

Problems and Prospects of SEZ's in India

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1. Genesis:

India was one of the first in Asia to recognise the effectiveness of the export Processing Zones (EPZ) model in promoting exports, with Asia's first EPZ set-up in Kandla in 1965 with a view to overcome the shortcomings experienced on account of the multiplicity of controls and clearances, absence of world-class infrastructure and an unstable fiscal regime and with a view to attract larger foreign investments in India, the Special Economic Zones (SEZ) policy was announced in April, 2000.

For trade related matters SEZ is regarded as a foreign territory within the Indian union. The SEZ Act was initiated by NDA Government in 2000 but it had to be dropped owing to strong opposition from the left parties. The UPA Government brought the SEZ Act in 2005 in parliament.

2. Meaning

- a) According to the Ministry of Industry, "The SEZ is a specially delineated duty free enclave and shall be deemed to be foreign territory for the purpose of trade operations, duties and tariffs"
- b) According to section-2 (Za) of the SEZ Act 2005, "SEZ in such Special Economic Zone notified under the provisions of section 3(A) and section 4(1) including free trade and warehousing zone and includes an existing Special Economic Zone".

3. SEZ's A Global Scenario

In some countries EPZ's have close variants like Free Trade Zone (FTZ's). or Free Economic Zones (FEZ's). There were 176 such zones in 47 countries in 1986 but by 2003 the number of zones increased to more than 3000 in more than 116 countries (Aggarwal 2005). The following table-1 presents the number of EPZs / FTZs / SEZ's / FEZs in select countries (excluding India).

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Table -1**Leading Free Trade Zones locations**

Country	No. of zones	Annual exports(US \$ billion)
USA	266	20.0
China	190	12.0
Indonesia	115	4.2
Philippines	100	27.0
Thailand	30	4.7
Sri Lanka	9	1.2
Bangladesh	6	1.2
Taiwan	5	6.1
Pakistan	4	0.1
South Korea	3	5.0

Source: Rao (FTZ's) 2004

In 2004, India had thirteen EPZs / SEZ's which contributed US \$ 1.3 bn to the country's exports. Since then the number of these zones has increased substantially.

Trade Zones have helped in promoting foreign direct investment and export- oriented industrialisation strategy in many developing countries across Asia, Africa and Latin America. However, the impact of these zones in meeting intended objectives has varied substantially across these countries. The following table-2 presents the contribution of trade zones in a country's exports.

Table-2**Contribution of SEZs to National Exports**

Country	Percent of total exports
Dominion Republic	81
Mauritius	77
Philippines	67
Costa Rica	51
Turkey	45
Sri Lanka	37
Bangladesh	20
Taiwan	< 5
India	< 5
Brazil	< 4
Pakistan	< 1

Source: Rao (FTZ's) 2004.

4. Comparison of Salient Features of EPZs and SEZ's

Sl.no.	Feature	EPZs	SEZs
1	Objective	Export manufacturing	Integrated development
2	Location and size	Small areas (usually less than 2 sq.km) enclave operations.	Large areas (usually more than 100 sq.km in countries other than India), linked to internal market.
3	Activities	Restricted to export oriented goods.	Internal, domestic and export oriented.
4	Import tariffs	Restrictions on duty free imports.	Full duty free imports.
5	Export requirements	Restriction on sales in domestic market.	No export requirement.
6	Labour	Restricted labour regime.	Liberal labour regime.
7	Residents	No residents.	More like township development.
8	De-regulation of utilities	Limited.	Completely deregulated.
9	Administration	Limited powers to authorities.	Empowered administrative structure (single window structure)

Source : Based on Rao (2004)

5. SEZ's In India:

Ambitions with which the SEZ Act was been enacted are high. SEZ's are expected to double India's share of global exports by 2009 and expand employment opportunities, especially in semi-urban and rural areas (Ministry of Commerce and Industry, 2004).

In addition to generation of economic activities and investment (both domestic and foreign), the guidelines for notifying Special Economic Zones under the SEZ Act 2005 lists the following objectives of SEZ (Gazette of India) 2005:

- a) Creation of employment opportunities.
- b) Development of infrastructure facilities.

As per the SEZ Act 2005, a single window SEZ approval mechanism has been provided through a nineteen member inter-ministerial SEZ Board of Approval (BoA). Applications duly recommended by the respective state governments or this BoA considers UT administration periodically. All decisions of the BoA are consensual (Ministry of Commerce and Industry 2007).

The SEZ rules provide for different minimum land requirements for different classes of SEZ's (Ministry of Commerce and Industry, 2006). Every SEZ is divided into a processing area where the SEZ units alone would come up, and the non-processing area where the supporting infrastructure is to be created (ibid).

6. Incentives to SEZ's

Ministry of commerce and Industry offers the following incentives and facilities to the developers of SEZ:

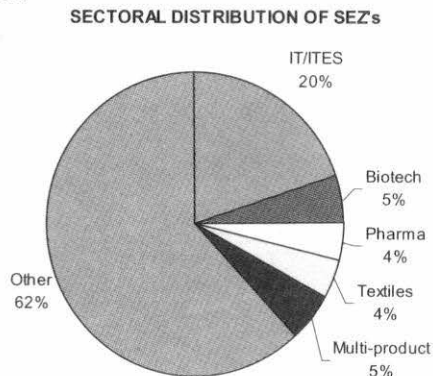
- ❖ Duty free import / domestic procurement of goods for developments, operation and maintenance of SEZ units.
- ❖ 100 percent income tax exemption on export income for SEZ units for first 5 years, 50 percent for next 5 years thereafter and 50 percent of the ploughed back export profit for next 5 years.
- ❖ Exemption from minimum alternate tax.
- ❖ External commercial borrowing by SEZ units up to US \$ 500 million in a year without any maturity restriction through recognized banking channels.
- ❖ Exemption from Central Sales Tax (CST)
- ❖ 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.

The major incentives and facilities available to SEZ developers include:

- ❖ Exemption from customs / excise duties for development of SEZs.
- ❖ Income tax exemption on export income for a block of 10 years in 15 years.
- ❖ Exemption from minimum alternate tax.
- ❖ Exemption from dividend distribution tax.
- ❖ Exemption from CST.
- ❖ Exemption from service tax.

7. Sectoral and locational distribution of SEZ's

SEZ's in India are developed in sectors like IT / ITES, Biotech, Pharma, Textiles, Multi product and others. The following pie-diagram shows the sector-wise distribution of approved SEZ's upto July, 2007. Our observations reveal that the relation between population and SEZ is weak. The potential of SEZ's as a generator of economic activities and employment in regions, which have large population, and lack of economic activities appears to be weak.



Revenue from IT Industry – sector-wise Brake-up is presented in table-4 below:

Table - 4
IT Industry sector-wise Break-up Revenue

Sl.No.	USD billion	FY 2004	FY 2005	FY 2006	FY 2007
1.	IT services	10.4	13.5	17.8	23.7
	Exports	7.3	10.0	13.3	18.1
	Domestic	3.1	3.5	4.5	5.6
2.	ITES - BPO	3.4	5.2	7.2	9.5
	Exports	3.1	4.6	6.3	8.3
	Domestic	0.3	0.6	0.9	1.2
3.	Engineering services and R & D, Software products	2.9	3.9	5.3	6.5
	Exports	2.5	3.1	4.0	4.9
	Domestic	0.4	0.8	1.3	1.6
4.	Total software and Services Revenues	16.7	22.6	30.3	39.7
	of which, exports are	12.9	17.7	23.6	31.3
5.	Hardware	5.0	5.9	7.0	8.2
6.	Total IT Industry	21.6	28.4	37.4	47.8

(Including Hardware)

Note: Total may not match due to rounding off.

Source: NASSCOM (2007)

Indian SEZ's located in Vishakapatnam, Cochin, Chennai and Mumbai have proximity to seaports. In any case, simple proximity cannot guarantee results unless airports and seaports are well equipped to handle the traffic of goods efficiently. Here, the member of approved SEZs in big cities in India as on 31st March, 2007 are presented below:

<i>Sl. no.</i>	<i>Cities</i>	<i>No of approved SEZ's</i>		
		<i>Numbers</i>	<i>Percentage</i>	<i>Ranks</i>
1.	Ahmedabad	7	4.09	7.5
2.	Bangalore	22	12.88	3.0
3.	Chandigarh & Mohali	5	2.92	10.5
4.	Chennai	16	9.36	5.0
5.	Coimbatore	6	3.50	9.0
6.	Cochin	3	1.75	14.0
7.	Delhi	2	1.18	16.5
8.	Gurgaon	26	15.20	1.0
9.	Hyderabad.	15	8.78	6.0
10.	Indore	4	2.34	12.0
11.	Jaipur	3	1.75	14.0
12.	Kolkata	5	2.92	10.5
13.	Mumbai, Navi Mumbai, Thane	24	14.03	2.0
14.	Nagpur	3	1.75	14.0
15.	Pune	21	12.28	4.0
16.	Trivendrum	2	1.18	16.5
17.	Vishakapatnam	7	4.09	7.5
	TOTAL	171	100.00	

8. Issues to be addressed in Indian SEZ's:

The aforesaid discussion highlights only the encouraging and positive side of the SEZ, but this policy has a negative side as well. There are some thorny issues, as below, which need to be carefully addressed:

- a) Large scale forced acquisition of land and promotion of real estate business.
- b) Loss of local agriculture and other traditional livelihoods.
- c) Lack of equal and non-exploitative employment opportunities for local communities in SEZ's.
- d) Increasing burden on natural resources like land, water, forests besides the threat of environmental destruction and ecological imbalances.
- e) Revenue losses and lack of real economic development of the country and people.
- f) Break down of Governance system especially of the local self-governments with the creation of foreign enclaves.
- g) Absence of Government initiative to start dialogue and open public consultation on the matter.

9. Suggestions:

The following suggestions are offered to strengthen the SEZ's and prevent their ill effects on society.

- a) SEZ's should be on a case-to-case basis and on low biological potential land. There should be mapping of the land unsuitable for agricultural and earmarked for SEZ's. However, the growth of agriculture and industry should be harmonised so that people could move from on-farm to non-farm activities. But the unfinished agenda on land reform must be expedited.
- b) Farmers, labourers and other citizens in the villages were being threatened to give up their land and to stop cultivation. Best examples are (i) Land acquisition of U.P. Govt. about 2500 acres for Reliance Group, (ii) Coastal corridor in Andhra Pradesh and (iii) Singur farmers lands for TATAs by Marxist Government in West Bengal. Such practices shall be abandoned by the state.
- c) On par with SEZ's, Special Agricultural Zones (SAZ's) and Special Craftsmanship Zones (SCZ's) and Special Fisherman's Zones (SFZ's) may be developed.

- d) Many State Governments are now contemplating levying stamp duty on non-processing areas in SEZ. This could spell trouble for many SEZ's who have grand plans for non-processing areas. Companies can use up to 150 % of SEZ areas as a Non-processing Zone for activities such as housing, health facilities etc., and all this could now attract stamp duties resulting in escalation of costs. Hence, the issue has to be solved in a rational way.
- e) Some big business houses appear to have been looking SEZ's as a real estate opportunity, which does not go with the spirit of the SEZ policy. To discourage any such possibility, what is needed is proper valuation of the land to be acquired. In this regard the role of Chartered Accountants has to be defined to the extent of ensuring reinvestment of land compensation received by farmers.

10. References

- a) Indian Infrastructure report – 2008.
- b) The Chartered Accountant (Various Issues)
- c) APonline.com
- d) The Hindu Publications.
- e) Times of India Publications.
- f) NASSCOM Report.

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