

SPECIAL ECONOMIC ZONES (SEZ) -A GROWTH ENGINE FOR INDIAN ECONOMY

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ABSTRACT

Special Economic Zones in India were established in an attempt to accelerate foreign investment and endorse exports from India and recognizing the need of a global platform to expose the domestic firms and producers to the competitive world market. The announcement of formulating a Special Economic Zones policy in India was made by the government in April 2000 and was anticipated to be an overseas province for trade purposes, commercial operations, duties and taxes. By the mid 2014 almost 200 SEZ are in operation and a 565 have already been formally approved for operations in the country. The drastic simplification of procedures and regulations makes Indian SEZs growing significantly, in their contribution to exports, and increasing Numbers of units are coming forward to invest in SEZs. With a proper system, policy framework and incentives in place, Indian SEZs have begun to play a crucial role in promoting foreign investment in the country. The paper analyses the performance indicators of SEZs and growth of exports from the zones and its contribution to the development of foreign trade from India.

Key words: Incentives, Investments, Exports, Employment generation.

1. INTRODUCTION:

The special economic zones (SEZ) are the units which fundamentally different from traditional free trade zones. It is a trade capacity development tool that augments the exports and the economic growth, followed by enriched infrastructural reforms with foreign participation in equity and technology in India. Most of the developing nations are all striving to develop the 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.

2. BACKDROP OF SEZ IN INDIA:

Until 2000, India did not have SEZs and instead had a number of export processing zones (EPZs), which, although similar in structure to the modern SEZ, which failed to attract many firms to India. The government accordingly introduced the SEZ in April 2000. Structured closely on the successful model of China, they are designed accordingly to help stimulate both foreign and domestic investment, boost India's exports, and create new employment opportunities. India's SEZ Act 2005 further amended the country's foreign investment policy and converted its EPZs to SEZs, with notable zones including Nodia, Chennai, Cochin, and Falta.

Currently 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 by the government of India. 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.

2.1 AIM OF SEZ:

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, there made a drastic simplification of procedures and for single window clearance on matters relating to central as well as state governments with the main objectives of the SEZ Act are as follows;

- 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.

2.2 CHARACTERISTICS OF INDIAN SEZ MODEL:

1. The government has invested to build the necessary infrastructure of the zone to create competitiveness to attract foreign players into Indian SEZ.
2. The primary thrust of Indian SEZ model is to facilitate 'private sector-led' SEZ, which was studied from international reviews.
3. The government has taken responsibilities for marketing the zones, which attracts the international participation in development of SEZ.
4. Indian SEZ models envisage Minimum size of 1000 hectares for all Greenfield SEZ.
5. The location selection promoted the investment attraction, in which central government takes the role of policy settings and governance, whereas the states are encouraged to make choices of generation of investments for development of SEZ.

2.3 INCENTIVES AND FACILITIES OFFERED TO SEZs:

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' up to 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 dividend distribution tax under Section 115O 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).

3. OBJECTIVES OF THE STUDY:

1. To analyze the Growth of Special Economic Zone (SEZ) .
2. To analysis the performance indicators of SEZ in India.
3. To know the facilities and incentives extended for SEZ units in India.

4. LITERATURE REVIEW:

A report on “SEZ’S role in Indian manufacturing growth” published by Indian brand equity foundation States that the new SEZ model has rectified the errors in EPZ and it was particularly helpful for small and middle scale industries that affords for set up and development of infrastructure facilities and to create a state of art with cost effective methods which enables free manufacturing and increase exports. The SEZ provides considerable growth in facilitating exports and enables the country to be part of globalization. The Substantial amount of FDI has already been made in SEZs. According to the Indian government, FDI amounting to USD2.4 billion were invested between FY07 and FY09. The share of manufacturing goods in total exports is estimated to increase and going forward.

“A Study on role of FDI in SEZ, with special reference to MEPZ, Chennai” S.Chandrachud and Dr. Gajalakshmi says that the regulations of FDI and exports given in SEZ act is one of the finest pieces of legislation that may well represent the future of the industrial development strategy in India . The new law is aimed at encouraging public-private partnership to develop world-class infrastructure and attract private investment (domestic and foreign), boosting economic growth, exports and employment.

“An assessment of the INDO-CHINA special economic zones”- Vinay Tyagi, Mayank Mishra and Aishwarya Singh ,the Chinese PRC invests significant resources into developing and improving the infrastructure located within the SEZ and other infrastructure facilities, which are required to support SEZs. Although one should also remember that the development of SEZ will require some time. China’s SEZ policy was essentially state-driven, having FDI and export markets as its main focus. With the governing philosophy being the scale of operations, China emphasised on establishing zones which were very big in size. Shenzhen, which is the largest SEZ, has an area of 33,000 hectares. In case of Hainan, the entire province was declared as SEZ. Unlike China, India’s focus is not so much on FDI as on generation of economic activity.

2.3 STATUS OF SEZ IN INDIA:

Seven Export Processing Zones set up by the Central Government at Kandla (Gujarat), Santa Cruz (Maharashtra), Cochin (Kerala), Noida (U.P.), Chennai (Tamil Nadu), Falta (West Bengal) and Visakhapatnam (Andhra Pradesh), were converted to SEZs on announcement of the SEZ Policy. Another EPZ set up in the private sector in Surat was also converted to an SEZ. In addition to these, 11 more SEZs were set up by the State Governments/private sector during the period 2000-2005 in the States of West Bengal (2), Gujarat (1), Madhya Pradesh (1), Uttar Pradesh (1), Rajasthan (2) and Tamil Nadu (4). After the coming into force of the SEZ Act, 2005 on 10th February 2006, 559 Formal approvals have been granted for setting up of Special Economic Zones, out of Which 347 SEZs have been notified and are in various stages of operation. A total of 185 SEZs are exporting. While there is some concentration in certain states, the fact that the approved SEZs are spread over 20 States and 3 Union Territories indicates that these are not confined to any particular region. The total land area involved in the formally approved SEZs including notified SEZs are around 53236.51Ha, as per the annual report of ministry of commerce.

TABLE:1 NUMBER OF SEZ IN INDIA					
Number of Formal approvals	436 (Excluding 123 SEZs approved by BoA for cancellation/de-notifica)				
Number of notified SEZs (As on 09.03.2015)	347 (out of 436) + (7 Central Govt. + 11 State/Pvt. SEZs)				
Number of In-Principle Approvals	32				
Operational SEZs (As on 31st December, 2014)	199 (Break up: 20 are multi product SEZs, remaining are IT/ITES, Engineering, electronic hardware, textiles, Biotechnology, Gems & Jewellery and other sector specific Special Economic Zones)				
Units approved in SEZs (As on 31st December, 2014)	3,937				
Land for SEZs	7 Central Govt. + 11 State/Pvt. SEZs notified before SEZ Act, 2005.	Notified SEZs under the SEZ Act, 2005	Total Notified SEZs Area (1+2)	Formally Approved SEZs	Total Area(3+4)
	2827.11 Ha	42938.03 Ha	45765.14 Ha	7471.37 Ha	53236.51 Ha

Source: www.sezindia.nic.in

6. ANALYSIS ON PERFORMANCE OF SEZ IN INDIA:

The annual report of Ministry of Commerce, Government of India, for the year 2013-14 states that the special economic zones notified under SEZ act 2005, have already made an investment of Rs 296663 crores since the SEZ act 2006 establishment.

6.1 INVESTMENT INFLOW:

The promotion of investments is one of the main objectives of SEZ, which aims to route down the investments from foreign and domestic sources. The augmentation of exports and generation of employments is possible with the development of SEZ through technology and investment gateway. The FDI policies were framed to attract the foreign investments in SEZ environments, which is 100 per cent permissible through BOA. The investment opportunities of SEZ are done through the following sources.

TABLE:2 INVESTMENT STRATEGIES IN SPECIAL ECONOMIC ZONES		
SCOPE & TYPES	TYPES OF INVESTMENTS	MODE OF PAYMENTS
TYPE:A	Investment with 100 per cent foreign ownership.	foreign currency
TYPE:B	Joint ventures between Indian and foreign investors	Indian and foreign currency according to equity proportion
TYPE:C	100 per cent Indian ownership	Indian currency

SOURCE: www.epces.com

The table 3 explains the investment attraction of special economic zones through different sources. The investment of central, state and private sectors shows a continuous increase from 2006 onwards, central from Rs 2,279 crores to Rs 10,143.77 crores as on December 2014, with 3.85 per cent in the total investment inflow. The notified SEZ'S attracts more investments after the enactment of SEZ act 2006, bringing more importance for Special economic zones and its promotion with Rs 2,99,320 crores which takes the major investment of 92.82 per cent in the total investment inflow .

TABLE:3 INVESTMENT INFLOW IN SEZ (Rs in crores) (as on December 2014)				
INVESTMENT	INVESTMENT (AS ON 2006)	INCREMENTAL INVESTMENT	TOTAL INVESTMENT	SHARE%
central Government SEZs	2,279.20	10,143.77	12422.97	3.85%
State/Pvt. SEZs set up before 2006	1,756.31	8,981.18	10738.49	3.33%
SEZs Notified under the Act	0	2,99,320.09	2,99,320.09	92.82%
TOTAL	4,035.51	3,18,446.04	3,22,481.55	100.00

SOURCE: www.sezindia.nic

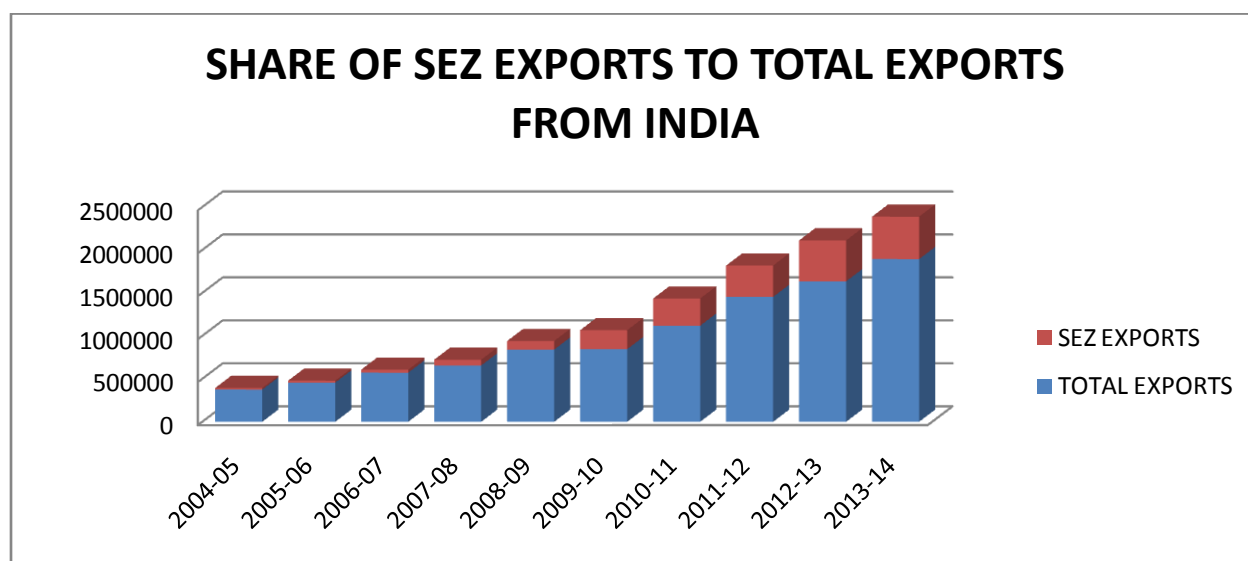
6.2 CONTRIBUTION OF SEZ EXPORTS TO INDIA'S TOTAL EXPORTS:

The table 3 depicts the exports from the year 2004-05 to 2013-14. The exports from SEZ have shown a continuous growth from 2006 onwards. The financial year 2009-10 has made a tremendous growth of 121 per cent which contributed to countries exports performance. Thereafter it is increasing at a decreasing rate; in 2013-14 exports of Rs 4, 94,077 crores at a growth percentage of 4 per cent.

YEAR	TOTAL EXPORTS	SEZ EXPORTS	GROWTH OVER PREV YEAR	SHARE %
2004-05	375340	18655		4.97
2005-06	456418	22,840	22.40%	5
2006-07	571779	34,615	52%	6.05
2007-08	655863	66,638	93%	10.16
2008-09	840755	99,689	50%	11.86
2009-10	845533	220,711	121%	26.1
2010-11	1118823	315868	43.11%	28.23
2011-12	1454066	364478	15.39%	25.07
2012-13	1635261	476159	31%	29.12
2013-14	1894182	494077	4%	26.08

SOURCE: www.sezindia.nic

The contribution of SEZ exports which started at 4 per cent in 2004 and showing a consistent growth over the years. The share of SEZ exports is increasing steadily from 2009-10 onwards, which was 26 per cent of the total exports from India. The overall performance of exports from SEZ was growing from 2006-07 to 2009-10 at an increasing rate, thereafter it increases at a decreasing rate, which was showing a 4 per cent increase in the year 2013-14 and 26.08 per cent share in total exports.



6.3 EMPLOYMENT GENERATION BY SEZ:

Special economic zones in India provide incremental employment year by year after the implementation of SEZ act since 2006. The zones created an employment of 14, 13,835 persons as on 2006, in which notified SEZ has employed 11, 07,752 persons, central with nearly 2, 31,271 persons and state/private 74,812 persons which have declined compared to previous year. The total employment generation was increasing up to 14 per cent during 2014 when compared to the previous year.

TABLE:4 EMPLOYMENT GENERATION BY SEZ

EMPLOYMENT	EMPLOYMENT(AS ON 2006)	INCREMENTAL EMPLOYMENT	TOTAL EMPLOYMENT(as on December 2014)	TOTAL EMPLOYMENT (as on December 2013)
central Government SEZs	1,22,236 persons	10935	231271	218542
State/Pvt. SEZs set up before 2006set up before 2006	12,468 persons	62344	74812	77964
SEZs Notified under the Act	0 persons	1107752	1107752	943339
TOTAL	1,34,704	12,79,131	14,13,835	1239845

SOURCE: www.sezindia.nic

7. SEZ AN ECONOMIC GROWTH ENGINE – TO MAKE IN INDIA:

Special economic zones, was identified as a tool for development of infrastructure, attraction of foreign investment destinations and growth engine for export potentials. SEZ contributes to around 25 per cent of India's exports it's a marked sector by central government with a twin purpose to develop foreign trade and pull foreign investments with simplified procedures and liberalized fiscal environments. A quality SEZ is the need for an hour for India now, to achieve the objective of make in India. It's proved that the contribution of SEZ to economic development in terms of physical exports, attraction of investments and generation of employment is incremental year after year. The increases in number of SEZ will not alone a viable route to achieve the desired goals. The constituents of the SEZ with a sustained development can bring a considerable amount of producers inside the zones and can contribute to growth of international trade from India.

8. CONCLUSION:

The make in India mission (MIIM), is a lion step to make India a destination for global manufacturing industry. The union budget reveals that the government still has to revive the SEZ, which could be the central plan for the MIIM. Industrial capital is being increasingly mobile the SEZ is a potential tool for promotion of investments in India. SEZ needs three fold policies; one, a smart approach in tax incentives. In china, earlier SEZ were attracting any kind of investments, later on they focused on hi-tech industries which are really eligible for tax incentives and benefits Two, tax benefits must reach the exact beneficiary, streamlining the DTA sales with proper payment of taxes. It is practiced in USA, china and Philippines. Finally, granting permission for the industries with a thorough analysis on the sustainability of the projects, which safeguards the interest of the various constituents that depends on the zones. The Indian government shall streamline the policies and its framework to address the operational difficulties in SEZ. Moreover it is necessary channel to promote industry, infrastructure, employment generation and growth to achieve the mission.

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