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Research Papers

SPECIAL ECONOMIC ZONES (SEZs)

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Abstract

The concept of Special Economic Zones (SEZs) was suggested by the then Commerce and Industry Minister Late Mr. Murasoli Maran while introducing third revision to Exim Policy 1997-2002. The SEZs are in addition to EPZs and operating exports was announced by the government in the Exim Policy announced on 31 March, 2000. The SEZs intend to provide an internationally competitive and hassle-free environment for exports and are expected to give further boost to the country's exports.

The idea of SEZs is borrowed from China where such zones are operating efficiently and are contributing nearly 40 per cent of total export promotion. They are expected to provide an internationally competitive and hassle-free environment for exports. The SEZ scheme is expected to give a further boost to country's exports. The State Governments are expected to participate in export promotion by starting SEZs in their states. The SEZs can be set-up in the public, private, joint sector or by state Governments. SEZ Act 2005 was passed by parliament in May 2005 and came into effect (after Presidential assent) on 10th February 2006. The Act is supported by SEZ rules.

The government policy is to provide convenient infra-structure facilities and various incentives to such SEZs so to make them key engines of export growth.

Formation of SEZs is a new initiative taken by the government for large-scale exports. The units operating in SEZs shall not be subjected to any predetermined value addition, export obligation and input/output wastage norms They are expected to export their entire production abroad. The government permits 100 per cent fully foreign-owned units in these zones, provided they are willing to export their entire production.

A private sector SEZ in an areas of 3,500 hectares of Pipavav in Gujarat and another SEZ at Tuticorin in Tamil Nadu are the first two SEZs operating in the country. The government has issued notification for conversion of all the existing EPZs into SEZs. Some State Governments are taking keen interest to start such zones in their respective states.

Incentive-wise, Indian SEZs will be at par with even those of China, Barring only in labour laws. Units in SEZs to get income tax concession and direct negotiation of export documents permitted. There will be exemption to SEZs units from External Commercial Borrowings restrictions, freedom to make overseas investment and carry out commodity hedging. SEZs are our best dream – projects and are firmly based on success everywhere.

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DISTINCTIVE FEATURES OF SEZS:
(1)A designated duty free enclave to be treated as foreign territory for trade operations and duties as foreign territory for trade operations and duties and tariffs.
(2)SEZ units could be for manufacturing, trading or services. SEZ units would be able to import capital goods and raw materials duty free.
(3)No routine examination of export and import cargo by customs.
(4)SEZ units would be required to export the whole of their production. Sale in domestic market on fully duty and import policy in force.
(5)SEZ units to be positive net foreign exchange earners in three years.
(6)SEZ units to maintain accounts in formats of their choice.
(7)Duty free goods to be utilized within the approval period of five year.
(8)100% foreign direct investment through automatic route in the manufacturing sector.
(9)100 per cent Income- tax exemption for five years and 50 per cent for two years hereafter.
(10)External commercial borrowing through automatic route.
(11)No fixed wastage norms.
(12)Performance of SEZ units to be monitored by a Committee consisiting of the Development Commissioner and Customs.
(13)SEZ units shall be deemed to be foreign territory for the purpose of trade operations and tariffs. Goods going to the SEZ area would be treated as deemed exports.
(14)SEZ units will be able to obtain products from DTA without paying terminal excise duty.

IMPLICAITONS:

Globally, SEZs contribute 25% of a county's exports. In China, the share of SEZs in export basket is as high as 40% While in other countries, the SEZs are in the state, we, in India, have roped in the corporate sector. This is unique. Along with the fiscal sops and infrastructure support we give t SEZ units, we are also in the process of launching an industrial infrastructure supports scheme for export clusters. The department of industrial policy and promotion has almost finalized the scheme which aims to give common infrastructure backup for small and medium sized units in export clusters like those at Tirupur, Panipat and Ludhiana. As India lacks large lmanufcturing plants of a truly global size, these clusters could act as integrated mega complexes virtually functioning as a large single unit.

PROSPECTS:

In order to impart stability to SEZ regime and to achieve generation of greater economic activity and employment, a special Economic Zone Act, 2005 was passed supported by SEZ Rules. The new Act is effective since 10th Feb, 2006. The incentives and facilities offered to units in SEZs under the Act are liberal and favourable to units operating in SEZs. Tax exemptions offered are liberal and offered for longer period. At present, there is a feeling that the liberal provisions of the Act are misused. Some SEZ are using agricultural land for industrial purpose. Cultivators are opposing to give land for SEZ in West Bengal and Maharashtra. A review and revision of the Act is urgently required. The progress of SEZs is necessary but should not be at the cost of small and poor cultivators. They should not suffers as regard their land ownership and source of agricultural income for survival. The issuers in land acquisition for SEZs need to be solved properly. There should be provision of ceiling of 5,000 hectares of land for one SEZ. Moreover, agricultural land should not be used for SEZs.

CONSLUSIONS:

In short, SEZs are grand idea provided the states are willing to take all necessary steps for starting SEZs in their states. However, SEZs are not a quick-fix solution. In countries such as China, it took as long as 15-20 years to stabiles the idea. At present 8 SEZs are operating in the country. The export growth has been much higher in these SEZs (20% more) as compared to average growth rate of exports.

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