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Sez - Special Economic Zones or Simply Existing Zones

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ABSTRACT *The prime objective of this research is to expose whether Special Economic Zones are successful in India or not. In this study, three basic questions are framed and an attempt is made to trace out the answer.*

1. *What are the reasons to start SEZ instead of EPZ in India?*
2. *Whether objectives of SEZ are achieved?*
3. *Why the Indian Government insists on MAT and DDT after a decade and does it influence the Indian SEZ?*

Chapter one describes the methodology of article, Chapter two lists the review of literature, chapter three envisages the performance of SEZ, Chapter four highlights the reason for the failure and last chapter concludes whether SEZ are successful or not.

1. INTRODUCTION

During 1965, India was the first Asian country to introduce Export Processing Zone (EPZ) in Kantla as an import substitution tool. The initial stages of EPZ strategy were successful but it lapsed to maintain the required economic changes in the subsequent periods. Number of studies and survey were conducted to find out the reason for the failure of EPZ in India, particularly the tax holidays and incentives structure were not attractive while compared with other countries, (Tandon,-1980) absence of infrastructure facilities (Aradana Aggarwal,-2004) and the liberlisation policy in 1990s significantly changed the economic requirement in the trade policy. The SEZ regime in India was initiated by Late Murasoli Maran, former Minister of Commerce and Industry. After the official visit to China, he propounded SEZ through EXIM policy statement of 1997-2002. The SEZ scheme was announced at annual review of EXIM policy effective from 1st April 2000. Special Economic Zones (SEZ) is a specifically delineated duty free enclave and free from all rules and regulations governing imports and exports, which shall be deemed to be a foreign territory for the purposes of trade operations and duties and tariffs. The Government of India announced the introduction of Special Economic Zones to achieve the following objectives:

- ✓ Generation of additional economic activity
- ✓ Promotion of exports of goods and services
- ✓ Promotion of investment from domestic and foreign sources
- ✓ Creation of employment opportunities
- ✓ Development of infrastructure facilities

The present study reveals Export performance of SEZ, Growth of Investment and Creation of Employment in the third chapter. The changes in the tax incentives, particularly the MAT and DDT are discussed in the fourth chapter and the impact of these changes in SEZ scenario, suggests and views are interpreted in the last chapter.

2. REVIEW OF LITERATURE

B.K. Chaturvedi panel has submitted part two of their report on May 10, 2010, recommended a host changes including dropping the MAT levy clause in direct tax code and seeking further Dividend Distribution Tax (DDT) at the SPV level. The report also speaks out against an across the border relaxation of FDI. **Arun. S**. in his article, published in THE HINDU, on January 10, 2012, expressed that imposition of MAT would mean SEZ developers and units would be subjected to income tax at 20 percent and due to MAT, no investor would like to set up a unit in the SEZ. **Smt. Nirmala sitharaman**, Minister of State, ministry of Commerce and Industry, in her written reply to Rajya Sabha on August 13, 2014, as per the original provisions under the Special Economic Zones (SEZs) Act, 2005 and Rules, 2006, exemption from Minimum Alternate Tax (MAT) in the case of SEZ Developers and Units as also the exemption from Dividend Distribution Tax (DDT) for SEZ Developers were granted. But the provisions of Minimum Alternate Tax (MAT) have been made applicable to Special Economic Zone (SEZ) Developers and Units with effect from 1st April, 2012, and the exemption of Dividend Distribution Tax (DDT) in the case of SEZ Developers under the Income-tax Act for dividends declared, distributed or paid is not available after 1st June, 2011. **Mr P. C. Nambiar**, Chairman of EPCES, the SEZs recorded an export growth of 4 per cent during 2013-14 over 2012-13 as compared to 31 per cent in 2012-13 over 2011-12. The decline in export growth was due to imposition of MAT and DDT on SEZs, he added. **Mr. Alok B. Shriram**, President, PHD Chambers 'it is felt by the SEZs operators that operating from the Domestic Tariff Area (DTA) has become much more beneficial than functioning within SEZs after the MAT and DDT exemption have been withdrawn since no significant export benefits exist in them. The chamber has pointed out that on SEZs, employment, investment and exports registered a growth of 4692%, 1679% and 1276% respectively between 2006 and 2012. However, with the withdrawal of DDT and MAT exemptions, SEZs performance started decelerating.'

3. PERFORMANCE OF SEZ

SEZ units are categorized into three different modes. SEZ units of Central Government, SEZ units set up by State/ Private before 2006 and notified SEZ units under SEZ Act 2006. Till February 2006 Rs.2279.20 crores had been invested under Central Government SEZ and Employment generation reached up to 1,22,236 persons and State and

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private owned SEZ had invested Rs.1756.31 crores and created 12,468 persons. As on June 30,2014, the total investment in Central Government SEZs are Rs 13,400.33 crores due to incremental investment of Rs. 11,121.13 crores during 2006-2014 and nearly 84,900 additional employments generated. In case of State and private SEZs setup before 2006, receivied Rs.8,887.71 crores during 2006-2014 and approximately 62,200 employments generated.

In addition to that Rs.2,77,611.36 crores invested in Notified SEZs during 2006-2014 and nearly 9,95,822 employments are made. In easy words, the investment in SEZ has increased to Rs. 3,01,655.71 crores in 2014 from Rs.4035.51 crores in 2006. The incremental investment in SEZ during 2006-2014 was Rs.2,97,620.20 crores. In case of employment generation, 12,77,645 employment opportunities were generated as on 2014 from 1,34,704 in 2006. Table 3.1 displays investment in SEZ in all three kinds of units from 2006-2014, and compared with previous investment and the total investment.

Table 3.1

Investment in SEZ (Rs. Crores)				
	Central Government SEZs	State/Private SEZs set up before 2006	SEZs notified under the SEZ Act	Total
As on February 2006	2,279.20	1,756.31	0.00	4,035.51
Incremental investment in 2006-2014	11,121.13	8,887.71	2,77,611.36	2,97,620.20
As on June 2014	13,400.33	10,644.02	2,77,611.36	3,01,655,.71

Source : sezindia.nic.in

Table 3.2

Employment Generated (number of people)				
	Central Government SEZs	State/ Private SEZs set up before 2006	SEZs notified under the SEZ Act	Total
As on February 2006	1,22,236	12,468	0.00	1,34,704
Incremental investment in 2006-2014	84,900	62,219	9,95,822	11,42,941
As on June 2014	2,07,136	74,687	9,95,822	12,77,645

Source : sezindia.nic.in

There is a paradox in the investment employment ratio with the Indian SEZ. With the limited investment of four thousand crores (Rs.4035.51 crores) up to 2006, it was possible to create more than 1.34 lakh employment opportunities but since 2006, nearly three lakh crores (Rs.2,97,620.20 crores) have been invested, we have generated only less than 12 lakh jobs. In easy words before 2006, investment per employment was Rs. 1,69,200 but during 2006-2014 investment per employment approximately Rs. 26,03985. Of the 563 SEZs that have been formally approved so far, only 192 were operational in June 2014. Total employment in these enclaves was 1,277,645 in 2014, as against an expectation of 1,743,530 by 2009. This indicates SEZ are performance well but not to the expected level. Table 3.3 is prepared with the help of Table 3.1 and Table 3.2. The exhibits the ground reality of SEZ, which provides the impression that whether we have to call the Indian SEZ as Special Economic Zone or Simply Existing Zone because employment investment ratio is **1 : 7.88**

Table 3.3

Period	Investment (Rs.)	Employment (persons)	Investment per employment (Rs.)
Up to Feb. 2006	4035.51 crores	1,34,704	2,99,583.54
2006-2014	2,97,620.20 crores	11,42,941	26,03,985.69
As on June 2014	3,01,655.71 crores	12,77,645	23,61,029.16
Incremental growth	74.75 times	9.49 times	7.88 : 1

4. IMPACT OF MAT AND DDT ON SEZ

One of the main purposes of SEZ policy is to promote export. The export performance of SEZ was really excellent till the end of eleventh five year plan. Since 2012 export performance is improving at slow rate. Table 4.1 exhibits export performance of Indian SEZ.

Years	Exports		Growth over previous year
	Value in Rs. Crores	Billion USD	
2005-2006	22,840	5.08	-
2006-2007	34,615	7.69	52%
2007-2008	66,638	14.81	93%
2008-2009	99,689	22.15	50%
2009-2010	2,20,711	49.05	121%
2010-2011	3,15,868	70.19	43.11%
2011-2012	3,64,478	81.00	15.39%
2012-2013	4,76,159	88.18	31%
2013-2014	4,94,077	82.35	4%

Source: sezindia.nic.in

It is to be noted that SEZs, which contribute about 25 per cent of the country's total exports, are facing problems after imposition of these taxes in 2011. The industry wants withdrawal of these taxes to restore developers investment sentiments. It is unfortunate that over 50 developers have already surrendered their projects and another 57 have approached the government requesting for de-notification of their projects. As a matter of fact many have mentioned the reason of change in tax regime for surrendering their projects. Secondly, the country's trade deficit declined to a low of US $9.43 billion in December 2014 mainly on account of falling imports due to collapse in global crude oil prices, though exports too have come down to the negative zone. As of now, out of over 500 SEZs approved, only 196 are functional with maximum number of such zones in Tamil Nadu (36), followed by Maharashtra and Karnataka (25 each) and Telangana (24).

In legal terms, Sub-Section (6) of Section 115JB of the Income tax Act, 1961, had exempted SEZ Developers and SEZ Units from the operation of the Minimum Alternate Tax ('MAT') Scheme. In a very major setback, this Sub Section is being amended to remove the exemption given to SEZ Developers and SEZ Units. Consequently, SEZ Developers and SEZ Units would now be required to pay MAT

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@ 18.5 per cent, with effect from April 1, 2011. In terms of an amendment to Section 115-0 of the Income tax Act, the exemption given to the SEZ Developers and SEZ Units in respect of Dividend Distribution Tax ('DDT') was proposed to be withdrawn with effect from June 1, 2011.

In commercial terms, in 2011, the government had imposed MAT of 18.5 per cent on book profits of special economic zone developers and units. During 2012-13, SEZs have attracted a total of Rs 2.36 lakh crore investment and provided direct employment opportunities to over 11 lakh people.

In institutional terms, the Export Promotion Council for EoUs and SEZs (EPCES) has said that the minimum alternate tax and the dividend distribution tax on SEZs have dented the investor-friendly image of these zones.

5. CONCLUSION

Answers for three questions are 1) In order to face the global competition SEZ in needed. 2) Out of five objectives, generation of employment opportunities through SEZ was not encouraging. And 3) restoring exemption from MAT and DDT on SEZ leads to adverse impact on SEZ performance.

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