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INTERNATIONAL PERSPECTIVES OF SPECIAL ECONOMIC ZONES WITH SPECIAL REFERENCE TO INDIA AND CHINA

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Abstract

The concept Special Economic Zones is a global phenomenon. All over the world, Special Economic Zones are playing a vital role in the industrialization. The concept of Special Economic Zones is based on the frame work of the cluster approach. Economic Zones are considered as industrial clusters where industrial and business units realise economies of scale and other advantages which help in reducing the cost of production of the operating units. Due to large concessions provided by the State like removal of bureaucratic controls availability of infrastructural facilities, tax concessions, non-application of labour laws many countries adopted this device to increase employment and income generation and to industrialise the nation. The number of Special Economic Zones globally continues to expand. SEZs account for an increasing share of international trade flows and employ a growing number of worker's worldwide. According to Seth Associates, in 2007 there were more than 3000 Special Economic Zones operating in 120 countries which account for over US$ 600 billion in export and about 50 million jobs. In the global economy, SEZs are viewed as an investment to promote industrialisation, generate employment and for regional development.
***Keywords**: Special Economic Zones, industrial clusters, cost of production, labour laws, SEZs, global economy*

Introduction

Special Economic Zones have played a crucial role in the economic development of many developing countries, for example China. The policy of SEZs was first adopted by China in 1978 as part of its economic reforms. On seeing this success of this Chinese policy, India adopted this scheme in April 2000 as a part of EXIM policy. With this background the present paper makes an attempt to analyse and compare the working of Special Economic Zones in India and China.

Objectives of the Study

- To examine the importance of SEZ Act 2005
- To assess the performance of SEZ
- To evaluate the FDI inflows and the role of SEZs in India and China

Special Economic Zones Act, 2005

The SEZ Act, 2005 passed by the parliament with effect from 1st April, 2005 aims at providing competitive fiscal package both at Central and State level with minimum regulatory regime and quality infrastructure with a stable long-term policy to promote investment in these areas. Existing incentives and facilities like exemption from customs and excise duty for development of SEZ and setting up of units, income tax, sales tax and service tax exemption were also incorporated in the new legislation to impart stability to the fiscal regime. Under the new legislation, SEZ would be treated as deemed foreign territory for trade operations, duties and tariffs, and supplies from domestic industry would be treated as exports. Goods and services going into the SEZ area from domestic tariff area (DTA) shall be treated as exports and goods coming from the SEZ area into DTA shall be treated as if these are being imported. The basic objective for setting up of SEZ has been spelt out:

- Generation of additional economic activity.
- Promotion of export of goods and services,
- Promotion of investment from domestic and foreign sources,
- Creation of employment opportunity, and
- Development of infrastructure.

In addition, there would be many associated advantages accrued in the process and some of these are;

- Acquiring and upgrading labour and management skills
- Attracting advanced technology
- Development of the region with feeder industry, and
- Establishing linkage with zest of the economy.

Custom Policy

A new chapter XA in the Custom Act, 1962 on Special Economic Zone Rules and Regulations, envisage a major departure from the existing concept and functioning of Special Economic Zones has been introduced with effect from March 1, 2004. Under the new dispensation, SEZ's will be considered as foreign territory for the purposes of duties and taxes. In other words, supplies from DTA units to SEZ units will be considered as exports by the DTA and supplies to DTA units from SEZ units will be considered as imports by the DTA units. The supplies to and from SEZ units will be governed by the provisions of the Custom Act, 1962 and not by the provisions of the Central Excise Act, 1944.

Management and Structure of SEZs

In India, the SEZs are constituted as departmental undertakings under Ministry of Commerce, Government of India. Each zone is headed by a Development Commissioner (DC), a civil servant, appointed by Central Government. The highest decision and policy making body is the concerned EPZ authority, which is headed by the Minister of State for Commerce in the Central Government. It includes the Secretaries of all concerned Central Ministries and the state government as members along with DCs of the SEZs.

The Authority meets periodically to undertake a review of the SEZ and co-ordinates inter departmental issues. All approvals, licenses and other matters are dealt with by the concerned SEZ Board, which meets regularly under the Chairmanship of the Additional Secretary, Ministry of Commerce with representatives of concerned Ministries.

The responsibility for development, promotion and maintenance of SEZ vests with the Central Government in the Ministry of Commerce. The DCs have been delegated authority for the management of the zones including granting permission to functioning of the units. However, the State Governments provide support for power and water supply, public transport, approach roads, beside requisite social and economic infrastructure such as housing, schools, hospital, shopping centres and recreational facilities. Pollution clearance certification, approval of building plans, registration as small scale unit and grant of public utility status are other matters which fall under the purview of the States Governments. But there is no direct involvement of States Governments in the management of the zone.

The SEZs claim to provide a hassle free environment for day-to-day operation, which is their major strength. Procedures are relatively simple and transparent. As per the present guide line all activities of SEZ units within the Zone, unless otherwise specified, including export and re-import of goods shall be through self-certification procedure. Assistant Commissioner of Custom is also available in the zone to ensure expeditious clearance of export and import cargo, as and when required. It not only facilitates sub-contracting and sales in the domestic tariff area but also takes care of other allied customs matters heads the custom wing.

Besides, SEZs have supportive staff for project evaluation and estate management. Zones also provide pre-establishment support for expediting statutory approvals and clearance required to be given by various state government authorities. The office of the Development Commissioner is intended to be 'one-stop shop' for this purpose. The policy also offers various incentives and facilities to the unit's operating in the zones as well as to the developer of the zones.

Performance of Special Economic Zones

KAFTZ (set up in 1965), is the first EPZ in India. It commenced export during 1966-67 with a humble beginning of less than INR 0.1 crore. By 2007-08, 57 zones in the country have been in operation, seven developed by the Central Government and twelve developed by private and state government initiative and thirty-eight notified as per SEZ Act, 2005. The export from these zones during 2007-08 was INR 66,638 crore with an impressive growth of 92 percent over the previous year export of INR 34,615 crore. And the export during 2008-09 is of the order of INR 125,950 crore. It is evident that the growth of export from SEZs was moderate in the initial phases, but has been substantial during the past two decades.

As on September, 2008, the investment has been INR 10,057.10 crore in 19 SEZs set up prior to the SEZ Act and INR 83,450 crore in 195 SEZs approved and notified in accordance with the SEZ Rules. The direct employment has been to the tune of 3.62 lakh and the SEZs being setup in the service sector for IT/ITES over 12.3 million square metres envisage employment of 1.25 million, with 40 percent being women.

Future Prospects

A few years ago informed observers used to debate whether Indian Economy would ever move out of the 'Hindu rate of growth'; GDP incrementally rising at around 3.5 per cent. The development experience shows two statistically significant break in the rate of growth of economy; one in 1980s to 5-6 per cent level and the second in late 1990s as a result of the deeper and broad based reform at the beginning of the decade to 6.5 per cent and continued further to 7.8 per cent during the Tenth Five Year Plan period, with last three year averaging over 9 per cent.

Inflow of Foreign Investment

Capital has always played a key role in development and foreign investment augments domestic savings for higher growth in economy. Post liberalisation, pragmatist Deng advanced the reform process with moderate and deliberate steps: starting with agriculture reform and experimenting with SEZs with excellent infrastructure, special operating laws to attract foreign investors for production exclusively meant for overseas market. The strategy worked and China could succeed to attract foreign companies providing conducive operating environment. International experience suggests that tax concession have little impact on the destination of FDI if other general framework conditions for doing business are not also favourable. By 2003, China used US$ 54 billion of foreign direct investment setting a record in China's history and ranking the first place in the world. Foreign investment in China from 1978 to 2007 has been of the order of US$ 660 billion. And a high level of foreign investment has been beneficial for industrialisation, expansion of foreign trade and above all generating employment. The remark of the President of China is relevant in this context, 'the foreigners had built hundreds of thousands of factories nationwide and hired tens of millions of people. As a result of reform, at least partly, FDI inflows into India have been growing rapidly since 2004, including a three-fold increase in the year to March 2007. The inflows are still modest in comparison to some Asian and East European countries.

Table -1 captures the trend of foreign capital flow in India and China in the new millennium.

Table 1 India and China: Share of FDI Inflow

(US$ billion)

	2001	2002	2003	2004	2005
India	3.40 (0.4)	3.45 (0.5)	4.27 (0.7)	5.34 (0.8)	6.60 (0.7)
China	46.88 (5.70)	52.54 (7.63)	53.51 (8.46)	60.63 (9.35)	72.41 (7.91)
Developing Countries	219.72 (26.9)	155.53 (21.7)	166.34 (26.3)	233.23 (36.0)	334.29 (36.5)
World (100 per cent)	817.57	716.13	623.60	648.15	916.28

Figures in parentheses indicate percentage share

Source: Economic Survey 2003-04 and 2004-05, Government of India

In 2007-08, India received FDI of US$ 24.57 billion as against US$ 15.7 billion during 2006-07, a growth of 56 per cent. The growth of foreign investment in India is steadily increasing, but still far behind China. The FDI in China during 2007 has been US$ 82.7 billion from US$ 70 billion in 2006. To sum up, Ms. Meredith notes that 'foreign companies invested just US$ 7.5 billion in India in the fiscal year ending March 2006; they invested the same amount in China every six weeks. India's economy was lumbering along, while China's was flying into the future'. The KPMG survey of 300 MNCs in 15 economies titled, 'Global Corporate Capital Flows 2008-09 to 2013-14' however reports that 'India is expected to led the world in terms of investment in manufacturing sector with 2.5 per cent of corporate expecting to invest and set to displace US to take second place after China'.

Role of SEZs in Economic Development

Industrialisation and trade expansion have reinforcing effect in economic progress and generating employment. And many countries in the world have successfully created SEZs as special purpose policy instruments for development and growth. According to the latest ILO figures there are, at present, more than 5174 export processing zones world-wide, employing 42 million people. China accrued the maximum advantage of 30 million employments in SEZs, Asia (China excluded) gives employment to 6 million whereas Central America gives employment to 2 million. As evident from the data, Central America & Mexico have 3300, the largest number of export processing zones as against Asia with 749 zones followed by North America with 713 zones. Amongst the individual countries, United States with 366 zones has the largest number of zones. Even though India was pioneer to set up export processing zones, in 1996, in Asia, there were only nineteen zones operating in the country upto 2006-07. The prospects seem brighter as thirty-eight zones became operational during 2007-08 as per SEZ Rules, 2006.

China began its experimentation with decision to set up SEZs in 4 locations in 1980 along the coast and encouraged by the success, it now has hundreds of centrally administered economic zones and thousands of zones run by provincial governments. The foreign funded enterprises that operated in the zones and thousands of zones run by provincial governments. The foreign funded enterprises that operated in the zones helped in expansion of trade and economic growth. Zhang (2000) notes that 'the share of foreign funded enterprises' export on the national export was below one per cent in 1985 increased to 41 per cent in 1996'.

China is positioned at the lower end of the international supply chain, producing predominantly labour intensive goods and as foreign funded enterprises account for around half its exports. While initially foreign investment was welcome to low-tech labour intensive sector, the focus gradually shifted to high-tech production and industry with strong export orientation. Government policy particularly encouraged these sectors through several preferential treatments such as tax concession and subsidised land use fees. It has also been proved beyond doubt that economic zones have been instrumental for the phenomenal growth of China.

By contrast, the slow development of the existing SEZs led India to introduce a new policy in 2005. The previous policy, while giving considerable tax advantage, had not overcome the administrative barriers to business that typify India nor did it overcome infrastructure barriers, notably for road and electricity. The new policy relies on private developers to create the zone and provide all infrastructure with the objective of generating additional economic activity and creating employment. While an optimal policy might be to remove the restrictions country wide, the current SEZ policy, if successful, could act as a catalyst for change in the whole economy. By the end of 2007, the Government expects that foreign companies will have invested up to US $ 6 billion and created half a million jobs.

Table 2 China: Different Types of Zones

Types of Zones	Numbers
Special Economic Zones	5
State Pilot Zones of Comprehensive and Coordinated Reform	4
State-Level Zones	222
Economic and Technical Development Zones	49
High-Tech Industrial Development Zones	53
Free Trade Zones	15
Export Processing Zones	58
Border Economic Cooperation Zones	14
Others*	33
Provincial-Level Zones	1346

***"Others" include Tourist and Holiday Resorts, Taiwanese Investment Zones, Bonded Logistics Zones etc**

Source: The Catalogue of the Review and Announcement of China's Development Zones (2006)

Development of Special Economic Zones in China

The first SEZ was setup in January 1979, in Shekou within what is now Shenzhen. This was followed by Zhuhai and Shantou in Guangdong Province adjacent to Hong Kong and Xiamen in Fujian Province. In June 1979, China introduced its first law sanctioning Sino-foreign joint ventures. Subsequently, the entire province of Hainan was designated as Special Economic Zone.

In August 1980, the National People's Congress (NPC) passed "Regulations for the Special Economy Zone of Guangdong Province" and officially designated a portion of Shenzhen as the Shenzhen Special Economy Zone (SSEZ). The five SEZs with their location, respective size and the year in which they commenced operations are given in the table-3.

Table 3 China: Special Economic Zones

Name of Zones	Location	Area (sq.km.)	Year in which started operations
Shenzhen SEZ	Guangdong Province	327.5	August 1980
Zhuhai SEZ	Guangdong Province	121	August 1980
Shantou SEZ	Guangdong Province	52.6	August 1980
Xiamen SEZ	Fujian Province	131	August 1980
Hainan SEZ	Hainan Province	34000	April 1988

Source: Geeta Das (2016): SEZ

The outcome of the reform and the initial experience in respect of the Special Economic Zones created as a development strategy for economic growth, though moderate was encouraging. Encouraged by the success special infrastructure was created for developing free zones to suit the specific need: location (coastal zones), focussed on technology (high-tech industrial development zones), Economic and Technology Development zones and the like were promoted.

SEZs in Operation in India

During 2007-08, there were fifty-seven zones in operation of which seven have been developed by the central government. These zones are listed in Table-4

Table 4 India: SEZs Developed by Central Government

Zones	Location	Area (acres)	Status	Operational w.e.f
KASEZ	Kandla, Gujarat	625	Multi-product	1966-67
SEEPZ-SEZ	Santa Cruz, Mumbai	93	Computers & Jewellery	1972-73
MSEZ	Chennai, Tamilnadu	262	Multi-product	1985-86
FSEZ	Falta, Kolkata	280	Multi-product	1985-86
NSEZ	Noida, U.P.	310	Multi-product	1986-87
CSEZ	Cochin, Kerala	103	Multi-product	1986-87
VSEZ	Vishakhapatnam, A.P	360	Multi-product	1994-95

Source: Department of Commerce, GOI

These zones are small in size; their area ranges between 93 to 625 acres. Government of India has invested about INR 500 crore on the infrastructure development of the seven SEZs. The twelve zones in operation set up before 2006 have been developed by State/private sector initiative. The investments of the private developers for development of SEZs as on September 30, 2008 have been of the order of INR 5,626.24 crore. These SEZs are:

1. Surat Special Economic Zone (Gujarat) developed by the Diamond and Gem Development Corporation over an area of 123 acres (499000 sq.m) with an initial investment of INR 32.46 crore in the year 1997. It commenced production from 2000-2001.
2. Manikanchan Special Economic Zone developed by West Bengal Industrial Development Corporation Ltd at Salt Lake, Kolkata (West Bengal) over an area of 5 acres exclusively for gem and jewellery exports. The zone has become operational during 2004-2005. Its export turnover during the first year has been INR 95.94 crore.
3. Indore Special Economic Zone (Madhya Pradesh) developed by Madhya Pradesh State Industrial Development Corporation Ltd in 132 hectares which is operational from 2004-2005 and an export turnover of INR 55.02 crore in its first year of export. The investment in infrastructure amounted to INR 100 crore.
4. Jaipur Special Economic Zone was set up by Rajasthan State Industrial Development Corporation Ltd. in (Rajasthan) in 110 acres exclusively for gem and jewellery which is operational from 2004-05. Its export turnover was INR 5.27 crore in its first year of export.
5. Jodhpur Special Economic Zone was set up by Rajasthan State Industrial Development Corporation Ltd (Rajasthan) in 180.94 acres for manufacture and export of handicraft commenced exports in 2005-06.
6. WIPRO Special Economic Zone set up a zone at Salt Lake, Kolkata (West Bengal) for software export and ITES has started export in 2005-06. Its export reached INR 95.5 crore in 16 acres and the investment infrastructure amounted to INR 125 crore.
7. Mahindra Industrial Park Special Economic Zone (Tamil Nadu) set up export of IT, hardware commenced export during 2005-06. The size of the SEZ is 665.68 acres with an investment in infrastructure amounted to INR 100 crore.
8. Mahindra Industrial Park Special Economic Zone in Chennai (Tamil Nadu) set up export of apparel and fashion accessories also started export during 2005-06.
9. Mahindra Industrial Park Special Economic Zone set up export for automobile ancillary.
10. Surat Apparel Park Special Economic Zone (Gujarat) commenced export in 2006-07. It is an SEZ exclusively for apparels and had export turnover of INR 1.6 crore in the first year itself.

11. Nokia Special Economic Zone (Tamil Nadu) started operation in 2006-07 and had export turnover of INR 1649.7 crore.
12. Moradabad Special Economic Zone (Uttar Pradesh) is a sector specific zone specific zone for handicraft products developed to harness the comparative advantage of local skills of Art Metal and entrepreneur in the area. It has been developed on 421.56 acres of land and all of them have been allotted. The zone has commenced operation since 2007-08.

Conclusion

Consequent upon the notification of SEZ Rules on February 10, 2006 large number of proposals received from the Private Sector/State Governments and 552 approvals have been granted for setting up of Special Economic Zones of which 265 SEZs have been notified as on September 30, 2008. These are at different stages of implementation spread over 22 states and union territories ranging to 23 industry and service sectors. Central Government has developed only seven Special Economic Zones and subsequent to the policy permitting development by the state government, public sector, private sector or in the joint sector investment proposals have been pouring in investment of the order of INR 83,450 crore has been made in the SEZs notified and under implementation.

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