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EXPORT PERFORMANCE OF SEZs IN INDIA

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ABSTRACT:

The Government of India started the Special Economic Zone in 2005. Exports from SEZ do not attract Custom Duty, Excise Duty, Income Tax, Minimum Alternate Tax, Dividend Distribution Tax. India's current Special Economic Zone-SEZ policy study report was submitted to Union Minister of Commerce and Industry and Civil Aviation, Suresh Prabhu. The committee was constituted under the chairmanship of Baba Kalyani, chairman of the country's renowned industrialist Bharat Forge Limited, to prepare this policy study report. This committee was asked to assess the SEZ policy and suggest it to confirm to the World Trade Organization-WTO standards. India is one of the top countries who specially established such geographical units to promote industry and trade activities. India is the first Asian country to establish a special area in Kandla in 1965 to increase exports. It was named Export Processing Zone (EPZ). The economic zones to be established by the government to promote exports are called Special Economic Zones. This Paper is focusing upon the export promotion in India after establishing SEZ's.

Year	SEZs Export (Value Rupees in Crores)	Percentage increase in SEZs export	India Export (Value Rupees in Crores)	Percentage increase in India export	Share of SEZs exp in Indian Export
2005-06	22840		456418		5.00
2006-07	34615	51.6	571779	25.3	6.05
2007-08	66638	92.5	655864	14.7	10.16
2008-09	99689	49.6	840755	28.2	11.86
2009-10	220712	121.4	845534	0.6	26.10
2010-11	315868	43.1	1142922	35.2	27.64
2011-12	364478	15.4	1468959	28.5	24.81
2012-13	476159	30.6	1634318	11.3	29.14
2013-14	494077	3.8	1905011	16.6	25.94
2014-15	463000	-6.3	1897026	-0.4	24.41

rce: Annual Report 2014-15, Department of Commerce, Ministry of Commerce and Industry, Government of India, Handbook of Statistics on Ind ... Reserve Bank of India.

KEYWORDS: *Export Oriented Units, Export Promotion, Foreign Exchange, SEZs*

INTRODUCTION

Since 1st January 1995 World Trade Organisation (WTO) Facilities and regulates free flow of trade among comity of nations. Import and exports of goods and services are indispensable for all countries, big or small, this is because no country is self – sufficient for all of it's needs. Even the United State of America, which is self – dependent for 96% of it's needs , has to took beyond for 4% of it's requirements , Imports consist of not only consumption goods but also capital goods and services. Likewise every country tries to find markets overseas for selling its surpluses through exports and earn foreign exchange.

Foreign exchange is primarily required to meet import bills and debt repayments . If exports earnings are inadequate a country has to resort to external borrowings. Fortunately India's foreign exchange reserve is comfortable. India has already stopped borrowing from the International Monetary Fund. Even commercial borrowings are manageable and far from alarming. Investment needs of the country are met to a considerable extent by Foreign Direct Investment. But India is not complacent and is taking all possible measures through policy changes to sustain and promote exports.

Export Processing Zone and then Special Economic Zone were conceived as a major attempt to boost exports of the country. Though exports performance of SEZs in India has failed to live up to the expectations, it is the need of the our (specially in the face of recent economic slowdown) that the government of India should pay special attention to improve the functioning of SEZs and enhance it's export capacities.

The Indian EPZs have contributed hardly 4 percent of the country's exports where as the SEZs in China contributed 40 percent. The move to develop SEZs in India was inspired by the success of China's SEZs. The major reason for the success of SEZs in China is the absence of Trade Union Rights. In a democratic country like India, one cannot think of denying the labour rights. Even then the big push of development envisaged by the SEZs should be expected a very significant impact on the Indian economy.

In Asia, India was one of the first countries to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting exports. Hence, the first EPZ in Asia was set up in Kandla in 1965. The Special Economic Zones (SEZs) Policy was announced in April 2000, 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, with a view to attract larger foreign investments in India, with the minimum possible regulations, this policy planned 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,

A comprehensive draft of SEZ Bill prepared after extensive discussions with the stakeholders to infuse 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 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 (SEZs) Act, 2005, was passed by Parliament in May, 2005 which received Presidential consent on 23rd June, 2005. On 10th February, 2006 the SEZ Act, 2005, supported by SEZ Rules came into affect and providing for radical simplification of procedures and for single window clearance on matters relating to central as well as state governments.

Special Economic Zones Primarily aim at developing export potentials of the country through export oriented individual complexes or industrial agglomerates. The special economic zones in India were established with a view to bring expertise for the country's exports sector. For this a policy was introduced on 01.04.2006. As to these policies, the Government has set up SEZ's in the public, private, joint sector or by State Governments. In this regard some of the existing Export processing zones were converted into Special economic zones. Fiscal incentives financial assistance, infrastructural support and environment free of bureaucratic interference, underlies the economic policy parameters promoting these zones. These incentives and assistance schemes increase indirect competitive strength in the units in these zones to face adequately the international competition in the world market. The valuable foreign exchange earned by the units in the SEZs provides the needed investment resources and thus help the economic development of the country.

State-Wise Distribution of Exporting Sezs:

There are 231 exporting SEZs in India (As on 22nd January 2019). The state-wise distribution of exporting SEZs in India is as shown in Table 1. Tamil Nadu has the highest exporting SEZs which are 40, whereas Chhattisgarh only one exporting SEZ.

Table 1: State-Wise Distribution of Exporting SEZs
(As on 22nd January 2019)

Sr. No.	States / UTs	Exporting SEZs (Central Govt. , State Govt./ Pvt. SEZs and notified SEZs under the SEZ Act , 2005
01	Andhra Pradesh	19
02	Chandigarh	2
03	Chhattisgarh	1
04	Gujarat	20
05	Haryana	6
06	Karnataka	31
07	Kerala	19
08	Madhya Pradesh	5
09	Maharashtra	30
10	Odisha	5
11	Punjab	3
12	Rajasthan	2
13	Tamil Nadu	40
14	Telangana	29
15	Uttar Pradesh	12
16	West Bengal	7
	Grand total	231

Sector-Wise Distribution of Exporting Sezs:

The sector-wise distribution of exporting SEZs in India is as shown in Table 2. IT/ITES/Electronic Hardware/ Telecom Equipments sector has the highest exporting SEZs which are 136 followed by Multi product sector 25, Engineering and Pharmaceuticals/Chemicals sectors are having 12 exporting SEZs each, where as Agro- processing, Aluminums , Automobile Ancillary, Beach & Mineral/Metals and Handicrafts & Carpets are having only one exporting SEZ.

Table 2: Sector – wise Distribution of Exporting SEZs
(As on 22nd January 2019)

Sr. No.	sectors	Exporting SEZs
1	Agro- processing	1
2	Alumina/ Aluminum	1
3	Auto/Automobile Ancillary	1
4	Aviation/Aerospace/Animation &Gaming/Copper	4
5	Beach& Mineral/Metals	1
6	Biotechnology	4
7	Building Prod. / Transport Equipment/Ceramic and Glass	2
8	Electronics product/Industries	2
9	Engineering	12
10	Footwear/Leather	4
11	Foot processing	2
12	FTWZ	4
13	Gems and Jewellery	3
14	Handicrafts and Carpets	1
15	IT/ITES/Electronic Hardware / Telecom Equipments	136
16	Multi-product	25

17	Multi-services	2
18	Non-Conventional Energy	2
19	Pharmaceutical / Chemicals	12
20	Port-based Multi-product	2
21	Power / Alternate Energy /Solar	3
22	Textiles / Apparel / Wool	7
		231

Export performance of SEZs:

Exports from SEZs have increased over twenty five times from about rs. 22840 crores in 2005-2006 to about Rs. 581033 crores in 2017-18.The percentage share of SEZ exports in the total exports of the country in the year 2005-06 was only 5% in the year 2017-18 stood at 29.71%. This shows the impact of SEZs on the exports of India.

Table 3: Export performance of SEZs in India

Financial year	Total SEZ Exports (Rs. In Crores)	Growth rate (over previous year)	Total exports of the country (Rs. In Crores)	% share of SEZ exports In the total exports
2005-06	22840	-	456418	5%
2006-07	34615	52%	571779	6.05%
2007-08	66638	93%	655864	10.16%
2008-09	99689	50%	840755	11.86%
2009-10	220711	121.40%	845534	26.10%
2010-11	315868	43.11%	1142922	27.64%
2011-12	364478	15.39%	1465959	24.86%
2012-13	476159	30.64%	1634318	29.14%
2013-14	494077	4%	1905011	25.94%
2014-15	463770	- 6.13%	1896445	24.45%
2015-16	467337	0.77%	1716384	27.23%
2016-17	523637	12.05%	1849434	28.31%
2017-18	581033	10.96%	1955541	29.71%

Incentives/facilities available for SEZ Exporting Units

1. Customs and Excise:

a. SEZ units may import or procure from the domestic sources, duty free, all their requirements of capital goods, raw materials, consumables. spares, packing materials, office equipment, DG sets etc. for implementation of their project in the Zone without any licence or specific approval.
b. Duty free import/domestic procurement of goods for setting up of SEZ units
c. Goods imported/procured locally duty free could be utilised over the approval period of 5 years.
d. Domestic sales by SEZ units will now be exempt from SAD.
e. Domestic sale of finished products, by-products on payment of applicable Custom duty.
f. Domestic sale rejects and waste and scrap on payment of applicable Custom duty on the transaction value.

2. Income Tax:

a. Physical export benefit
b. 100% IT exemption (10A) for first 5 years and 50% for 2 years thereafter.
c. Reinvestment allowance to the extent of 50% of ploughed back profits
d. Carry forward of losses

3. Foreign Direct Investment:

a. 100% foreign direct investment is under the automatic route is allowed in manufacturing sector in SEZ units except arms and ammunition, explosive. Atomic substance, narcotics and hazardous

chemicals, distillation and brewing of alcoholic drinks and cigarettes, cigars and manufactured tobacco substitutes.
b. No cap on foreign investments for SSI reserved items.

4. Banking / Insurance/External Commercial Borrowings:

a. Setting up Off-shore Banking Units allowed in SEZs.
b. OBU's allowed 100% Income Tax exemption on profit for 3 years and 50 % next two years.
c. External commercial borrowings by units up to $ 500 million a year allowed but any maturity restrictions.
d. Freedom to bring in export proceeds without any time limit.
e. Flexibility to keep 100% of export proceeds in EEFC account. Freedom to make overseas investment from it.
f. Commodity hedging permitted.
g. Exemption from interest rate surcharge on import finance.
h. SEZ units allowed to 'write-off unrealized export bills.

Export Oriented Units (EOUs)

The Export Oriented Units (EOUS) scheme was introduced in early 1981, primarily to boost exports by creating additional production capacity. It was introduced as a complementary scheme to the Free Trade Zones/Export Processing Zone (EPZ) Scheme introduced in the sixties, which had not attracted many units due to location restrictions. It adopts the same production regime as SEZs (erstwhile EPZS) but offers a wide option in locations.

Units undertaking to export their entire production of goods and services, except permissible sales in the DTA, as per the export-Import Policy are referred to as export oriented units (EOUS). The EOUS function under the administrative control of the concerned Development Commissioner of Special Economic Zone i.e., under the Department of Commerce, Government of India.

The EOUS are governed by the provisions of Chapter 6 of the Foreign Trade Policy (FTP) and its procedures, as contained in the Handbook of Procedures (HBH). Provisions of the said Chapter 6 and its procedures have also been made applicable to the Electronics Hardware Technology Parks (EHTPS). Software Technology Parks (STPS) and Biotechnology Parks (BTPS), Hence the scheme is for EOU/STP/EHTP/BTP and is referred in common parlance as EOU scheme.

As on September 30.09.2018, 1712 units are in operation under the EOU scheme compared to 1832 EOUS in 2017- 18 state- wise distribution of EOUS is given in table below:

Table 4: Sector-wise distribution of functional EOUs
EOUs as on 30-09-2018

State / UTs	FUNCTIONAL
Andhra Pradesh	76
Telangana	115
West Bengal	35
Jharkhand	02
Orissa	01
Meghalaya	01
Gujarat	180
Kerala	85
Karnataka	406
Tamil Nadu	377
Pondicherry	12
Maharashtra	227
Goa, daman & Diu	36
Dadar and Nagar	15

Haweli	09
Delhi	55
Haryana	56
Uttar Pradesh	08
Punjab	04
Himachal Pradesh	02
Jammu & Kashmir	02
Chandigarh	08
Total	1712

CONCLUSION

Exports performance of SEZs in India is not commendable . It is a far cry to make a comparison with China. Several SEZ units are dormant which must be made functional. Land is a major problem in setting up new industrial units while a large area of Land remains un utilized . Make in India is a flagship industrial scheme of the government of India but unfortunately it has not made much headway .The government of India needs to form a committee of experts to suggest ways and means to attract both Foreign and domestic investors with necessary incentives and facilities to raise unites in such sectors which can produce quality products to compete in global market. These investors should be encouraged to prefer SEZ locations.

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