

Special Economic Zone – A Brief Analysis of SEZs in India and Statistics of Some other Countries

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ABSTRACT

Special economic zone has been a crucial point in the Indian economy and has been discussed since its inception. This paper facilitates one with the analysis and success as well as limitations of SEZs in India and at the same time it also tries to explain about the position of SEZs in some other countries of the world. Starting with history of SEZ it moves on to explain about incentives offered in India under the SEZs and informs one about the Special Economic Zone act 2005. The paper also tries to explain what kind of remedies can be taken into consideration in order to make SEZs more effective and achieve desired outcomes. The other aspects covered in the paper makes one understand about the current position of the SEZs in some other countries of the world. So far the objectives for an establishment of SEZs by a host country have been to promote trade and exports as well as attracting foreign investments. The paper tries to give through understanding about all major aspects concerned with the SEZs in India.

Key words: SEZ (Special Economic Zone), EPZ (Export Processing Zone), FDI (Foreign Direct Investment), FII (Foreign Institutional Investment)

INTRODUCTION:

A special economic zone is an area in which business and trade laws are different from rest of the country and is generally located within the country's national borders. The aims of SEZs establishment in India or anywhere in the world are to increase trade, higher level of investments, sufficient job creation and effective administration all over the country for the betterment of economy. With this motive certain policies and schemes are introduced in the market so that there can be an encouragement for the entrepreneurs and businessmen to set up a business unit within the SEZ area. Usually the policies and incentives are concerned with taxation, investment, customs, trading and labour regulations. These policies and incentives have various attractive benefits and some crucial advantages too, which encourages companies to establish their business unit inside the SEZ. One of the very crucial motive behind the establishment of SEZ for a host country can be to attract a healthy amount of an FDI (i.e. foreign direct investment). Though the motives and policies are quite sound and friendly for a business unit to be established, the SEZs in India have not been as successful as it had been anticipated though there are many success stories of SEZs in India, it did not attain as much success as it was anticipated at the time of inception. Someone has very wisely said that “**each coin has two sides**”, there were some criticisms and drawbacks of SEZs too, which

states that it works like just labour camps and the workers here in are denied fundamental labour rights and not provided with some crucial benefits like security concern and job safety. In India there were some drawbacks like poor infrastructure, lack of good governance, government interventions which led to poor performance of SEZs.

A brief view on SEZ and its history:

Today people all over the world are interested in doing some sort of business and it is because of some business ideas only that we enjoy a very privileged life style today. There are various business ideas that changed the world and countries all over the world always try to attain maximum of economic growth with the help of various sectors and one such idea was a Special Economic zone. A Special Economic Zone (SEZ) is a geographical region that has economic laws more liberal than a country's typical economic laws. It is a trade capacity development tool, with a goal to promote rapid economic growth by using tax and business incentives to attract foreign investment and technology. By offering privileged terms, Special Economic Zones attract investment and foreign exchange, facilitate employment and boost the development of improved technologies and infrastructure. Today, there are approximately 3,000 SEZs operating in 120 countries, which account for over US\$ 600 billion

in exports and about 50 million jobs. Let us have a further discussion about the current position of SEZs in India and some other countries of the world and also on major aspects concerned with it.

SEZ has been a crucial factor since its beginning in some countries like China and South Africa. SEZs appeared from late 1950s in industrial countries. The first was in Shannon Airport in Clare, Ireland. From the 1970s onward, zones providing labour-intensive manufacturing have been established, starting in Latin America and East Asia. The very first in China in 1979 by Deng Xiaoping was the Shenzhen Special Economic Zone, which encouraged foreign investment and simultaneously accelerated industrialization in this region. These zones attracted investment from multinational corporations. The modern day Special Economic Zone came in to existence because the economic reforms incorporated in the early 1990s did not result in the overall growth of the Indian economy. Had India begun the SEZ at the same time China did it might have attained a good amount of growth. The SEZ policy of India was devised to act as a catalyst to promote the economic growth attained in the early 1990.

Meaning & Definition:

While having a discussion about the meaning of SEZ it can be stated that in terms of definition and meaning it is little difficult to describe SEZ as it has a wide range of explanation under different circumstances. You may ask about it to different people and possibly get some different answers at the same time. Though the definitions vary it can be assumed that the motive for all in the end turns out to be the same which is to facilitate trade and provide entrepreneurs and businessmen with ease of doing business in order to expand the economy.

The operating definition of a **SEZ** is determined individually by each country. According to the [World Bank](#) in 2008, the modern day special economic zone typically includes a "Geographically delimited area, usually physically secured, single management, eligibility for benefits based upon physical location within the zone, separate customs area (duty-free benefits) and streamlined procedures."

The other definition of SEZ is termed as "A special economic zone (SEZ) refers to designated areas in countries with special economic regulations that differ from other areas in the same country. These

regulations tend to contain measures that are conducive to foreign direct investment and the area not covered in the SEZ will be called tariff zone".

Types:

There are different types of SEZs in various countries as per the nature and purpose of business. These types vary according to motives and concerns and can be stated as below. The term special economic zone can include:

1. Free trade zones (FTZ).
2. Export processing zones (EPZ).
3. Free zones/ free economic zones (FZ/ FEZ).
4. Industrial parks/ industrial estates (IE).
5. Free ports.
6. Bonded logistics parks (BLP).
7. Urban enterprise zones.

Basic Difference between EPZs and SEZs:

The SEZs are the new and modified term of the earlier called Export Promotion Zones or EPZs. The first EPZ in India was set up in 1965 Kandala. They were created as privileged zones with the facilities of liberal tax and labour laws. They were to attract the foreign investors to import materials for use and export the manufactured commodities. In this way jobs would be created and export will be enhanced. The main difference between an EPZ and a SEZ is that the former is just an industrial enclave but the latter is an integrated township with fully developed infrastructure. Thus the motive behind both of them has always been the betterment and good function of an Economy of the host country and development of the economy of the host country with the help of FDIs and FII.

As it can be analysed from the above mentioned details that SEZs includes various different terminologies and there are different types of it around the world. For the better understanding of the types of SEZs it would be better to analyse the table mentioned below. The following table provides a brief summary of the different types of zones in existence. This table highlights the many ways in which the concept of "special" economic zones has been operationalized and underscores the challenge of attempting to say anything specific about such a heterogeneous policy too. The World Bank created the following table to clarify distinctions between types of special economic zones.

Table-1 Different types of SEZs.

Type	Objective	Size	Typical Location	Typical Activities	Markets
EPZ (hybrid)	Export manufacturing	<100 hectares	None	Manufacturing, processing	Export, domestic
EPZ(single Unit/free enterprise)	Export manufacturing	No minimum	Countrywide	Manufacturing, processing	Mostly export
EPZ (traditional)	Export manufacturing	<100 hectares	None	Manufacturing, processing	Mostly export
Free port/SEZ	Integrated development	>1000 hectares	None	Multi-use	Internal, domestic, export
FTZ	Support trade	<50 hectares	Port of entry	Entrecotes and trade related	Domestic, re-export
Urban enterprise zone	Urban revitalization	<50 hectares	Urban/rural	Multi-use	Domestic

The special Economic Zone Act 2005:

A number of meetings were held across India for the formulation of – *The Special Economic Zones Act, 2005*, which was subsequently passed by Parliament in May 2005. The SEZ Act, 2005 and SEZ Rules became effective on and from 10th February 2006. The SEZ Act 2005 defines the key role for the State Governments in Export Promotion and creation of infrastructural facilities. A Single Window SEZ approval mechanism has been facilitated through a 19 member inter-ministerial SEZ Board of Approval or BOA. And the decision of the SEZ Board of Approval is binding and final. With the establishment of SEZ in India Heavy investments were expected in sectors like IT, Pharmaceuticals , Bio-technology, Textiles, Petro-chemicals, Auto-components, etc. The SEZ Rules provides the simplification of procedures for development, operation, and maintenance of the Special Economic Zones and for setting up and conducting business in SEZs. This includes simplified compliance procedures and documentation with an emphasis on self-certification, single window clearance for setting up of a SEZ, setting up a unit in SEZs and clearance on matters relating to Central as well as State Governments. It also states about no requirement for providing bank guarantees, contract manufacturing for foreign principals with option to obtain sub-contracting permission at the initial approval stage and Import-Export of all items through personal baggage.

Some Important Provisions of the Act:

- ✚ SEZs can be established mainly for manufacturing of the goods, providing specified circumstances and as a free trade and warehousing zone.
- ✚ SEZs will include the three major types which are multi-product SEZ, sector specific SEZ, port or airport based SEZ and free trade and warehousing zone.
- ✚ They will have their own enforcing and administering agencies. Therefore absolute non-interference by the state would exist.
- ✚ There will be 100% tax exemption and relaxation from strict labour laws.
- ✚ They will not have any burden to comply with any sort of minimum obligation to export.
- ✚ Except for certain kind of offences the no investigation or inspection can be carried out in any of the SEZs without prior approval from the development commissioner.
- ✚ The Development Commissioner will be entrusted to the overall administration and supervision of the SEZ and exercise all necessary controls and co-operations to foster speedy and effective development of the SEZ concerned.
- ✚ The development commissioner shall be appointed by the central government.

The process to establish a SEZ in India:

In India the process of establishing a SEZ is very descriptive and there are certain rules and regulations to be followed. 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 the 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. Thus, it can be derived here that the set-up of establishing a SEZ in India consists of various approvals and steps.

SEZ in India:

The History of SEZs in India suggests that the seeds of the basic concept of Special Economic Zone (SEZ) were sown in the mid-sixties. Further, it suggests that the basic model of the present day Indian Special Economic Zone was structured with the establishment of the first Export Processing Zone (EPZ) at Kandla port located in Gujarat in the year 1965. Several other Export Processing Zones were set up at various parts of India in the subsequent years. The lack of good Governance by the government of India and certain economic policy and inefficient management soon became the detrimental factors for the success of these Export Processing Zones. Thus, the performance of these Export Processing Zones of India fell short of expectations and it could not achieve objectives and aims laid down at the time of its inception. In India, Special Economic Zones are being established in an attempt to deal with infrastructural deficiencies, procedural complexities, bureaucratic hassles and barriers raised by monetary, trade, fiscal, taxation, tariff and labour policies. Since country-wide development of the infrastructure is expensive and implementation of structural reforms would require time, Special Economic Zones/Export Processing Zones are being established as industrial enclaves for expediting the process of industrialization. SEZs in India functioned from 1.11.2000 to 09.02.2006 under the provisions of the Foreign Trade This policy intended to make SEZs an engine for economic growth supported by quality infrastructure and complemented by an attractive fiscal package, both at the Centre and the State level, with the minimum possible regulations and fiscal incentives were made effective through the provisions.

SEZs export performance in India (2006-2016):

The following table provides us with the details export performance of SEZs in India.

Table-2 SEZ Export Performance (2006-2016)

Years	SEZ Exports (in Crores)	(in Growth over previous year	Total Exports (in Crores)	% of SEZ Export contribution
2005-06	22840	-	456417.9	5.00
2006-07	34615	52%	571779.3	6.05
2007-08	66638	93%	655863.5	10.16
2008-09	99689	50%	840755.1	11.86
2009-10	220711	121%	845533.6	26.10
2010-11	315868	43.11%	1136964	27.78
2011-12	364478	15.39%	1465959	24.86
2012-13	476169	31%	1634318	29.14
2013-14	494077	4%	1905011	25.94
2014-15	463770	-6%	1716378	27.02
2015-16	467337	0.80%	2351270	19.88

From the above mentioned table we can analyse various aspects concerned with Special Economic Zones in India. It can be easily figured out from the table that it has played a significant role in the overall development of Indian economy. One of the very good amount of growth was attained during the year 2009-10. The second table mentioned here in specifies the total amount of investments during both the important years and exports as well as number of people employed during these years.

Table-3 Data on Investment, employment, and Export for the years 2006 & 2016

Year	Investment (in Crores)	Persons employed	Exports (in Crores)
2003	4035.51	134704	22840
2016	376494	1591381	467337

The modern day Special Economic Zone came in to existence because the economic reforms incorporated in the early 1990s did not result in the overall growth of the Indian economy. The SEZ policy of India was devised to act as a catalyst to promote the economic growth attained in the early 1990. The economic reforms incorporated during the 1990s did not produce the desired results. The Indian manufacturing sector witnessed a sudden dip in the overall growth of the industry during the second-half of 1990s. The History of SEZs in India suggests that the lengthy administrative procedures, rigid labour laws and poor physical infrastructural facilities were the main cause of deterioration of Foreign Direct Investments (FDI) inflow in to India. Further, the Indian markets were not mature enough to facilitate easy entry of Foreign Institutional Investors (FIIs) in to the Indian economic system. In addition the legal framework of Indian economy was not strong enough to prevent misuse of Indian markets by the foreign investors. Thus, the lack of investor friendly environment in India prevented growth of Indian industry in spite of implementation of liberal economic policy by the central government. This resulted in the formation of a much larger and more efficient form of their predecessors with world-class infrastructural facility.

Present situation of SEZs in India:

There are still good number of SEZs working in India at the current moment. The below mentioned table provides us with the information and approved as well as working SEZs all over India. At present in total there are 438 SEZs operating all over India. Here in the below mentioned table some major approved SEZs in different states are taken into consideration.

Table-4some major State-wise distribution of approved SEZs (As on 10 March 2015)

State	Formal approvals	In-principal approvals	Notified SEZs	Exporting SEZs(including state+UT+Central)
Andhra Pradesh	33	4	29	19
Gujarat	31	4	27	18
Haryana	29	3	25	6
Karnataka	59	0	39	25
Kerala	32	0	25	14
Maharashtra	61	9	51	25
Odisha	21	1	4	2
Tamilnadu	54	4	50	36
Uttar Pradesh	25	1	22	11
Total in All India	436	32	347	199

Merits and Drawbacks of SEZs in India:

There are various merits and demerits of SEZs operating in India. As someone has very wisely stated that "Each coin has two different sides". There are positive as well as negative outcomes of SEZs which are termed as below.

Merits:

- ✚ One of the major and best merit offered and enjoyed under the SEZ is that it provides business units with 15 year corporate tax holiday on export profit – 100% for initial 5 years, 50% for the next 5 years and up to 50% for the balance 5 years equivalent to profits ploughed back for investment.
- ✚ It also allowed to carry forward losses.
- ✚ The other good thing is that there is no licence required for import made under SEZ units.
- ✚ Duty free import or domestic procurement of goods for setting up of the SEZ units.
- ✚ Goods imported/procured locally are duty free and could be utilized over the approval period of 5 years.
- ✚ Exemption from customs duty on import of capital goods, raw materials, consumables, spares, etc.

Demerits:

- ✚ Revenue losses because of the various tax exemptions and incentives.
- ✚ Many traders are interested in SEZ, so that they can acquire at cheap rates and create a land bank for themselves.
- ✚ The number of units applying for setting up [EOU](#)'s is not commensurate to the number of applications for setting up SEZ's leading to a belief that this project may not match up to expectations.

Statistics of SEZs on global scale:

All over the world the SEZs have different number of approval and it varies in different countries all over the world. The overall distribution on global scale for the SEZs can be stated as below.

Table-5 Distribution of SEZs on global scale

Name of the Country	Number of Special Economic Zones
North America	320
Asia	225
Europe	81
Carebien	51
Africa	47
South America	41
Central America	41
Middle East	39
Pacific	2
Total	847

Conclusion:

SEZs have been a crucial factor all over the world and it has delivered outstanding results in some countries of the world like China, South Africa and other European countries. The present situation of SEZs and the distribution of various units across the globe has made quite astonishing impact on economic conditions of certain countries. So far it has been successful in some countries and In some other countries it has produced mixed outcomes. In India also the situation has been the same as it has been successful in some cases and in some other incidents it has not. There are certain necessary steps to be taken care of in order to make SEZs more impressive. A good governance, sound infrastructure, trade facilities, deliberate labour laws are some possible terms to be taken care of for the sound performance and to attain the maximum success of SEZ.

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- Norman Vincent Peale