Ilkogretim Online - Elementary Education Online, 2022; Vol 21 (Issue 1): pp. 552-555
http://ilkogretim-online.org
doi: 10.17051/ilkonline.2022.01.37

”Special Economic Zone Scheme In India : Salient Issues”

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Introduction

A Special Economic Zone (SEZ) is a geographically defined area that falls under various economic restrictions. These zones provide resident businesses with advantages including competitive infrastructure, duty-free shopping, tax breaks, and other measures made to make doing business easier than in other areas of the same nation.

The SEZ scheme in India has shown tremendous growth in infrastructure investment, employment and exports since its introduction

SEZs suffer from their fair share of challenges such as myopic focus on manufacturing sector variations in international market conditions, etc.

The SEZ policy needs to be revamped to bring in certain enablers and relaxations leading to SEZs in India being touted as major vehicles for large scale investments and export promotion.

SEZ program's inception in India

India launched the SEZ program on April 1st, 2000. Its main goals were to increase foreign investment and give exporters access to a hassle-free, competitive worldwide market. In order to encourage exports, the Indian government developed various Export Processing Zones (EPZs) at that time. However, administrative and infrastructure issues hampered EPZ implementation in India.

Following the adoption of The Special Economic Zone Act, 2005, a number of existing EPZs were transformed into SEZs, with significant zones located in Noida, Falta, Visakhapatnam, Chennai, Cochin, Santacruz, Indore, Kandla, and Surat.

SEZ and statistical trends

SEZ exports surged by 3,300% between 2005-2006 and 2020-21, from INR228.40 billion in 2005-2006 to INR7595.24 billion in 2020-21, according to the Ministry of Commerce and Industry1. Additionally, between 2005–06 and 2020–21, investment in SEZs surged by 15,300%, from INR40.355 billion in 2005–06 to INR6174.99 billion in 2020–21. Despite these figures, it can be argued that India's SEZ program did not achieve the same level of success as those in China, despite the fact that the country's SEZ strategy has yielded numerous advantages.

The SEZ program was established with the goal of increasing foreign direct investment in manufacturing with an export focus. The IT/ITEs industry, however, is the one that has really picked up steam in the last few years.

Based on the sector-by-sector distribution of permitted SEZs (as of 29.02.2020), 2, the IT, ITes electronic hardware, semiconductor, and telecom equipment sectors account for the majority of operational SEZs (145 out of 240 operational SEZs), accounting for 60.42 percent of SEZs in India. As a result, the initial plan to increase the manufacturing sector did not succeed, and instead, exports of services, IT software, electronic goods, assembly parts like printed circuit boards (PCBs), etc., saw an unusually large increase. Therefore, it is acceptable to argue that even while other sectors did not benefit from the SEZ program in a way that was necessary, the IT/ITes business benefited greatly from it.

The early competitive edge that Indian SEZs enjoyed on a worldwide scale has slowed down in recent years. This was a result of several ASEAN nations modifying their economic and regulatory frameworks in an effort to draw in foreign investment by offering more financial incentives and operational flexibility to foreign competitors. A number of company units moved to other ASEAN countries as a result of this paradigm change since they offered better economic conditions and trade opportunities.

Due to this loss of business, the SEZ sector's foreign earnings have been considerably reduced. The drop in export value3, from INR 7,96,669 crores in FY 2019–20 to INR 6,10,301 crore in FY 2021–22, provides more support for this.

It is also important to note that 336 SEZ units have been demolished over the course of the last three years.4 The grounds for ceasing operations include changes in the above-mentioned foreign market conditions, a slowdown in orders, the merging of units, etc.

The Way ahead

It is urgent for the government to restructure the SEZ system so that corporate houses give it the attention it deserves, as the surrender of SEZ permits in recent years has shown a downward trend.

The Ministry of Commerce and Industry established the Baba Kalyani Committee (BKC) to analyze the effects of the current SEZ policy and to introduce worldwide best practices to maximize capacity utilization and potential output of SEZs. In November 2018, the BKC delivered its recommendations, some of which are:

- creation of distinct policies and procedures for producing and for providing services SEZs
- Relaxations of procedures for developers and renters to resolve operational and departure problems
- Keeping the benefits of taxes or duties while extending the sunset clause
- extending the definition of services and enabling the integration of multiple services
- Additional facilitative measures and procedural easing
- Utilizing several services and a single regulator for the Indian Financial System Code (IFSC) Incentives for domestic institutions to use the services of the IFSC SEZ include: SEZ IFSC for all domestic and foreign investment;
- Extension of subsidy under the scheme for encouraging service exports
- Specific local products supporting "Make in India" will be taken into account when calculating net foreign exchange (NFE).

The strategic investment policies and strategy of China would make a fantastic case study. China has five special economic zones (SEZs), although each of them has the size of a megacity and is placed in a trade-friendly region near ports, such as Hong Kong Special Administrative Region (SAR), China, Macau (SAR), China, and Taiwan. Additionally, there is no minimal land requirement to establish a SEZ in China. Additionally, China doesn't provide tax benefits to businesses uniformly; instead, they vary by zone and depend on factors including the number of years a company has been in business, how much it exports, how advanced its technology is, and the kind of activities it engages in. For instance, businesses that construct infrastructure are subject to a special tax benefit.

Enhancing the ease of doing business is one of the key steps in making the SEZ program appealing to investors. It is time to switch to a record-based/trusted system for conducting business in SEZs, one that includes harsh penalties for abuse and infractions and holds the promoters liable. Businesses should have the discretion to decide how to operate, including matters like work from home options. Entry and exit procedures might go rather quickly and simply. Consideration should also be given to whether the SEZ can receive infrastructure status to increase access to low-cost financing and permit long-term borrowing. The SEZ policy needs to be substantially revised in order to provide the industrial sector the much-needed boost.

Only India, supported by the PLI programs introduced by the government to promote R&D, local manufacturing, and exports from India, can then fully reap the rewards of growing supply chain methods being implemented by industrialized countries.

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