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SEZ (SPECIAL ECONOMIC ZONE) – AN OVERVIEW, CHALLENGES AND FUTURE IN INDIA

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ABSTRACT:
It is a land area that has monetary laws that are more liberal than a nation's average financial laws. A SEZ is an exchange limit advancement apparatus, with the objective to advance fast monetary development by utilizing assessment and business motivating forces to draw in remote venture and innovation. Today, there are roughly 3,000 SEZs working in 120 nations, which record for over US$ 600 billion in fares and around 50 million occupations. By offering special terms, SEZs pull in speculation and remote trade, goad business and lift the advancement of improved innovations and framework.

KEYWORDS: *nation's average financial , utilizing assessment and business motivating forces.*

INTRODUCTION

Special Economic zone (SEZ) is a geographical region that is designed to export goods and provide employment. SEZs are exempt from federal laws regarding taxes, quotas, FDI-bans, labour laws and other restrictive laws in order to make the goods manufactured in the SEZ at a globally competitive price.

Moreover SEZ's provide a medium wherein it not only attracts foreign companies looking for cheaper and efficient location to setup their offshore business, but it also allows the local industries to improve their export through a proper channel and with the help of the new foreign partners to the outside world at a very competitive price. SEZ's offer relaxed tax and tariff policies which is different from the other economic areas in the country. Duty free import of raw materials for production is one example. Moreover the Free trade zones attract big players who want to setup business without any license hassles and the long process involved in it. Most of the allotment is done through a single window system and which is highly transparent system. The bottom-line therefore is increased export and FDI (Foreign Direct Investments) enabling increased Public-private partnership and ultimately resulting in a development of world class infrastructure, boost economic growth, exports and employment.

The SEZ's are significant in the present setting for the underdeveloped nations which have been in the race for quick financial development. There are numerous positives which develop out of building up a SEZ. Give us a chance to examine these components.

For undertaking any sort of enormous advancement program the legislature requires immense measure of assets. So it pays special mind to potential accomplices to enable the administration to do the program. Presently state for setting up a SEZ, the legislature may tie up with a private accomplice whose eager to put resources into that territory, in this manner a success win circumstance for both. As in the administration gets the capital expected to build up the required foundation and furthermore the mastery. The private player then again gets the privilege to market and utilize the SEZ's with loosened up duty laws, in this manner expanding its income creating limit and furthermore doing the monetary development of the organization in a progressively proficient manner with the better assessment strategies. In reality SEZ's with loosened up import duties help the Import ward and fare driven enterprises to thrive by helping them create produced merchandise at aggressive costs.

SEZ's make gigantic business openings. The setting up of SEZ's makes part of circuitous work as far as work required. At that point after the culmination it empowers work in the pertinent ventures working in the SEZ. At that point there are loads of backhanded businesses created wherein individuals begin contributing around SEZ. For instance SEZ's are townships of their own; in this manner there are shopping centers, eateries, event congregations arrangement around to draw in individuals, subsequently bringing about increasingly monetary advancement here.

In addition SEZ's improve the nation's remote fare. Due to the expanded FDI and Private Equity nearness, the nearby makers get the opportunity to tie up with these huge names and fare their items which currently convey a superior brand esteem, hence helping in making a more noteworthy interest for the merchandise of neighborhood makers. Additionally the monstrous capital required for extension is gotten type of FDI bringing about expanded financial action.

The expanded fares from the nation get more income for the nation which improves the monetary development.

SEZ's assistance in making a reasonable financial development in a nation on the off chance that they are appropriately found and executed prompting tapping of neighborhood ability and adding to expanded monetary movement in the region.

INDIA AND SEZ:

Overview: When the India’s ex- commerce Minister Mr. Murasoli Maran returned from a trip to China in late 90’s, he had witnessed something which would lead to revolutionary changes in the India’s EXIM (Export-Import) policy and then the SEZ’s were born.

The SEZ policy was first introduced in India in April 2000, as a part of the Export-Import (“EXIM”) policy of India. Considering the need to enhance foreign investment and promote exports from the country and realizing the need that level playing field must be made available to the domestic enterprises and manufacturers to be competitive globally, the Government of India in April 2000 announced the introduction of Special Economic Zones policy in the country deemed to be foreign territory for the purposes of trade operations, duties and tariffs. To provide an internationally competitive and hassle free environment for exports, units were allowed be set up in SEZ for manufacture of goods and rendering of services. All the import/export operations of the SEZ units are on self-certification basis. The units in the Zone are required to be a net foreign exchange earner but they would not be subjected to any pre-determined value addition or minimum export performance requirements. Sales in the Domestic Tariff Area by SEZ units are subject to payment of full Custom Duty and as per import policy in force. Further Offshore banking units are being allowed to be set up in the SEZs.

In India SEZ first amended in the year 2005 in the cabinet and brought in to existence in the year 2006 as per the SEZ act.

OBJECTIVES OF THE STUDY:

- To understand the importance of the SEZ in developing country like India.
- To know the impact of SEZ in creation of employment in India
- To find out the role of SEZ in improving Exports of the country.
- To understand the challenges/ drawback of SEZ in India.
- To Future of SEZ in India.

SCOPE OF SEZ IN INDIA:

India is one of the principal nations in Asia to perceive the viability of the Export Processing Zone (EPZ) model in advancing fares. Asia's first EPZ was set up in Kandla in 1965. So as to make a situation for accomplishing quick development in fares, a Special Economic Zone arrangement was declared in the Export and Import (EXIM) Policy 2000. Under this strategy, one of the principle highlights is that the assigned obligation free enclave to be treated as a remote area just for exchange activities and obligations and duties. No permit required for import. The assembling, exchanging or administration exercises are permitted. While EPZs are modern homes, SEZs are practically mechanical townships that give strong foundation, for example, lodging, streets, ports and media transmission. The extent of exercises that can be embraced in the SEZs is a lot more extensive and their linkages with the local economy are more grounded. Resultantly they have an expanded mechanical base. Their job isn't transient like the EPZs, as they are expected to be instruments of territorial improvement just as fare advancement. In that capacity, SEZs can have huge effect on fares, inflow of outside venture and business age.

SEZ Act 2005: To give a stable monetary condition to the advancement of Export-import of merchandise in a brisk, productive and bother free way, Government of India authorized the SEZ Act, which got the consent of the President of India on June 23, 2005. The SEZ Act and the SEZ Rules, 2006 ("SEZ Rules") were advised on February 10, 2006. The SEZ Act is relied upon to give a major push to fares and thus to the outside direct venture ("FDI") inflows into India, and is viewed as perhaps the best bit of enactment that may well speak to the fate of the modern advancement technique in India. The new law is planned for urging open private organization to create world-class foundation and pull in private venture (household and outside), boosting monetary development, fares and business.

The SEZs Rules, between alia, accommodate exceptional improvement of techniques and for single window leeway on issues identifying with focal just as state governments. Speculation of the request for Rs.100,000 crores throughout the following 3 years with a business capability of more than 5 lakh is normal from the new SEZs separated from circuitous work during the development time of the SEZs. Substantial ventures are normal in segments like IT, Pharma, Bio-innovation, Textiles, Petro-synthetic compounds, Auto-segments, and so on. The SEZ Rules gives the rearrangements of techniques to advancement, activity, and upkeep of the Special Economic Zones and for setting up and leading business in SEZs. This incorporates improved consistence methodology and documentation with an accentuation on self-affirmation; single window leeway for setting up of a SEZ, setting up a unit in SEZs and freedom on issues identifying with Central just as State Governments; no necessity for giving bank ensures; contract producing for remote principals with choice to acquire sub-contracting consent at the underlying endorsement stage; and Import-Export of all things through close to home stuff.

With the end goal of expanding framework offices for fare generation it has been chosen to allow the setting up of Special Economic Zones (SEZs) in the general population, private, joint division or by the State Governments. The base size of the Special Economic Zone will not be under 1000 hectares. Least region prerequisite will, in any case, not be relevant to item explicit and port/air terminal based SEZ. This measure is required to advance independent zones upheld by world-class framework situated towards fare creation. Any private/open/joint area or State Government or its offices can set up Special Economic Zone (SEZ).

ADMINISTRATIVE SET UP FOR SEZS: SEZs is governed by a three tier administrative set up

a) The Board of Approval is the apex body in the Department,

b) The Unit Approval Committee at the Zonal level dealing with approval of units in the SEZs and other related issues, and

c) Each Zone is headed by a Development Commissioner, who also heads the Unit Approval Committee.

APPROVAL MECHANISM OF SEZS:

Any proposal for setting up of SEZ in the Private/Joint/State Sector is routed through the concerned State government who in turn forwards the same to the Department of Commerce with its recommendations for consideration of the Board of Approval. On the other hand, any proposals for setting up of units in the SEZ are approved at the Zonal level by the Approval Committee consisting of Development Commissioner, Customs Authorities and representatives of State Government.

According to the information provided by the Ministers of State- E.M.Sudarshan Nachiyappan Industry and commerce, in India, at present 175 SEZ's are operating in that more number of SEZ's are located in Andra Pradesh (40), in Tamilnadu (37), in Karnataka (22) & in Maharashtra (20).

RESEARCH METHODOLOGY:

Looking into requirements of the objectives of the study the research design employed for the study is of descriptive type.

The data is extensively used for the study is exploratory in nature. It involved secondary data collection and use of content analysis technique to assess information about SEZ. Different news articles, Books and Web were used which were enumerated and recorded.

LITERATURE REVIEW:

A brief review of the earlier research studies in the global context is pertinent here to highlight the role of SEZs in the economic transition and growth of nations. There is exhaustive literature analyzing the efficacy of economic zones, whether they are called SEZs or EPZs, in achieving the socio-economic objectives of a nation. In the case of China, SEZs have undoubtedly contributed to the country's economic growth.

The concept of SEZ's was largely pioneered by China, wherein the SEZ's contribute to 20 percent of the total FDI. Then the SEZ model was also successfully implemented in Poland and Philippines. In the former the SEZ's contribute to almost 35 percent of the FDI inflows. Shenzhen in China has been at the helm of rapid economic development, after growing by a staggering 28 percent for the last 25 years.

BENEFITS OF SEZ TO INDIA:

How SEZ's should be modeled to Benefit India:

Size Does Matter: China's SEZs are huge. Shenzhen, the most important SEZ, covers 32,000 hectares. In India, there are just two or three privately developed SEZ (Kakinad Kochin)(Kurgalli Mysore), exceeding 1,000 hectares. Most of the others approved are less than 100 hectares. But it is heartening to realize that the government has decided to up the ante and have made guidelines to have a minimum of 1000 hectares of area for approving an SEZ. It hardly needs reiteration that only a large sized zone can generate economic activity on some reasonable scale. In a small zone, the requisite infrastructure and services cannot be provided nor can multiple economic activities be promoted.

TAX Benefits: The incentive package in India is quite liberal and may even be a shade better than that for Chinese SEZs. In fact, it is more or less on a par with the package for the existing EPZs. Duty free import of capital goods and raw materials, reimbursements of Central Sales Tax, tax holiday for specified period, 100 per cent repatriation of profits for subcontracting facilities are allowed. The Government has done well by extending incentives for the infrastructure sector to zone developers and the units as well. This can attract foreign direct investment for providing internationally competitive infrastructure.

Labor Laws: We can learn from china where initially labor laws where relaxed so that the companies could adopt Hire and Fire policy, once the Private and foreign players gained confidence in the Chinese workers' productivity, this was replaced by the Contract system. India should take cue from this and understand that the import-export business is highly dependent on uncertain international market conditions, rejection of consignments etc. hence a flexible labor policy is the need of hour in the SEZ's.

Domestic Tariff Areas: We got to understand that the reason for the Foreign investors to invest in Industrial, Manufacturing sector in India is not only to cut down on their costs because of cheaper and competitive products but they also see the vast Indian consumer markets, which has seen great income rise and standard of living. So apart from exports itself, the domestic market itself provides immense opportunity for sale of products. The companies in SEZ being levied a full import duty on sale in domestic areas does not seem a bright idea. In this case SEZ's will only promote export driven industries which are highly dependent on import of raw materials. To further make use of full potential of SEZ's Industries which are capable of indigenous generation of raw materials should be provided with tax holidays in terms of benefits to facilitate competitive pricing in the domestic tariff areas.

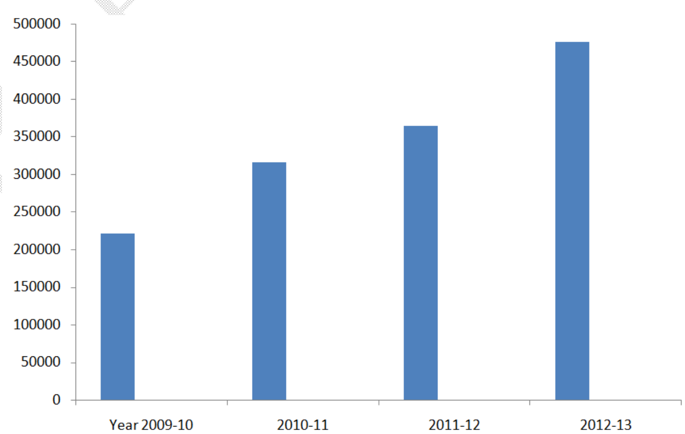
Promotion of Export in India through SEZ:

With the advent and useful implementation of SEZ, in India export percentage is increasing year by year. According to the information provided by the ministry of central Commerce and industry in the year 2012-13 SEZ had contributed nearly about 31% increase in the export of the country.

In the year 2006-07 SEZ had accounted for 31,615 corers and in the year 2012-13 it has accounted for 4.76 million.

In the below graph it is clearly depicted the contribution of SEZ to the export in India and how the development of Export had been achieved through the establishment of SEZs in India.

In the year 2009-10 SEZ has accounted 2, 20,711corers, in 2010-11 3,15,868, in 2011-12 it accounts for 3,64,478 corers and in the year 2012-13 it has reached largest 4,76,159 Millions from export in India.



Future of SEZ in India:

. The Reserve Bank of India says that large tax incentives can be justified only if SEZ units establish strong "backward and forward linkages with the domestic economy" which is a doubtful proposition. Even the International Monetary Fund's (IMF) Chief Economist Raghuram Rajan has warned: "Not only will [the SEZs] make the government forgo revenue it can ill afford to lose, they also offer firms an incentive to shift existing production to the new zones at substantial cost to society."

As much as 75 per cent of the SEZ area can be used for non-core activities, including development of residential or commercial properties, shopping malls and hospitals. Developers will surely use this to make money via the real estate route rather through export promotion. This represents a potentially humongous urban property racket of incalculable dimensions. India will see a multiplication of "Gurgaon-style" development, under the aegis of big builders such as DLF, Marathon, Rahejas, Unitech, City Parks and Dewan.

Challenges for SEZ in India :

The biggest challenges faced by SEZ's in today's scenario are the taking away of agricultural land from the farmers. The farmers are being paid disproportionate money which is not in lieu of the current land prices. The best example could be seen in the case of farmers from Kalinganagar in Orissa where the money given was disproportionate to as high as 1:10 with respect to the market rates. Moreover SEZ's are leading to decrease in crop production (arable Land Grabbing!) thus slowing down of agricultural activity in the country. (Though it may help boost it in other ways by increased export of local goods, both processed and non-processed). More and more farmers are moving towards the lucrative manufacturing side in search of greater economic security. Moreover the greatest problem that seems to be emerging out is that arable land is being used for non agricultural purpose which could lead to food crisis and loss of self sustenance in future. For example: Nadigram district of West Bengal. But FDI could also help in providing our farmers to gain access to technological better farming methods

The SEZ's if not properly located could lead to Supply Chain Management problems as well. Moreover improper planning could lead to unbalanced growth in the region giving an impression of pseudo-development. For example most of the SEZ's in China are in proximity to the ports and also close to each other, while these have been at the helm of economic development most of the interior hinterland is vastly underdeveloped. SEZ's could also lead to income disparities with divide between the rich and poor increasing if not properly planned.

SEZ's mostly if setup for the manufacturing sector should be carefully planned to carry out proper pollution monitoring and control mechanism. Stringent measures may prove to be expensive but are also extremely important. Shenzhen in china has been the worst affected among SEZ's in China where the sky is grey for most part of the day courtesy the polluting industries. The measures should be taken to make surroundings livable for multitude of people living in the SEZ's. Moreover care should be taken to properly treat effluents from industries not to affect surrounding rivers. Also the SEZ's should be carefully planned not to affect the natural habitat around (Gurgaon SEZ affecting the Bharatpur bird sanctuary)

Single-minded pursuit of growth has lowered the efficiency and effectiveness of economic policies, besides incurring huge resource and environmental costs. The Chinese experience offers a valuable lesson for India. Neither the international nor the Indian experience with SEZs has been particularly happy. Globally, only a handful of SEZs, of the hundreds that exist, have generated substantial exports, along with significant domestic spin-offs in demand or technology up gradation. For each successful Shannon (Ireland) or Shenzhen (China), there are 10 failures – in the Philippines, Malaysia, Brazil, Mexico, Colombia, Sri Lanka, Bangladesh, why, even India. A 1998 report by the Comptroller and Auditor General (CAG) on export processing zones (EPZs) says: "Customs duty amounting to Rs. 7,500 corers was forgone for achieving net foreign exchange earnings of Rs.4,700 corers

CONCLUSION:

The SEZ's could drastically improve the economic activity in the country, make the country's export competitive and globally noticeable, be net foreign exchange earner and provide immense employment opportunity. But this should not be done at the cost of bringing down the agricultural activities, Land grabbing and real estate mafia should be properly regulated so that the common man is not the net sufferer to get the net foreign exchange earner up and running. As compared to china where majority of the SEZ's were setup by the government, similar should be adopted in India, if not fully it should be a public-private partnership and regulatory bodies should be properly managed to weed out fallacies. To be economically viable SEZ's should be approved over a particular land area (greater than 1000 acres) for rapid economic growth in the area and for it to be profitable and self sustainable. Relaxed Tax norms, Labor laws and DTA regulations will surely attract foreign investment and major industries to setup industries in the SEZ's making it profitable and meeting its desired results!