



Role of Special Economic Zones (SEZs) in Indian Economy

Dr. Bhavsinh M. Dodiya
Assistant Professor Smt. B.V. Dhanak Arts,
Commerce, Science & Mgt. College,
Bagasara, Gujarat (India)

I. INTRODUCTION

India was one of the first in Asia to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting exports, with Asia's first EPZ set up in Kandla in 1965. 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 in April 2000. The Special Economic Zones (SEZs) Act 2005 has cemented way for the establishment of SEZs in the country to witness speed up growth by means of a rapid industrialization process. More than 250 proposals for establishing of SEZs in 21 states are still suffering for getting approval from Government, mostly owing to disputes on the compensation package and acquisition of cultivable land in the absence of available relief and rehabilitation package. 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 thereby generating greater economic activity and employment through the establishment of SEZs, a comprehensive draft SEZ Bill prepared after extensive discussions with the stakeholders. 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 Act, 2005, was passed by Parliament in May, 2005 which received Presidential assent on the 23rd of June, 2005. The draft SEZ Rules were widely discussed and put on the website of the Department of Commerce offering suggestions/comments. Around 800 suggestions were received on the draft rules. After extensive consultations, the SEZ Act, 2005, supported by SEZ Rules, came into effect on 10th February, 2006, providing for drastic simplification of procedures and for single window clearance on matters relating to central as well as state governments.

II. OBJECTIVES OF SEZ ACT

- (a) Generation of additional economic growth and development
- (b) Promotion of exports of goods and services;
- (c) Promotion of investment from domestic and foreign sources (FDI)
- (d) Creation of employment opportunities
- (e) Development of infrastructure facilities

III. SEZs IN INDIA- A VIEW

Special Economic Zone (SEZs) policy in India first came into existence on April 1, 2000 to promote exports from the country and realizing the need that the level playing field must be made available to the domestic enterprises and manufactures to be competitive globally. Legislation has been passed permitting SEZs to offer tax breaks to Foreign Investors. More than 5 years have passed since its introduction, but the SEZs bill has certain loopholes due to the oversight of major provisions that would have relaxed inflexible labor laws. This has pointed out Indians chance of emulating the success of the Chinese SEZs model, via Foreign Direct Investments (FDI) in export oriented units. The policy related to SEZs, show for restricted in the Foreign Trade Policy, was initially implemented through piecemeal and adhoc amendments to different laws. With a view to avoid these drawback and to give a long term and steady policy frameworks with minimum regulations, the SEZ Act 2005 was enacted.

Exports from the operational SEZs during the last nine years are as under:



Table-1

Years	Exports		Growth over previous year
	Value in Rs. Crores	Billion USD	
2005-2006	22,840	5.08	-
2006-2007	34,615	7.69	52%
2007-2008	66,638	14.81	93%
2008-2009	99,689	22.15	50%
2009-2010	2,20,711	49.05	121%
2010-2011	3,15,868	70.19	43.11%
2011-2012	3,64,478	81.00	15.39%
2012-2013	4,76,159	88.18	31%
2013-2014	4,94,077	82.35	4%

Source: <http://sezindia.nic.in/about-ep.asp>

IV. DEVELOPMENTS OF SEZs IN INDIA

India's figure is comparatively low at \$2 billion per annum. The growth and development of SEZs may be viewed from diverse viewpoint looking from Foreign Direct Investment (FDI) perspective it shows the investment to the tune of \$3-5 billion has been committed, which accounts for 60 to 70 per cent of the total FDI flow into India. It is anticipated that the Prospective organizations would bring \$20 to 25 billion in the next three years. With reference to the employment opportunities, it is found that in the last several months the investment has reached more than 11,600 crore in SEZ, which has created more than 16,000 employment opportunities, and it is expected to grow more than 9 lakh opportunities in the next three years. The SEZ will also create 2 to 3 times more employment opportunities outside SEZs, Brandix is going to recruit more than 62,000 people. It is found that in one SEZ, a total of 20,000 employment opportunities will be generated in 100 hectares of land.

V. DOING BUSINESS IN SEZs

1. Simplified procedures for development, operation, and maintenance of the Special Economic Zones and for setting up units and conducting business in SEZs;
2. Single window clearance for setting up of an SEZ;
3. Single window clearance for setting up a unit in a Special Economic Zone;
4. Single Window clearance on matters relating to Central as well as State Governments;
5. Simplified compliance procedures and documentation with an emphasis on self certification;

VI. INCENTIVES AND FACILITIES OFFERED TO THE 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 upto 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).

VII. IMPACT OF SEZs AND RURAL DEVELOPMENT

SEZ is one of the new approaches to last and sustainable development of the country. It facilitates more job opportunities mainly to the rural people because the SEZs are going to be established in the rural remote areas. The industrial development provides rural development and it creates more employment opportunities for the rural people. Therefore, the people of rural area, mainly farmers can sell their non-fertile lands for the suitable price. On the other hand, the SEZs sponsor provide job guarantee to the land providers and rural people.

VIII. CONCLUSION

Special Economic Zones, help in progressive change in the economic growth and development of the nation. It should be carried out by considering effective utilization of resources such as land, labors, and other facilities. To measure the performance of the SEZs, effective measures should be taken from time to time. The vision of Prime Minister Narendra Modi “Make In India” will give rise to establishment of SEZs across the country.

REFERENCES

1. <http://sezindia.nic.in/about-introduction.asp>
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