Introduction of Special Economic Zones in India

DR. NAVIN R. PRAJAPATI
H. O. D. (Department of Economics)
Shree B. P. B. Arts & M. H. G. Commerce College, Unjha
Gujarat (India)

Abstract:
Economic Zones in the country with a view to provide an internationally A policy was introduced on 1.4.2000 for setting up of Special competitive and hassle free environment for exports. Units may be set up in SEZs for manufacture of goods and rendering of services. It is expected that this will trigger 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.

Keywords: *Economic Zone, Export-import, Goods, SEZs*

1. Introduction

SEZs is a geographical region with different economic laws than a country's typical economic laws, with the main goal of attracting foreign investment. In economic terms, SEZs is specifically delineated duty-free enclave and shall be deemed to be foreign territory for the purposes of trade operations and duties & tariffs. This policy intended 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, with the minimum possible regulations. 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 and with a view to attract larger foreign investments in India, the Special Economic Zones (SEZs) Policy was announced in April 2000. SEZs in India functioned from 1.11.2000 to 09.02.2006 under the provisions of the Foreign Trade Policy and fiscal incentives were made effective through the provisions of relevant statutes. SEZ is a geographical region with different economic laws than a country's typical economic laws, with the main goal of attracting foreign investment. In economic terms, SEZ is specifically delineated duty-free enclave and shall be deemed to be foreign territory for the purposes of trade operations and duties & tariffs, Countries which have experimented with this concept are China (with great success), UAE, Malaysia, India, Jordan, Poland, Kazakhstan, Philippines, Russia and to some extent North Korea. Apart from Central government, any private/ public/ joint sector or State Government can set up an SEZ. Before recommending any proposal to department of commerce, the State must satisfy themselves that they are in a position to supply basic inputs like water, electricity etc. SEZs have potential to playa key role in economic development of a country, as they did for China.

2. Special Economic Zones and Chinese experience in industrial sector Success in China

There are currently over 4000 special investment zones worldwide. China started with SEZs in 80's. After establishing the first Export Processing Zone (EPZ) in Kandla in 1965, India's exports through EPZs have increased from Rs. 10 lakh to $ 1 billion. Sounds impressive, till one looks at China. China's first SEZ at Shenzen 'alone' attracted over $ 30 billion in direct investment. In countires like China, UAE & Malaysia, these zones have-

- emerged as focal points for foreign investments
- attracted over 20% of foreign direct investment

Vol. 2, Issue: 5, June: 2014
ISSN:(P) 2347-5404 ISSN:(O)2320 771X

- contributed to over quarter of country exports.
- served as testing grounds for reforms & policies for governments
- indirectly, helped improve competitiveness of local industry, job creation, local skill upgradation & technology absorption from FDI.

3. India & China

The Scenarios Compared India has more or less adopted the same China model of SEZ development and expecting the similar results. However, the government is missing out on few vital differences:

(i) Free zones in countries like China. UAE were mostly public funded in which economic gains prospects assumed far more significance than financial viability considerations. Thus the responsibility of market to promote zones & to attract tenant industries was primarily shouldered by governments. The Indian model, on the contrary, envisages 'private sector led' development of such zones. Thus, the responsibility or risk of financing, marketing & promotion has been vested with private players, who have very little or no experience in these areas.

(ii) India is not a command economy i.e. foreign investors are not confined to SEZs only, which make these zones little special than were China's where SEZs used to be the only route through which foreign investors could enter the country. Besides, Indian has no equivalent to Hong Kong or Taiwan where industries had a pressing need to relocate and China served as a ready relocation base.

(iii) China continues to score because it has bundled an attractive tax environment with world-class infrastructure and a liberal labour environment. In India, on the other hand, buckling under the pressure from Left parties, the government has axed the Section 50(b) from the central SEZ bill, which would have empowered states to ease labour laws in SEZs. Democratic India has strong labour unions organically linked to political parties. Authoritarian China, conversely, has very pliant unions. Here India has lost a crucial edge in the global environment marketplace.

(iv) India has also some advantages over countries like China. It has significantly larger English-speaking workforce than does China. India also has an edge in a number of key knowledge based industries like software, IT-enabled services, medical services, drugs & pharmaceuticals & agro-based industries. Hence India's SEZs are therefore likely to develop along quite different lines from China's. Indian zones will more likely attract investments in high-end human ski 11 based industries & services sector.

(v) Also in the light of the increasing economic engagement of India with the ASEAN & China, it is more 1ikely that a greater proportion of investment into Indian zones could come from these countries than from US or Europe.

4. Introduction of Special Economic Zones

4.1 Economic history

The world first known instance of SEZ have been found in an industrial park set up in Puerto Rico in 1947. In the 1960s, Ireland and Taiwan followed suit, but in the 1980s China made the SEZs gain global currency with its largest SEZ being the metropolis of Shenzhen.

From 1965 onwards, India experimented with the concept of such units in the form of Export Processing Zones (EPZ). But a revolution came in 2000, when Murlisone Maran, then Commerce Minister, made a tour to the southern provinces of China. After returning from the visit, he incorporated the SEZs into the Exim Policy of India. Five year later, SEZ Act (2005) was also introduced and in 2006 SEZ Rules were formulated.

A 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 broad range of more specific zone

Vol. 2, Issue: 5, June: 2014
ISSN:(P) 2347-5404 ISSN:(O)2320 771X

types, including Free Trade Zones (FTZ), Export Processing Zones (EPZ), Free Zones (FZ), Industrial Estates (IE), Free Ports, Urban Enterprise Zones and others. Usually the goal of an SEZ structure is to increase foreign investment. One of the earliest and the most famous Special Economic Zones were founded by the government of the People's Republic of China under Deng Xiaoping in the early 1980s. The most successful Special Economic Zone in China, Shenzhen, has developed from a small village into a city with a population over 10 million within 20 years. Following the Chinese examples, Special Economic Zones have been established in several countries, including Brazil, India, Iran, Jordan, Kazakhstan, Pakistan, the Philippines, Poland, Russia, and Ukraine. North Korea has also attempted this to a degree, but failed. Currently, Puno, Peru has been slated to become a "Zona Economica" by its president Alan Garcia. A single SEZ can contain multiple 'specific' zones within its boundaries. The two most prominent examples of this layered approach are Subic Bay in the Philippines and the Aqaba Special Economic Zone in Jordan.

In a recent comprehensive econometric study[l] on the SEZ policies in China and India, Leong (2007) investigates the impact of opening up the Chinese and Indian economy on economic growth in these countries using new panel data sets for both the national economies and the regional economies of China. The policy change to a more liberalized economy is explicitly identified using instrumental variables. The results provide support that export growth does have a positive and statistically significant effect on economic growth in these countries. However, the growth rates of these countries are export and FDI inelastic, in the sense that a one percentage point increase in growth rate of export or FDI will have a less than one percentage point increase in economic growth rate of these countries. In the case of the Chinese regions, the presence of export processing zones may exert positive effect on the regional growth rate but the increase in regional growth is even more export inelastic than at the national level. The result dispel the popular view that adopting a policy of more openness in the economy has a "multiplier" effect on economic growth. Of the two phases of liberalization in both countries, the second stage is statistically significant One possible reason is that the scale of liberalization is greater in the second phase, Additionally, increasing the number of SEZs has very negligible effect on economic growth, Taken together, these results suggest that what contributes to greater growth is a greater scale of liberalization, rather than increasing the number of SEZs. According to World Bank estimates, as of 2007 there are more than 3,000 projects taking place in SEZs in 120 co entries worldwide, SEZs have been implemented using a variety of institutional structures across the world ranging from fully public (government operator, government developer, government regulator) to 'fully' private (private operator, private developer, public regulator). In many cases, public sector operators and developers act as quasi-government agencies in that they have a pseudo-corporate institutional structure and have budgetary autonomy, SEZs are often developed under a public-private partnership arrangement, in which the public sector provides some level of support (provision of off-site infrastructure, equity investment, soft loans, bond issues, etc) to enable a private sector developer to obtain a reasonable rate of return on the project (typically 10-20% depending on risk levels).

4.2 Indian Economic History

India was one of the first in Asia to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting exports, with Asia's first EPZ set up in Kandla in 1965. 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 and with a view to attract laruer foreiun investments in India, the Special Economic Zones (SEZs) Policy was announced in April 2000, India was one of the earlier starters in SEZ business. The SEZ policy in India first came into inception on April 1, 2000. However with lacunas like lack. of central legislation, rigid labour laws, the SEZs in India were not off to a flying start. India has always looked enviously at China's far larger & more successful zones. Prior to 2005, the policy relating to SEZs, contained in foreign trade policy, was implemented through piecemeal

& ad-hoc amendments to different laws, besides executive orders" In order to avoid these pitfalls and to give a long-term & stable policy framework with minimum regulation, the SEZ Act 2005 was enacted, The Act provides the umbrella legal framework, covering all important legal & regulatory aspects of SEZ development as well as for units operating therein. Land will often be provided by the State governments at concessionary rates, and both developer & operating units can receive tax holidays up to 15 years, provided they are export-oriented. The other important provisions include single window clearance mechanism for the units in the zone; fiscal regime for developers & units besides a legislative framework for setting up offshore banking units; unit being eligible to 100% tax exemption for first 5 years, 50% for the next 5 years and 50% of the ploughed back export profits for the next 5 years. The developers will continue to get 100% income tax exemption for 10 years in a block period of 15 years. The aim is to enhance foreign investment, provide an internationally competitive & hassle-free environment for exports, boost industrial investment & exports and to generate employment while persuading the private sector to build social infrastructure that the states cannot afford. E.g. Reliance has announced to develop 10,000 hectares of prime land adjacent to Gurgaon, a satellite city on the outskirts of Delhi. The government hopes that the SEZs will bring in billions of dollars in investment and create over a million new jobs. India already has 11 functioning SEZs- 7 set up by the central government and 4 by private/joint/state sector. These 11 SEZs are functioning in- Kandla, Surat, Cochin, Santa Cruz, Falta, Chennai, Vishakhapatanam, Noida, Indore, Salt Lake (Kolkata) and Jaipur. Two others at Jodhpur & Moradabad are ready for operation. Already they generate 5% of total Indian exports! The Board of Approval in the Commerce Ministry in its three meetings so far has approved 150 proposals (out of nearly 380), less than 6 months after the SEZ Act. The list of bidders includes private players like Reliance, Wipro, Infosys & even public sector giants like ONGC. Reliance's project of Maha Mumbai SEZ is going to be the largest project of SEZ in entire world by any private player. In July 2006, concerned over the proliferating SEZs, the government, against wishes of Commerce ministry, decided to put the upper limit to number of SEZs in India, and accordingly a cap of 150 was imposed. In this battle of finance & commerce departments, the later had the last laugh, as recently government lifted the proposed cap.

5. Objectives of setting up of Special Economic Zones in India

This policy intended 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, with the minimum possible regulations. SEZs in India functioned from 1.11.2000 to 09.02.2006 under the provisions of the Foreign Trade Policy and fiscal incentives were made effective through the provisions of relevant statutes. To instill 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 comprehensive draft SEZ Bill prepared after extensive discussions with the stakeholders. 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 Act, 2005, was passed by Parliament in May, 2005 which received Presidential assent on the 23rd of June, 2005. The draft SEZ Rules were widely discussed and put on the website of the Department of Commerce offering suggestions/comments. Around 800 suggestions were received on the draft rules. After extensive consultations, the SEZ Act, 2005, supported by SEZ Rules, came into effect on 10th February, 2006, providing for drastic simplification of procedures and for single window clearance on matters relating to central as well as state governments. 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:

It is expected that this will trigger 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.

5.1 Special Economic Zones method of working

A policy for setting up of Special Economic Zones (SEZs) in the country with a view to provide an internationally competitive and hassle free environment for exports was introduced on April 1, 2000. Units may be set up in SEZ for manufacturing of goods and/or rendering of Services. All the import/export operation of the SEZ units will be on self-certification basis. The units in the Zone have to be a net foreign exchange earner but they shall not be subject to any predetermined value addition or minimum export performance requirements. Sales in the Domestic Tariff area by SEZ units shall be subject to payment of full custom duty and import policy in force. Further off shore banking unit may be set up in the SEZs. Special Economic Zone Act has been introduced in the year 2005. It is an act to provide for the establishment, development and management of the Special Economic Zones for the promotion of exports and for matters connected therewith or incidental thereto. The SEZ Act 2005 envisages key role for the State Governments in Export Promotion and creation of related infrastructure. A Single Window SEZ approval mechanism has been provided through a 19 member inter-ministerial SEZ Board of Approval (BoA). The applications duly recommended by the respective State Governments/UT Administration are considered by this BoA periodically. All decisions of the Board of approvals are with consensus. The SEZ Rules provide for different minimum land requirement for different class of SEZs. Every SEZ is divided into a processing area where alone the SEZ units would come up and the non processing area where the supporting infrastructure is to be created.
The SEZ Rules provide for:

- " Simplified procedures for development, operation, and maintenance of the Special Economic Zones and for setting up units and conducting business in SEZs;
- Single window clearance for setting up of an SEZ;
- Single window clearance for setting up a unit in a Special Economic Zone; Single \Vindow clearance on matters relating to Central as well as State Governments;
- Simplified compliance procedures and documentation with an emphasis on self certification

5.2 Approval for Special Economic Zones Units

Criteria for Approval- Proposals for setting up SEZ in the Public/Private/Joint/ State sector are required to meet the following conditions:

* Minimum size of the SEZ shall not be less than 1000 hectares. This would however, not apply to existing EPZs converting into SEZs as such or for notifying additional area as a part of such SEZ or to product specific port/ airport based SEZs.
* The SEZ and units therein shall abide by local laws, rules, regulations or bye-laws in regard to area planning, sewerage disposal, pollution control and the like. They shall also comply with industrial with industrial and labour laws and such other laws /rules and regulations as may be locally applicable.
* Such SEZ shall make adequate arrangements to fulfill all the requirements of laws, rules and procedures applicable to such SEZ.
* Only units approved under the SEZ schemes would be permitted to be located in these SEZ.
* At least 25% area of the SEZ shall be used for developing industrial area for setting up such units.

The developer, which may be the (Central and state) government itself, a private developer or a joint venture in which both parties are involved, is entitled to set up an SEZ after identifying the proposed area.

Vol. 2, Issue: 5, June: 2014
ISSN:(P) 2347-5404 ISSN:(O)2320 771X

The procedure for setting up a zone like this may vary according to the nature of the developer. The private developer submits this proposal for establishment of an SEZ to the state government concerned (sec. 3 para. 2 SEZ Act). Notwithstanding, the private developer may also approach the Board of approval (BoA) directly (sec. 3 para. 3 SEZ Act) and thereafter get the concurrence of the state government concerned. The state government has to get its proposal screened directly by the BoA according to sec. 3 para. 4 SEZ Act. After consulting the respective state government, however, the Central Government may set up and notify the SEZ suo motu (sec. 3 para. 4 SEZ Act). The state government has to forward the private developer's proposal to the BoA within 45 days of the date of receipt along with its recommendation (sec. 4 para. 1 SEZ Rules). The BoA then has the power of approving or rejecting the proposal or modifying such proposals for the establishment of SEZs. In the event of approval, the BoA communicates the same to the Central Government, which, in turn, grants formal approval to the developer (sec. 3 para. 10 SEZ Act) through a Letter of Approval (LoA) within 30 days of receiving the communication from the BoA. The LoA is valid for a period of three years, during which the developer must take all necessary steps to ensure implementation of the approved proposal. The powers also include the decision-taking regarding authorised operations to be carried out in the SEZ by the developer as well as granting approval to the developers or units in the SEZ for foreign collaboration, foreign direct investment and regarding infrastructure facilities (sec. 9 para. 2 SEZ Act). The proposal paths are visualised in Figures 1 and 2: 68 Jona Aravind Dohrmann. Regarding the overall establishment of an SEZ, one has to differentiate between various processes. The aforementioned process describes the steps involved in an SEZ approval. After introducing the other official agencies, which is necessary to understand the further procedures in the SEZ framework, the other procedures that are required to get the SEZ notified in order to acquire a grant of approval for Special Economic Zones in India.

5.3 Sectors specific requirement for Special Economic Zones Units

- As proposed in the policy the zones can be either be setup by private sector or by State Govt. or State Government in association with Private sector. Private sector is also invited to develop infrastructure facility in the existing SEZs.
- State Govt. plays a vital role in the setting up of SEZ.
- A framework is being developed by creating special by creating special windows under existing rules and regulations of the central Govt. and state Govt. for SEZ

SEZs have been implemented using a variety of institutional structures across the world ranging from fully public (government operator, government developer, government regulator) to 'fully' private (private operator, private developer, public regulator). In many cases, public sector operators and developers act as quasigovernment agencies in that they have a pseudo-corporate institutional structure and have budgetary autonomy. SEZs are often developed under a public-private partnership arrangement, in which the public sector provides some level of support (provision of off-site infrastructure, equity investment, soft loans, bond issues, etc) to enable a private sector developer to obtain a reasonable rate of return on the project (typically 10-20% depending on risk levels).

References

1. Singh, BNP - Indian Economy Today
2. Singh, P.P., Sharma S - New Indian Economy and Reforms
3. Madhavanand- Special Economic Zones (SEZs) in India
4. Gill, Lakhvir Singh - Economic and Social Implications of Special Economic Zones
5. Crane, G.T. (1990). - The Political Economy of China's Special Economic Zones.
6. Internet

News Papers

1. The Times of India 2. Hindustan times 3. Business