

SPECIAL ECONOMIC ZONES IN INDIA: PROBLEMS AND PROSPECTS

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ABSTRACT

A Special Economic Zone (SEZ) is a geographical region that has economic laws that are more liberal than a country's domestic economic laws. 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. It has been recognized as an important mechanism for creation of infrastructure, employment generation, promotion of regional development, increase in foreign exchange earnings, improving export competitiveness and transfer of skills and technology.

In India, the enactment of the SEZ Act 2005 and the subsequent implementation of SEZ rules in 2006 have evoked immense interest amongst the investors' community for establishment of SEZs as a business proposition in order to reap the benefits of globalization. At the same time, large scale acquisition of land for SEZ development in different sectors has also invited criticism that the SEZs are one of the land grabbing activities, and are providing undue advantages to the real estate business at the expense of revenue earnings of the Government due to provision of excessive tax concessions and other incentives. The first segment of the paper provides an overview of the concept of SEZ with special reference to India. The author has tried to put forward some major problems concerning the SEZs with the help of descriptive approach in the second segment. The last segment of the paper threw light upon the future prospects as well as some valuable suggestions for the success of the SEZs in India. The

author concluded that a balancing strategy, however, needs to be adopted to safeguard the interest of all the stake-holders without hindering the basic objectives of SEZ proposition. The desired objectives could be achieved through restricting the proliferation of zones by limiting sector-specific zones, encouraging multi-product zones, creating conducive environment for private investments and Greenfield FDI.

Key words: *Special economic Zone, Rapid economic growth, foreign investment, regional development, export competitiveness*

INTRODUCTION

Special Economic Zones in India were established in an attempt to accelerate foreign investment and endorse exports from India and recognizing the need of a global platform to expose the domestic firms and producers to the competitive world market. The announcement of formulating a Special Economic Zones policy in India was made by the government in April 2000 and was anticipated to be an overseas province for trade purposes, commercial operations, duties and taxes.

SEZs when equipped are anticipated to provide premiere infrastructure services and sustenance services, besides permitting for the tariff free import of merchandize and raw materials. Furthermore, attractive financial subsidiaries and trouble-free custom tariffs, banking and other methods are provided in such business zones. Establishing SEZs is also recognized as communications development methods.

ORGANIZATIONAL SET-UP

SEZs are controlled by a three tier Organizational Set-up described as under:

- Supreme controlling body in the Department is known as The Board of Approval
- At district level, The Unit Approval Committee tackles with SEZs development and other associated issues
- Every district is led by a Development Commissioner, who also controls the Unit Approval Committee.

OBJECTIVES OF SEZs

The main objectives of the SEZ Act are:

- (a) generation of additional economic activity
- (b) promotion of exports of goods and services;
- (c) promotion of investment from domestic and foreign sources;
- (d) creation of employment opportunities;
- (e) development of infrastructure facilities;

SALIENT FEATURES

- Indian SEZs are developed by government, private and joint sector, unlike its international counterparts where zones are chiefly maintained by their respective governments. This provides equal prospects to both Indian and global players.
- Government has allocated a least favorable area of 1,000 hectares for greenfield SEZs. Although, there are no limitation in context of favorable area in constructing sector specific SEZs.
- 100% of Foreign Direct Investment is allowed for all endowments in Special Economic Zones, apart from activities cataloged under the unconstructive record.
- SEZ divisions are obligatory to be encouraging net foreign exchange yielders and are not entitle to any least amount of value addition guidelines or export responsibilities.
- Commodity surge from Domestic Tariff Area (DTA) into a SEZ is recognized as exports and commodity surge into DTA from SEZ are recognized as imports.

BENEFITS

Besides offering high end infrastructure and availability to a large skilled workforce, SEZ also offers attractive incentives and advantages to firms and developers. Mentioned below are some of the benefits of Indian Special Economic Zones:

- Full Income tax exemption for a period of 5 years and an extra 50% tax relief for additional two years.
- Manufacturing industry is allowed an FDI influx of 100% via automatic channels excluding few industries.
- Services to establish off-shore banking divisions in SEZs
- Service Tax and Central Sales Tax exemption
- External commercial lending of upto US\$500 million is allowed for SEZ divisions in a year sans any maturity limitations via certified banking networks.
- No import authorization obligations.
- Services to sustain foreign exchange proof of payments of upto 100% in Exchange Earners' Foreign Currency Account.
- SEZ franchisees are allowed 100% FDI in offering customary telephone facilities in the areas.
- No limitation of foreign endowments for small scale industry reticent products.
- Tax relief from sectoral authorization obligations for goods reticent for SSI industry
- Tax relief from custom tariff on import of merchandize, raw products, spare parts etc

- Tax relief from Central Excise tariff on acquirement of merchandize, raw products, spare parts etc from the local market
- No regular assessments by Customs for export and import freight.
- Capacity to comprehend and repatriate export advances within a year.
- Revenues permitted to be repatriated sans any dividend assessment needs
- Authorization for Employment prospects on behalf of local exporters for direct export.
- Authorization for off-shoring of local and global players. This service is accessible to jewelry sector also.

SEZS : ANALYSIS OF PERFORMANCE

Exports from the functioning SEZs during the last three years are as under:

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%

The above analysis shows that as envisaged, the performance SEZs post 2006 shows the positive improvement and substantial growth in the export performance thereby facilitating the economic growth of the country.

CHALLENGING ISSUES

There are some macro and micro issues in establishing SEZs which are stated as follows:- Macro Issues

- ☐ Land Acquisitions
- ☐ SEZs' Fiscal impactLoss of revenue to government
- Real estate zones (REZ) instead of SEZ

- Relocation of IT/ITES companies
- ☒ Qualms on creation of Employment
- Uneven economic growth and regional disparities

MICRO ISSUES

- ☒ Operational inefficiency
- ☒ Infrastructural inadequacies
- Impediments in smooth inflow of foreign investment
- Exit clauses for de-notification of SEZ are not specified.

RECOMMENDATIONS AND FUTURE PROSPECTS

Proactive Measures

- A conscious deliberate decision at a centre regarding the number and nature of SEZ is required. It is better to have few large SEZs rather than many small SEZs spread across various sectors in order to sustain the globalization challenges in future. A fine balance between relaxation of laws and preventing creation of monopoly or exploitation should be attempted.

Role of the State

- Setting up of SEZs in underdeveloped regions should be encouraged. Building social infrastructure should be encouraged. Economic autonomy should be given for all SEZs those are the successful with less and less involvement of bureaucratic procedures in the economic structure of SEZ
- Entrepreneurship should be encouraged.

Resolving Land Acquisitions Issues

- Proper rehabilitation plan and its effective implementation should be chalked out by the government while finalizing the SEZ plan so as to avoid backlash in future.
- Compensation paid- Appointing an independent valuation of land by professionals as followed in other countries instead of the seller (the government) the right to decide it.
- Priority for acquiring land should be given to waste and barren land, rather than fertile land.
- Shifting people from unproductive farms to growth oriented industries and manage the inevitable transition without political violence.

Rationalize the Incentives Offered

- The temptation of offering incentives should be pruned down, clearer rules and fewer procedures is required to attract investors.

- Emphasize on Tax uniformity rather than tax free enclaves.

Confidence Building

- Clarity, transparency and greater awareness must be fostered across various socioeconomic groups about the prospects and outcomes of such project.

Create Ample Employment Opportunities

- Creating employment opportunities for local people is required especially whose land is been displaced. This will also resolve the problem of disguised unemployment as seen in agricultural sector.
- It is estimated that some 100 million workers will have to move from agriculture to industry and services if India is to become a developed country.

Balanced Growth

- Single unit SEZs to be avoided as the cluster benefits expected from SEZs may be foregone.
- In long run the competitiveness of SEZs can be sustained only with balanced dispersal of investment across sectors and states.
- Stimulating new industrial units to set up needs to be encouraged rather than industry relocating themselves in SEZs.

Attracting Foreign Capital

- The role of NRI cannot be undermined in encouraging foreign capital. For instance one of the success reasons of SEZ in china is the role and the contribution of overseas Chinese. Cultural affinity and patriotism have remained so strong that it has contributed towards the development of the country.

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!

The three important objectives of the SEZ Act, 2005, are: generate employment opportunities, encourage investment (both private and foreign) and increase India's share in global exports. The success of SEZs in meeting these objectives is analyzed in this section in order to assess their efficacy in India. Since the number of operating SEZs in India is very high, compared to say in China, it is not possible to individually evaluate the performance of each SEZs. Therefore, the study undertakes an overall assessment of SEZs in India.

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