

SPECIAL ECONOMIC ZONES: A STEP FOR QUALITY INDUSTRIALIZATION

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ABSTRACT

Special Economic Zones are special development enclaves set up in different parts of India. The SEZ Policy was introduced in 2000 and the SEZ Act came in to existence in 2005. Consequently large number of SEZs was approved and states started competing with each other in setting up SEZs. The logic behind SEZs is that it is difficult to set up world class infrastructure throughout the country like India. Therefore, special areas, with locational advantages are chosen and world class infrastructure is developed there. These SEZs can attract massive investment and will function as drivers of economic growth. For effective implementation of SEZs, a contract has to be reached among the participants so that pains can be minimized and gains maximized.

KEYWORDS: *SEZs, World-Class Infrastructure, Foreign Investment, Regulatory Regime, New Industries, International Competitiveness.*

INTRODUCTION

Special Economic Zones (SEZs) denote geographical areas which enjoy special privileges as compared with non SEZ areas in the country. The world first known example of SEZ have been found in an industrial park set up in Puerto Rico in 1947. After this, in the 1960s, Ireland and Taiwan followed it. In 1980, China established SEZs in 14 coastal cities. This helped China to improve the coastal areas. As a result of SEZ policy, six pillar industries took firm roots in China. They are: automobiles and spare parts, micro electronics and computers, bio-medicines, mechanical, household electrical appliances and electrical products. Chinese SEZ program was a key factor in the development of the modern SEZ. *SEZ policy helped to attract foreign-funded enterprises and domestic enterprises. To attract foreign investment, Chinese government eliminated custom duties and income tax. SEZs became “radiators” in accelerating the economic development of China. Over the past few decades, the People’s Republic of China (China) has experienced the largest economic expansion as a result of its efforts to launch and develop Special Economic Zones. But rapid industrialization has made devastating effects on the environment and public health, particularly in most industrialized cities in China.*

The Indian government had used export processing zones (EPZs) to promote exports. Asia’s first EPZ was established in 1965 at Kandla, Gujarat state. Earlier Export Processing zones are now converted in to special Economic Zones. The Government has converted Export processing zones (EPz) located at Kandla and Surat (Gujarat), Santa Cruz Mumbai (Maharashtra), Falta (West Bengal). Chennai (Tamil Nadu), Vishakhapatnam (Andhra Pradesh) and NOIDA (Utter Pradesh) in to SEZs. These EPZ had a similar structure to SEZs. So the government began to establish SEZs in 2000 under the Foreign Trade Policy. SEZs in India are a popular investment destination for many multinationals, particularly exporters. Each SEZ is unique. India’s SEZs are structured closely on China’s successful model. These zones offer high quality infrastructure facilities and support services and allow duty free imports of capital goods and raw materials .They

are designed to encourage domestic and foreign investment, boost India's exports, create new employment opportunities and attain international competitiveness.

Ministry of commerce took initiative to set up SEZs with a view to boost exports by attracting both Indian and foreign corporates to undertake investment in these areas. The main objective to establish SEZ is to promote exports by concentrating resources in some areas (designated as SEZs). The Policy was Introduced in April 2000 to provide internationally competitive and hassle-free environment for exports. The units may be set up to manufacture goods or render services. The unit in the SEZ area has to be a net foreign exchange earner, but no conditionality has been imposed to export a specified proportion of the output. SEZ can be set up in the public sector, Private Sector, or joint sector or even by state governments in collaboration with any corporate. SEZs are considered as duty-free foreign territories for purpose of trade, duties and tariffs. The Policy offers so many fiscal and regulatory incentives to developers of the SEZ as well as to the units within these zones.

Corporation (domestic and foreign) 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 2 years thereafter. The government extended the concession of paying only 50% of the tax for another 3 years, if half of the profit is reinvested in the corporation. Besides income tax benefit, units in SEZ shall be exempted from other taxes and duties like customs duty, excise duty, service tax, Value added Tax (VAT), dividend tax etc. All raw materials from cement to electrical parts and imports for developing SEZs exempted from any tax/ customs duties.

The government will acquire vast areas of land and provide it to the corporations in SEZs. A basic condition is that 25% of the area of SEZ must be used for export related activities and the remaining 75% of the area can be used for economic and social infrastructure. Authorized operations includes roads, housing apartments, convention centres, cafeterias and restaurants, air conditioning, telecom and other communication facilities and recreational facilities. All the benefits and concessions of SEZ are applicable for the whole area. Sector-specific SEZs will be allowed to make additional operations including hotels, schools and educational and technical institutes. Multi-Product SEZs will also be allowed to build ports, airports and golf – Courses.

There is a need to have a reconsideration of SEZ approach to industrialization and export promotion. Differential taxation in SEZ and non-SEZ areas cause an erosion of tax revenues. The second issue is related with acquiring huge areas of prime agricultural land for SEZ units. For example, West Bengal Chief minister has handed over prime agricultural land for the Tata small car manufacturing unit at singur. This land was capable of producing 3 crops a year. Moreover, acquisition of land is done at prices determined by the government and not market prices which is the legitimate right of the farmers. This was done to support rich industrial houses and developers at the cost of poor farmers. Thirdly, to provide only 25% land for export-related industrial purpose and the rest for infrastructure, housing, park, golf- courses appears to be totally unjustified. Fourthly, To attract industrialists- Indian as well as foreign, state governments are over bending to promise SEZs from exemption of labour laws.

The SEZ boom is part of new wave of industrial policies and a response to increasing international competitiveness. Taxation issues are not the only ones impending SEZs. Many incentives and schemes are offered for the promotion of manufacturing at the centre and state levels, manufacturing growth has not risen substantially. Therefore, incentives for SEZs need to be carefully evaluated and studied. Incentives should not be the only reason for the units to be located in SEZs. Success depends on the business facilitation measures adopted in the SEZ area. Location, infrastructure, logistics and

professional zone management are four important factors determining the success of SEZs. A major reason for the success of SEZs in China was the creation of better infrastructure, power, roads and ports: these are lacking in India. In India, the focus should be on creating the basic infrastructure. Deficiencies in the availability and quality of power are an equally important obstacle. Zones act as a key investment promotion tool. In many countries, the incentives, infrastructure support and business facilitation in SEZs are meant to overcome the weaknesses in the investment climate. SEZs are neither a precondition nor a guarantee for above – average performance on FDI attraction. Only about half of investment promotion agencies worldwide believe that the zones in their country have given a significant boost to FDI attraction.

The performance of many SEZs remains below expectations. In addition, it is important to consider the social and environmental impacts of SEZs. Exemption from labour laws has often raised concerns in the past. This is changing in modern zones, SEZs are traditionally big employers of women. Some modern SEZs are implementing gender equality regulations like antidiscrimination rules, and support services, such as childcare and schooling facilities, etc.

India has developed a world-class information technology and business process outsourcing (“BPO”) sector that exports its services globally. India is predicted to become one of the world’s leading economic powers. This poses new challenges for international firms and others. In spite of these achievements, India is still wrestling with high poverty and unemployment rates. Hence, there is great interest within India to promote the export-oriented manufacturing sector through Special Economic Zones.

The SEZ policy in India underwent gradual relaxation of procedural and operational rigidities. Various committees were set up to examine the performance of the SEZs. These committees made far reaching recommendations which indicate the directions in which the country must move if it wants to pursue industrialization with a humanitarian consideration. Although the performance of many zones remains below expectations, new SEZs continue to be developed, as governments increasingly compete for internationally mobile industrial activity. The establishment of the SEZs has helped to increase the volume of international trade. Further, a large amount of foreign investment has found its way into infrastructure construction and commerce. All these factors have contributed to the growth of the Indian economy.

India has been carrying forward the process of industrialization since the second five year plan started in 1956. But the government should take initiatives to create a sense of enthusiasm and motivation among the people about SEZs as the major vehicles of industrialization. SEZ alone cannot be the answer for rapid economic growth. They can act as good supplements in the process of economic growth. It would be rational to develop a unique SEZ model within the socio-political frame work of India, rather than blindly imitating China.

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