tribunals such as NCLT with benches in four mega-cities of the country) will be aimed for expediting the process of dispute resolutions. Provision for appeal in the Supreme Court thereafter, to be kept intact. 	
32	<u>Supply of power to entities outside the zone (non-SEZ / non-3E area) not allowed –</u> <ul style="list-style-type: none"> Permission be granted within the ambit of 'Deemed Distribution Licensee' for supply of power to the adjacent area (related to industry, office spaces and commercial establishments) with payment of relevant electricity duty. 	Raheja
33	<u>Limitation of requisite infrastructure –</u> <ul style="list-style-type: none"> Infrastructure to be created for services zone is investment intensive. Vacancy of space created by existing units would lead to idle infrastructure and stressed assets To address this issue, mixed occupancy would ensure revenue generation To promote 3E Status, utilization of subsidized infrastructure can be presented with Employment stipulation 	
34	<u>Grandfathering clause –</u> <ul style="list-style-type: none"> Continuation of direct and indirect tax benefits for the existing stakeholders of notified/ operational SEZ 	
35	<u>Certification Procedure –</u> <ul style="list-style-type: none"> The Zonal Development Commissioner must be satisfied that the SEZ Unit wishing to acquire the certificate of origin has the wherewithal to carry on the production process, and confirm manufacturing operations, machinery and manpower, and updated production records. SEZ Units must prepare manufacturing cost statement (MCS) for each product in order to prove local value content and/or change in tariff heading. The MCS shall be certified by a Chartered Accountant or Cost Accountant. The MCS shall be valid for a period of One Year. After MCS approval, the manufacturer must apply for preferential CO for each shipment. The manufacturer must then sign the CO and send the original copy to the DTA importer, for them to claim tariff concession. CO shall be obtained from the Zonal Development Commissioner Office. 	TASID
36	<u>Health care Services –</u> <ul style="list-style-type: none"> Health care city (service SEZ): Formation of Single Product dedicated Health Care SEZ combined with medical education, tourism and hospitality Industry. Eg DUBAI Health Care City. Formation of Med Tech Service Zone providing services like Telehealth and Telemedicine platform, Health Informatics, Pharmacovigilance and Drug safety and social care (non –medical), Skill Development 	GIDC

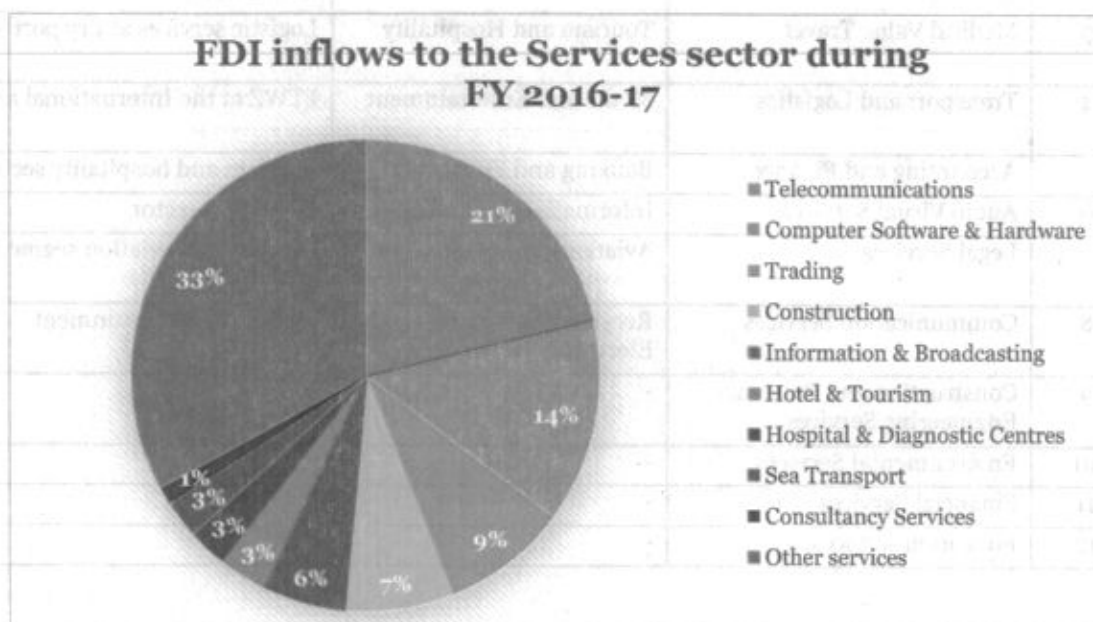
	Centre for life science, R &D medical facilities , Centre for gamma irradiation, etc.	
37	<u>Logistics services at port based service SEZ –</u> <ul style="list-style-type: none"> • Adopting the principles of China's Belt and drive Initiative at domestic and International front. • Improvement in port infrastructure as well as construction and upgradation of warehousing facilities inside port. • Identification and modernization of Industrial Corridors across India. E.g. Chennai Bengaluru Industrial Corridor (CBIC), Vasai Container Depot Transportation through water route to JNPT reducing traffic. • Setting up of Port based Services SEZs across India clubbing with India's prestigious SAGARMALA project. Eg JNPT and KANDLA port. • India to adopt Antwerp Port's Value added model for a logistic Hub in South east. • Adopted policy of Growing with Customers by investing in equipment and automation and providing value-added services. • Dedicated Service SEZ Port for Services and maintenance of Vessels like Panamax vessels. Eg Mazagaon Dock Shipyard and Goa Shipyard , Vasco , Goa can be considered on pilot basis • Ship breaking yard at Alang Bhavnagar, Gujarat can also be considered as Service SEZ for breaking of ships/vessels and revamping recycling industry. • Promoting dedicated Maritime Service SEZ integrated project which will focus on providing services for maritime transport, port operations, fishing, specialized logistics support services as well as tourism, science and specialized education in the sea sector. 	GIDC
38	<u>Logistics services at dry port service SEZ –</u> <ul style="list-style-type: none"> • Modernisation of multi modal Transport system to handle the Dry Cargo by containers. Eg Nagpur, tagged as the centre point of the nation could soon become the epicenter of giant logistics arena. • Creating efficient and barrier free cross border logistics. • System allowing free flow of trucks crossing the interstate and country border. • Creation of dedicated cold chain service SEZs • Pilot trial can be performed for semi-trailer swapping with bonded warehouse which can reduce time with strict control and monitoring of custom electronic seal within built GPS functions to traces the trucks. • Creation of Service SEZ clubbing with kaladan multimodal project developing under act east policy with unique feature of road-river-port-cargo transport project and services can be further extended to Rest of ASEAN market through Myanmar 	GIDC
39	<u>Tourism and hospitality sector –</u> <ul style="list-style-type: none"> • To boost travel segment, cruise terminal on coastal ports. E.g. in Mumbai • Service SEZ can be identified in IT and ITES and manufacturing SEZs where foreign visitors visit frequently in business connection. Residential Complex, Service apartments, Malls and other commercial complex can be set up in such areas. • Ahmedabad - First World heritage Walled City of India with 600 years old legacy can be proposed as SEZ to provide impetus to craft, culture and tourism. 	GIDC

	<ul style="list-style-type: none"> Developing North East Sector as Tourism SEZ under ACT EAST policy 2014 of government. Other services in this segment can attract foreigners from South-East Asia. Nagpur- Tiger Capital or Tiger Gateway of India can be explored as Tourism SEZ for Wildlife and Adventure Tourism having 13 tiger reserves out of total 48 tiger reserves. Places of wild life adventure Nagpur's forested areas cover around 37,251 sq. km and the region is rich in wild fauna and flora. Thousands of foreign and domestic tourists visit the tiger reserves of Nagpur. 	
40	<u>Education sector services –</u>	GIDC
	<ul style="list-style-type: none"> Formation of Hi -Skill Universities in and around Industrial cities for imparting education and skills to lower educated employees of labour intensive segments. Eg Skill University in Mahendra SEZ , Jaipur JV with renowned world Educational Institutions for specialized hi tech courses. Setting up the educational Campus without disturbing domestic educational services. Specialized education in the field of life science, drone technology, Nursing, paramedical services like physiotherapy and occupational therapy. Eg, Drone Pilot (DP) and Drone Data Processor (DDP) in Visakhapatnam. Andhra Pradesh is the first state in the country to launch two such technical programmes in drone technology. C-DAC Centre for Development of Advance Computing. Services to build up Industrial human Capital development systems. 	
41	<u>Defence and aviation segment services –</u>	GIDC
	<ul style="list-style-type: none"> Karnataka – Emerging Aviation Industry Hub of India Developing Aerospace eco system in dedicated SEZs. Eg Aerospace and MRO Projects at MIHAN Development of MRO (Commercial Maintenance and overhaul) HUB facilities at MIHAN Maintenance and services of Commercial Air planes . 	
42	<u>Media and entertainment –</u>	GIDC
	<ul style="list-style-type: none"> To upgrade Film City Mumbai and Ramoji Studios as Service Sez Creation of Special Entertainment Zones in service SEZ for only foreign tourist for gaming like Casinos and other entertainments. 	

Appendix 9. Method of identification of thrust Service Sectors for promotion via 3Es

Parameter 1 – Reference to the spread of top 10 service categories in terms of highest recipient of FDI inflows (value) in India. The spread depicts importance of these sectors to bring in investments.

See the figure below –



Source: Based on Department of Industrial Policy and Promotion (DIPP) data

Notes -

1. Other services includes Financial, Banking, Insurance, Non-financial business, Outsourcing, R&D, Courier, Technology testing and analysis
2. Construction includes infrastructure activities & townships, housing, built-up infrastructure and construction development projects

Parameter 2 – Reference to the 12 identified service sectors under the Champion Services Sectors where the Government will focus to promote their competitiveness, encourage their exports which in turn will create more jobs and contribute to the GDP growth. Department of Commerce would coordinate the proposed initiative for the Champion Sectors in Services. See the table overleaf for the service categories.

Parameter 3 – Service sectors identified by the MOCI for promotion through SEZs in its Study on Service Sector, SEZs and EOUs in October 2017. See the table overleaf for the service categories.

Parameter 4 – Feedback from the authorities (Development Commissioner). See the table below for the service categories.

S. No.	Champion Service Sectors	Sectors identified by the MOCI	Feedback from the authorities
1	Information Technology & Information Technology enabled Services (IT & ITeS)	Healthcare	Healthcare services
2	Tourism and Hospitality Services	Education	Logistics services at port based on service SEZ
3	Medical Value Travel	Tourism and Hospitality	Logistic services at dry port service SEZ
4	Transport and Logistics	Media and Entertainment	FTWZ at the International airports
5	Accounting and Finance	Banking and Financial	Tourism and hospitality sector
6	Audio Visual Services	Information Technology	Education sector
7	Legal Services	Aviation-related services	Defence and aviation segment services
8	Communication Services	Recycling Services – Electronic Waste	Media and entertainment
9	Construction and Related Engineering Services	-	-
10	Environmental Services	-	-
11	Financial Services	-	-
12	Education services	-	-

Appendix 10. Vietnam Case Study

Key factors of success in Vietnam

- **Vietnam's economic zone program** was championed by the Prime Minister and came directly under his purview particularly in its initial days.
- Vietnam has focused on attracting FDI, with only two main objectives for the short term: employment and technology transfer. Thus, the government has tried to maximize FDI by not imposing constraints on enterprises, such as local content requirements (with some industry-wide exceptions).
- Country's location and low labor costs are comparative advantages
- Key incentives offered are:
 - o Long and short-term credit at preferential rates
 - o Remission of taxes and duties - Corporate tax exempt for 4 years, 50% reduction for next 9 years, then 25% (v. 28% national rate). Vietnam is moving away from heavy use of tax-based incentives
 - o Low cost land/rents
 - o Subsidized tariffs for water and electricity
 - o Short customs clearance time
 - o Simplification of procedures/one-window service for administrative issues –
 - ✓ One-stop shops in each zone, along with dedicated onsite customs clearance.
 - ✓ Timely approvals and business licenses, construction permits, and utility connections. Average time between application and start-up is typically 50 days.
 - o Monitoring and enforcement of environmental standards relatively weak in many zones
 - o Use of common production facilities and services
 - o Targeted marketing and anchor investor strategies
 - o In Vietnam, Japanese organizations have been particularly prominent in promoting a support industry network within the electronics and automotive sectors:
 - ✓ Specifically, the Vietnam-Japan Joint Initiative to Improve Business Environment with a View to Strengthening Vietnam's Competitiveness, signed in December 2003, calls for the "development, introduction, and utilization of supporting industry in Vietnam." The Japan External Trade Organization, in association with investment and trade promotion centers in northern and southern Vietnam, holds an annual exhibition in which Japanese buyers are matched with Vietnamese suppliers.

Source:

1. Report titled "Special Economic Zones in Africa; Comparing Performance and Learning from Global Experience - 2011" by the World Bank
2. Report titled "Economic Zones in ASEAN –August 2015" by the United Nations Industrial Development Organization.

Appendix 11. Central Government Schemes

Name of the Scheme	Name of the Ministry	Benefits to Units/Developers	Direct Cash Grant	Income Tax Holiday	Tax Benefits and duty exemptions	Business facilitation	Dovetailing with SEZ Policy
Scheme for Integrated Textiles Park (SITP) ⁹²	Ministry of Textiles	Developers	✓	X	X	X	✓
Comprehensive Powerloom Cluster Development Scheme (CPCDS) ⁹³	Ministry of Textiles	Developers	✓	X	X	X	✓
Scheme of Fund for Regeneration of Traditional Industries (SFURTI) ⁹⁴	Ministry of Micro, Small and Medium Enterprises	Units	✓	X	X	X	✓
Micro & Small Enterprises – Cluster Development Programme (MSE-CDP) ⁹⁵	Ministry of Micro, Small and Medium Enterprises	Developers/Units	✓	X	X	X	✓
Software Technology Parks (STP scheme) ⁹⁶	Department of Electronics & Information Technology	Units	X	✓	✓		✓
Petroleum, Chemicals and Petrochemical Investment Regions (PCPIRs) ⁹⁷	Department of Chemicals & Petrochemical	Developers/Units	X	X	X	✓	✓
Scheme for Setting up	Department of Chemicals & Petrochemical	Developers	✓	X	X	X	X

⁹² <http://texmin.nic.in/schemes/scheme-integrated-textile-parks>

⁹³ <http://ministryoftextiles.gov.in/schemes/sites>

⁹⁴ <https://www.indiabudget.gov.in/ub2018-19/eb/sbe64.pdf> / <https://msme.gov.in/scheme-fund-regeneration-traditional-industries>

⁹⁵ <http://www.dcmsme.gov.in/mse-cdprog.htm>

⁹⁶ <http://meity.gov.in/content/stpi>

⁹⁷ <http://pib.nic.in/newsite/PrintRelease.aspx?relid=181238>

of Plastic Parks ⁹⁸							
Mega Food Parks Scheme 99	Ministry of Food Processing Industries	Developers	✓	X	X	X	✓

⁹⁸ <http://pib.nic.in/newsite/PrintRelease.aspx?relid=177728> / <http://chemicals.nic.in/sites/default/files/FPP260613.pdf>

⁹⁹ <http://mofpi.nic.in/Schemes/mega-food-parks>

Appendix 12. Free Trade Zone regime in Costa Rica

Companies eligible for the scheme:

1. Export manufacturing companies
2. Export trade companies (not producers)
3. Export service companies
4. Companies or organizations engaged in scientific research
5. Manufacturing firms which may export

For Manufacturing Companies:

Eligibility Requirements	Project Location	Small Scale Project	Mid-scale projects	Large scale projects
Minimum Export Level	Within Greater Metropolitan Area (GMA)/ outside of GMA	Not required	Not required	Not required
Belong to a strategic sector**100	GMA	Yes	Yes	Yes
	Outside GMA	Not required	Yes	Not required
Minimum employment Level	GMA	Not required	Not required	100
	Outside GMA	Not required	100	100
Minimum required Investment	GMA ¹⁰¹	US\$ 150,000	US\$ 150,000	US\$ 10,000,000 ¹⁰²
	Outside GMA ¹⁰³	US\$ 100,000	US\$ 100,000	US\$ 10,000,000

Incentives	Project Location	Duration (Years)	Small Scale Project*	Mid-scale projects*	Large scale projects
Income tax	GMA	8	6%	6%	0%
		4	15%	15%	15%
	Outside GMA	6	0%	0%	0%
		6	5%	0%	0%
		6	15%	15%	15%
Income Tax deferral	GMA	No Limit	Not available	Not available	Up to 10 years ¹⁰⁴
	Outside GMA	No Limit	Up to 10 years	Up to 10 years	Up to 10 years ¹⁰⁵
Import duties	Within GMA/ outside of GMA	No Limit	100% Exemption	100% Exemption	100% Exemption
Excise Taxes	Within GMA/ outside of GMA	No Limit	100% Exemption	100% Exemption	100% Exemption

¹⁰⁰ **For example, Advanced Manufacturing and Life Sciences Projects, R&D activities, Innovation Projects

¹⁰¹ For US\$ 150,000 in fixed assets within FZ Park or US\$ 2,000,000 outside FZ Park

¹⁰² Investment in depreciable fixed assets (land is not included). Company must comply with an investment plan to be accomplished between 1 and 8 years; which could be reached at any time during the 8 year period. Upon completion, PROCOMER will verify the \$10MM investment in fixed assets according to its value in books in the year the investment amount was completed. Additionally, once the company has complied with the investment plan, the company must maintain the fixed assets which were part of the plan. Substitution of the fixed assets is permitted only in the new depreciable assets have the same value in the books as the fixed assets to be replaced when the investment plan was completed

¹⁰³ For US\$ 100,000 in fixed assets within FZ Park or US\$ 500,000 outside FZ Park

¹⁰⁴ Additional 8-year renewal may be granted if significant reinvestment is made

¹⁰⁵ Additional 6/12-year renewal may be granted if significant reinvestment is made

Remittances Repatriation tax	Within GMA/ outside of GMA	No Limit	100% Exemption	100% Exemption	100% Exemption
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For Service Companies:

Eligibility Requirements	Time frame/Condition
Fixed assets investment of US \$150,000 within FTZ Park or \$2,000,000 outside FTZ Park	Within the first 3 years of operation
Export Requirement	At least 50% of the services must be exported

Fiscal Incentives	Period of Time (Years)	Tax
Income Tax	8 years ¹⁰⁶	0%
(Statutory rate = 30%)	4 years	15%
Remittances Repatriation tax	No Limit	0%
Local Sales	No Limit	0%
Import, export, Excise taxes	No Limit	0%

Source: www.cinde.org

¹⁰⁶ Additional 8-year renewal may be granted if significant reinvestment is made

Appendix 13. Fiscal Incentives to PEZA-Registered Economic Zone Enterprises

S. No	Name of Enterprise & Fiscal Incentives
1	Economic Zone Export Manufacturing Enterprise <ul style="list-style-type: none"> Income Tax Holiday (ITH) – 100% exemption from corporate income tax <ul style="list-style-type: none"> ➤ 4 years ITH for Non-pioneer Project ➤ 6 years ITH for Pioneer Project Upon expiry of the Income Tax Holiday - 5% Special Tax on Gross Income and exemption from all national and local taxes ("Gross Income" refers to gross sales or gross revenues derived from the registered activity, net of sales discounts, sales returns and allowances and minus cost of sales or direct costs but before any deduction is made for administrative expenses or incidental losses during a given taxable period) Tax and duty free importation of raw materials, capital equipment, machineries and spare parts. Exemption from wharfage dues and export tax, impost or fees VAT zero-rating of local purchases subject to compliance with BIR and PEZA requirements Exemption from payment of any and all local government imposts, fees, licenses or taxes. However, while under Income Tax Holiday, no exemption from real estate tax, but machineries installed and operated in the economic zone for manufacturing, processing or for industrial purposes shall be exempt from real estate taxes for the first three (3) years of operation of such machineries. Production equipment not attached to real estate shall be exempt from real property taxes Exemption from expanded withholding tax
2	Information Technology Enterprise <ul style="list-style-type: none"> Income Tax Holiday (ITH) – 100% exemption from corporate income tax <ul style="list-style-type: none"> ➤ 4 years ITH for Non-pioneer Project ➤ 6 years ITH for Pioneer Project Upon expiry of the Income Tax Holiday - 5% Special Tax on Gross Income and exemption from all national and local taxes. ("Gross Income" refers to gross sales or gross revenues derived from the registered activity, net of sales discounts, sales returns and allowances and minus cost of sales or direct costs but before any deduction is made for administrative expenses or incidental losses during a given taxable period) Tax and duty free importation of equipment and parts. Exemption from wharfage dues on import shipments of equipment. VAT zero-rating of local purchases of goods and services, including land-based telecommunications, electrical power, water bills, and lease on the building, subject to compliance with Bureau of Internal Revenues and PEZA requirements Exemption from payment of any and all local government imposts, fees, licenses or taxes. However, while under Income Tax Holiday, no exemption from real estate tax, but machineries installed and operated in the economic zone for manufacturing, processing or for industrial purposes shall not be subject to payment of real estate taxes for the first three (3) years of operation of such machineries. Production equipment not attached to the real estate shall be exempt from real property taxes. Exemption from expanded withholding tax.
3	Tourism Economic Zone Locator Enterprise <ul style="list-style-type: none"> Four (4) years of Income Tax Holiday ITH (as qualified under the National Investment Priorities Plan) Upon expiry of the Income Tax Holiday - 5% Special Tax on Gross Income and exemption from all national and local taxes ("Gross Income" refers to gross sales or gross revenues derived from the registered activity, net of sales discounts, sales returns and allowances and minus cost of sales or direct costs but before any deduction is made for administrative expenses or incidental losses during a given taxable period)

	<ul style="list-style-type: none"> • Tax and duty-free importation of capital equipment • VAT Zero Rating on local purchases of goods and services, including land-based telecommunications, electric power, and water bills • Exemption from expanded withholding tax
4	Medical Tourism Enterprise <ul style="list-style-type: none"> • Four (4) years of Income Tax Holiday on income solely from servicing foreign patients • Upon expiry of the Income Tax Holiday - 5% Special tax on Gross Income upon in lieu of all national and local taxes. ("Gross Income" refers to gross sales or gross revenues derived from the registered activity, net of sales discounts, sales returns and allowances and minus cost of sales or direct costs but before any deduction is made for administrative expenses or incidental losses during a given taxable period) • Tax and duty-free importation of medical equipment, including spare parts and equipment supplies, required for the technical viability and operation of the registered activity/ies of the enterprise. • VAT Zero Rating on local purchases of goods and services, including land-based telecommunications, electric power, and water bills • Exemption from expanded withholding tax
5	Agro-Industrial Economic Zone Enterprise <ul style="list-style-type: none"> • Four (4) years of Income Tax Holiday • Upon expiry of the Income Tax Holiday - 5% Special tax on Gross Income and exemption from all national and local taxes. ("Gross Income" refers to gross sales or gross revenues derived from the registered activity, net of sales discounts, sales returns and allowances and minus cost of sales or direct costs but before any deduction is made for administrative expenses or incidental losses during a given taxable period) • Tax and duty free importation of production equipment and machineries, breeding stocks, farm implements including spare parts and supplies of the equipment and machineries • Exemption from export taxes, wharfage dues, impost and fees • VAT Zero Rating on local purchases of goods and services, including land-based telecommunications, electric power, and water bills • Exemption from payment of local government fees such as Mayor's Permit, Business Permit, permit on the Exercise of profession/Occupation/Calling, Health Certificate Fee, Sanitary Inspection Fee, and Garbage Fee
6	Economic Zone Logistics Services Enterprise <ul style="list-style-type: none"> • Exemption from duties and taxes on raw materials, semi-finished goods for re-sale to - or for packing/covering, cutting, altering for subsequent sale to PEZA-registered Export Manufacturing Enterprises, for direct export or for consignment to PEZA-registered export enterprise. • VAT Zero Rating on raw materials for checking, packing, visual inspection, storage and shipping to be sourced locally
7A	Manufacturing Economic Zone Developer / Operator <ul style="list-style-type: none"> • Special 5% Tax on Gross Income and exemption from all national and local taxes, except real property tax on land owned by the Economic Zone Developer. ("Gross Income" refers to gross sales or gross revenues derived from the registered activity, net of sales discounts, sales returns and allowances and minus cost of sales or direct costs but before any deduction is made for administrative expenses or incidental losses during a given taxable period) • VAT Zero rating of local purchases • Exemption from expanded withholding tax
7B	IT Park Developer / Operator <ul style="list-style-type: none"> • Special 5% Tax on Gross Income and exemption from all national and local taxes, except real property tax on land owned by the IT Park Developer. ("Gross Income" refers to gross sales or gross revenues derived from the registered activity, net of sales discounts, sales returns and allowances and minus cost of sales or direct costs but before any deduction is made for administrative expenses or incidental losses during a given taxable period) • VAT Zero rating of local purchases • Exemption from expanded withholding tax
7C	Tourism Economic Zone Developer / Operator

	<ul style="list-style-type: none"> • Special 5% Tax on Gross Income and exemption from all national and local taxes, except real property tax on land owned by the Tourism Economic Zone Developer. ("Gross Income" refers to gross sales or gross revenues derived from the registered activity, net of sales discounts, sales returns and allowances and minus cost of sales or direct costs but before any deduction is made for administrative expenses or incidental losses during a given taxable period) • VAT Zero rating of local purchases • Exemption from expanded withholding tax
7D	Medical Tourism Economic Zone Developer / Operator <ul style="list-style-type: none"> • Special 5% Tax on Gross Income and exemption from all national and local taxes, except real property tax on land owned by Medical Tourism Zone Developer. ("Gross Income" refers to gross sales or gross revenues derived from the registered activity, net of sales discounts, sales returns and allowances and minus cost of sales or direct costs but before any deduction is made for administrative expenses or incidental losses during a given taxable period) • VAT Zero rating of local purchases • Exemption from expanded withholding tax
7E	Agro-Industrial Economic Zone Developer / Operator <ul style="list-style-type: none"> • Special 5% Tax on Gross Income and exemption from all national and local taxes, except real property tax on land owned by the Agro-Industrial Economic Zone Developer. ("Gross Income" refers to gross sales or gross revenues derived from the registered activity, net of sales discounts, sales returns and allowances and minus cost of sales or direct costs but before any deduction is made for administrative expenses or incidental losses during a given taxable period) • VAT Zero rating of local purchases • Exemption from expanded withholding tax
7F	Retirement Economic Zone Developer / Operator <ul style="list-style-type: none"> • Special 5% Tax on Gross Income and exemption from all national and local taxes, except real property tax on land owned by the Retirement Economic Zone Developer. ("Gross Income" refers to gross sales or gross revenues derived from the registered activity, net of sales discounts, sales returns and allowances and minus cost of sales or direct costs but before any deduction is made for administrative expenses or incidental losses during a given taxable period) • VAT Zero rating of local purchases • Exemption from expanded withholding tax
8A	Economic Zone Facilities Enterprise <ul style="list-style-type: none"> • Special 5% Tax on Gross Income and exemption from all national and local taxes, except real property tax on land owned by developers. ("Gross Income" refers to gross sales or gross revenues derived from the registered activity, net of sales discounts, sales returns and allowances and minus cost of sales or direct costs but before any deduction is made for administrative expenses or incidental losses during a given taxable period) • VAT Zero rating of local purchases • Exemption from expanded withholding tax
8B	IT Park Facilities Enterprise <ul style="list-style-type: none"> • Special 5% Tax on Gross Income and exemption from all national and local taxes, except real property tax on land owned by developers. ("Gross Income" refers to gross sales or gross revenues derived from the registered activity, net of sales discounts, sales returns and allowances and minus cost of sales or direct costs but before any deduction is made for administrative expenses or incidental losses during a given taxable period) • VAT Zero rating of local purchases • Exemption from expanded withholding tax
8C	Retirement Economic Zone Facilities Enterprise <ul style="list-style-type: none"> • Special 5% Tax on Gross Income and exemption from all national and local taxes, except real property tax on land owned by developers. ("Gross Income" refers to gross sales or gross revenues derived from the registered activity, net of sales discounts, sales returns and allowances and minus cost of sales or direct costs but before any deduction is made for administrative expenses or incidental losses during a given taxable period) • VAT Zero rating of local purchases • Exemption from expanded withholding tax
9	Economic Zone Utilities Enterprise

	<ul style="list-style-type: none"> • Special 5% Tax on Gross Income and exemption from all national and local taxes, except real property tax on land owned by developers. ("Gross Income" refers to gross sales or gross revenues derived from the registered activity , net of sales discounts, sales returns and allowances and minus cost of sales or direct costs but before any deduction is made for administrative expenses or incidental losses during a given taxable period) • VAT Zero rating of local purchases • Exemption from expanded withholding tax
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Appendix 14. Incentives available in Thailand's SEZs

Key factors of success in Vietnam

The government provides a full range of incentives for businesses operating in 13 industries located in any of the currently operational five SEZs. Each of the SEZs has its own target industries which are decided and categorized by the area where the SEZ is situated. The 13 industries are agriculture, fishery and related businesses; ceramics; garments, textiles, and leather; home furniture; jewelry and fashion accessories; medical equipment; automobiles, engines, and parts; electrical appliances and electronics; plastics; medical products; logistics; industrial estates; and activities that support tourism.

Those running businesses in the 13 target industries can avail the following incentives from the Board of Investment (BOI) of Thailand:

Tax-Incentives

- Eight-year corporate income tax (CIT) exemption;
- An additional 50 percent reduction in CIT for five years;
- Exemption from import duty on raw materials and inputs used in the production of products;
- Reduced or waived import duty on machinery;
- Double deductions for expenses related to transportation, electricity and power supplies for 10 years;
- A 25 percent deduction of investment costs on the installation or construction of facilities used, beginning from the date in which revenue is generated;
- Permission to bring foreign experts and technical staff together with their spouses and dependents into Thailand; and
- Permission to employ foreign unskilled workers in the promoted project, according to the conditions prescribed by BOI.

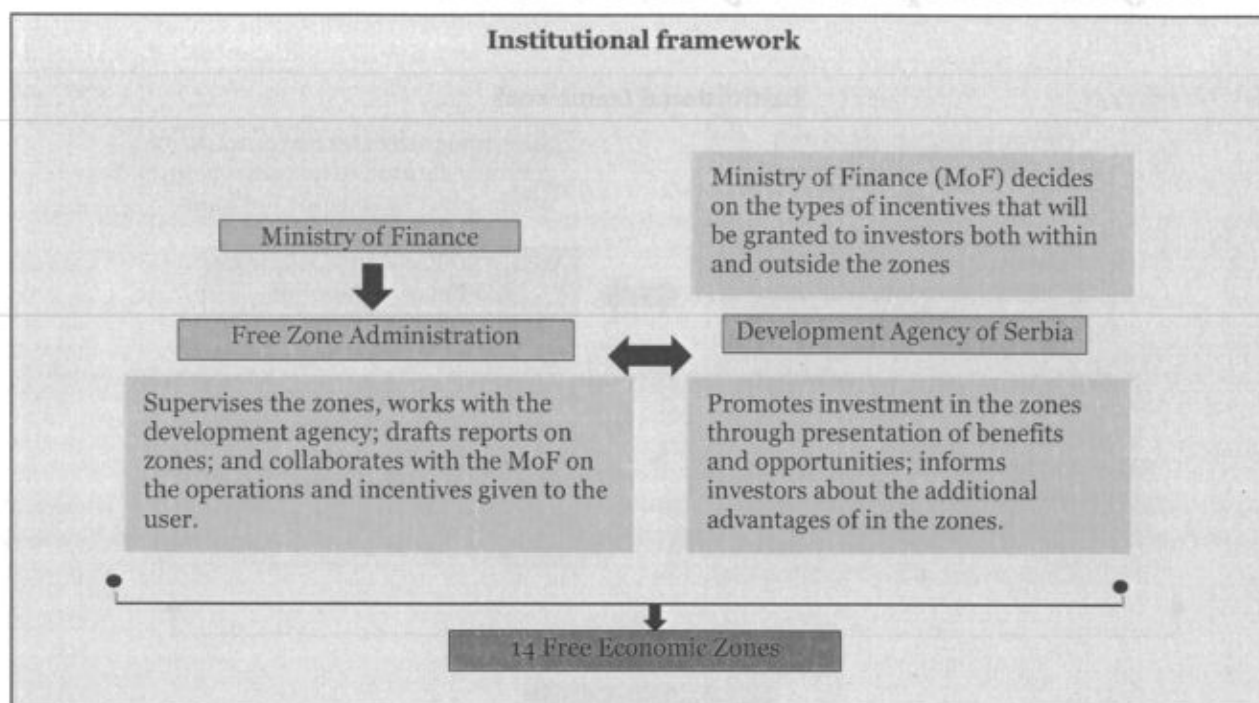
In Addition, business operating within the SEZs that are not within the 13 target sectors can also benefit from the general BOI promotion scheme, and avail three additional years of tax exemption, not exceeding eight years in total.

Non-tax Incentives

- Companies in SEZs can be wholly foreign-owned without the requirement to secure a foreign business license, thus, minimizing costs and timelines required for companies to carry out business activities.
- For activities that are already eligible for eight years of exemption, companies can avail a 50 percent corporate tax deduction for additional five years. Besides, all firms located within the SEZs also enjoy incentives from other government agencies such as good infrastructure, low-interest loans and access to one-stop services for investment and immigration.

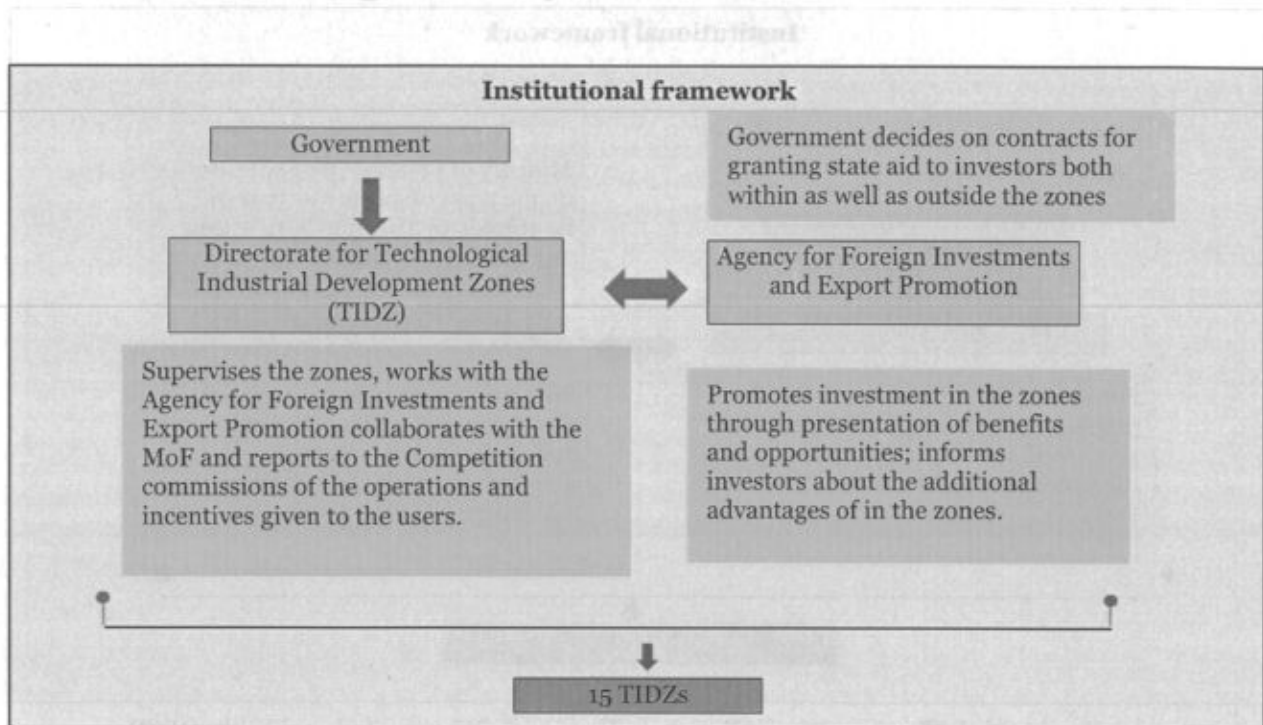
Source: <https://www.aseanbriefing.com/news/2018/04/13/thailands-special-economic-zones-opportunities-investment.html>

Appendix 15. Institutional framework in Serbia



Source: 2017 Report titled, "Tracking Special Economic Zones in the Western Balkans" by the OECD

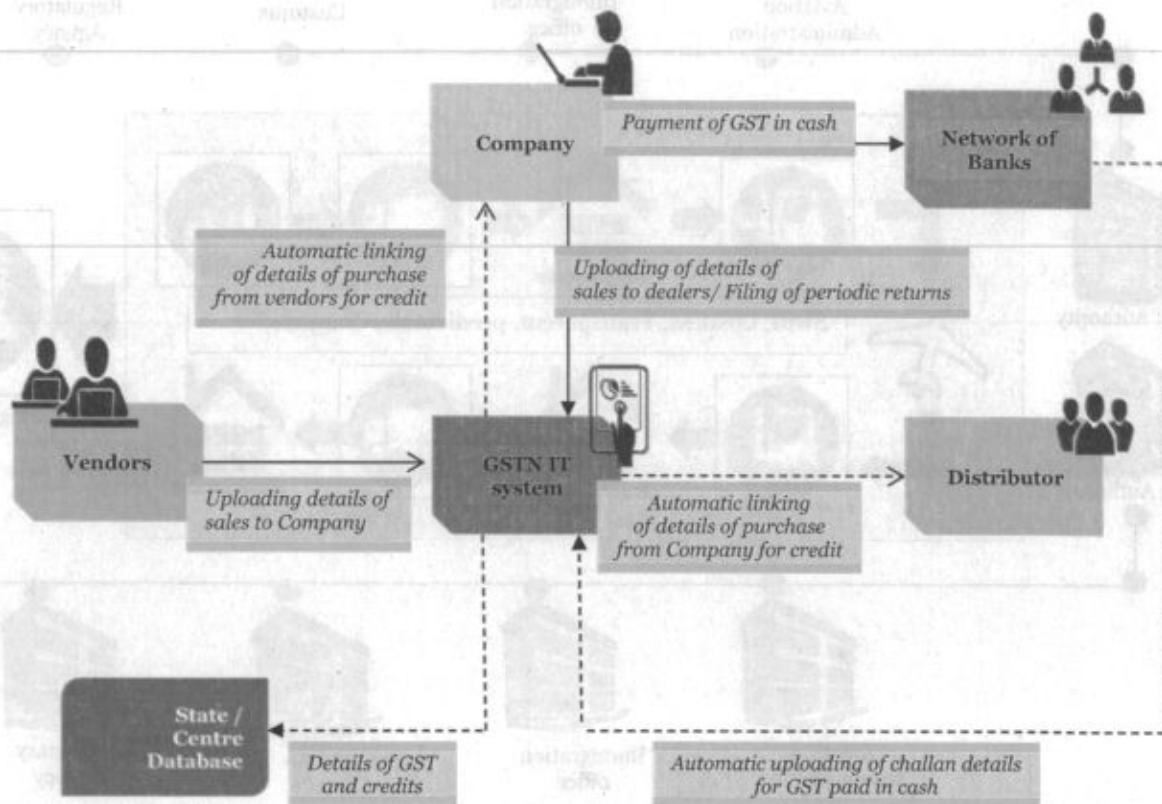
Appendix 16. Institutional framework in Former Yugoslav Republic of Macedonia



Source: 2017 Report titled, "Tracking Special Economic Zones in the Western Balkans" by the OECD

Appendix 17. Back-end integration features of GST Network and SWIFT

GST

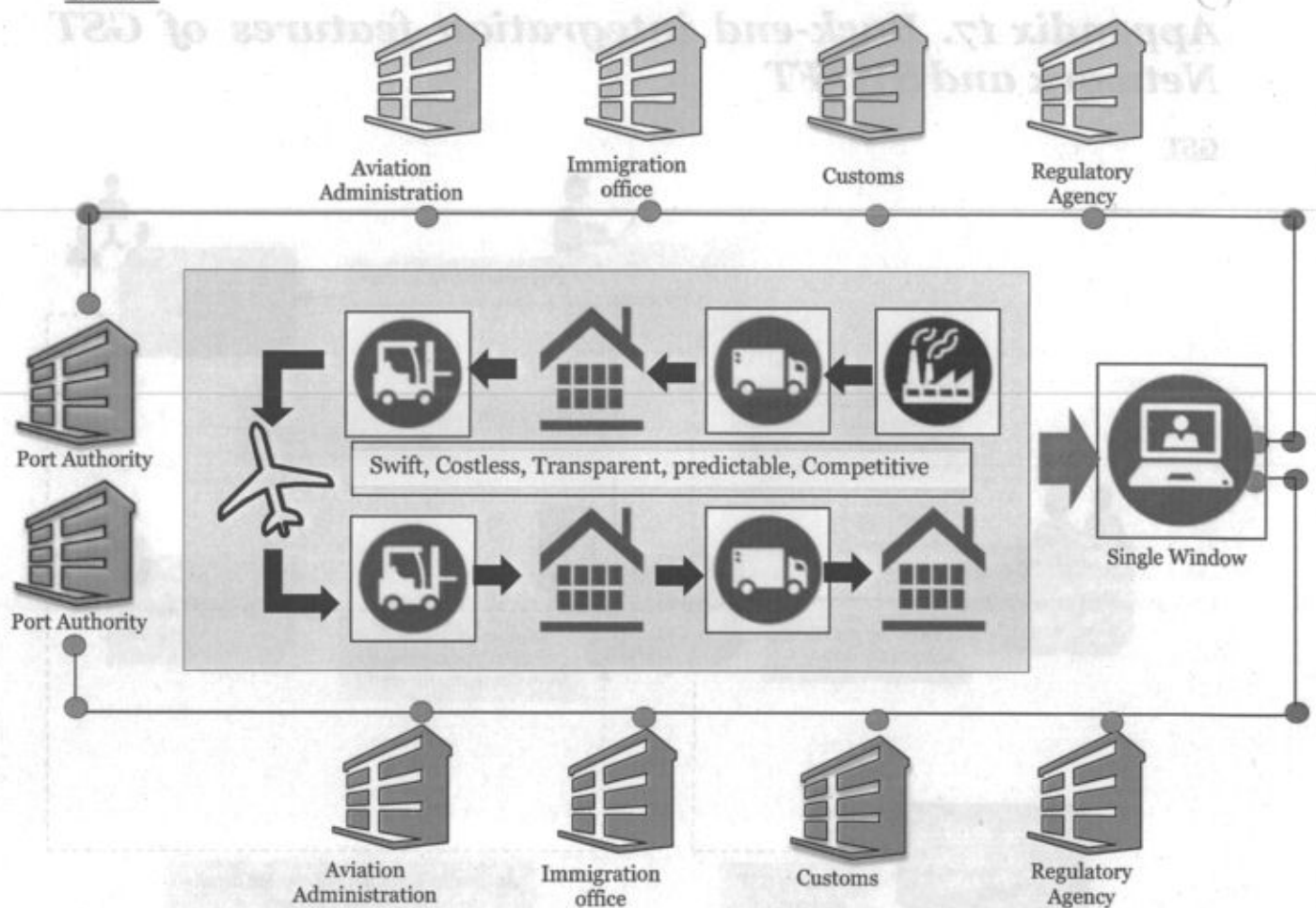


Key features of GSTN

The GST portal will be one single common portal for all GST-related services such as Tax payer registration (new, surrender, cancelation, amendment etc.), Invoice upload, auto-drafting of purchase details of buyer, GST Returns filing on stipulated dates for each type of return, Tax payment by creation of Challan and integration with agency banks, Electronic Credit Ledger, Cash Ledger and Liability Register MIS reporting for tax payers, tax officials and other stakeholders and Business Intelligence or Analytics for Tax officials. GSTN is accessible over the internet (by taxpayers and their CAs/Tax Advocates etc.) and Intranet by Tax officials, etc.

A common GST system will provide linkage to all State/UT Commercial Tax departments, Central Tax authorities, Taxpayers, Banks and other stakeholders. The GST system will include all stakeholders—taxpayers, tax professionals, tax officials, banks and accounting authorities. The diagram given below depicts the entire GST eco-system.

SWIFT



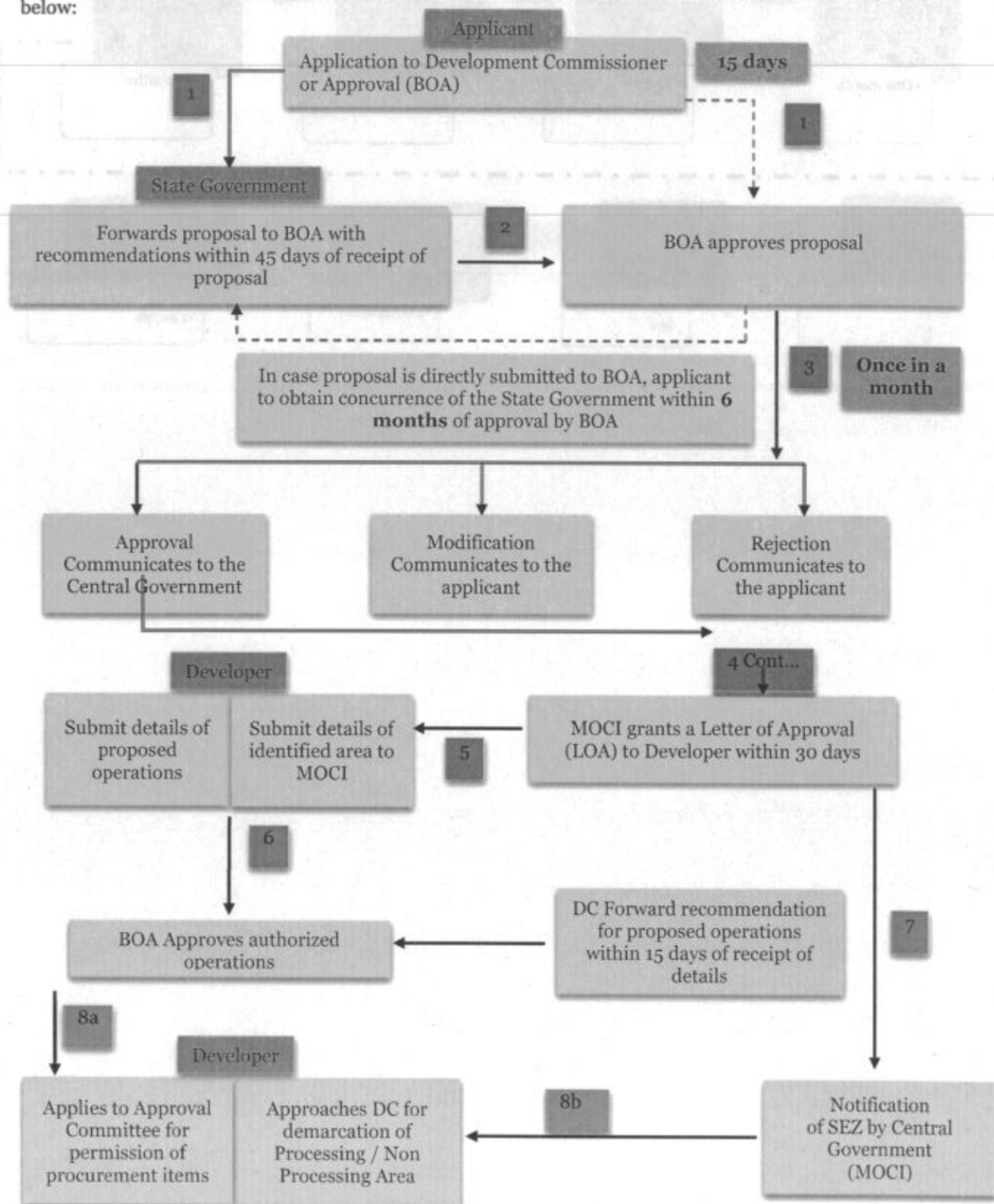
Key features of SWIFT

As part of the 'Ease of Doing Business' initiatives, the Central Board of Customs & Indirect Taxes, has implemented a single window to facilitate the Trading Across Borders in India. The 'India Customs Single Window' allows importers and exporters, the facility to lodge their clearance documents online at a single point only. Required permissions, if any, from other regulatory agencies is obtained online without the trader having to approach different participating Government agencies. The initiative has reduced interface with Governmental agencies, dwell time and the cost of doing business.

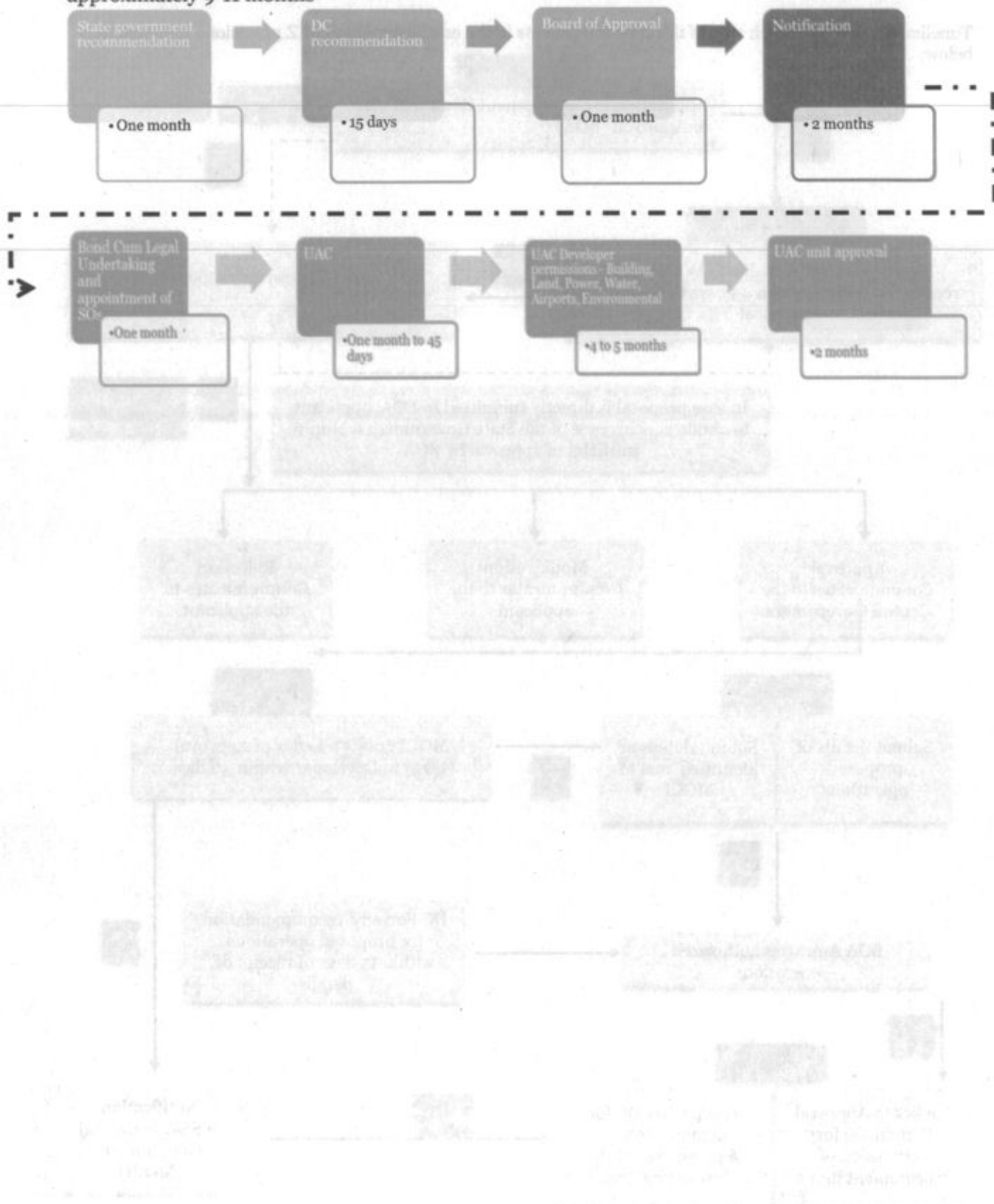
According to the Time Release Study released by Customs, Nhava Sheva for 2018, the dwell time has considerably reduced, due to this initiative.

Appendix 18. SEZ vis-à-vis actual completion of approvals

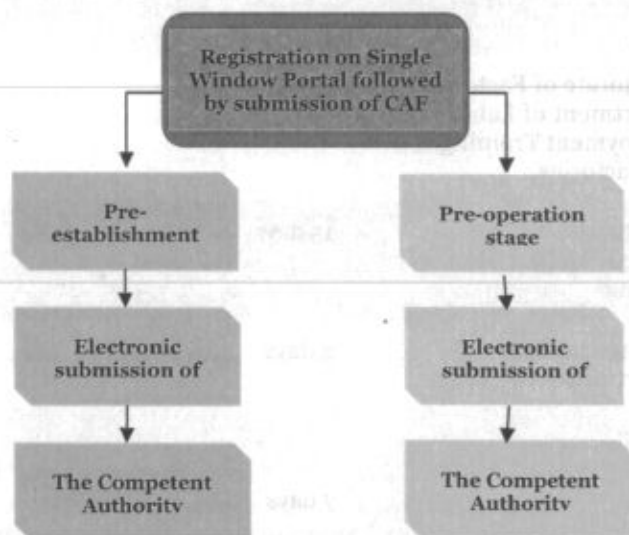
Timeline prescribed at each step of the approval process in the establishment of SEZ provisions is depicted below:



'AS IS' SEZ Establishment Approval Process (India) as seen in practice, which takes approximately 9-11 months



Appendix 19. Pre-establishment stage approvals and clearances in Andhra Pradesh



- This Single Desk Policy aims to create a one stop shop to provide all necessary clearances for starting and operating an industry, within 21 working days.
- To start an industry a subset of 24 different clearances may be required. Of these, 13 approvals or clearances are necessary in the pre-establishment stage and 11 approvals or clearances are necessary in the pre-operation stage.
- Common Application Form (CAF) is submitted through IT-enabled platform, which accepts and electronically transfer applications to respective Competent Authorities as well as track and monitor status of the application.

S. No.	Name of the Clearance / Approval	Department	Permissible Time Limits
1	Power Feasibility certificate/ sanction of power supply	DISCOM-Department of Energy	7 days
	Power Connection		To be based on the length of the HT line
2	Electrical Inspectorate statutory approval for drawings	Chief Electrical Inspectorate- Department of Energy	7 days
3	Building /Site Permission / Approval/License from Municipality/ UDA ¹⁰⁷ /DT&CP ¹⁰⁸ /	Department of Municipal Administration & Urban Development	7 days
4	Building /Site Permission from Gram Panchayat	Department of Panchayati Raj & Rural Development	15 days / Deemed
5.	Approval for water supply from ULB ¹⁰⁹ s-MA & UD Department	Department of Municipal Administration & Urban Department	7 days
	Water Connection		21 days

¹⁰⁷ Urban Development Authority

¹⁰⁸ Directorate of Town & Country Planning

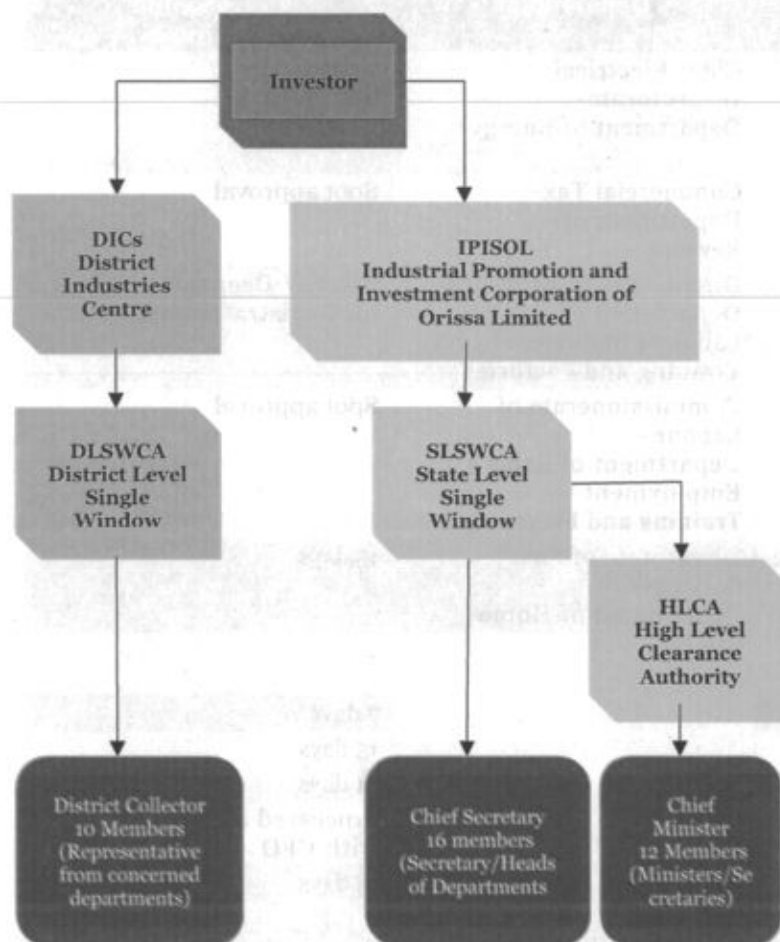
¹⁰⁹ Urban Local Bodies

	permission to draw water from river/public tanks, Irrigation & CAD Department Permission to dig new wells from Ground Water Department	Irrigation & CAD Department	15 days
6.	Factory Plan Approval	Directorate of Factories-Department of Labor Employment Training and Factories	7 days
7.	Fire-No Objection Certificate	Directorate of Fire Services-Department of Home	15 days
8.	Registration for VAT, CST	Commercial Tax-Department of Revenue	3 days
9.	Consent for Establishment	APPCB	
	Green Category		7 days
	Orange Category		15 days
	Red Category		21 days
10.	Approval of change of land use for Industrial purpose	Land Administration-Department of Revenue	If in Master Plan - 10 days If in Master Plan - 21 days
11.	Registration of Partnership Firms	Registration & Stamps-Department of Revenue	3 days
12.	Licence for manufacture of bulk drugs or formulations or cosmetics	Drug Control Administration-Department of Health, Medical & Family Welfare	15 days
13.	Licence for manufacture of ayurvedic, homeo, siddha, unani	AYUSH-Department of Health, Medical & Family Welfare	15 days

Appendix 20. Pre-operation stage approvals or clearances in Andhra Pradesh

S. No.	Name of the clearance or approval	Department	Permissible time limits
1.	Final approval from Electrical Inspectorate, Department of Energy-Chief Electrical Inspector	Chief Electrical Inspectorate- Department of Energy	7 days
2.	Registration under Professional Tax	Commercial Tax- Department of Revenue	Spot approval
3.	Factory registration and licensing	Directorate of Factories- Department of Labour Employment Training and Factories	7 days / Deemed for Registration only
4.	Registration of shops and establishments	Commissionerate of Labour- Department of Labour Employment Training and Factories	Spot approval
5.	Occupancy certificate from Fire Services Department	Directorate of Fire Services- Department of Home	15 days
6.	Consent for Operation/ Authorisation	APPCB	
	Green Category		7 days
	Orange Category		15 days
	Red Category		21 days
	Authorisation of units handling hazardous wastes		Processed along with CFO
7.	Boiler registration	Directorate of Boilers- Department of Labour Employment Training and Factories	15 days
8.	Registration of establishments deploying contractual workmen	Commissionerate of Labour - Department of Labour Employment Training and Factories	Spot approval
	Registration of establishments deploying inter-state migrant workmen		Spot approval
9.	Registration of plastic manufacturers / recyclers	APCCB	15 days
10.	Licence for storage of petroleum, diesel and Naptha	District Collector/ Civil Supplies Department	15 days
11.	Licence for possession and use of Rectified Spirit and Denatured Spirit	Prohibition & Excise Department of Revenue	21 days

Appendix 21. Approvals in Odisha



- The State of Odisha has implemented the 'Ease of Doing Business' framework through a robust single window clearance mechanism.
- The System enables the investor to approach a single designated authority and seek all clearances and approvals to set-up and operationalise an industry.
- Combined Application Form (CAF) has been created wherein all departments and authorities are mandated to accept for a host of clearances and approvals.
- A three-tier single window clearance mechanism to facilitate speedy implementation of industrial projects.

To facilitate time bound approvals, time limit for disposal of application by each of the concerned Departments have been stipulated in the Odisha Industries (Facilitation) Amendment Rules, 2015. The stipulated timelines for approval(s) have also been incorporated in the Odisha Right to Public Services Act (ORPSA), 2012.

In case of failure in adherence to the stipulated timelines, such approvals shall be deemed to have been issued i.e. the entrepreneurs may proceed with the implementation of the projects. Crucially important, unnecessary delays can also lead to action being taken against the Authority responsible for unjustifiable delay.

The timelines stipulated for various approvals are tabulated below:

Timelines for various approvals

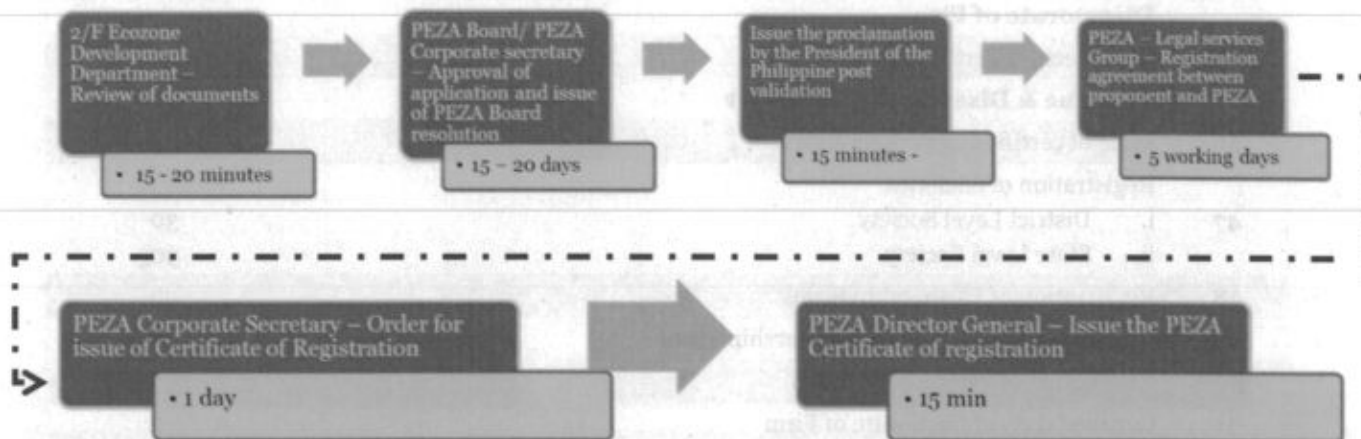
S. No.	Service	Time Limit (Working Days)
Department of Energy		
1	Time taken from request for connection to its release for LT Connections	7
	i. Where infrastructure is available	15
	ii. Where infrastructure is not available	
2	Time taken from request for connection to its release for HT Connections	30
3	Certification of Electrical Installation	
	Normal Inspection:	
	i. LT Installations	25
	ii. HT Installations	30
	iii. EHT Installations	35
	Emergency Inspection:	
	i. LT Installations	10
	ii. HT Installations	10
	iii. EHT Installations	10
Odisha State Pollution Control Board		
4	Consent to Establish	
a	'A' Category after obtaining environmental clearance	60
b	'B' Category after obtaining environmental clearance	45
c	'C' Category	30
	Permission under Hazardous Waste (Handling & Management) Rules	60
6.	Consent to Operate	
a	'A' Category after obtaining environmental clearance	60
b	'B' Category after obtaining environmental clearance	45
c	'C' Category	30
Directorate of Factories and Boilers		
7.	Approval of Factory Plan for Non-Hazardous factories	30
8.	Approval of Factory Plan for Hazardous factories	60
9.	Approval of Factory Plan for Major Accident Hazard (MAH) factories	90
10.	Registration and Licensing of Factories	30
11.	Renewal/Amendment/Transfer of factory license	30
12.	Issue of duplicate license	30
13.	Inspection of Boilers & issue of provisional orders to operate boilers	15
14.	Approval of repair order of Boilers	15
15.	Steam pipeline drawing approval	30
16.	Registration of Boilers	30
17.	Endorsement of Certificates of Boiler Operation Engineers, Boiler Attendants and Welders issued by other States	15
18.	Revalidation of Welders' certificates	15
19.	Grant of Certificate for Manufacture of Boilers and pressure part components under the Boilers Act, 1923	15

20.	Renewal Certificate for Manufacture of Boilers and pressure part components under the Boilers Act, 1923	7
21.	Grant of Erector Certificate for Boilers and Steam Pipeline under the Boilers Act, 1923	15
22.	Renewal of Erector Certificate for Boilers and Steam Pipeline under the Boilers Act, 1923	7
23.	Grant of Repairer Certificate for Boilers and Steam Pipeline under the Boilers Act, 1923	15
24.	Renewal of Repairer Certificate for Boilers and Steam Pipeline under the Boilers Act, 1923	7
Directorate of Labour		
25.	Registration and Renewal of Registration under the Odisha Shop and Commercial Establishment Act, 1956	15
26.	Contract Labour (Rehabilitation & Abolition) Act, 1970 i. Registration (one time) ii. Licence iii. Renewal (annual)	15
27.	Inter State Migrant Workmen Act, 1979 i. Registration (one time) ii. Licence iii. Renewal (annual)	15
28.	Industrial Employment Standing Order Act, 1946	45
29.	Registration of Establishment under Building & Other Construction Workers (RE & CS) Act, 1996	15
Urban Development Authorities/Municipalities		
30.	Building Plan Approval (Low Risk Industries)	15
31.	Building Plan Approval (High Risk Industries)	30
32.	Issuance of Occupancy Certificate (Applicable to Bhubaneswar Development Authority and other Development Authorities & ULBs)	30
33.	Trade License	15
34.	Water Connection	45
35.	Conversion of Land Use under master plan	60
Commercial Taxes		
36.	Registration for Profession Tax	1
Industries Department		
37.	Sanction of incentives under IPR 2015	30
IDCO		
Decision on Land Allotment within IDCO Estates outside BMC Area		
38.	Allotment Letter after receipt of recommendation letter from Single Window Authority	30
39.	Execution of Lease Agreement subject to compliance of Terms and conditions of allotment	15
40.	Issue of Possession Certificate	15
Decision on Land Allotment within IDCO Estates within BMC Area		
41.	Allotment Letter after receipt of recommendation from HLCA	30

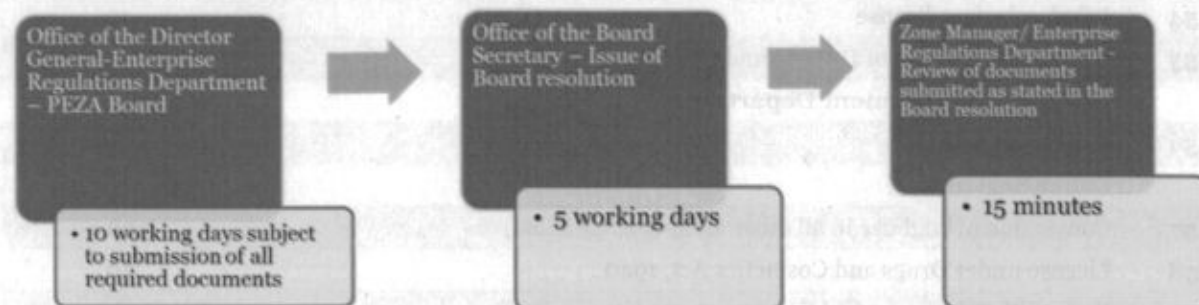
42.	Execution of Lease Agreement subject to compliance of Terms and Conditions	15
43.	Issue of Possession Certificate	15
	MSME Department	
44.	Sanction of Interest Subsidy, Capital Investment Subsidy and VAT Reimbursement	30
	Directorate of Fire	
45.	No Objection Certificate	30
	Revenue & Disaster Management	
46	Issue of certified copy of RoR	3
	Registration of Societies	
47	i. District Level Society	30
	ii. State Level Society	90
48	Registration of Partnership Firms	90
49	Amendment of Registered Partnership Firms	30
50	Dissolution of Partnership Firms	45
51	Certified copy of Certificate of Firm	7
52	Property Registration	3
	Health & Family Welfare	
53	Retail Drug License (Pharmacy) and renewal thereof	40
54	Wholesale drug license	40
55	Granting & renewal of Drug Manufacturing License	90
	Forest & Environment Department	
56	Tree Transit Permit	43
	Other Services	
57	Conversion of land use in all other areas (except ULBs)	60
58	License under Drugs and Cosmetics Act, 1940	30
59	Registration under Legal Metrology Act, 2009	30

Appendix 22. Entry and exit process of zones in the Philippines

The Philippines: SEZ entry process



The Philippines: SEZ exit process



Appendix 23. List of stakeholders responded to survey

S. No.	Particulars
1.	Tata Steel SEZ Ltd.
2.	EPCES
3.	Flextronics
4.	GIFT City SEZ Ltd.
5.	K. Raheja Group
6.	All India Association of Industries
7.	PHD Chamber of Commerce and Industry
8.	Amity Shiplog
9.	Confederation of Indian Industry
10.	Indian Cellular Association
11.	Jubilant Life Sciences Limited
12.	Indian Chemical Council
13.	Gem and Jewellery Export Promotion Council (Colin Shah)
14.	Artha Infratech Private Limited
15.	Gujrat International Finance Tec-City
16.	Federation of Indian Chamber of Commerce and Industry
17.	Arshiya Limited, Mumbai
18.	Integra Software Services Private Limited
19.	Renault Nissan Technology and Business Center India Private Limited
20.	SRF Limited
21.	IL&FS Cluster Development Initiative Limited
22.	DLF Commercial Developers Limited
23.	Sandvik Asia Private Limited
24.	Sonodyne International Private Limited
25.	Adani Ports and Special Economic Zone Limited
26.	Special Economic Zone Andhra Pradesh and Telangana State (SEZ APTS), Phoenix
27.	Tamil Nadu Association of SEZ Infrastructure Developers (TASID), Phoenix
28.	Kerry Indev Logistics Pvt. Ltd.
29.	Mahindra World City
30.	Gujarat Industrial Development Corporation

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