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Original Research Paper

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SPECIAL ECONOMIC ZONES: NEED OF THE HOUR

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ABSTRACT The ever-increasing global competition compels the governments to adopt export oriented trade strategies, thereby contributing towards overall economic growth and development. The high economic growth trajectory pursued by the newly industrialized economies (NIEs), has been propelled by increase in exports. Different countries have pursued policies of developing export zones, for imparting an outward orientation to their economy. India has also established such zones with definite objectives for foreign trade development and export promotion. It is significant to understand the concept of Special Economic Zones (SEZs), Chinese model of SEZ, its principal benefits, their performance and contribution towards trade competitiveness in India. SEZ as a trade policy needs to be evaluated in the light of SEZ Act, 2006. A non-parametric critical approach has been taken to study the SEZ policy in reference to its performance, limitations and challenges to perform in a highly competitive global environment.

KEYWORDS :

INTRODUCTION

The ever increasing global competition creates an ambience where different governments need to have a robust strategy to increase its trade exports. Trade policy of every country can be understood in the larger context of various macroeconomic policies pursued by respective governments. In 1980s, many developing countries began to recognize that restrictive policies can largely impede growth. To facilitate growth and integration into the world economy, many countries have embarked on reform programmes. After pursuing an inward looking development strategy, India decided to take a historic step of changing tracks in 1991. India launched its liberalization Programme. It designed an outward trade policy which was seen as a paradigm shift from the decades old import-substitution policy. Taking reference from various trade development models and strategies to boost exports, the concept of Free Economic Zone has gained currency in the last three decades. The establishment of special geographic areas to reach economic aims is not a new idea. In the light of this background, an attempt can be made to understand the concept of Special Economic Zones (SEZs) in India and their trade competitiveness.

CATEGORIES OF SEZ

Wide Area (Focus on scale) – predominantly in government domain.	**Industry Specific** – Focus on creating or exploiting industry competitiveness.
• Large zones with a resident population such as the Chinese Special Economic Zones or new cities. • 12 countries have adopted this Wide Area Zone concept (Notably Singapore, Russia, China and Brazil). • **Small Area** – Focus on private participation • Zones those are generally smaller than 1000 ha normally surrounded by a fence. Investors must locate within the zone to receive benefits. No resident population although they may contain worker dormitories. • 133 countries have adopted the Small Area Zone concept.	• Zone that are created to support the needs of a specific industry such as banking, jewellery, oil & gas, electronics, textiles, tourism, etc. Companies invested in the zone may be located anywhere and receive benefits. • 17 countries have experimented with industry specific zone concept (Notably USA, Taiwan, Japan, Hong Kong, France and Germany). **Performance Specific** • Zones that admit only investors that meet certain performance criteria such as degree of exports, level of technology, size of investment, etc. Companies can be located anywhere. • Only 4 countries have adopted performance specific zone concept (notably Mexico and Mauritius).

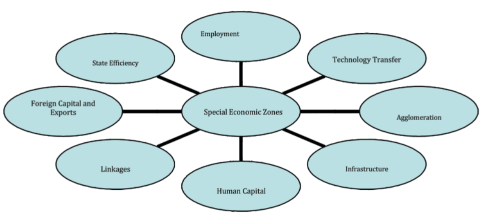
Source: WEPZA, 2004.

Key features of the country's SEZ policy:

- No licences required for import.
- SEZ units should be net forex earners within a block of five years.
- Full freedom for sub-contracting, including sub-contracting abroad.
- Contract farming allowed for agricultural/horticulture units.
- In-house customs clearance.
- All support services including banking, post office, clearing agents, etc, shall be available in the SEZ complex itself.
- Exemption of levies and duties, including stamp duty under various state laws.
- The SEZ will provide high quality, world-class infrastructure designed to render costs of production, delivery, logistics and transaction competitive on a global basis.
- Units in SEZ will get 100 per cent tax break/holiday for the first five years and 50 per cent thereafter for the next five years and also for a further period of five years.
- 100 per cent foreign ownership is automatically cleared in the manufacturing sector.

There is no doubt that despite certain weaknesses, SEZs will have to be an important mechanism in India's overall growth picture. The China growth story is a good example of effective use of SEZs. What is needed is an implementation with a holistic view. Active linkage programmes, adequate social and environmental safeguards and private sector involvement in zone development and operation can go a long way in ensuring that benefits of SEZs are maximised.

BENEFITS OF SEZ



SEZ Policy Framework

The policy related to SEZ is contained in the foreign trade policy of the country which includes incentives and other benefits to the SEZ developers supported by various circulars and notifications by respective ministries and departments. The government has already passed the SEZ bill and it has been implemented from 10 February 2006. The new law brings all SEZ regulations under one umbrella; it is more comprehensive, provides for a larger tax incentive package and raises the hope of less administrative interference within the SEZ area.

India's foreign trade policy has given a major boost to the development of SEZs in India. The objectives of the Foreign Trade Policy 2004-09 are two-fold:

(a) To double India's percentage share of global merchandise trade by 2009; and
(b) To act as an effective instrument of economic growth by giving a thrust to employment generation, especially in semi-urban and rural areas.

INDIAN MODEL OF SEZ

International experience regarding SEZs suggests that worldwide majority of successful SEZs have been created with government capital. Huge success enjoyed by Shenzen SEZ of China. Jebel Ali free zone of Dubai which is home to more than 5,000 business is another example of Government capital being deployed in making SEZ. The present Indian model of developing SEZs is quite distinct in terms of use of private capital being deployed for making SEZs.

The format of special economic zones in India is of four types, viz. wide area, industry specific, small area and performance specific and all 4 categories have different specifications as per the SEZ Act, 2005. Requirement of different types of SEZ demands different capabilities by private players to create and maintain SEZs since Government has now stopped state funding to create SEZs. These business requirements of private players also need to be understood since private capital has been solicited to develop SEZs on a massive level. Additionally, the procedure for setting up an SEZ permitted private parties to set up a zone and obtain the concurrence of the State Government later (Clause 3). This has been amended and the State Government now need to be consulted before these zones can be set up (Ministry of Commerce, 2007). The participation of private sector along with state has resulted in huge inflow of project application by leading corporate houses in India. SEZ Act promises to establish SEZ as manufacturing hub and centre of excellence. Since role of infrastructure creation is of paramount importance, incorporation of private sector in developing, managing and maintaining the SEZ is a welcome step by the Government of India. There is a need for the State Governments along with the Central Government to play a greater role in the setting up of the SEZ. At present six states in India have already passed the state SEZ legislation but every ACT is silent about the labour reforms since Central Government has passed labour reforms pertaining to SEZ to states.

CONCLUSION

The need for a re-look at the policy became essential as the growth in exports from SEZs showed a sharp slowdown from over 121% in 2009–10 and 43.11% in 2010–11 to only 15.39% in 2011–12. Moreover, there has been a significant increase in the last two financial years in the number of application for de-notification of approved SEZs. Out of the total 47 requests for de-notification of SEZs, 37 have been approved in 2010–11 and 2011–12. This is in addition to the number of withdrawal applications for formal and in-principle approvals granted to SEZ projects. The policy will also look at reducing the land requirement norms for setting up SEZs over smaller plots of land. 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.

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