Special Economic Zones (SEZs): A case study of Indian Economy

Sanjiv Singh Bhadauria
Assistant Professor, Amity University Madhya Pradesh, Gwalior.

Abstract: The purpose of the paper is to highlight the conceptual framework of Special Economic Zones (SEZs), its role in improving economic development and the problems associated with the industrialization. In this paper an attempt is also made to discuss the various constraint and limitations of Special Economic Zones (SEZs). The findings of the paper will help the planners to frame an exact and benefiting policy for industrial growth and development of the economy.

Keywords: Special Economic Zones, Bureaucracy, Economic Development

I. INTRODUCTION
Special Economic Zones is one of the new concept in the era of India was one of the first in Asia to recognize the effectiveness of the Export Processing Zone (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 (SEZs) Policy was announced in April 2000.

This policy intended to make SEZs an engine for economic growth supported by quality infrastructure complemented by an attractive fiscal package, both at the Centre and the State level, with the minimum possible regulations. SEZs in India functioned from 1.11.2000 to 09.02.2006 under the provisions of the Foreign Trade Policy and fiscal incentives were made effective through the provisions of relevant statutes.

To instill confidence in investors and signal the Government's commitment to a stable SEZ policy regime and with a view to impart stability to the SEZ regime thereby generating greater economic activity and employment through the establishment of SEZs, a comprehensive draft SEZ Bill prepared after extensive discussions with the stakeholders. A number of meetings were held in various parts of the country both by the Minister for Commerce and Industry as well as senior officials for this purpose. The Special Economic Zones Act, 2005, was passed by Parliament in May, 2005 which received Presidential assent on the 23rd of June, 2005. The draft SEZ Rules were widely discussed and put on the website of the Department of Commerce offering suggestions/comments. Around 800 suggestions were received on the draft rules. After extensive consultations, the SEZ Act, 2005, supported by SEZ Rules, came into effect on 10th February, 2006, providing for drastic simplification of procedures and for single window clearance on matters relating to central as well as state governments. The main objectives of the SEZ Act are:

(a) Generation of additional economic activity
(b) Promotion of exports of goods and services;
(c) Promotion of investment from domestic and foreign sources;
(d) Creation of employment opportunities;
(e) Development of infrastructure facilities;

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.

The SEZ Act 2005 envisages key role for the State Governments in Export Promotion and creation of related infrastructure. A Single Window SEZ approval mechanism has been provided through a 19 member inter-ministerial SEZ Board of Approval (BoA). The applications duly recommended by the respective State Governments/UT Administration are considered by this BoA periodically. All decisions of the Board of approvals are with consensus.

The SEZ Rules provide for different minimum land requirement for different class of SEZs. Every SEZ is divided into a processing area where alone the SEZ units would come up and the non-processing area where the supporting infrastructure is to be created.

II. The SEZ Rules provide for:

- Simplified procedures for development, operation, and maintenance of the Special Economic Zones and for setting up units and conducting business in SEZs;
- Single window clearance for setting up of an SEZ;
- Single window clearance for setting up a unit in a Special Economic Zone;
- Single Window clearance on matters relating to Central as well as State Governments;
- Simplified compliance procedures and documentation with an emphasis on self certification
III. Approval mechanism and Administrative set up of SEZs

Approval mechanism

The developer submits the proposal for establishment of SEZ to the concerned State Government. The State Government has to forward the proposal with its recommendation within 45 days from the date of receipt of such proposal to the Board of Approval. The applicant also has the option to submit the proposal directly to the Board of Approval.

The Board of Approval has been constituted by the Central Government in exercise of the powers conferred under the SEZ Act. All the decisions are taken in the Board of Approval by consensus. The Board of Approval has 19 Members. Its constitution is as follows:

| (1) | Secretary, Department of Commerce | Chairman |
| (2) | Member, CBEC | Member |
| (3) | Member, IT, CBDT | Member |
| (4) | Joint Secretary (Banking Division), Department of Economic Affairs, Ministry of Finance | Member |
| (5) | Joint Secretary (SEZ), Department of Commerce | Member |
| (6) | Joint Secretary, DIPP | Member |
| (7) | Joint Secretary, Ministry of Science and Technology | Member |
| (8) | Joint Secretary, Ministry of Small Scale Industries and Agro and Rural Industries | Member |
| (9) | Joint Secretary, Ministry of Home Affairs | Member |
| (10) | Joint Secretary, Ministry of Defence | Member |
| (11) | Joint Secretary, Ministry of Environment and Forests | Member |
| (12) | Joint Secretary, Ministry of Law and Justice | Member |
| (13) | Joint Secretary, Ministry of Overseas Indian Affairs | Member |
| (14) | Joint Secretary, Ministry of Urban Development | Member |
| (15) | A nominee of the State Government concerned | Member |
| (16) | Director General of Foreign Trade or his nominee | Member |
| (17) | Development Commissioner concerned | Member |
| (18) | A professor in the Indian Institute of Management or the Indian Institute of Foreign Trade | Member |
| (19) | Director or Deputy Sectary, Ministry of Commerce and Industry, Department of Commerce | Member Secretary |

Administrative set up

The functioning of the SEZs is governed by a three tier administrative set up. The Board of Approval is the apex body and is headed by the Secretary, Department of Commerce. The Approval Committee at the Zone level deals with approval of units in the SEZs and other related issues. Each Zone is headed by a Development Commissioner, who is ex-officio chairperson of the Approval Committee.

Once an SEZ has been approved by the Board of Approval and Central Government has notified the area of the SEZ, units are allowed to be set up in the SEZ. All the proposals for setting up of units in the SEZ are approved at the Zone level by the Approval Committee consisting of Development Commissioner, Customs Authorities and representatives of State Government. All post approval clearances including grant of importer-exporter code number, change in the name of the company or implementing agency, broad banding diversification, etc. are given at the Zone level by the Development Commissioner. The
performance of the SEZ units are periodically monitored by the Approval Committee and units are liable for penal action under the provision of Foreign Trade (Development and Regulation) Act, in case of violation of the conditions of the approval.

IV. Facilities and Incentives

The incentives and facilities offered to the units in SEZs for attracting investments into the SEZs, including foreign investment include:-

- Duty free import/domestic procurement of goods for development, operation and maintenance of SEZ units
- 100% Income Tax exemption on export income for SEZ units under Section 10AA of the Income Tax Act for first 5 years, 50% for next 5 years thereafter and 50% of the ploughed back export profit for next 5 years.
- Exemption from minimum alternate tax under section 115JB of the Income Tax Act.
- External commercial borrowing by SEZ units upto US $ 500 million in a year without any maturity restriction through recognized banking channels.
- Exemption from Central Sales Tax.
- 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 for authorized operations approved by the BOA.
- Income Tax exemption on income derived from the business of development of the SEZ in a block of 10 years in 15 years under Section 80-IAB of the Income Tax Act.
- Exemption from minimum alternate tax under Section 115 JB of the Income Tax Act.
- Exemption from Central Sales Tax (CST).
- Exemption from Service Tax (Section 7, 26 and Second Schedule of the SEZ Act).

V. Major Output:

1. After the introduction of Special Economic Zone, there is vast increase in investment takes place from 2,279.00 Cr. in 2006 to 15,974.00 Cr. in 2017 under Central Government SEZs.
2. In State/Pvt SEZs, investment increase from 1756.31 Cr. in 2006 to 11,478.00 Cr. in 2017.
3. Under SEZs Notified Under the act, investment hick from 4,035.51 Cr. in 2006 to 433,142.00 Cr. in 2017.
4. After the introduction of Special Economic Zone, there is vast increase in employment takes place from 1,22,236 persons in 2006 to 2,34,861 persons. in 2017 under Central Government SEZs.
5. In State/Pvt SEZs, employment increase from 12,468 persons in 2006 to 95,970 person in 2017.
7. Export increased from Rs 4,63,770 Cr. in 2006 to 1,35,248 Cr. in 2017.

VI. Conclusion:

Undoubtedly, the role of Special Economic Zone is very important for economic growth in general and industrial development in particular. It helps in managing financial assets, single-window clearance and other assistance which are prerequisite conditions for industrial growth, especially small scale and cottage industries. After the introduction of Special Economic Zone, there are tremendous improvement in the investment, employment and export, which in turn pace up the process of economic growth.

References