

## A BIG BANG OF SPECIAL ECONOMIC ZONES (SEZs) ON INDIAN ECONOMY: ISSUES AND FACTS

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### ABSTRACT

*Special Economic Zones (SEZs) is one of the export promotion schemes of the government of India among Export Processing Zones (EPZs), Hundred Percent Export Oriented Industrial Units (EOUs), Technology Parks (TPs), etc. The Special Economic Zone is a geographical region which has more liberal economic laws than a country's typical economic laws. SEZ is an instrument of capacity development with the goal to promote rapid economic growth by using fiscal and business incentives to magnetize foreign investment and technology.*

*In Asia, India was one of the first countries to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting exports. Hence, the first EPZ in Asia was set up in Kandla in 1965. The Special Economic Zones (SEZs) Policy was announced in April 2000, with a view to overcome the shortcomings experienced on account of the multiplicity of controls and clearances, absence of world-class infrastructure and an unstable fiscal regime, with a view to attract larger foreign investments in India.*

*In this paper an attempt is made to study the impact of SEZs on Indian economy. The paper is based on the secondary data. The paper contains methodology, objectives, need for study, etc. The impact of SEZs on different sectors is examined in the paper.*

**Keywords:** *Zone, Process, Multiplicity, Investment, Technology, Export, Generating.*

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## INTRODUCTION

Special Economic Zones (SEZs) is one of the export promotion schemes of the government of India among Export Processing Zones (EPZs), Hundred Percent Export Oriented Industrial Units (EOUs), Technology Parks (TPs), etc. The Special Economic Zone is a geographical region which has more liberal economic laws than a country's typical economic laws. SEZ is an instrument of capacity development with the goal to promote rapid economic growth by using fiscal and business incentives to magnetize foreign investment and technology. At present, there are more than 3,000 SEZs operating in 120 countries and accounting for over \$ 600 billion in exports and about 50 million jobs. By offering privileged terms, SEZs attract investment and foreign exchange, stimulate employment and boost the development of improved technologies and infrastructure. In these zones only the labour and banking laws will operate. The Indian EPZs have contributed hardly 4 percent of the country's exports where as the SEZs in China contributed 40 percent. The move to develop SEZs in India was inspired by the success of China's SEZs. The major reason for the success of SEZs in China is the absence of Trade Union Rights. In a democratic country like India, one cannot think of denying the labour rights. Even then the big push of development envisaged by the SEZs should be expected a very significant impact on the Indian economy.

In Asia, India was one of the first countries to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting exports. Hence, the first EPZ in Asia was set up in Kandla in 1965. The Special Economic Zones (SEZs) Policy was announced in April 2000, with a view to overcome the shortcomings experienced on account of the multiplicity of controls and clearances, absence of world-class infrastructure and an unstable fiscal regime, with a view to attract larger foreign investments in India, with the minimum possible regulations, this policy planned to make SEZs an engine for economic growth supported by quality infrastructure complemented by an attractive fiscal package, both at the Centre and the State level,

In India from 1<sup>st</sup> November, 2000 to 9<sup>th</sup> February, 2006 SEZs functioned under the provisions of the Foreign Trade Policy and fiscal incentives were made effective through the provisions of relevant statutes.

A comprehensive draft of SEZ Bill prepared after extensive discussions with the stakeholders to infuse confidence in investors and signal the Government's commitment to a stable SEZ policy regime and with a view to impart stability to the SEZ regime thereby generating greater economic activity and employment through the establishment of SEZs,. A number of

meetings were held in various parts of the country both by the Minister for Commerce and Industry as well as senior officials for this purpose. The Special Economic Zones (SEZs) Act, 2005, was passed by Parliament in May, 2005 which received Presidential consent on 23rd June, 2005. On 10<sup>th</sup> February, 2006 the SEZ Act, 2005, supported by SEZ Rules came into effect and providing for radical simplification of procedures and for single window clearance on matters relating to central as well as state governments.

### **NEED FOR STUDY**

India a fast developing country needs to survive and compete with rest of the world in international trade. To compete and increase the volume of international trade output is to be increased for which huge capital investment for industrialization is needed. The SEZs come with capital and technology which is deficient in India. But the way for SEZs is not so clear due to some specific reasons. The studies in this field are quite essential to study the performance of the SEZs in the economy in attaining the goals and make suggestions improving their performance in the interest of the nation.

### **OBJECTIVES OF THE STUDY**

The study has following objectives-

1. To know the objectives of the SEZs.
2. To know the government incentives for SEZs.
3. To study the overall performance of the SEZs.
4. To examine the impact of SEZs on various sectors of the economy.
5. To know the problems of SEZs and make suitable suggestions.

### **METHODOLOGY**

The study is based on secondary data. The performance of the SEZs will be analyzed with the statistical data available and relating to SEZs existing and SEZs recently approved by the government of India on all India level will be presented in the form of tables and analyzed.

### **THE OBJECTIVES OF THE SEZs ACT**

- (i) Generation of additional economic activity
- (ii) Creation of employment opportunities
- (iii) Promotion of investment from domestic and foreign sources
- (iv) Development of infrastructure facilities
- (v) Promotion of exports of goods and services.

In view of above mentioned objectives and to attract the SEZs special facilities like, Duty free import/domestic procurement of goods for development, operation and maintenance of

SEZ units, Hundred percent Income Tax exemption on export income for SEZ units under Section 10AA of the Income Tax Act for first 5 years, Fifty percent for next 5 years thereafter and Fifty percent 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 \$ 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, etc. The incentives like, Exemption from customs/excise duties for development of SEZs for authorized operations approved by the BOA, Income Tax exemption on income derived from the business of development of the SEZ in a block of 10 years in 15 years under Section 80-IAB of the Income Tax Act, Exemption from minimum alternate tax under Section 115 JB of the Income Tax Act, Exemption from dividend distribution tax under Section 115O of the Income Tax Act, Exemption from Central Sales Tax (CST) and Exemption from Service Tax (Section 7, 26 and Second Schedule of the SEZ Act) are given.

It is expected that, this will activate a large flow of foreign and domestic investment in SEZs, in infrastructure and productive capacity, leading to generation of additional economic activity and creation of employment opportunities.

### SEZs IN INDIA

At present there are 143 SEZs (as of February 2012) operating throughout India. The government of India formally approved additionally more than 500 SEZs (as on October 2010)

The number of SEZs operating in different states is given in the following table No. 1. Tamil Nadu and Karnataka are the first two states with highest number of SEZs are working i.e 20 and 18 respectively. In Chandigarh, Rajasthan and Orissa each one SEZs are functioning.

For Andhra Pradesh 109, Maharashtra 105 and Tamil Nadu 70 SEZs have been got approved.

**Table No. 1. SEZs Operating in Different States**

Name of the State	No. of SEZs Operating
Karnataka,	18
Kerala	06
Chandigarh	01
Gujarat	08
Haryana	03
Maharashtra	14
Rajasthan	01
Tamil Nadu	20

Uttar Pradesh	04
West Bengal	02
Orissa	01

Source: Wikipedia, the free encyclopedia

The government of India has approved 109 SEZs, for Andhra Pradesh, 105 Maharashtra and, 70 Tamil Nadu. The following table No. 2. gives details about the government approved SEZs in different States.

**Table No. 2. SEZs Approved by the Government of India in Different States (as on October, 2010)**

Name of the State	No. of SEZs Operating
Andhra Pradesh	109
Chandigarh	2
Chattisgarh	2
Dadra and Nagar Haveli	4
Delhi	3
Goa	7
Gujarat	45
Haryana	45
Jharkhand	1
Karnataka	56
Kerala	28
Madhya Pradesh	14
Maharashtra	105
Nagaland	1
Orissa	11
Pondicherry	1
Punjab	8
Rjasthan	8
Tamil Nadu	70
Uttarkhand	3
Uttar Pradesh	33
West Bengal	22

Source: Wikipedia, the free encyclopedia.

## **EXPORT PERFORMANCE OF SEZs**

Special Economic Zones Primarily aim at developing export potentials of the country through export oriented individual complexes or industrial agglomerates. The special economic zones in India were established with a view to bring expertise for the country's exports sector. For this a policy was introduced on 01.04.2006. As to these policies, the Government has set up SEZ's in the public, private, joint sector or by State Governments. In this regard some of the existing Export processing zones were converted in to Special economic zones. Fiscal incentives financial assistance, infrastructural support and environment free of bureaucratic

interference, underlies the economic policy parameters promoting these zones. These incentives and assistance schemes increase indirect competitive strength in the units in these zones to face adequately the international competition in the world market. The valuable foreign exchange earned by the units in the SEZs provides the needed investment resources and thus help the economic development of the country.

Exports from the functioning SEZs during the last five years has increased to Rs. 66,638 crore in 2007-08 from Rs. 13,854 crore in 2003-04. The value of exports was Rs. 18,314 crore in 2004-05, Rs. 22,840 crore in 2005-06 and Rs. 34,615 crore in 2006-07. The total amount of exports of Indian SEZ was Rs. 2.2 Trillion in 2009-10 fiscal. It grew by a 43 percent and reached Rs. 3.16 Trillion in 2010-11 fiscal. By 2010-11 SEZs in Indian have created over 840,000 jobs. The following table No. 3 gives details.

**Table No. 3. Exports from the functioning SEZs during 2003 to 2009-10**

Year	Value (Rs. Crore)	Growth Rate ( over previous year )
2003-2004	13,854	39%
2004-2005	18,314	32%
2005-2006	22 840	25%
2006-20007	34,615	52%
2007-2008	66,638	93%
2008-2009	99,689	50%
2009-2010	2,20,711.39	121.40%

Source: Wikipedia, the free encyclopedia.

## **INDUSTRIAL DEVELOPMENT AND SEZs**

SEZs have direct implications for the industrial development of the economy. The industrial units in the SEZs have easy access to the vitally needed inputs – both to indigenous and imported. With fast expanding domestic and export markets the industrial units can grow to their optimum level and reap the economies of scale. With assured infrastructure in the areas of power, transport, communication, finance and trained man power industrial units in the SEZs have great potential of growth transmission not only within the zone but also in the economy at large. They transmit the multiplier and growth acceleration process in the economy. The SEZs have provided employment to 1.97 lakh persons of which 37 percent are women. The current investment and employment created by the SEZs is Rs. 83,450 crore and 1,13,426 persons respectively.

## **SEZs AND TECHNOLOGICAL IMPACT**

SEZs are exposed to world economy through their export trade. They are instrumental in the process of globalization and economic interdependence. The units in the SEZs try to assimilate the latest technology in their production process and marketing management. This

assimilation of modern technology both imported and indigenously developed lead to technological upgradation in the production and marketing areas not only among the units in the SEZs but also among the units outside these zones. Thus the technological advancement achieved by the SEZs has an indirect implication on the economic development of the economy.

### **IMPACT OF SEZs ON THE AGRICULTURAL ECONOMY**

One of the often cited drawbacks of the SEZs is that, the development of these SEZs result in the reduction of rich cultivable land covering hundreds of hectares. This has an impact on the country's food production capacity. However for the large country like ours this opportunity cost of foregone agricultural production could easily be compensated through enhanced industrial output, increased manpower employment in the industrial sector, contribution to growing export sector and raising the technological level of the various sectors of the economy. Further it can be argued that, there will be increased demand for the processing units in the SEZs and elsewhere in the economy. Hence there will some beneficial impact on the agricultural economy by the growth of SEZs. While allotting land to SEZs fertile and cultivable land should not be allotted, here it should be remember that, China's SEZs are located at coastal areas and using barren land.

#### **Problems Faced by SEZs in India:**

SEZs in India are facing some problems like a. Small in size, b. Inadequate infrastructure, c. Restrictive policies, d. Lengthy procedures e. Locational disadvantages, f. Stringent labour laws, opposition from public, etc.

### **FINDINGS**

1. India was one of the first countries to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting exports. Hence, the first EPZ in Asia was set up in Kandla in 1965.
2. At present there are 143 SEZs (as of February 2012) operating throughout India. The government of India formally approved additionally more than 500 SEZs (as on October 2010)
3. Tamil Nadu and Karnataka are the first two states with highest number of SEZs are working i.e 20 and 18 respectively.
4. In Chandigarh, Rajasthan and Orissa each one SEZs are functioning.
5. For Andhra Pradesh 109, Maharashtra 105 and Tamil Nadu 70 SEZs have been got approved.

6. By 2010-11 SEZs in Indian have created over 840,000 jobs.
7. The total amount of export grew by a 43 percent and reached Rs. 3.16 Trillion in 2010-11 fiscal and it was highest of 121.40 percent during 2009-10.
8. The current investment and employment created by the SEZs is Rs. 83,450 crore and 1,13,426 persons respectively.
9. The units in the SEZs try to assimilate the latest technology in their production process and marketing management.
10. SEZs result in the reduction of rich cultivable land covering hundreds of hectares. This has an impact on the country's food production capacity.
11. SEZs in India are facing some problems like a. Small in size, b. Inadequate infrastructure, c. Restrictive policies, d. Lengthy procedures e. Locational disadvantages, f. Stringent labour laws, opposition from public, etc

## CONCLUSION

The SEZs have high investment and employment potentials. The country has been an important investment destination for the foreign investors apart from the domestic private corporate bodies. The surge in the investment activities during last 60 years of planning has created lot of employment opportunities particularly for the skilled manpower. India is in the forefront of supply of skilled man power, particularly in the area of software engineering. Due to the world trend of recession in the advanced countries of the west, Indian skilled manpower had more employment opportunities within the country. Hence the schemes like SEZs have great employment potentials for the software engineers and other skilled workers. Hence there is need for social and political awareness among the people to support such schemes for the all-round economic development of the country.

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