



SPECIAL ECONOMIC ZONES IN INDIA: A TOOL FOR ECONOMIC DEVELOPMENT

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ABSTRACT

A Special Economic Zone (SEZ) is a geographically defined area where economic rules governing export and import are more flexible and open than in other regions of the country. For the purposes of trade, operations, duty, and tariffs, SEZs are envisioned as duty-free zones. Self-contained and integrated SEZ units have their own infrastructure and support services. Units for the manufacturing of commodities and other operations such as processing, assembling, trading, repairing, and reconditioning may be established within SEZs., Making gold/silver, platinum jewellery, and so forth. In the rapidly changing global market, the recent rush to establish SEZs could fuel economic growth and provide a cost advantage to industry. SEZs, as opportunity islands, provide opportunities in a variety of industries. The attractiveness of these SEZs would be determined by low-cost imports and high-volume products with a domestic and international market. Fiscal incentives, regulatory freedom, and world-class infrastructure are the three pillars of the SEZ Act, as they are everywhere else. The Central Government of India established the SEZ policy in 2000. The SEZ Act of 2005 was passed in February 2006 with the goal of making Special Economic Zones an engine of economic growth, supported by quality infrastructure and an appealing fiscal package at both the Central and State levels with a single window clearance. SEZs are governed and managed by the government in order to promote international trade and thus improve the nation's economy. SEZs provide necessary infrastructure and other such accommodations to assist and promote companies within the SEZ to engage in international trade. The government must take a more proactive role in order to effectively rationalize the full range of benefits from SEZs.

Keywords: Special Economic Zone, SEZ Policy, International Trade, Investment, Employment.

Special Economic Zones (SEZs) were introduced in India in April 2000 to encourage foreign investment and to provide a competitive and hassle-free environment for businesses to thrive. With infrastructure support from both the state and federal governments, the goal was to provide a level playing field for all domestic enterprises to compete on a global scale. SEZs include trade free zones, export zones, economic development zones, high technology zones, free ports, enterprise zones, institutional parks, and many more. SEZs are zones within a country that are duty-free or tax-free and operate under different business and commercial laws than the rest of the country in order to encourage investment and create employment and support the economic growth of the country. SEZs are also business. In India, most of the SEZs are set up through a collaboration between the state and central governments. However, any private, public or joint sector agency can also set up SEZs. State governments play an important role in the establishment of these economic zones because the proposals must first be approved by local authorities, who must give their consent to provide basic infrastructure facilities to the delineated area, such as water, electricity, transportation, and so on. Furthermore, the government is obligated by law to maintain these SEZs. A unit approval committee, comprised of a development commissioner, a customs officer, and a state government representative, is formed to monitor the performance of SEZs.

Ireland established the first SEZ in 1959. Following that, in 1970, the East Asian and Latin American regions began to establish similar types of zones in the form of export processing zones (EPZs). Financial policies relating to taxation, trading and investment, customs and labour regulations are put in place to

encourage businesses to set up shop in the SEZ. India was one of the first Asian countries to recognize the value of the Export Processing Zone (EPZ) model in promoting exports. Kandla was the first EPZ to be established in 1965. The Special Economic Zone (SEZ) Policy was announced in April 2000 to address the challenges of a lack of world-class infrastructure and to attract larger foreign investments.

Basic Difference between EPZs and SEZs

The SEZs are the new nomenclature of modified earlier Export Promotion Zones or EPZs. The first EPZ in India was set up in 1965 Kandala. They were created as privileged zones with the facilities of liberal tax and labour laws. They were to attract the foreign investors to import materials for use and export the manufactured commodities. In this way jobs would be created and export got enhanced. The main difference between an EPZ and a SEZ is that the former is just an industrial enclave but the latter is an integrated township with fully developed infrastructure.

Objectives of the Research Paper:

The study was conducted to fulfill the following objectives: 1. To study the concepts of Special Economic Zones. 2. To analyses the performance of SEZs in respect in an Indian Scenario.

Research Methodology: Secondary data has been used. For secondary data, official website of Department of Commerce, websites of various SEZs, various research papers, journal articles, magazines and newspapers related to SEZs etc. are used.

SEZ Background

An SEZ Policy was announced for the very first time in 2000 in order to overcome the obstacles businesses faced.

- There were multiple controls and many clearances to be obtained before starting a venture.
- Infrastructure facilities were shoddy and well below world standards in India.
- The fiscal regime was unstable as well.
- In order to attract huge foreign investments into the country, the government announced the Policy.
- The Parliament passed the Special Economic Zones Act in 2005 after many consultations and deliberations.
- The Act came into force along with the SEZ Rules in 2006.
- However, SEZs were operational in India from 2000 to 2006 (under the Foreign Trade Policy).

The objectives behind an SEZ are to enhance foreign investment, increase exports, create jobs and promote regional development. The main objectives of setting up SEZs by Government are:

1. To create additional economic activity.
2. To boost the export of goods and services.
3. To generate employment.
4. To boost domestic and foreign investments.
5. To develop infrastructure facilities.

Features :

Some of the salient features of Indian Special Economic Zones are :

- Exemption from customs duty, excise duty, etc. on import/domestic procurement of goods for the development, operation and maintenance of SEZs, and the units therein.
- 100 percent income tax exemption for 5 years, 50 percent for the next five years for offshore banking units located in SEZs and 50 percent of ploughed back export profits for five years thereafter for SEZ units.
- Exemption from capital gains on transfer of an undertaking from an urban area to SEZ
- 100 percent income tax exemption to SEZ developers for a block of 10 years in 15 years.
- Exemption from dividend distribution tax to SEZ developers
- A provision for setting up of International Financial Services Centre in SEZ has been proposed with the same incentives and facilities as available to offshore banking units.
- Exemption to SEZ developer and units from Minimum Alternate Tax

- CST Exemption to SEZ developer and units on inter-state purchase of goods.
- Establishment of designated courts and a single enforcement agency to ensure speedy trial and investigation of offences committed in SEZs.
- Encouragement to State Governments to liberalize State laws and delegate their powers to the development commissioners of the SEZ to facilitate single window clearance.
- Indian SEZs are developed by government, private and joint sector, unlike its international counterparts where zones are chiefly maintained by their respective governments. This provides equal prospects to both Indian and global players.
- 100% of Foreign Direct Investment is allowed for all endowments in Special Economic Zones, apart from activities cataloged under the unconstructive record.

Types of SEZ

Special economic zones encompass Free trade zones (FTZ), Export processing zones (EPZ), Industrial parks or industrial estates, Free economic zones (FZ/ FEZ), Free ports, Bonded logistics parks (BLP) and Urban enterprise zones.

Different types of special economic zones are as follows :

- **Sector-Specific SEZ:** Involved in manufacturing one or more good in a specific sector like electronic goods (land used 10 or more hectares), or one or more services (land used 100 or more hectares).
- **Multi-product SEZ:** Involved in manufacturing multiple goods or providing multiple services in a specific sector or across different sectors. (land used 1000 or more hectares).
- **SEZ in a port/ airport; or for free trade and warehousing:** Involved in manufacturing of goods in two or more sectors, entailing trading and warehousing (land used 40 or more hectares).

State-wise distribution of approved SEZs (As on 21st January, 2015)

State/Country	Total Approved (Formal + In principle)	Total Notified	Total Operational
All India	523	352	196
Maharashtra	78	52	25
Telangana	60	42	24
Karnataka	59	39	25
Tamil Nadu	59	51	36
Andhra Pradesh	44	30	18
Gujarat	39	28	18
Haryana	37	25	6
Kerala	32	25	14
Uttar Pradesh	32	22	10
Madhya Pradesh	20	9	2
West Bengal	14	5	7
Rajasthan	10	8	4
Odisha	9	4	2
Punjab	8	2	2

Goa	7	3	0
Chhattisgarh	3	1	1
Delhi	3	0	0
Chandigarh	2	2	2
Nagaland	2	2	0
Puducherry	2	0	0
Jharkhand	1	1	0
Manipur	1	1	0
Uttarakhand	1	0	0

The State-wise distribution of approved SEZs of all the states in India is mentioned by the Ministry of Commerce and Industry (Department of Commerce), Maharashtra topped with 78 formal approvals of SEZs, closely followed by Telangana with 60 and Karnataka and Tamilnadu stood at third with 59. 88% formally approved SEZs are located within 10 states only. The objectives of the SEZ, i.e. balanced employment generation, infrastructural development and balanced regional growth are not achieved in a way it was projected. There is still a substantial scope for other states to take proactive steps in order to be inclusive in the development process.

SECTORWISE DISTRIBUTION OF SEZs IN INDIA

Sector	No. of Operational SEZs	%
ITES/Electronics	114	57
Multi-Product	(20)	10%
Engineering	(13)	7%
Pharmaceuticals/Chemicals	(12)	6%
Textiles/Apparel/Wool	(7)	4%
Gems & Jewellery	(3)	1%
Handicraft & Carpets	(2)	1%
Non-Conventional Energy	(2)	1%
Food Processing	(3)	1%
Footwear/Leather	(3)	1%
Biotechnology	(2)	1%
Other	(18)	9%

IT/ITES/Electronic Hardware/Semiconductor/Services (114) 57% Handicraft & Carpets (2) 1% Gems & Jewellery (3) 1% FTWZ (3) 1% Food Processing (3) 1% Footwear/Leather (3) 1% Engineering (13) 7% Biotechnology (2) 1% Other (18) 9% Textiles/Apparel/Wool (7) 4% Pharmaceuticals/Chemicals (12) 6% Non-Conventional Energy (2) 1% Multi-Product (20) 10%. The seven major sectors of IT/ ITeS, hardware etc., biotechnology, multi product, pharmaceuticals/ chemicals, engineering, FTWZ and gems & jewellery account for the bulk (84.44 per cent) of the formal SEZ approvals granted so far. IT/ITeS/ electronic hardware/semiconductors is the single most important segment accounting for about 63 per cent of the total formal approvals followed by biotech and multi product SEZs.

Seven EPZs set up by the Central Government at Kandla (Gujarat), Santa Cruz (Maharashtra), Cochin (Kerala), Noida (UP), Chennai (Tamil Nadu), Falta (West Bengal) and Visakhapatnam (Andhra Pradesh), were converted to SEZs on announcement of the SEZ Policy. Another EPZ set up in the private sector in Surat was also converted to an SEZ. In addition, 11 more SEZs were set up by the state governments/private sector during the period 2000-2005 in West Bengal (2), Gujarat (2), Madhya Pradesh (1), Uttar Pradesh (1), Rajasthan (1) and Tamil Nadu (4). After the coming into force of the SEZ Act, 2005, 437 formal approvals have been granted for setting up of SEZs, out of which 348

SEZs have been notified and are in various stages of operation. A total of 202 SEZs are exporting.

In the span of 10 years since SEZ Act, which is enacted during February 2006, nearly 408 formal approvals for SEZ have been made and there exists 204 operational SEZ encapsulating 4166 units within it. It is this reason; SEZ contribution is increasing with respect to total export every year. Below Depicted the 10 Years SEZ export performance and its contribution to total export. Since 2006 SEZ is exhibiting increment in the export value till 2014. It is during the period 2014-2015, there is a declining trend in the export value of the goods. The growth pattern thus calculated is depicting that SEZ has performed well during the past years than the recent years, it can be clearly noted that till 2010 the export performance in terms of values are exponential and after 2010 i.e. from 2011 their growth is steadily linear and during 2015 it has declined.

Investment, employment, and Export for the years 2006 - 2016

Year	Investment (Cr)	Employment (Persons)	Export (Cr)
2006	4035.51	134704	22840
2008	77209	336235	66638
2009	108903	387439	99689
2012	201874	844916	364478
2014	288476	1239845	494077
2016	376494	1591381	467337

Export contribution to Indian GDP and Export contribution through SEZ to Indian GDP is measured shown in table 6. By the analysis of data it can be said that there is substantial rise in the contribution of export from SEZs to the GDP of India between 2006 and 2016. It was just 0.67% in 2006 and increased to 5.07% in 2013 and after that reduced to 3.72% in 2016. Because after 2012 government change some policies related to SEZs like imposition of minimum alternate tax (MAT) and divided distribution tax (DDT) which affect finally the performance of SEZs. For example the numbers of approved and notified SEZs declined to 412 and 329 respectively by 31 December 2015. Between July 2012 and January 2015 more than 15000 hectares of SEZ land was de-notified. Because of this that there is gradual fall in export from SEZ after 2014 and contribution of SEZ in Indian GDP.

The Sector-wise distribution of approved SEZs shows that 64.76% shares are in formally approved SEZs from IT/ITES/Electronic Hardware/Telecom equipments sector. Other major sectors are biotechnology, Multi-product, Pharmaceuticals /chemicals and Engineering are having 17.02% shares in formally approved SEZs. Out of 222 Exporting SEZs, 129 (i.e. 58.22%) are within IT/ITES Sector. It indicates that India is growing in IT/ITES/ Electronic Hardware/Telecom equipments sector. This can be attributed to the increase in IT/ITES related activities in India. Employment has shown growth rate of 49.61% in 2007-2008. It has shown an increasing trend from 25.41% in 2008-2009 to around 46.89% in 2010- 2011. However, incremental growth rate registered a decline from 2013 to 2016 on account of continuous de-notification of number of SEZs as a result of several adverse market conditions. Investments in the SEZs increased from Rs. 4,035.51 crore in February 2006 to Rs. 376994 cr. in 2015-2016 i.e. 11 times. Investments have shown

a positive growth rate over a period of time. However, its growth rate did not remain consistent owing to several unfavorable changes in the domestic and global market.

Challenges

- The most significant challenges that SEZs face today are the takeover of agricultural land from farmers. Farmers are being paid an amount that is disproportionate to current land prices.
- If SEZs are not properly located, they may cause Supply Chain Management issues. Furthermore, improper planning may result in unbalanced growth in the region, giving the impression of pseudo-development.
- Because SEZs provide a wide range of incentives and tax breaks, many existing domestic firms are expected to relocate to SEZs.
- There is concern that the promotion of SEZs will result in the loss of fertile agricultural land, a loss of revenue to the exchequer, and uneven growth with negative consequences.
- Water security is also threatened as a result of the diversion of water use for SEZs.
- SEZs also pollute the environment, particularly through the discharge of untreated effluent. The destruction of mangroves in Gujarat has had a significant impact on the fisheries and dairy industries.
- SEZs must be promoted, but not at the expense of the country's agricultural sector. It should also have no negative impact on the environment.

Way Forward

- Separate export promotion councils should be set up by state governments to drive foreign trade at the local level and not rely solely on the Central government's interventions.
- FDI could also help in providing our farmers to gain access to technological better
- Farming methods.
- *A more stable tax regime is promised by the Government at the centre by abandoning India's controversial retrospective tax policies.*
- *SEZs may include incentives like exemption from minimum alternate tax and*
- *Dividend distribution tax.*
- *In relation to the land acquisition problems of farmers, the new policy implies that*
- *Private developers will have to deal directly with farmers and landowners to acquire SEZ land.*
- The principle of Corporate Social Responsibility is also applicable to SEZs. Corporate social responsibility must be taken into consideration to respect environmental concerns; to not to deprive the indigenous people from their long time entitlements;

to ensure social security measures to the people working and the like in those deregulated zones.

- The cost and benefit analysis must be done before taking up any project. Resources used by the industries are exhaustible and non-renewal so must be used keeping into account the needs of future generations.

Conclusion

Some of the following points of view may be necessary preconditions for achieving the desired goals and balancing the outcome of the creation of more SEZs in India. SEZs must be located in areas that encourage manufacturing exports. Linkage to ports and airports should be considered when establishing SEZs. A well-developed transportation infrastructure may improve the performance of SEZs even if they are located a little further away from these points, and it may not be necessary to locate SEZs very close to ports/airports. Encouragement should be given to modern versions of SEZs such as free ports, free coastal zones, and the establishment of growth poles and clusters. Free ports may be much larger than SEZs and should provide a world-class environment in terms of legal framework, regulatory procedures, infrastructure, manufacturing facilities, and ease of access. Greater flexibility for firms in terms of plant location in the zone would encourage investor participation. Each SEZ should be of sufficient size to promote the efficient provision of infrastructure services, particularly power, water, and other services. Administrative procedures for monitoring and managing duty-free imports will no longer be cost-effective. SEZ success is dependent on effective investor-friendly administration. This may be difficult to achieve if there are many zones. As a result, limiting the number of zones, particularly for specific product zones, would be simple to manage. Prioritization of zones is required when providing approval based on the strategic importance of the product and the region's development needs. In terms of investment, encouraging more Greenfield FDI in the zone to supplement domestic investment would entice more private investors. Allowing the private sector to be in charge of investment in the zones would help to sustain development. Domestic investment in the zone should be long-term in nature, rather than transient. It would be necessary to exclude agricultural lands entirely from the promotion of SEZs when choosing a location. Development of a well-balanced compensation and rehabilitation policy for displaced people. Maintaining a stable and fair tax regime with no special privileges would improve the country's fiscal strength. At the same time, physical enclosure of the zones would be required to prevent revenue theft. If tax breaks are required, they should be granted right away. Enforcement of good governance in the SEZs with flexible labour laws would be an important component for SEZ success. SEZs have the potential to significantly boost economic activity in the country, make the country's exports more competitive and visible on a global scale, generate net foreign exchange earnings, and create a large number of job opportunities.

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