SEZ: PERCEPTION AND REALITY

SEZs create an environment of complete business freedom, resulting in an increased world market share and flow of FDI into India

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The need for FDI and an increased export market share was primarily the reason that an SEZ policy was conceived in the year 2000. However the policy was ratified only after the SEZ Act was passed by the Parliament on June 23 June 2007. Since this period, more than 700 SEZs have got approval from the Government and are at various stages of growth. The SEZ Act has caricatured a developmental model, which today is the center of media and public attention, creating a tug of war between critics on one side and votaries on the other.

Within the larger domain on the debate comes the issue of real estate and its relation with SEZs. Sarcastic comments associated with SEZs being a real estate game are spurred basically by the fact that the majority of SEZ developers are real estate developers. The RBI stand in considering SEZ financing on par with real estate financing has indeed added fuel to this criticism.

At this juncture it is become imperative that we understand the role of real estate in SEZs and put the SEZ developmental model in the right perspective, and accept and propagate that SEZs are essentially an infrastructure project, but led by a sizeable real estate intervention.

We need to understand the basic purpose or the underlying philosophy behind this model, which is to create an environment of complete business freedom to both national and global corporations engaged in trading, manufacturing and services, to be globally competent resulting in an increased world market share and flow of FDI into India.

This would, in turn, create a cascading effect with backward and forward integration with the rest of the economy and also result into capital formation and employment generation. Even though the free trade enclaves and export processing zones are old concepts, the recent success of Chinese SEZs with resultant FDI and local community development is the prime motive behind this initiative.

How can this be achieved? This can be done only by creating an eco-system wherein the developers and his co-developers provide all infrastructure facilities and take the onus of providing a municipal set up to prospective units, such that the Units focus on business, not on facilities.

This requires the creation of an Integrated infrastructure format, which is essentially the above referred SEZ Development model, where it involves a gamut of infrastructure project activity like building ports, roads and other logistic facilities. It also involves urban design and development and most attractively a well-developed social infrastructure.

Thus it could be argued that this model requires an infrastructure set-up and should be regarded as an infrastructure project per se. The developmental imperatives of SEZs , mainly creation of such a well built social infrastructure, involving real estate developers, makes SEZs a real estate-led Infrastructure project. However, we cannot be brazen enough to declare it as an exclusive real estate project and undermine the infrastructure content.

One being the subset of another has since now resulted into a brouhaha of misinterpretation necessitating the need of the policy makers to give a clarion call, declaring SEZs as infrastructure projects, which will decrease the risk weightage assigned to SEZ financing as on now and encourage the SEZ developers and co-developers make their 700 odd approved SEZs a functioning reality.

This also provides phenomenal opportunity to real estate developers based on their experience in developing integrated townships. The real estate sector growing at a rate of 30% is poised to reach the 50 billion dollar mark by 2010 and SEZ development will be a significant contribution in this regard. Enclaves of world-class standards, with superior living learning and recreation facility and urban infrastructure, requires a real estate intervention by large realtors.

Considering 50% of the non-processing areas of the 100-odd large format multi-product SEZs have been notified as on date, it means more than 10,000 acres of land bank. Juxtapose this data with the Urban guidelines, and it will prove the availability of large tracts of construction space, exceeding 10 million sq mtrs in all conservative estimates within a year's period. This opportunity in residential, commercial and retail space for a booming economy is going to be the prime driver of the SEZ development model.

Every developmental model has its own level of concerns to be addressed. First, as mentioned earlier, the present RBI guidelines equates SEZs to commercial real estate, making funding costly. Secondly more policy level clarity is aviated on FDI and tax benefits vis-a-vis real estate intervention in non processing areas. Thirdly, PE based funding norms on SEZs is yet to take shape. Finally the ratification of co-developer benefits by the state governments supported by departmental notifications are required for real estate players to join hands with SEZ developers and reap the co-developer benefits as assured in the SEZ Act.

As it is always said for one pointed finger there are four fingers pointing backwards.

FOCAL POINT

- In the debate on SEZs, it must be remembered that SEZs are essentially an infrastructure project, but led by a sizeable real estate intervention
- The underlying philosophy behind this model is to create an environment of complete business freedom to both national and global corporations
- This would create a cascading effect on the rest of the economy and result into capital formation and employment generation

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(This is an extract of the presentation made by the author at the IVCJ Conference, Private equity and Infrastructure in Mumbai recently. The views expressed are personal)