

SEZ (Special Economic Zone) in India

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Abstract

This study aims at examining the Special Economic Zone (SEZ) in India. When the India's ex-commerce Minister Mr. Murasoli Maran returned from a trip to China in late 2002, he had witnessed something which would lead to revolutionary changes in the India's EXIM (Export-Import) policy and then the SEZ's were born. India over the past decade has progressively opened up its economy to effectively face new challenges and opportunities of the 21st Century. To compete in the global market, the Government of India (GoI) has liberalized export policies & licensing of technology and implemented tax reforms providing various incentives. Special Economic Zone (SEZ) policy is also one of the steps India has taken to boost economic growth through outward looking approach. Special economic zone is a specifically duty free enclave and shall be deemed to be foreign territory for the purpose of trade operations and duties and tariffs. When SEZ policy was introduced in the country, it made headlines and people started considering it as a policy to create a hassle free and investment friendly environment. The Special Economic Zones Act, 2005, was passed by Parliament in May, 2005 which received Presidential assent on the 23rd of June, 2005. SEZs in India functioned from 1.11.2000 to 09.02.2006 under the provisions of the Foreign Trade Policy. The EXIM Policy Statement of 2004-2009 had stated that SEZs could be established under private sector, joint sector or "public sector at the initiative of state governments to provide an internationally competitive and hassle free climate for export promotion.

Keywords: SEZ, Economy, EXIM, FDI

Introduction

Special Economic Zone (SEZ) is a geographical region that has economic laws that are more liberal than a country's typical economic laws. An SEZ is a trade capacity development tool, with the goal to promote rapid economic growth by using tax and business incentives to attract foreign investment and technology. Today, there are approximately 3,000 SEZs operating in 120 countries, which account for over US\$ 600 billion in exports and about 50 million jobs. By offering privileged terms, SEZs attract investment and foreign exchange, spur employment and boost the development of improved technologies and infrastructure.

Moreover SEZ's provide a medium wherein it not only attracts foreign companies looking for cheaper and efficient location to setup their offshore business, but it also allows the local industries to improve their export through a proper channel and with the help of the new foreign partners to the outside world at a very competitive price. SEZ's offer relaxed tax and tariff policies which is different from the other economic areas in the country. Duty free import of raw materials for production is one example. Moreover the Free trade zones attract big players who want to setup business without any license hassles and the long process involved in it. Most of the allotment is done through a single window system and which is highly transparent system. The bottom-line therefore is increased export and FDI (Foreign Direct Investments) enabling increased Public-private partnership and ultimately resulting in a development of world class infrastructure, boost economic growth, exports and employment.

Review of Literature

Bhatta (2003) highlighted the importance of SEZs, provided an overview of the rules, regulations and incentives, the possible implications for the environment of the region, and the importance of ensuring transparency in conducting an environmental impact analysis. The study emphasized that maintenance of ecological balance along with industrial development is required.

Aggarwal (2005), in his research paper revealed that the SEZ scheme introduced by the Government of India in April 2000 has its genesis in the EPZ scheme which was introduced way back in 1965 when the first zone was set up in Kandla. The SEZ Act is a major step in the direction of providing a long-term comprehensive policy framework and fiscal incentives are very important in determining the attractiveness of the zones. The Act has reinforced the authority of the central government. She further stated that the problem of co-ordination between the centre, states and zones will remain and may perhaps aggravate with the creation of different authorities looking after approval and management.

Viswanadhan (2006) analyzed the export performance of SEZs in India. The author examined that total export from the existing EPZs notified as SEZs after the SEZ Act, for the year 2004-05 were Rs. 18300 crore. Nearly 45 per cent of the total exports came from just one such zone, SEEPZ, the most successful zone among the early zones.

Bloodgood (2007) analyzed the role of government in attracting foreign investment. The author examined that like many other countries, Government of India has offered certain incentives to attract foreign investment, many of which are

concentrated in Special Economic Zones. Due to this, net foreign direct investment (FDI) flows into India reached at \$ 15.7 billion in 2006-07.

Majumdar (2007) examined various aspects of SEZs and concluded that zones can play a long-term dynamic role in the host country's development if they are set up appropriately, managed well and integrated with the overall national economy. The author argued that the problems of displacement of farmers and labourers and potential tax revenue losses may be offset through gains accrued in terms of higher export earnings, flow of investments, employment creation and technology upgradation. The study suggests that the policy should be designed to encourage large-sized SEZs, so that they can exploit scale-related advantages.

Raj and Roy (2008), in their article concluded that the SEZ Act, 2005 is anti-democratic and unconstitutional as it completely violates the right to life and livelihood of the people, who are being forcibly displaced for the implementation of these projects. The Act promotes large scale privatization and monopolization of resources into the hands of a few private developers at huge costs to the state exchequer as well as the economy and environment of this country. In their case study they found that the issue regarding Nandigram and Singur is a purely economic one. Politicians have merged this issue with the political framework which emerges as the crux of problem. Public participation is necessary for the welfare of the community. The economic aspect has been neglected which should be addressed by the state. Policies have to be streamlined to ensure that the pain and profits of growth are more equitably distributed.

Mukhopadhyay (2009) examined the structure of fiscal concession, the compensation policy adopted and the credibility of the project figures, based on the variation across different projects of the similar type and finds them lacking. Based on data available from Ministry of Commerce, the study finds that most of the SEZs are in the IT/ITES sector and a large share of projected employment is also expected to come from this sector. Furthermore, the SEZs also appear to be concentrated in few relatively developed districts, near urban centers. This will mean that the additional economic activity engendered by the fiscal concessions for SEZs will be in the sector that is already doing well, as in the Information Technology Enabled Service (ITES). Further, regional imbalances will worsen as a result of the concentration of SEZs in a few locations.

Incentives and facilities offered to the SEZs

The incentives and facilities offered to the units in SEZs for attracting investments into the SEZs, including foreign investment include:-

Duty free import/domestic procurement of goods for development, operation and maintenance of SEZ units
100% Income Tax exemption on export income for SEZ units under Section 10AA of the Income Tax Act for first 5 years, 50% for next 5 years thereafter and 50% of the ploughed back export profit for next 5 years.

Exemption from minimum alternate tax under section 115JB of the Income Tax Act.

External commercial borrowing by SEZ units upto US \$ 500 million in a year without any maturity restriction through

recognized banking channels.

Exemption from Central Sales Tax.

Exemption from Service Tax.

Single window clearance for Central and State level approvals.

Exemption from State sales tax and other levies as extended by the respective State Governments.

Administrative Set UP

The functioning of the SEZs is governed by a three tier administrative set up. The Board of Approval is the apex body and is headed by the Secretary, Department of Commerce. The Approval Committee at the Zone level deals with approval of units in the SEZs and other related issues. Each Zone is headed by a Development Commissioner, who is ex-officio chairperson of the Approval Committee. Once an SEZ has been approved by the Board of Approval and Central Government has notified the area of the SEZ, units are allowed to be set up in the SEZ.

All the proposals for setting up of units in the SEZ are approved at the Zone level by the Approval Committee consisting of Development Commissioner, Customs Authorities and representatives of State Government. All post approval clearances including grant of importer-exporter code number, change in the name of the company or implementing agency, broad banding diversification, etc. are given at the Zone level by the Development Commissioner. The performance of the SEZ units are periodically monitored by the Approval Committee and units are liable for penal action under the provision of Foreign Trade (Development and Regulation) Act, in case of violation of the conditions of the approval.

Why SEZ's are required?

The SEZ's are important in today's context. There are many positives which emerge out of establishing an SEZ. Let us have a look on these factors. SEZ's create immense employment opportunities. The setting up of SEZ's creates lot of indirect employment in terms of labour required. For example:- SEZ's are townships of their own; thereby there are shopping malls, restaurants, amusement parks setup around to attract people, thus resulting in more economic development in that area.

Moreover SEZ's improve the country's foreign export. Because of the increased FDI and Private Equity presence, the local manufacturers get to tie up with these big brands and export their products which now carry a better brand value, therefore helping in creating a greater demand for the goods of local manufacturers. The increased exports from the country bring in more revenue for the country which improves the economic growth.

India and SEZ

The SEZ policy was first introduced in India in April 2000, as a part of the Export Import ("EXIM") policy of India. Considering the need to enhance foreign investment and promote exports from the country and realizing the need that level playing field must be made available to the domestic enterprises and manufacturers to be competitive globally, the Government of India in April 2000 announced the

introduction of Special Economic Zones policy in the country deemed to be foreign territory for the purposes of trade operations, duties and tariffs. To provide an internationally competitive and hassle free environment for exports, units were allowed to be set up in SEZ for manufacture of goods and rendering of services. All the import/export operations of the SEZ units are on self-certification basis. The units in the Zone are required to be a net foreign exchange earner but they would not be subjected to any pre-determined value addition or minimum export performance requirements. Sales in the Domestic Tariff Area by SEZ units are subject to payment of full Custom Duty and as per import policy in force. Further Offshore banking units are being allowed to be set up in the SEZs.

Conclusion

The SEZ's can really improve the economic activity in the country and make the country's export competitive and globally noticeable and provide immense employment opportunity. SEZs were meant to be growth engine of export and creation of employment, inflow of foreign direct investment and development of infrastructure of our country. SEZs are also a vehicle of growth and development for developing countries.

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