



ROLE OF SPECIAL ECONOMIC ZONES IN DEVELOPMENT OF ECONOMY

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ABSTRACT

The Main Advantages of SEZ Units in India can be summarized as promotion of industrialization and economic growth through sustainable development. The main policy statement of the first Special Economic Zone policy statement states that these SEZ units of India shall be offered tax rebates, fiscal incentives and lands at subsidized rates and these are the primary Advantages of SEZ Units in India. The implementation of the first drafted Special Economic Zone policy took place from the end of the year 2000. The first policy statement for the development of Special Economic Zones in India was drafted as a five-year project, starting from 1.11.2000 to 09.02.2006. Further, the first policy statement of the Indian Special Economic Zones was amended to accommodate and compliment the growth attained.

KEY WORDS: Special economic zones, Tax rebates, Growth

INTRODUCTION

A SEZ is a demarcated area of land that provides impetus to manufacturing and services, with the primary objective of boosting exports. SEZs typically feature liberal tax laws and economic policies. Units situated in SEZs are deemed to be outside the customs territory of India. Therefore, goods and services coming into SEZs from the domestic tariff area (DTA) are treated as exports from India, while goods and services rendered from the SEZ to the DTA are treated as imports into India

Objectives of Special Economic Zones in India

- Generation of additional economic activity
- Promotion of exports of goods and services

- Promotion of investment from domestic and foreign sources
- Creation of employment
- Development of infrastructure facilities
- Simplified procedures for the development, operation, and maintenance of the Special Economic Zones and for setting up units and conducting business
- Single window clearance for setting up of an SEZ and a unit in SEZ
- Single window clearance on matters relating to Central as well as the State Governments
- Easy and simplified compliance procedures and documentations with stress on self certification

Key Advantages of SEZ Units in India

- 10-year tax holiday in a block of the first 20 years
- Exemption from duties on all imports for project development
- Exemption from excise / VAT on domestic sourcing of capital goods for project development
- No foreign ownership restrictions in developing zone infrastructure and no restrictions on repatriation
- Freedom to develop township into the SEZ with residential areas, markets, playgrounds, clubs and recreation centers without any restrictions on foreign ownership
- Income tax holidays on business income
- Exemption from import duty, VAT and other Taxes
- 10% FDI allowed through the automatic route for all manufacturing activities
- Procedural ease and efficiency for speedy approvals, clearances and customs procedures and dispute resolution
- Simplification of procedures and self-certification in the labor acts

- Artificial harbor and handling bulk containers made operational throughout the year
- Houses both domestic and international air terminals to facilitate transit, to and fro from major domestic and international destinations
- Has a host of Public and Private Bank chains to offer financial assistance for business houses
- A vibrant industrial city with an abundant supply of skilled manpower, covering the entire spectrum of industries and business expertise
- Well connected with network of public transport, local railways and cabs
- Pollution free environment with proper drainage and sewage system
- In-house Customs clearance facilities
- Easy access to airport and local Railway Station
- Full authority to provide services such as water, electricity, security, restaurants and recreational facilities within the zone on purely commercial basis
- Abundant supply of technically skilled manpower
- Abundant supply of semi-skilled labor across all industry sectors
- Shipco Infrastructure Private Limited - Free Trade Ware Housing Zone in Karnataka over an area of 120 hectares
- Hinduja Investments Private Limited - SEZ in the textile and apparel sector at Doddamannugudde in Bangalore Rural district, over an area of 100 hectares
- Wipro Infotech - SEZ on IT / ITES at Electronics City, Sarajpur Bangalore
- Hewlett Packard India Software Operation Pvt. Ltd. - SEZ on IT
- Food processing and related SEZ services in Hassan, over an area of 157.91 hectares.
- SEZs on pharmaceuticals, biotechnology and chemical sectors in Hassan, covering of 281.21 hectares.
- SEEPZ - Andheri (East), Mumbai
- Khopata - Multi-product, Mumbai
- Navi Mumbai - Multi-product, Mumbai

Some of the Established Important Special Economic Zones in India are :

- Falta food processing unit, West Bengal
- Salt Lake Electronic City, West Bengal
- Manikanchan - Gems and jewelry, West Bengal
- Calcutta Leather Complex, West Bengal
- Karnataka Biotechnology and Information Technology Services - SEZ on biotechnology sector in Bangalore's Electronics City, over an area of 43 acres
- Shree Renuka Sugars Limited - SEZ on sugarcane processing complex covering 100 hectares, comprising a sugar plant, power station and distillery, at Burlatti in Belgaum district
- Ittina Properties Private Limited and three other - SEZs in IT sector, covering electronics, hardware and software sectors in Bangalore, over an area of 15.732 hectares
- Divyasree Infrastructure - SEZ in the IT/ITES sector over an area of 20.234 hectares in Bellandur Amani Kane near Bangalore
- Chaitanaya Infrastructure Private Limited - SEZ in the IT/ITES sector in Bangalore over an area of 20.24 hectares
- Bagmane Developers Private Limited - SEZ in the IT/ITES sector in Raman Nagar in Bangalore North over an area of 15.5 hectares
- SEZs have generated interest in developing countries with regards to boosting international trade and encouraging economic activity in the country's domestic market. China experimented with SEZs in 1979-80 with the objective of opening its hitherto closed economy and thereby promote trade and investment. Following China's lead, the countries of the Soviet bloc experimented with the SEZ model, mainly with an aim to boost FDI and solve their unemployment problem. However, China's experiment with SEZ turned out to be the most successful. Successful SEZs create new jobs for citizens, provide laboratories for governments to run controlled trade policy experiments, attract FDI, strengthen industries, and help countries avoid potentially defective domestic laws and institutions that act as a barrier to growth. Around the world, units set up in SEZs, enjoy key fiscal incentives / tax concessions. Some of the major ones are:
 - Production inputs, raw materials and intermediate goods may be
 - imported duty-free
 - Corporate income tax benefits
 - Foreign funded enterprises / joint ventures may be taxed at lower
 - enterprise tax rates as compared to the national rate
 - Tax holidays may be available depending upon the degree of export
 - activity Exemption from import duty on imported items used for investment in the unit, and inputs for exported items
 - Cheap land made available to SEZ projects

SEZs IN INDIA

Asia's first Export Promotion Zone (EPZ) was set up in Kandla in 1965. Seven more zones were set up thereafter. However, according to the Department of Commerce, Government of India (GoI), these zones were unable to do much for export promotion on account of the multiplicity of controls and clearances, the absence of world-class infrastructure and an unstable fiscal regime

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.

Drawbacks:

The biggest challenges faced by SEZ's in today's scenario are the taking away of agricultural land from the farmers. The farmers are being paid disproportionate money which is not in lieu of the current land prices. The best example could be seen in the case of farmers from Kalinganagar in Orissa where the money given was disproportionate to as high as 1:10 with respect to the market rates. Moreover SEZ's are leading to decrease in crop production (arable Land Grabbing!) thus slowing down of agricultural activity in the country. (Though it may help boost it in other ways by increased export of local goods, both processed and non-processed). More and more farmers are moving towards the lucrative manufacturing side in search of greater economic security. Moreover the greatest problem that seems to be emerging out is that arable land is being used for non agricultural purpose which could lead to food crisis and loss

of self sustenance in future. For example: Nadigram district of West Bengal. But FDI could also help in providing our farmers to gain access to technological better farming methods.

SEZ's in China were initially exempted from national Labor Laws (despite being a communist country!). This model sustained initially because the foreign investors were given the leverage to train the workers and even fire them if incompetent. This Hire or Fire policy initially helped in sustaining foreign investors' confidence in the Chinese domestic labor competence, but in the long run such laws must be made more stringent once the confidence is reposed so as to hedge the workers from hostile company' policies.

The SEZ's if not properly located could lead to Supply Chain Management problems as well. Moreover improper planning could lead to unbalanced growth in the region giving an impression of pseudo-development. For example most of the SEZ's in China are in proximity to the ports and also close to each other, while these have been at the helm of economic development most of the interior hinterland is vastly underdeveloped. SEZ's could also lead to income disparities with divide between the rich and poor increasing if not properly planned.

SEZ's mostly if setup for the manufacturing sector should be carefully planned to carry out proper pollution monitoring and control mechanism. Stringent measures may prove to be expensive but are also extremely important. Shenzhen in china has been the worst affected among SEZ's in China where the sky is grey for most part of the day courtesy the polluting industries. The measures should be taken to make surroundings livable for multitude of people living in the SEZ's. Moreover care should be taken to properly treat effluents from industries not to affect surrounding rivers. Also the SEZ's should be carefully planned not to affect the natural habitat around (Gurgaon SEZ affecting the Bharatpur bird sanctuary)

SEZ Act 2005: To provide a stable economic environment for the promotion of Export-import of goods in a quick, efficient and hassle-free manner, Government of India enacted the SEZ Act, which received the assent of the President of India on June 23, 2005. The SEZ Act and the

SEZ Rules, 2006 (“SEZ Rules”) were notified on February 10, 2006. The SEZ Act is expected to give a big thrust to exports and consequently to the foreign direct investment (“FDI”) inflows into India, and is considered to be one of the finest pieces of legislation that may well represent the future of the industrial development strategy in India. The new law is aimed at encouraging public-private partnership to develop world-class infrastructure and attract private investment (domestic and foreign), boosting economic growth, exports and employment.

The SEZs Rules, inter-alia, provide for drastic simplification of procedures and for single window clearance on matters relating to central as well as state governments. Investment of the order of Rs.100,000 crores over the next 3 years with an employment potential of over 5 lakh is expected from the new SEZs apart from indirect employment during the construction period of the SEZs. Heavy investments are expected in sectors like IT, Pharma, Bio-technology, Textiles, Petro-chemicals, Auto-components, etc. The SEZ Rules provides the simplification of procedures for development, operation, and maintenance of the Special Economic Zones and for setting up and conducting business in SEZs. This includes simplified compliance procedures and documentation with an emphasis on self-certification; single window clearance for setting up of an SEZ, setting up a unit in SEZs and clearance on matters relating to Central as well as State Governments; no requirement for providing bank guarantees; contract manufacturing for foreign principals with option to obtain sub-contracting permission at the initial approval stage; and Import-Export of all items through personal baggage.

With a view to augmenting infrastructure facilities for export production it has been decided to permit the setting up of Special Economic Zones (SEZs) in the public, private, joint sector or by the State Governments. The minimum size of the Special Economic Zone shall not be less than 1000 hectares. Minimum area requirement shall, however, not be applicable to product specific and port/airport based SEZ. This measure is expected to promote self-contained areas supported by world-class infrastructure oriented towards export production. Any private/public/joint sector or

State Government or its agencies can set up Special Economic Zone (SEZ).

How SEZ’s should be modelled to Benefit India:

Size Does Matter: I was reading an article and found out the following fact, China’s SEZs are huge. Shenzhen, the most important SEZ, covers 32,000 hectares. In India, there are just two or three privately developed SEZ, exceeding 1,000 hectares. Most of the others approved are less than 100 hectares. But it is heartening to realize that the government has decided to up the ante and have made guidelines to have a minimum of 1000 hectares of area for approving an SEZ. It hardly needs reiteration that only a large sized zone can generate economic activity on some reasonable scale. In a small zone, the requisite infrastructure and services cannot be provided nor can multiple economic activities be promoted.

TAX Benefits: The incentive package in India is quite liberal and may even be a shade better than that for Chinese SEZs. In fact, it is more or less on a par with the package for the existing EPZs. Duty free import of capital goods and raw materials, reimbursements of Central Sales Tax, tax holiday for specified period, 100 per cent repatriation of profits for subcontracting facilities are allowed. The Government has done well by extending incentives for the infrastructure sector to zone developers and the units as well. This can attract foreign direct investment for providing internationally competitive infrastructure.

Labor Laws: We can learn from china where initially labor laws were relaxed so that the companies could adopt Hire and Fire policy, once the Private and foreign players gained confidence in the Chinese workers’ productivity, this was replaced by the Contract system. India should take cue from this and understand that the import-export business is highly dependent on uncertain international market conditions, rejection of consignments etc. hence a flexible labor policy is the need of hour in the SEZ’s.

Domestic Tariff Areas: We got to understand that the reason for the Foreign investors to invest in Industrial, Manufacturing sector in India is not only to cut down on their costs because of cheaper and competitive products but they also

see the vast Indian consumer markets, which has seen great income rise and standard of living. So apart from exports itself, the domestic market itself provides immense opportunity for sale of products. The companies in SEZ being levied a full import duty on sale in domestic areas does not seem a bright idea. In this case SEZ's will only promote export driven industries which are highly dependent on import of raw materials. To further make use of full potential of SEZ's Industries which are capable of indigenous generation of raw materials should be provided with tax holidays in terms of benefits to facilitate competitive pricing in the domestic tariff areas.

Thinking about the Future and Possible

Fallacies: As evidence over the years has shown, this single-minded pursuit of growth has lowered the efficiency and effectiveness of economic policies, besides incurring huge resource and environmental costs. The Chinese experience offers a valuable lesson for India. Neither the international nor the Indian experience with SEZs has been particularly happy. Globally, only a handful of SEZs, of the hundreds that exist, have generated substantial exports, along with significant domestic spin-offs in demand or technology upgradation. For each successful Shannon (Ireland) or Shenzhen (China), there are 10 failures – in the Philippines, Malaysia, Brazil, Mexico, Colombia, Sri Lanka, Bangladesh, why, even India. A 1998 report by the Comptroller and Auditor General (CAG) on export processing zones (EPZs) says: “Customs duty amounting to Rs. 7,500 crores was forgone for achieving net foreign exchange earnings of Rs.4,700 crores.

The Reserve Bank of India says that large tax incentives can be justified only if SEZ units establish strong “backward and forward linkages with the domestic economy” which is a doubtful proposition. Even the International Monetary Fund's (IMF) Chief Economist Raghuram Rajan has warned: “Not only will [the SEZs] make the government forgo revenue it can ill afford to lose, they also offer firms an incentive to shift existing production to the new zones at substantial cost to society.”

As much as 75 per cent of the SEZ area can be used for non-core activities, including development of residential or commercial properties, shopping malls and hospitals. Developers will surely use this to make money

via the real estate route rather through export promotion. This represents a potentially humongous urban property racket of incalculable dimensions. India will see a multiplication of “Gurgaon-style” development, under the aegis of big builders such as DLF, Marathon, Rahejas, Unitech, City Parks and Dewa

Conclusion: The SEZ's could drastically improve the economic activity in the country, make the country's export competitive and globally noticeable, be net foreign exchange earner and provide immense employment opportunity. But this should not be done at the cost of bringing down the agricultural activities, Land grabbing and real estate mafia should be properly regulated so that the common man is not the net sufferer to get the net foreign exchange earner up and running. As compared to china where majority of the SEZ's were setup by the government, similar should be adopted in India, if not fully it should be a public-private partnership and regulatory bodies should be properly managed to weed out fallacies. To be economically viable SEZ's should be approved over a particular land area (greater than 1000 acres) for rapid economic growth in the area and for it to be profitable and self sustainable. Relaxed Tax norms, Labor laws and DTA regulations will surely attract foreign investment and major industries to setup industries in the SEZ's making it profitable and meeting its desired results!

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