

SPECIAL ECONOMIC ZONE IN INDIA: AS AN OPPORTUNITIES OR CHALLENGES

Ms. Shivani

Assistant Professor in Commerce
Tika Ram Girls College, Sonapat-Haryana

Abstract: *In order to accelerate the export & foreign investment, Government of India Implemented Special Economic Zone (SEZ) Act, in 2005 and to provide global platform to domestic firms. A special economic zone (SEZ) is an area in which business and trade laws are different from the rest of the country. SEZs are found within a country's national boundaries, with the aims to boost up the trade, increased investment, provide new jobs and effective administration. This study aims at examining the impact of Special Economic Zones (SEZs) on India. Study focus on concepts, benefits & problems in setting up a SEZ in India. The current paper highlights the objectives & issues of SEZ's & their expectations with regard to the formulations & modification of the policies. Its reveals that while some progress has been made in the effective functioning of SEZ's yet the expected benefits have not been reaped.*

Key Words: *Special Economic Zone, SEZ Problems, Investment, Regional Development & Export Processing Zone.*

Objectives of the study in a nutshell are as follow:

- Study the concept of SEZ in Indian Economy.
- To analyse the effect of SEZ on India Economy.

Research Methodology of the Study: Research is descriptive research in nature and as well as comparative study and analytical logic developed through the understanding from various research papers, reports, books, journals, newspapers and online data bases.

Introduction: 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 larger foreign investments in India, the Special Economic Zones (SEZs) Policy was announced in April 2005.

The main objectives of the SEZ Act are:

- Generation of additional economic activity
- Upgrade the exports (Goods & Services)
- Increased domestic as well as foreign investment
- Provide better employment opportunities
- Development of infrastructure facilities

Special Economic zones are broadly divided into more specific zone types:

- **Export Processing Zones (EPZ):** It refers to an area that allows aggressive economic activity in the form of tax cuts, fiscal incentives, and other benefits to revive weakening export business.
- **Free Zones (FZ):** It is an area where immigration, visa, customs and taxation are relaxed.
- **Free Trade Zones (FTZ):** It refers to a particular area within a country where normal trade requirements such as taxes, tariffs, and quotas are either reduced or relaxed to attract investment.
- **Industrial Parks or Industrial Estates (IE):** Also known as trading estate, it is an area planned for industrial development. A lighter version of industrial park is the business park or the office park, where there are lighter industries such as offices. These areas are located away from the city's main residential area but close to transport facilities such as highways, airports, railroads and ports.
- **Free Ports:** It refers to a special customs area with relaxed customs regulations or no customs duties or controls for transshipment.
- **Urban Enterprise Zones:** It refers to an area free of certain local, state and federal taxes and restrictions. Located in the industrial or commercial areas of a city, the sales tax rate within this zone would be half compared to other parts and the incentives would be much higher. This is done to revive the business climate of a city that has been shattered by economic problem.

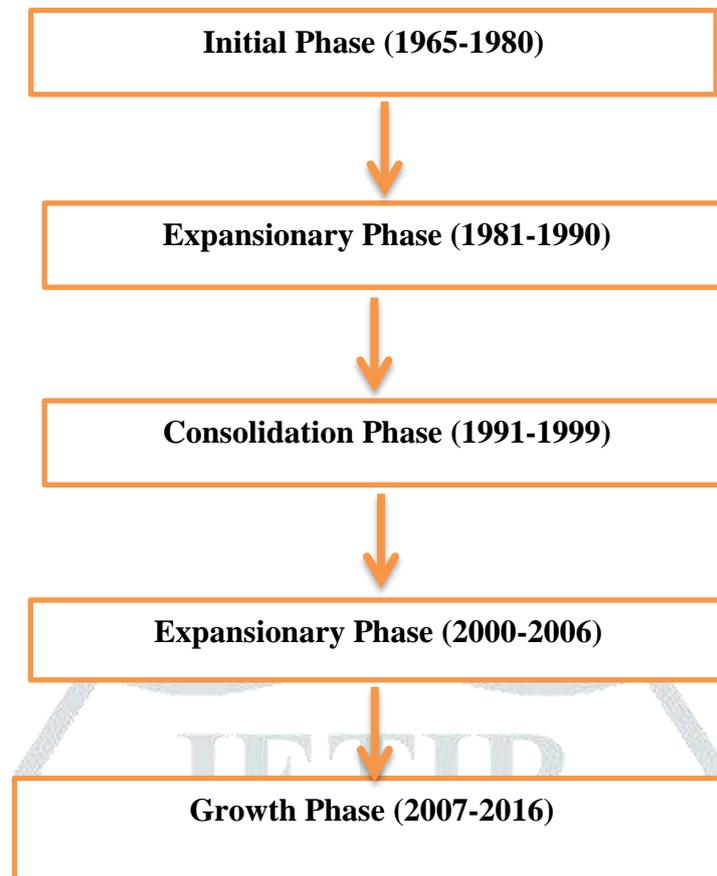
Journey from EPZ's to SEZ':

Expansionary Phase (1981-1990)

- Five Zones were established-NEPZ in Noida; MEPZ in Tamil Nadu; CEPZ in Kerala; FEPZ in west Bengal & VEPZ in West Bengal & VEPZ in Andhra Pradesh
- Introduction of EOU Scheme

Initial Phase (1965-1980)

- Established of KFTZ in Gujarat & SEEPZ in Mumbai
- Objectives of EPZs were not cleared
- Policies were rigid; inefficient infrastructure; unattractive incentives package



Consolidation Phase (1991-1999)

EPZs underwent through

- Administrative Restructuring
- Procedural simplification
- Delegation & decentralization of powers
- Rationalisation of customer procedures

Expansionary Phase (2000-2006)

- New policy framework titled “Export Import 2000” was adopted for the establishment of public, private or joint public – private SEZs.
- KFTZ, SEEPZ, CEPZ were converted into SEZs in 2000 and the other existing EPZs namely NEPZ, FEPZ, MEPZ and ZEPZ were converted into 2003
- Enactment of SEZ 2005 and formulation of SEZ rules 2006

Growth Phase (2007-2016)

- Post enactment of SEZ act 2005 witnessed significant growth in no. of formal approvals, notifications and operational SEZs in India till 2012-13
- Further period witnessed de-notifications of SEZs by SEZs developers because of economic meltdown, poor market response, non-availability of skilled labour force, and mainly the imposition of MAT and DDT on SEZ.

Major SEZ Benefits:

1. **Tax Benefits:** all these are benefits:
 - Reduced Cost of infrastructure
 - Reduced Cost of Utilities
 - Reduced Cost of Raw Material
 - Reduced Cost of Capital
 - Reduced Cost of Manpower
 - Operational Ease Enabled
 - Baskets of Benefits leading to global competitiveness.
2. **SEZ Act provides for a blanket exemption against all taxes, duties and cesses leviable by the following Acts: –**
 - The Agricultural Produce Cess Act, 1940
 - The Coffee Act, 1942
 - The Mica Mines Labour Welfare Fund Act, 1946
 - The Rubber Act, 1947
 - The Tea Act, 1953
 - The Salt Cess Act, 1953

- The Jute Manufactures Cess Act, 1983
- The Medicinal and Toilet Preparations (Excise Duties) Act, 1955
- The Additional Duties of Excise (Goods of Special Importance) Act, 1957
- The Sugar (Regulation of Production) Act, 1961

Problem of SEZs: Due to SEZ industrial sector, export, employment, infrastructural facilities are increasing. But following problems that have been facing SEZ in India are:

1. **Location & Land:** In India near 70% of the population depends on farming. To set up SEZs Government Acquired the lands and many farmers become landless. Price considerations should be given to the farmers in lieu of their land to the SEZ. But these considerations are being paid disproportionate money which is not in lieu of the current land prices. At the time of declaration of the special economy zone policy in 2000, it was assumed it accelerate the exports and large scale industrial development in that areas. But after 16 years the performance of this objective is unsatisfactory.
2. **Impact on Unemployment:** Almost (2/3) notified SEZs are located in five states- Andhra Pradesh, Tamil Nadu, Maharashtra, Karnataka & Gujarat- Which account for more than 90% of the investment made 83% of the employment generated. Data Analysis of Employment generation shows that there is problem of employment generation throughout the country. Most of SEZ jobs in IT-ITES Sector in Andhra Pradesh, Tamil Nadu & Karnataka. In Maharashtra and Gujarat, it has been predominantly multi-products and services. So the employment generated in certain areas certain sector of the country.
3. **Impact on Small Scale Industries:** Due to SEZs Small scale industries are in risk. Governments give various facilities. So they are producing in the low production cost and scale their production in fewer prices than small scale industries.
4. **To lost revenue of government for tax free facilities:** 1,75,487 cores revenue is losses of the government due to tax emption in firms setups in the special economic zone areas. These burdens directly bear by the common people of the country.
5. **Disparity in Growth of region:** Almost (2/3) notified SEZs are located in five states- Andhra Pradesh, Tamil Nadu, Maharashtra, Karnataka & Gujarat.
6. **No Regulation about construction:** In SEZ there is no rules explained about construction. Roads, open Space, Construction area etc. are not declared in details.
7. In the name of free trade and inviting global investors, we are going to experience the meagre benefits rather than mega profits to our nation, as SEZs are meant to create incentives for exports through huge tax- breaks.
8. Units located in SEZs can import goods without licence or duties.

Remedies: To overcome the problems of SEZs, some changes are necessary. For solve the problems of SEZ, followings options should be considered:

1. Acquisition of non-agriculture land by the government.
2. Acquisition of land on lease bases.
3. Employment guarantee to landholders, how land is acquired under SEZs Schemes.
4. To minimize land acquisition for the SEZ- now minimum 25,000 acres land is acquired for SEZs and there is no limit for maximum land acquisition.
5. To save the SSC- Some articles should be reserved for SSC.

Inference : SEZs can act as catalyst to industrial growth provided only when they are implemented effectively. Effective implementation of a policy that aims at giving shock to the economy requires mobilization of public opinion. People often approach such an issue initially with strong, emotionally laden feelings and opinions. It must be shaped and formed so that important decisions are taken without creating instability in the society. Four things are important:

- The government must slow down the process of giving approvals. This is important not only for social or political reasons but also due to economic realities.
- Legal institutions related to land acquisition (including land acquisition modalities, compensation package and rehabilitation package) must be addressed.
- Introduce a performance based exit policy for SEZ developers Restore STPI and EOUs benefits
- Finally, the policy should be treated as transitory.

References:

- [1] Managerial Economics – Samuelson
- [2] Laws Relating to special economics Zones- Taxman
- [3] Majumder S (2003), “SEZs: Go the chines way”, The business Line, The Hindu Group of Publications, Mumbai, India.
- [4] Mr. Madhavanand- Special Economic Zones (SEZs) in India
- [5] Ministry of Commerce & Industry. (2016, November 26). Special Economic in India (online). Available :www.sezindia.nic.in
- [6] D. Marg, Chanakyapuri, “Special Economic Zones Promise, Performance and Pending issues. “centre for policy Research (CPR) Occasional Paper Series, New Delhi, 2014
- [7] Comptroller and Auditor General of India. (2014). Performance of Special Economic Zones . Report of the comptroller and Auditor General of India, No 21 of 2014. Union Government, Department of Revenue- Indirect Taxes- Customs.
- [8] Dr. Vinayak Paralika & DR. Vijetha s. Shetty, “A analytical study of 3ps-purpose.
- [9] India in Industrial sector international journal of marketing, financial services & management research vol. 1 12, December 2012, issn 2277 3622.
- [10] Nazia khan and Dr. P.K. Varshney, “Future prospect of special economic zones in India in Industrial Sector journal of marketing, financial services & management research vol. 1 issue 12, December 2012, issn 2277 3622.
- [11] http://www.destinationmodhapradesh.com/mpo7/state-profile/project-reports/new-project/Multi-product_SEZ.pdf