

SEZ in India: Concept of Objectives and Strategy

¹Dr. SP. Mathiraj, ²R. Saroja Devi

¹Assistant Professor, Department of International Business and Commerce, Alagappa University, Karaikudi.4
Ph.D Full- Time Research Scholar, Department of International Business and Commerce, Alagappa University

Abstract: This paper presents a depth analysis of special economic zones (SEZs). This can be summarized that developments of SEZ to enhance the success of the country they are several forms of evaluation of SEZ depend on the objectives, incentives, strategy of SEZ in India. Most of those are about special law, exclusive regulation, a reduction of operation barriers, tax exemption and financial support. It examines the determinants and employment empirically within the theoretical frame work.

Keywords: SEZs, Performance, Export, Employment, Investment.

1. INTRODUCTION

The government of India has established several foreign trade zone schemes to encourage export-oriented production. These provide a means to bypass many of the domestic economy's fiscal and infrastructural obstacles that otherwise make India goods and services less competitive in international markets. The most recent of the schemes is the special economic zone (SEZ), a duty-free enclave with separately developed industrial infrastructure. Other schemes include the export processing zone (EPZ) and software technology park (STP), both of which are designed an export oriented unit (EOU). All of these schemes are governed by separate rules and granted different benefits.

In may 2005, the government of India passed new legislation called the "special economic zones (SEZ) bill 2005" endorsing its commitment to a long- term and stable policy for the SEZ structure which had previous been only an administrative construct. In addition to tax breaks, the law provides a one-stop clearance and approval mechanism for setting up SEZ units. SEZs are regarded as foreign territory for the purpose of duties and taxes, and operate outside the domain of the custom authorities. SEZ units are allowed to retain 100 percent of their foreign exchange earnings in special export earners foreign currency accounts. They are free to sell goods in the domestic tariff area (DTA) on payment of applicable duties. Sales from DTA firms to SEZ units are on par with regular trade transactions and hence eligible to benefit from all export incentive and foreign currency exemption scheme. In addition, many state governments have granted a sales-tax exemption for DTA-SEZ sales. SEZ units are also exempt from the central government service and excise tax regimes. SEZ businesses are expected to be a positive foreign exchange earner within five years from the commencement of production.

The set up of large scale SEZ's in India is designed to serve both domestic and export markets. They are envisaged to have world-class infrastructure with integrated real estate, power and transportation facilities, single window clearance approval and administrative processes, flexibility, internationally- competitive labor and transparency clarity of governance.

2. EVOLUTION OF SEZs IN INDIA

The first zone was set up in kandla as early as 1965. It was followed by the santacruz export processing zone which came into operation in 1973. The government set up five more during the late 1980. These were at Cohin (Kerala), kandla and surat (Gujarat), Chennai(Tamilnadu), Visakhapatnam (Andhra Pradesh) Falta(West Bengal) Noida (Uttar Pradesh) Indore

(Madhya Pradesh) in addition 18 approvals have been given for setting up of SEZs at Poritra (Gujarat) Navi Mumbai and Kopata (Maharashtra), Nanguneri (Tamil Nadu) Kulpi and Salt Lake (West Bengal), Paradeep and Gopaplur (Orissa), Bhadohi, Kanpur, Moradabad and Greater Noida (Uttar Pradesh), Vishakhapatnam and Kakinada (Andhra Pradesh), Vallarpadam (Kerala), Hassan (Karnataka), Jaipur and Jodhpur (Rajasthan) on the basis of proposal received from the state governments. Surat EPZ became operational in 1998. The EXIM policy, 2000 launched a new scheme of special economic zones (SEZs). India is now promoting the EPZ program much more dynamically than in the first phases of their evolution. Huge amounts of public resources are being invested in the zones.

SEZ in India were announced by the government in March 2000 to provide a stable economic environment for the promotion of export-import of goods in a quick efficient and hassle-free manner, government of India enacted the SEZ Act, which received the assent of the President of India on 2005. The SEZ Act and SEZ Rules, 2006 ("SEZ Rules") were notified on Feb 10, 2006.

3. OBJECTIVES OF SEZ

The objective following an SEZ is to enhance foreign investment, increase exports, create jobs and promote regional development. The main objectives of the SEZ are:

- Generation of additional economic activity;
- Promotion of exports of goods and services;
- Promotion of investment from domestic and foreign sources;
- Creation of employment opportunities;
- Development of infrastructure facilities.

Employment generated and investment made in special economic zones during the last three years is as under.

| Financial year(s) | Employment (persons) | Investment (Rs. In crore) |
|-------------------|----------------------|---------------------------|
| 2011-2012 | 8,44,916 | 2,01,875 |
| 2012-2013 | 10,74,904 | 2,36,717 |
| 2013-2014 | 12,83,309 | 2,96,663 |

**calculate on cumulative basis*

Source: the Ministry of Commerce and Industry.

4. FEATURES OF SEZ

The new law is aimed at encouraging public-private partnership to develop world class infrastructure and attract private investment to domestic and foreign boosting economic growth, exports and employment. Investment of order of Rs 100,000 crores over the next 3 years with employment potential of over 5 lakh is expected from the new SEZs apart from indirect employment during the construction period of the SEZs. Heavy investments are expected in sectors like IT, Biotechnology, Textiles, Petro-chemicals, Auto-components etc. The SEZ Rules provide the simplification of procedures for development, operation, and maintenance of the special economic zones and for setting up and conducting business in SEZs.

Indian SEZ policy has following features:

- ❖ The zones are proposed to be set up by private sector or state govt. in association with private sector. Private sector is also invited to develop infrastructure facilities in the existing SEZs.
- ❖ State Government has a lead role in the setting up of SEZ.
- ❖ A framework is being developed by creating special windows under existing rules and regulations of the Central and State government for SEZ.

The salient features of the Indian SEZ:

- ✓ Exemption from custom duty on import of capital goods, consumable spares etc.
- ✓ Exemption from central excise duty and service tax.
- ✓ No license required for import.
- ✓ Supplies from DTA to SEZ units treated as deemed exports.
- ✓ Reimbursement of central sales tax paid on domestic purchases.
- ✓ 100% income tax exemption for a block period of 5 years, 50% tax exemption for next five years under section 10AA of the income tax Act.
- ✓ Facilities in the SEZs may retain 100% foreign exchange receipts in exchange earner's foreign current accounts.
- ✓ 100% foreign direct investment (FDI) is permitted for SEZ franchisees in providing basic telephone service in SEZs.
- ✓ No cap on foreign investment for small scale sector reserved items which are otherwise restricted.
- ✓ Exemption from industrial licensing requirements for items reserved for the small scale industries sector.
- ✓ No routine examinations by customs for export and import cargo
- ✓ Facility to realize and repatriate export proceeds with in 12 months.
- ✓ Profits allowed to be repatriated without any dividend-balancing requirement.

Facilities and incentives for developers:

- Developer of SEZ may import procure goods without payment of duty for the development, operation and maintenance of SEZ.
- Income tax exemption for a block period of 10 year in 15 years of under section 80IAB of the income tax Act.
- Full freedom in allocation of developed plots to approved SEZ units on a purely commercial basis.
- Full authority to provide service like water, electricity, security, restaurants, recreation centers etc.
- Foreign investment permitted to develop township within the SEZ with residential area, market, play grounds, clubs recreation etc.
- Develop stranded design factory (SDF) building in existing SEZ.
- Income tax exemption to investor's in SEZs under section 10(23G) of income tax Act.
- Exemption from service tax.

SEZ Rules 2006:

- Single window clearance for setting up unit in SEZs.
- Simplified procedures for development, operation and maintenance of the SEZs and for setting up units and conducting business in SEZs;
- Simplified compliance procedures and documentation with an emphasis on self certification.
- Single window clearance for matters relating to central and state governments;
- 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.

Set up the SEZ requirement:

A SEZ can be set up jointly or individually the Central and State government or any other, including a foreign company, for the purpose of

- Manufacturing goods
- Rendering services
- For both of these reasons
- Free trade and warehousing zone(FTWZ)

The SEZ rules specify the minimum land area that is required for setting up an SEZ in general. This requirement depends on the type of SEZ to be established.

The requirements concerning the minimum size of an SEZ are related with regard to certain small states. Thus, in the Assam, Nagaland, Jammu and Kashmir, Goa, Union Territory, the minimum area requirement for multi product SEZs or a sector specific SEZ has been reduced to 200 and 50 hectares or more respectively .Table.1 illustrates some sector specific SEZs restrictions on foreign owned equity and other requirements.

Table-1 Minimum Contiguous Area Requirement for Certain Types of SEZs

| Type | Objective | Size | Typical Location | Typical Activations | Markets |
|-----------------------------------|------------------------|----------------|------------------|--------------------------|--------------------------|
| FTZ | Support trade | <50 hectares | Port of Entry | Trade Related | Domestic re-export |
| EPZ | Export manufacturing | <100 hectares | - | Manufacturing processing | Mostly export |
| EPZ (single unit/enterprise zone) | Export manufacturing | No minimum | Country wide | Manufacturing processing | Mostly export |
| EPZ (hybrid) | Export manufacturing | <100 hectares | - | Manufacturing processing | Export domestic |
| Free Ports SEZ | Integrated development | >1000 hectares | - | Multi use | Internal domestic export |

5. STRATEGY FOR SEZ

Capping months of debate on the pros and cons of developing SEZs, the commerce ministry has issued a caveat that prime agricultural land should not be used for business purposes India commerce ministry has asked the chief minister of all Indian states to ensure that prime agricultural land was not allowed to business houses for development as SEZ, and that in any event agricultural land must not exceed 10% of land allotted. The special economic zone concept of provision of urban facilities in rural areas, the developed the country have holistically conceptualized their rural habitations, needs to be remembered at a time when India is entering an SEZ era. Encourage the several manufacturing goods and implementation the concept of SEZs.

6. CONCLUSION

The SEZ policy is believed that the overall and EPZ (export processing zones) investment climate has an overwhelming bearing on the SEZ performance. In India, however, a conducive policy framework has had only a limited impact on the zone performance. Through the gross exports and employment increased phenomenally in absolute terms, their growth rates declined substantially. Furthermore, zones also failed to promote non -traditional exports. Traditional sectors namely electronics and gems and jewellery dominate zone. This could be due the peaceful nature of the policy changes. The committees made far reaching recommendations regarding incentive package, development of infrastructure and improvement in governance.

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