



An Overview of Special Economic Zones in India

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ABSTRACT

In this article it is discussing about the scope and development of Special Economic Zone (SEZ) in India. SEZ is an especially demarcated area of land, owned and operated by a company, which is deemed to be foreign territory for the purpose of trade, duties and tariffs. They are regions designed for economic development oriented towards Foreign Direct Investment (FDI) and exports fostered by social policy incentives mooted in March 2000, the main idea to set up a Special Economic Zone was to boost exports and to help the industries respond to the changing market scenario in a flexible manner.

KEYWORDS

Special Economic Zone, SEZ Act and Rules, EXIM Policy

Introduction

Special Economic Zone (SEZ) is a geographical region that has economic laws that are more liberal than a country's typical economic laws. The category SEZ covers a board range of more special zone types including Free Trade Zone, Export Processing Zones, Free Zones, Industries Estates, Free Ports, Urban Enterprises Zone and others. Usually the goal of SEZ structure is to increase foreign investment. 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, create employment and boost the development of improved technologies and infrastructure.

Scope of Special Economic Zones

The SEZ's are important in today's context for the third world countries which have been in the race for rapid economic growth. There are many positives which emerge out of establishing an SEZ. For undertaking any kind of massive development program the government requires huge amount of funds. So it looks out for potential partners to help the government carry out the program. Now say for setting up an SEZ, the government may tie up with a private partner whose willing to invest in that area, thus a win-win situation for both. As in the government gets the capital needed to establish the required infrastructure and also the expertise. The private player on the other hand gets the right to market and use the SEZ's with relaxed tax laws, thereby increasing its revenue generating capacity and also carrying out the economic growth of the company in a more efficient way with the better tax policies. Actually SEZ's with relaxed import tariffs help the Import dependent and export driven industries to flourish by helping them develop manufactured goods at competitive prices.

SEZ's create immense employment opportunities. The setting up of SEZ's creates lot of indirect employment in terms of labour required. Then after the completion it enables employment in the relevant industries operating in the SEZ. Then there are lots of indirect employments generated wherein people start investing around SEZ. 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.

Emergence of SEZ in India

In 2000, the then Union Commerce and Industry Minister,

Murasoli Maran, visited china and was deeply impressed with the contribution made to the booming economy by their burgeoning SEZ. It was then estimated that 40% of Chinas exports came from these SEZs. Maran and the then NDA Government at the center were convinced that this is what India needed for economic growth which would bring in foreign exchange and create thousands of Jobs.

With a view to create an environment for achieving rapid growth in exports, a Special Economic Zone policy was announced in the Export and Import (EXIM) Policy 2000. Under this policy, one of the main features is that the designated duty free enclave to be treated as foreign territory only for trade operations and duties and tariffs. No license required for import. The manufacturing, trading or service activities are allowed. SEZs are virtually industrial townships that provide supportive infrastructure such as housing, roads, ports and telecommunication. They are intended to be instruments of regional development as well as export promotion. As such, SEZs can have tremendous impact on exports, inflow of foreign investment and employment generation.

Special Economic Zones 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 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 in 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 SEZs and for setting up and conducting business in SEZs.

With a view to augmenting infrastructure facilities for export production it has been decided to permit the setting up of 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.

SEZs Administrative System

SEZs are governed by three tier system in administration process, which are as follows:

- a) The Board of Approval is the apex body in the Department,
- b) The Unit Approval Committee at the Zonal level dealing with approval of units in the SEZs and other related issues, and
- c) Each Zone is headed by a Development Commissioner, who also heads the Unit Approval Committee.

B. SEZs Approval Procedures

Any proposal for setting up of SEZ in the Private/Joint/State Sector is routed through the concerned State government which in turn forwards the same to the Department of Commerce with the recommendations for consideration of the Board of Approval. On the other hand, any proposals for setting up of units in the SEZ are approved at the Zonal level by the Approval Committee consisting of Development Commissioner, Customs Authorities and representatives of State Government.

Attraction of the Benefits in the TAX

India is having some relaxations in TAX matters for providing opportunity to the SEZs. The incentive package are quite liberal and may even be a shade better than that for Chinese SEZs. Duty free import of capital goods and raw materials, reimbursements of Central Sales Tax, tax holiday for specified period, 100% 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.

Relaxed Labour Legislations

If the Labour legislations are very stringent, by that time investors may not be interested in investment. As per the experience from China, 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 SEZ.

Profits from Domestic Marketing

It is also one of the attraction 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 SEZs will only promote export driven industries which are highly dependent on import of raw materials. For further make use of full potential of SEZs 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.

Challenges to the establishment of SEZs

Though there are more possibilities of opportunities, establishment of SEZ is challenging one. The process of acquiring of agricultural land from the farmers is worse one. 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 SEZs are leading to decrease in crop production thus slowing down of agricultural activity in the country. More and more farmers are moving towards the lucrative manufacturing side in search of livelihood. 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.

SEZ's 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. 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.

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 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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