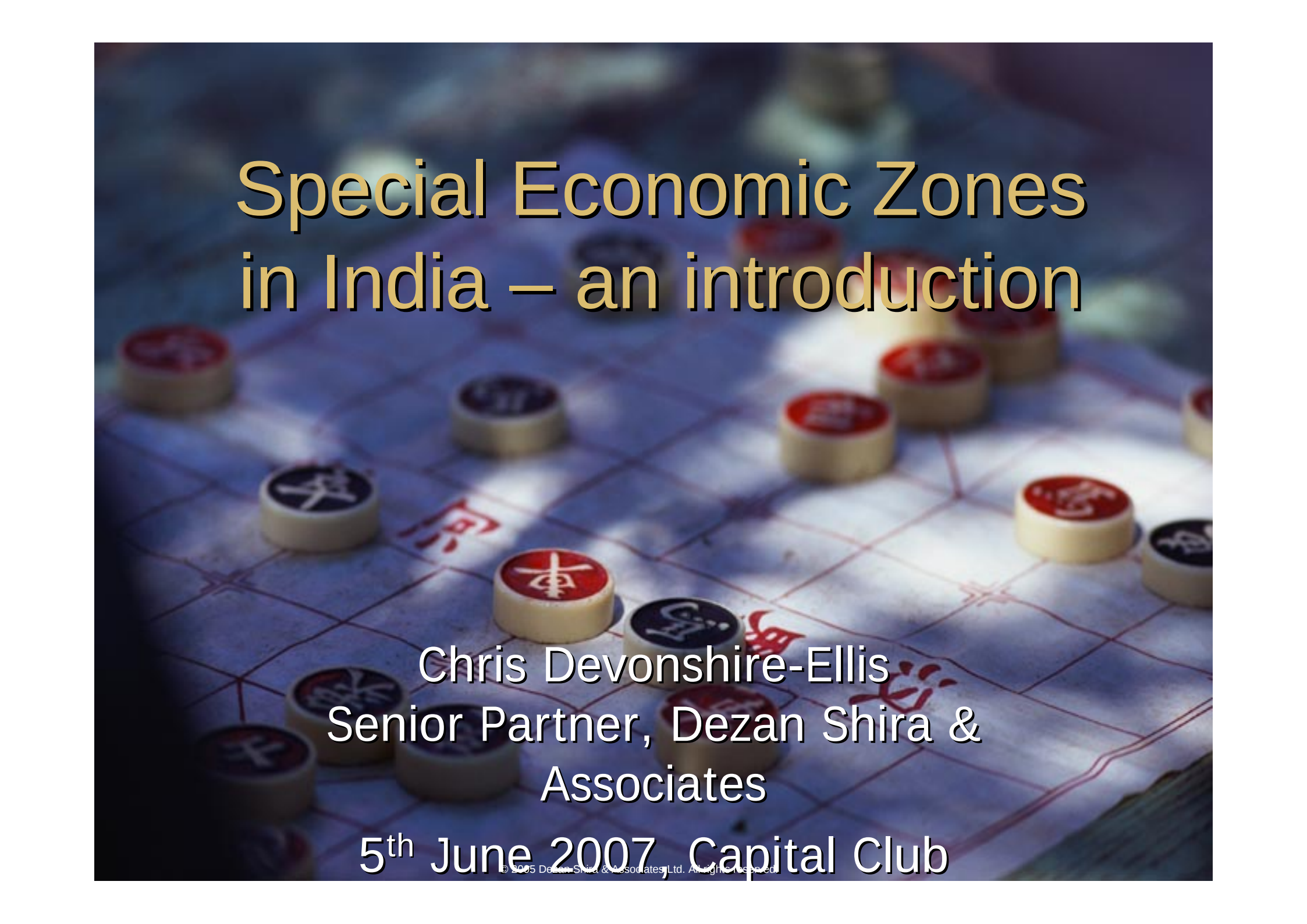


The background of the slide is a close-up, slightly blurred photograph of a Go board. The board is light-colored with a grid of lines. Several Go stones are placed on the board; some are black with white Japanese characters, and others are white with red Japanese characters. The lighting is soft, creating a professional and intellectual atmosphere.

# Special Economic Zones in India – an introduction

Chris Devonshire-Ellis  
Senior Partner, Dezan Shira &  
Associates

5<sup>th</sup> June 2007, Capital Club

# What is an SEZ ?

- *“Specified, delineated and duty free geographical region that has different economic laws from those of the country in which it is situated”*
- Various different models
- India set up it's first Export Processing Zone in 1965
- New SEZ policy was adopted in April 2000
- Special Economic Zone Act passed in June 2005
- Full law and implementing rules effected February 2006

# Objectives of an SEZ

- Generation of Additional Economic Activity
- Promotion of the exports of goods and services
- Promotion of investment from domestic and foreign sources
- Creation of employment
- Development of infrastructure facilities

# Main incentives offered by SEZs

- Duty free import / domestic procurement of goods for development and operations
- 100% income tax exemption on exported products for first five years
- 50% income tax exemption for following five years
- 50% income tax exemption on any reinvested dividends for subsequent five years

# Continued...

- Exemptions from minimum alternate taxes
- Exemption from central sales tax
- Exemption from service tax
- Exemption from state sales tax and other state government levies
- External commercial borrowing permitted

# SEZ's Targeted At

- Development of labor intensive manufacturing industry
- Development of labor intensive services industry
- Employment opportunities in rural India, including youth and women (currently 40% of SEZ employees are female)

# Permitted Activities – Services

- Trading, warehousing, research & development services
- Computer software services, call centers, data processing, database management
- Insurance claim processing, medical transcription, support centers
- Offshore banking, professional services (excluding law / tax) rental / leasing services

# Services contd.

- Other business services, courier, audio-visual, construction, distribution, educational, financial, hospital, travel & tourism, cultural, transportation, entertainment, recreational, and auxiliary services
- Free Trade & Warehousing – whereas these are specifically carried out

# Permitted Activities - Manufacturing

## Legal Definition:

- *“Make, produce, fabricate, assemble, process or bring into existence a new product having a distinctive name, character or use; including processes such as refrigeration, cutting, polishing, blending, repair, remaking, and re-engineering”*

# Performance To Date

## SEZ Exports

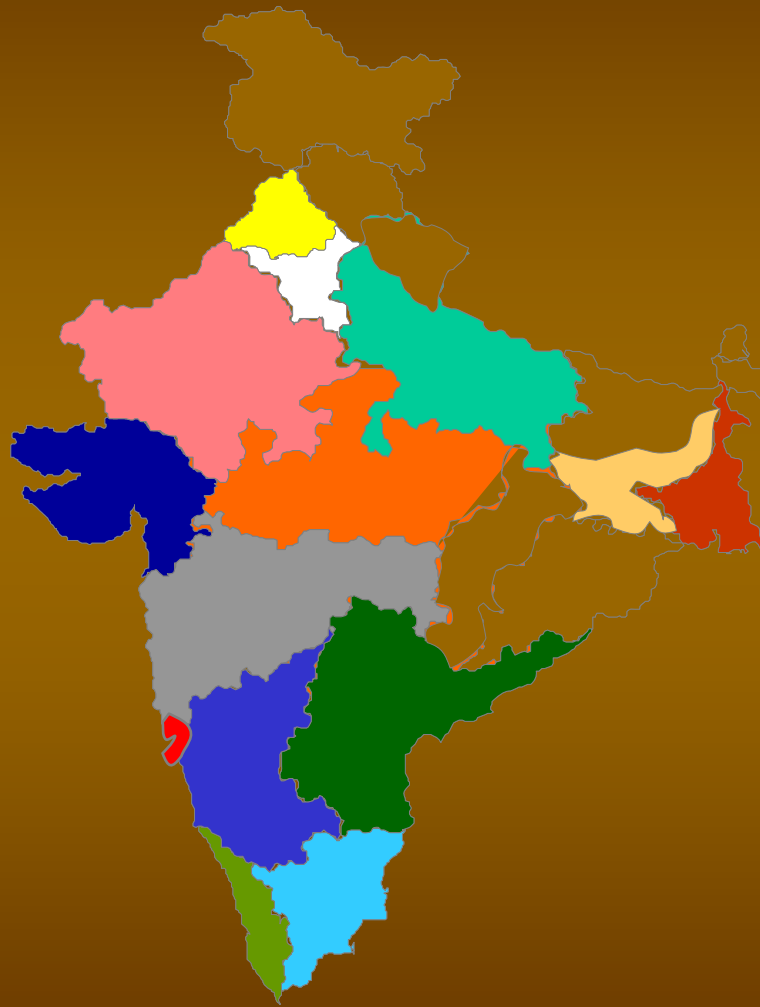
- 2003-2004: USD2,996 million
- 2004-2005: USD4,075 million
- 2005-2006: USD5,078 million



# Locations & Numbers

- Currently 100 SEZ's exist in India
- Trend for entire businesses to own their own SEZ:
- Nokia SEZ in Tamil Nadu
- Flextronics SEZ in Tamil Nadu
- Motorola, DELL & Foxcomm all in Andhra Pradesh

# SEZ's in India



| <u>Indian States</u> | <u>No. of SEZs</u> |
|----------------------|--------------------|
| Andhra Pradesh       | 26                 |
| Gujarat              | 7                  |
| Goa                  | 1                  |
| Haryana              | 7                  |
| Jharkhand            | 1                  |
| Karnataka            | 14                 |
| Kerala               | 6                  |
| Maharashtra          | 13                 |
| Madhya Pradesh       | 2                  |
| Punjab               | 3                  |
| Rajasthan            | 1                  |
| Tamil Nadu           | 15                 |
| Uttar Pradesh        | 3                  |
| West Bengal          | 1                  |

Source: Department of Commerce, Ministry of Commerce and Industry ( SEZs notified under the SEZ Act and Rules as of 1<sup>st</sup> May, 2007)

# China's Position

- Moving up the value added chain
- Trade processing now discouraged
- Energy intensive and polluting industries discouraged
- More selective FDI and domestic investment policies
- Higher tax band introduced to implement this

# India's Position

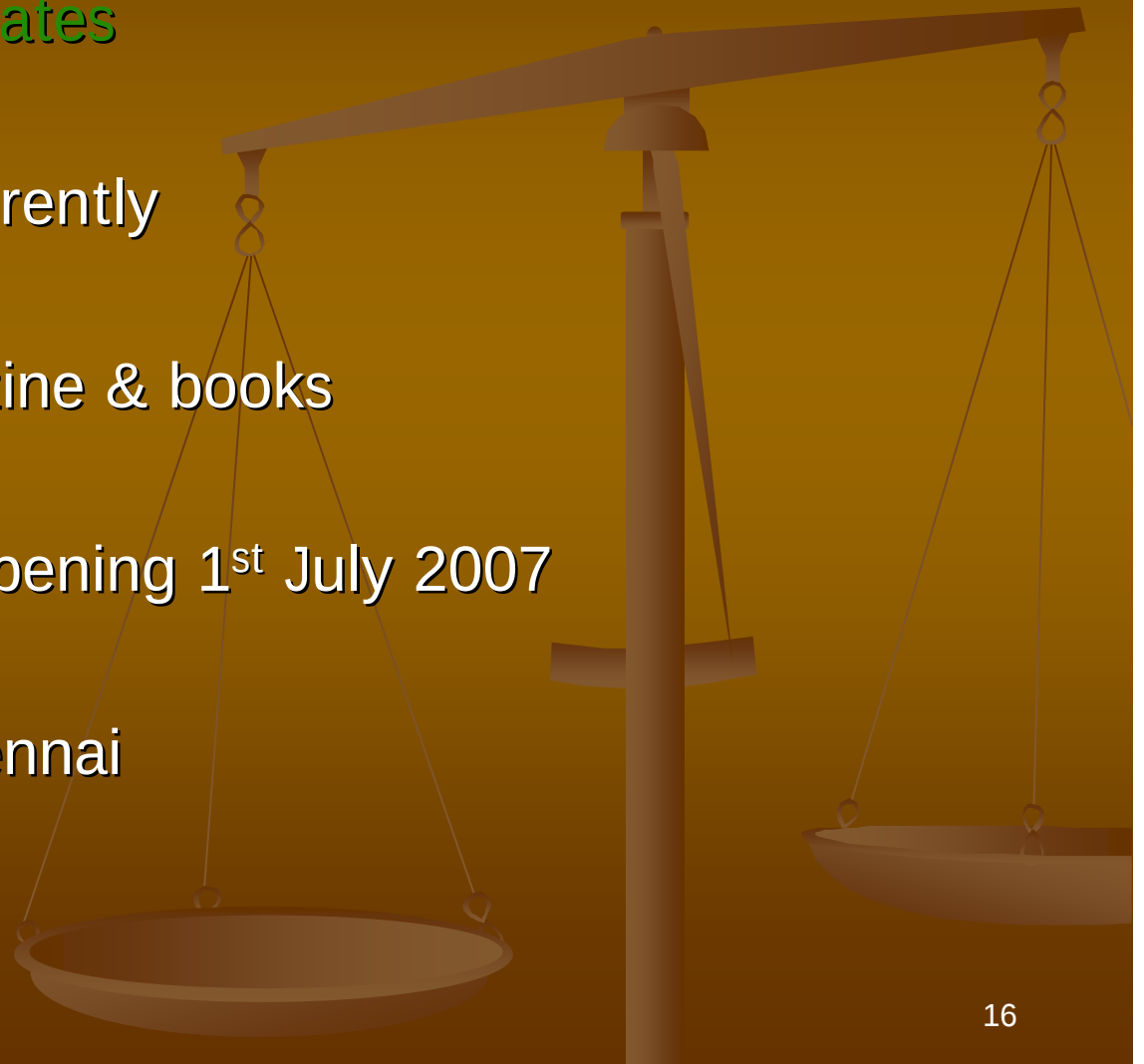
- FDI economic base developing from earlier position similar to China's 15 years ago
- Using SEZ's to attract FDI
- Will use this money to build national infrastructure, while domestic consumption remains strong (unlike PRC)
- Trade Imbalances with USA
- By 2020 will also have reached end of SEZ based development cycle
- Will inherit some China investment

# Conclusion

- China & India combined will become global powerhouses driving both cheap manufacturing / services, fuelling global economy & consumption
- China-India trade to continue to develop
- Both countries economies to follow same bell curve of growth, and eventually to develop greater amount of parity
- This is the Asian century

# Other News & Information Sources

- Dezan Shira & Associates
- Ten China offices currently
- China Briefing magazine & books
- Three India offices opening 1<sup>st</sup> July 2007
- Delhi, Bombay & Chennai



From 1<sup>st</sup> July 2007

[www.india-briefing.com](http://www.india-briefing.com)



**INDIA BRIEFING**



**DEZAN SHIRA  
& ASSOCIATES**

