

SPECIAL ECONOMIC ZONES IN INDIA A BOON OR BANE

Dr.H.Sudhakara

Full Time Guest Faculty in Economics, Bangalore University, Bangalore, Karnataka

Abstract

Special Economic Zones are considered as Special economic institutions are functioning within the territory of India treated as foreign territory in the context of custom and excise duties. This concept is to facilitate exports through special tax concessions to the industries operating within the Special Economic Zones on the competitive basis. Special Economic geographic zones designated for economic development towards boosting Foreign Direct Investment in the local territory which are supported by the policies and incentives offered by the State. The existing Export processing zones have been converted into Special Economic Zones. The concept was first introduced in the EXIM policy 2000 with a view to create a healthy environment to achieve rapid growth in export and to provide a competitive and hassle free environment. The EXIM policy 2000 has been implemented by an adhoc basis (amendments) in different legislations and through the executive order. This has put several obstacles in the way of its success.

Keywords: *Special Economic Zones, Export processing zones, EXIM policy, SEZ Act, DDT, MAT*

In order to overcome the obstacles and to give a long term stability in policy frame work covering all necessary aspects of Special Economic Zones as well as units operating in Special Economic Zones was prepared. To get the advantages for boosting exports SEZ Act 2005 was passed by the parliament in May 2005 and it was approved by the President on June 23, 2005. The SEZ Act 2005 came into effect with effect from Feb-May 10th, 2006.

The SEZ Act comprises eight main chapters with 58 sections and three schedules. The SEZ Act extends to the whole of India. Section 51 of the ACT confers and overriding effect of this Act by providing the provisions of this Act shall have effect notwithstanding anything inconsistent there with contained in any other law for the time being in force.

Types of Economic Zones

1. A SEZ for multi-product shall have a contiguous area of 1000 hectares of land or more.
2. A SEZ for a specific sector or in a port or airport shall have a contiguous area of 100 hectares of land or more.
3. A SEZ for free trade and warehousing shall have a contiguous area of 40 hectares of land or more with a built up area not less than 1 lakh m².
4. A SEZ for IT, gems and jewellery, bio-tech and conventional energy shall have a contiguous area of 10 hectares of land or more.

Objectives of the Study

- To assess the special features of Special Economic Zones in India.
- To evaluate the progress made by the Special Economic Zones in India.
- To address the obstacles encountered by the Special Economic Zones in India.

Special Features of Economic Zones in India**Tax Concession to Developers**

1. Cent-percent tax exemption to SEZ developers for a block of 10 years out of 15 years.
2. Exemption from Dividend Distribution Tax (DDT).
3. Exemption from Minimum Alternative Tax (MAT).
4. Exemption of Central Sales Tax (CST) on inter-state purchase of goods, other than newspaper.
5. Exemption from Import and Export duty under the Custom Act, 1962 or Custom Tariff Act, 1975 or any other similar law for the time being in force.

Tax Concession to Working Units

1. 100% Income Tax exemption for the first 5 years, 50% for the next 5 years and for the next consecutive five years 50% of profits which is credited to a reserve account known as "Special Export Zone Re-Investment Reserve Account and ploughed back for investment as referred in second schedule.
2. Exemption of Capital Gain arising due to shifting of any unit from an urban area to SEX.
3. Exemption from Minimum Alternative Tax (MAT). The tax will be levied on the actual profits of the SEZs' units.
4. Exemptions of Central Sales Tax (CST) on inter-state purchase of goods.
5. There is no limit on Domestic Tariff Area (DTA) sales.

Special incentives to the Economic Zones

Area is free from environmental issues. Unit's are given full exemption in electricity duty and tax for self-generated and purchased power. Exemption is given from state sales tax, octroi, mandi tax, turn over tax, and any other duty/cess or levies on the supply of goods from domestic tariff area to SEZ units.

- Single point clearance system and minimum inspections required under state laws/rules.
- Duty free import or procurement of capital goods, raw materials, commodities, spares, packing materials, office equipment and the like.
- 100 per cent - IT exemption (10A) for first 5 years and 50 per cent for 2 years thereafter.
- Reinvestment allowance to the extent of 50 per cent of the ploughed back profits.

Progress and Performance of Economic Zones

Approval has been given by the Board of Approval for the setting up 117 SEZs to private, State Government and joint sector as on 1st March, 2006, out of which only 11 Zones are in operation. They are located in Kandla and Surat (Gujarat), Kochin (Kerala), Santa Cruz (Mumbai-Maharashtra), Falta (West Bengal), Chennai (Tamilnadu), Vishakhapatnam (Andhra Pradesh) and Noida (Uttar Prades) Manikanchan, Jaipur and Indore.

Various incentives and facilities are offered to units in SEZs for the promotion of investment, including FDI, duty free imports/domestic procurement of goods for development, operation and maintenance of SEZ units. On the basis of projection made by the promoters at the time of seeking approval, Ministry of Commerce has estimated that about Rs.1,00,000 crores will be invested in development of SEZs and in setting up of units in zones. It creates bulk of job opportunities in various new areas.

As on 31.03.06, there are 811 units in operation in the 8 functional SEZs. Investments by the units in these Zones are of the order of Rs. 18,309 million. The SEZ units provide employment to about 1,00,650 persons out of which 32,185 are Females.

Exports totalling Rs. 8,552.30 crore in 2000-2001 have shown a slight increase in the 2001-02 and 2002-2003. It touches the level of 9,189.6 crore and 10,053.4 crore respectively. Increase remain continue in successive years and it showed an increase exports from Rs. 13,853.58 crore in 2003-04 to 18,309.00 crore in 2004-05. The reason of increased volume of exports during 2004-05 having not only increased exports from early established SEZs at Manikanchan, Jaipur and Indore. These newly established SEZs have contributed Rs. 155.83 crore in total exports during 2004-05.

Although exports from these SEZs registered a Compound Annual Growth Rate (CAGR) of 25.8% between years 2000-01 to 2004-05 yet their share in the overall exports from India have increased marginally from 4.20% in 2000-2001 to 5.10% in 2004-05 with a decrease of 0.5% in 2002-2003 when it came down to 3.90% of the total exports of India.(Table-1)

Table: Export of SEZs during 2003 to 2007

Year	Value (Rs. in Crs.)	Growth rate
2003-04	13,854	29.00
2004-05	18,314	32.00
2005-06	22,840	24.70
2006-07	34,787	52.30

Sources: www.sezindia.nic.in

Obstacles to Sez Development

Special Economic Zones faces a large number of problems in establishing the industrial units. Some of them are as follows:

Availability of Land

For starting a SEZ an area of land required is minimum 10 hectares and maximum 1000 hectares or more depending upon the size of respective SEZ. As experienced in past from the events of resistance from farmers to acquisition of their land by the different State Governments, as happened at Raigad in Maharashtra and at Singur & Nandigram in West Bengal, it is clear that availability of land for SEZ is a serious problem/challenge in its development. According to one estimate, total land for SEZs required is 140000 hectares. People on a large scale would be displaced when such large land is acquired by the Government at throw away price for handing over the same to industrialists. Therefore, there is a strong resistance to acquisition of land for SEZs.

Location-Insistence near a Port

The industrialist interested in setting up units in SEZs are insistent for location of SEZ near a port. There are already been congestion of industries in the areas having port/ports or lack of availability of land due to congestion of population. Development of SEZs in such areas is also against the industrial dispersal policies and environment protection law.

Rehabilitation of Displaced

Establishment of a SEZ displaces a large number of people due to acquisition of land and the displacement creates social unrest. Also, political game is played by politicians giving birth to further unrest in society as being seen in case of SEZs at Singur and Nandigram in West Bengal and Raigad in Maharashtra. Attractive rehabilitation packages are expected from the concerned State Government for displaced farmers thrown into the stream of agriculture labour. But the past experience in this regard is not satisfactory.

Infrastructure Constraints

World class internal and external infrastructure is required for SEZs operations. There are almost all states in India facing the constraints. Development of world class infrastructure is the first job of each State Government.

Financial Challenges

Various incentives and facilities are given to SEZ developers and SEZ units. There has been controversy between the Commerce and Finance Ministry of Government of India over exemptions to SEZs. There would be a revenue loss to the Government on account of SEZs. One estimate of the cumulative revenue loss due to the exemptions to the SEZs so far finalized places the figure at Rs175000 crore during the next few years. The loss would be more when more SEZs are approved.

Human Resources

Available human resources are not up to the mark for SEZs operations as scientific and technical experts are required for their operations.

Conclusion

Special Economic zones a novel attempt to overcome the infrastructural bottlenecks procedural delays, bureaucratic hassles and barriers created by monetary, trade, fiscal, taxation, tariff and labour policies. Since country - wide infrastructure is expensive and implementation of structural reforms would require time, they establishment of economic zones is an important strategic tool for speeding up the process of industrialization. The economic zones offer positive signals for a both domestic and foreign investors. These measures are likely to create a conducive business environment to attract the investors globally for sizable amount of investment.

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