



BENEFITS AND ROLE OF GOVERNMENT IN ESTABLISHING SEZ – A STUDY

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Abstract:

Special Economic Zones abbreviated and popularly known as SEZs have emerged as an inimitable way of economic development coupled with phased industrial development, infrastructural development, enhanced foreign investment and export promotion. Ever since the nation's independence, the Indian government is making all round efforts to promote economic growth by increased exports. Since country-wide development of infrastructure is expensive and implementation of structural reforms would require time, due to given socio-economic, socio-legal and a socio-political institution, the establishment of SEZs is seen as an important strategic tool for expediting the process of industrialization. The zones offer numerous benefits such as tax incentives, provision of standard factories/plots at low rents with extended lease period, provision of infrastructure and utilities, single window clearance, simplified procedures, and exemptions from various restrictions that characterize the investment climate in the domestic economy.

Introduction:

Special Economic Zone (SEZ) is a special geographical region which has different laws when compared to other regions. SEZs are projected as duty free area for the purpose of trade, operations, duty and tariffs. SEZ units are self-contained and integrated having their own infrastructure and support services. Special Economic Zone (SEZ) is a specifically delineated duty-free enclave and shall be deemed to be foreign territory for the purposes of trade operations and duties and tariffs. In other words, SEZ is a geographical region that has economic laws different from a country's typical economic laws. Usually the goal is to increase foreign investments. SEZs have been established in several countries, including China, India, Jordan, Poland, Kazakhstan, Philippines and Russia.

Any private/public/joint sector or state government or its agencies can set up an SEZ, a foreign agency can set up SEZs in India. Special Economic Zones (SEZ) are growth engines that can boost manufacturing, augment exports and generate employment. Business units that set up establishments in an SEZ would be entitled for a package of incentives and a simplified operating environment. SEZ's enjoys tax breaks, simplified procedures, less regulations and restrictions, exemption from customs and duties, all of which is done to

- Generate additional Economic activity
- Promote exports of goods and services
- Promote Investment from domestic and foreign sources
- Create employment opportunities
- Develop Infrastructure facilities

India Background

For long time, India experimented with the concept of such units in the form of Export Processing Zones (EPZ). In 2000, the policy makers incorporated the SEZs into the EXIM Policy of India. Five year later, SEZ Act (2005) was also introduced and in 2006 SEZ Rules were formulated. Thus the Special Economic Zone (SEZ) policy in India first came into inception on April 1, 2000. The prime objective was to enhance foreign investment and provide an internationally competitive and hassle free environment for exports. SEZs play a key role in rapid economic development of a country. In the early 1990s, it helped China and the policy makers in India thought of similar export-processing zones could offer similar benefits – with appropriate incentives.

It is expected that this will trigger a large flow of foreign and domestic investment in SEZs, in infrastructure and productive capacity, leading to generation of additional economic activity and creation of employment opportunities.

SEZ do attract the firms in sectors whose basis of competition is highly dependent on the available supply of low-wage, flexible, and unskilled or semiskilled workers, a set of requirements. Special Economic Zones create the following advantages such as (1) minimize costs (through fiscal incentives and administrative efficiencies); (2) provide access to serviced land and more reliable infrastructure; and (3) reduce the investment requirement, lowering risk and providing operational and strategic flexibility.

- Some economists provide the following conceptual framework. According to them some of the key success factors of SEZ are
- By combining private property rights protection, tax break and preferential long-term land use fee, attract foreign direct investment;
- In the absence of any significant crowding out effect, do not reduce domestically owned capital formation;
- If bringing more advanced FDI, will boost technology progress, i.e. total factor productivity growth.
- This is because the law of SEZs explicitly provides the following policy packages for foreign investors:

Objectives of SEZ

- Generation of additional economic activity
- Promotion of exports of goods and services
- Promotion of investment from domestic and foreign sources
- Creation of employment
- Development of infrastructure facilities
- Simplified procedures for development, operation, and maintenance of the Special Economic Zones and for setting up units and conducting business
- Single window clearance for setting up of a SEZ and an unit in SEZ
- Single window clearance on matters relating to Central as well as State Governments

Benefits From SEZ

- 10-year tax holiday in a block of the first 20 years
- Exemption from duties on all imports for project development
- Exemption from excise / VAT on domestic sourcing of capital goods for project development
- No foreign ownership restrictions in developing zone infrastructure and no restrictions on repatriation
- Freedom to develop township in to the SEZ with residential areas, markets, play grounds, clubs and recreation centers without any restrictions on foreign ownership
- Income tax holidays on business income
- Exemption from import duty, VAT and other Taxes
- 10% FDI allowed through the automatic route for all manufacturing activities
- Procedural ease and efficiency for speedy approvals, clearances and customs procedures and dispute resolution
- Simplification of procedures and self-certification in the labor acts
- Artificial harbor and handling bulk containers made operational through out the year
- Houses both domestic and international air terminals to facilitate transit, to and fro from major domestic and international destinations
- Has host of Public and Private Bank chains to offer financial assistance for business houses
- A vibrant industrial city with abundant supply of skilled manpower, covering the entire spectrum of industrial and business expertise
- Well connected with network of public transport, local railways and cabs
- Pollution free environment with proper drainage and sewage system
- In-house Customs clearance facilities
- Easy access to airport and local Railway Station
- Full authority to provide services such as water, electricity, security, restaurants and recreational facilities within the zone on purely commercial basis
- Abundant supply of technically skilled manpower
- Abundant supply of semi-skilled labor across all industry sectors

Role of state governments in establishing SEZ

State governments will have a very important role to play in the establishment of SEZs. Representative of the state government, who is a member of the inter-ministerial committee on private SEZ, is consulted while considering the proposal. Before recommending any proposals to the ministry of commerce and industry (department of commerce), the states must satisfy themselves that they are in a position to supply basic inputs like water, electricity, etc. The government will constitute a group to suggest necessary changes in the policy for special economic zones (SEZs), Parliament was informed on Monday. SEZs are export hubs and contribute significantly to the country's total outbound shipments. "The government is in the process of constituting a group to study necessary changes in the SEZ

policy,” commerce and industry minister Suresh Prabhu said in a written reply to the Lok Sabha.

The developers and units of these zones enjoy certain fiscal and non-fiscal incentives such as there is no licence required for import; full freedom for subcontracting; and no routine examination by customs authorities of export/import cargo. They also enjoy direct and indirect tax benefits.

In a separate reply, the minister said that to address concerns of rubber sector, the government has decided to constitute a task force on the commodity for finding out short term solutions and formulating long term strategies to tackle the problems.

The members of the task force includes representatives of state and central government. He said the effort will be to work towards a rubber policy in consultation with state governments.

A stakeholders meeting was held last month to discuss several issues pertaining to the natural rubber sector.

Several issues related to rubber were discussed including minimum support price, restrictions on import, minimum import price, categorisation of natural rubber as an agricultural product, issue of import of cup lumps, safeguard duty on import and formulation of rubber policy.

Some of the Established Important Special Economic Zones in India are :

- Falta food processing unit, West Bengal
- Salt Lake Electronic City, West Bengal
- Manikanchan - Gems and jewelry, West Bengal
- Calcutta Leather Complex, West Bengal
- Karnataka Biotechnology and Information Technology Services - SEZ on biotechnology sector in Bangalore's Electronics City, over an area of 43 acres
- Shree Renuka Sugars Limited - SEZ on sugarcane processing complex covering 100 hectares, comprising a sugar plant, power station and distillery, at Burlatti in Belgaum district
- Ittina Properties Private Limited and three other - SEZs in IT sector, covering electronics, hardware and software sectors in
- Bangalore, over an area of 15.732 hectares
- Divyasree Infrastructure - SEZ in the IT/ITES sector over an area of 20.234 hectares in Bellandur Amani Kane near Bangalore
- Chaitanaya Infrastructure Private Limited - SEZ in the IT/ITES sector in Bangalore over an area of 20.24 hectares
- Bagmane Developers Private Limited - SEZ in the IT/ITES sector in Raman Nagar in Bangalore North over an area of 15.5 hectares
- Shipco Infrastructure Private Limited - Free Trade Ware Housing Zone in Karnataka over an area of 120 hectares

- Hinduja Investments Private Limited - SEZ in the textile and apparel sector at Doddamannugudde in Bangalore Rural district, over an area of 100 hectares
- Wipro Infotech - SEZ on IT / ITES at Electronics City, Sarajpur Bangalore
- Hewlett Packard India Software Operation Pvt. Ltd. - SEZ on IT
- Food processing and related SEZ services in Hassan, over an area of 157.91 hectares.
- SEZs on pharmaceuticals, biotechnology and chemical sectors in Hassan, covering of 281.21 hectares.
- SEEPZ - Andheri (East), Mumbai
- Khopata - Multi-product, Mumbai
- Navi Mumbai - Multi-product, Mumbai

Conclusion:

For more than 50 years, SEZs have continuously been used as a development tool because of the power they possess. Shielded from local politics, they have offered the perception of freedom and flexibility to nations looking to experiment with radical policy. India's SEZ policy appears to be another successful government 'scheme' for business. The manner in which the policy is continually being shaped through concessions and rule changes suggests that it is not merely responsive to the needs of business but also open to regular reinterpretation at its urging. The new generation of SEZ policy reforms were created to address the negative consequences of rapid growth policy by employing sustainable development principles. I have observed the changes in policy to determine if they have effectively led to a more dynamic development of host economies, and if long-term strategies will bring both firms and nations closer to their economic development goals.

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