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SPECIAL ECONOMIC ZONES IN INDIA

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Abstract

SEZs are defined as geographic regions designed for economic development oriented towards boosting inward FDI and exports, and supported by special policy incentives by the Government. The objectives of SEZs include making available goods and services free of taxes and duties supported by integrated Infrastructure for export production, quick approval mechanisms and a domestic Investment for promoting exports. The SEZ concept has proved to be a success in china and Poland. In Indian context, properly implemented, SEZ's can be useful instruments of rapid economic growth of our country. The present paper makes an attempt to analyse features of Special Economic Zones in Indian Economy.

Keywords: SEZ's, EPZ, public, private, Joint sector, agriculture

Introduction

India was one of the first countries in Asia to recognize the effectiveness of the Export processing zone (EPZ) model in promoting exports. Asia's first EPZ was set up in Kandla in 1965. With a view to attract larger foreign investment in India, the special Economic Zones (SEZs) policy was announced in April 2000.

The history of SEZs started with Spain adopting this model way back in 1929 to promote exports and it helped Spain to overcome the effect of the depression of the 1930s. Quickly captured, SEZ is a politico-economic island within, but distanced from, the mainland of a country. The IMF and World Bank commended this concept as a global idea in 1960s. Many industrialized countries used SEZ as a tool to promote their global trade.

The foreign trade policy announced by the UPA Government on August 31, 2004 stated that "the SEZs shall be deemed to be a foreign territory. Impressed by the Chinese success in attracting annually $ 45 billions as FDI, Late Commerce Minister then Murasolimaran, commended his model for India also. So SEZs were conceived during the NDA rule to bring in foreign investment in to India and Promote Exports.

The SEZ concept has proved to be a success in China and Poland. According to World Bank estimates as on 2007, there are more than 3000 projects taking place in 120 countries world wide. The inspiration for SEZ policy has been drawn from China's SEZs, which have attracted immense amount of foreign capital. The policy in India provides for setting up to SEZs in the public, private, Joint sector or by state Government.

In order to propel the manufacturing sector, a major initiative has been taken by the Government to boost exported growth. In this context, Indian Government has been motivated by the success of Chinese SEZs, and introduced SEZ scheme in the place of

Export Processing Zone scheme in 2003.

New Policy of SEZs

Special economics zones (SEZs) denote geographical areas which enjoy special privileges as compared with non-SEZ areas in the country. The Special Economics Zones Act 2005; was passed by parliament in May 2005 which received President Assent on the 23rd of June 2005. The SEZ Act, 2005, supported by SEZ Rules, came in to effect on 10th Feb 2006.

At the National conclave of congress Chief Ministers last year, Sonia Gandhi had pointed out that "Prime agricultural land should not be diverted to non agricultural use". She further stated that "farmers must yet proper compensation when their land is purchased. The chairman of the National Commission on Farmers, Dr.M.S.Swaminathan has in its recently submitted report, called to conserve farmland only for agricultural activities such as setting up SEZs. He also rightly urged the formation of an expert committee at the state level to identify waste and non-fallow land, which can be used for Industrial purpose.

The Main Objectives of SEZs are as Follows

1. Generation of additional economic activity
2. Promotion of exports of goods and services
3. Promotion of investment from domestic and foreign sources.
4. Creation of employment opportunists.
5. Development of infrastructure.
6. The units may be set up to manufacture goods or render services.
7. The unit in the SEZ area has to be a net foreign exchange earner.
8. SEZ can be setup in the public sector, private sector or joint sector or even by state Government in collaboration with any corporate.

Special Privileges for SEZs

SEZs are duty free enclaves of development and are deemed as foreign territories for purpose of trade duties and tariffs. The policy offers several fiscal and regulatory incentives to developers of the SEZ as well as to the units within these zones.

Corporation in SEZ will not have to pay any Income tax on their profits for the first 5 years and only 50% of the tax for two years thereafter, the concession of paying only 50% of the Tax can be extended for another three years if half of the profit is reinvested in the corporation. Besides, Income tax benefit units in SEZ shall be exempted from a host of other taxes and duties like customs duty, service tax, value Added Tax (VAT) dividend tax etc.

For SEZ developers all raw materials from cement to steel to electrical parts shall be exempt from any tax duty. All imports for developing SEZs shall be exempt from any custom duties.

For SEZs the Government will acquire vast tracts of land and provide it to the corporation or developers. A basic condition that 250/0 of the area SEZ must be used for export related activities and remaining 75% of the area can be used for economic and social Infrastructure. All the benefits and concessions of SEZ can be availed of for the whole area.

The list of authorized operations includes road, housing apartment, convention centres, cafeterias and restaurants, air-conditioning telecom, and other communication facilities and recreational facilities.

Sector - specific SEZs will be allowed to have additional operations including hotels, schools and educational technical institutes, multi - products SEZs will also be allowed to have ports, air ports and golf-courses.

Sector - specific developers of SEZs will be allowed to have 7.500 houses, hotels with a total of 100 rooms a 25 - bed hospital and schools and other educational institutions and multiplex up to 50,000 sq meters Multi product SEZs will be allowed to build 25,000 houses a 250 room hotel and a hospital with 100 beds a multiplex of 2,00,000 sq meters.

For sector specific SEZs, the applicant's net worth has to be a minimum of Rs.50 crores while the minimum investment criterion is Rs.250 crores. To qualify for developing a multi product SEZ, the net worth has to be at least Rs.250 crores and minimum Investment in the project Rs 1000 crores. For applying for IT SEZs net worth of applicant has to be Rs 100 crores.

The incentives and facilities offered to the units in SEZs for attracting investments in to the SEZs, including foreign Investment include:-

- Duty free import/domestic procurement of goods for development operation and maintenance of SEZs units.
- 100% Income tax exemption on export Income to SEZ units under section 10AA of the Income Tax Act first 5 year, 50% for Next 5 years thereafter and 50% 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 up to $ 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.

Benefits Derived from SEZs

Benefit derived from SEZs is evident from the Investment, employment, exports and infrastructural developments additionally generated. Investment of the order of Rs.1,00,000 crores including FDI of USA 5-6 billion is expected by the end of December 2007. 5,00,000 direct jobs are expected to be created by December 2007. The benefits derived from multiplier effect of the investment and additional economic activity in the SEZs and the employment generated thus will outweigh the tax exemptions and the losses on account of land acquisition.

Stability in fiscal concession IS absolutely essential to ensure credibility of Government intensions.

Export from the Functioning SEZs during the Last Three Years are as Under

Year	Value (crores)	Growth rate(5)
2003-2004	13845	39
2004-2005	18314	32
2005-2006	22840	24.7
2006-2007	34787	52.3

Protected exports from SEZs for 2007-2008 Rs.67088 crores.

Investment and Employment in the Sezs Notified Under the SEZ Act 2005

Current investment and employment.

- Investment - Rs 52,193 crores
- Employmnet - 46,814 persons

Expected investment and employment (by Dec.2009)

- Investment - Rs 2,85,279 crores
- Employment - 21,42,089 Additional job.

Expected Investment and Employment If 405 Formal Approvals Becomes Operational

- Investment – Rs.3,00,000 crores
- Employment - 4 million Additional Jobs.

The overwhelming response to the SEZ scheme is evident from the flow of investment and creation of additional employment in the country. The SEZ scheme has generated tremendous response amongst the investors, both in India and abroad, which is evident from the list of Developers who have set up SEZs.

1. NOKIA SEZ in Tamil Nadu
2. FLEXTRONICS SEZ in Tamil Nadu
3. Mahindra World City in Tamil Nadu.

Suggestions

- Waster lands, fallow lands & uncultivable lands only should be allocated as SEZs.
- If land IS taken under unavoidable conditions from farmers, proper compensation and same size of land should be given to them.
- Lands should be given on lease but not for other activities like real estates. If it is used for any other purpose, those must be taken back.
- All Labour acts should be implemented even in SEZs.

Conclusion

To conclude, on one hand, India will emerge as a first rate super economic power by 2020 but on the other hand, it will have third-rate labour with deterioring economic conditions with no income security or employment security or social security in SEZs which are destined to become industrial enclaves with super profits. If Government is really interested in the grass root level development, it should consider the public opinion and recording action to be implemented otherwise as like first stage economic reforms, these second state reforms including SEZs lead programme will certainly lead to social unrest, further increase in poverty and unemployment issues. These SEZs may become "Special Exploitation or Special Erroneous Zones"

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