



## The importance of Special Economic Zones

Dr.K.Venkataih  
Room No:74, E - I Hostel,  
Osmania University,  
Hyderabad.

**Abstract:** Most of the zones set up in India from 1965 to 2005 were christened as „export processing zones.“ However, the term now in vogue is „special economic zone“ instead. The international labour organization recognizes special economic zones, export processing zones, free port, information processing zone, financial services zone, commercial free zone, maquiladoras as different but related typologies of zones.

**Key words:** civilization, domestic economy, Special Economic Zones

### Introduction

The concept of free zones is as old as Western civilizations, having existed in the Phoenician of Tyre, Roman Empire and at 300 BC in the Greek Island of Delos as a result of which became one of the wealthiest islands in the world. With operational success the role of the Free Zones expanded from trade to investment, technology, research and development, service, training and free zones have become centre of economic activities in the modern times.

A more recent example incorporating the industrial park and thus much more similar to the SEZ, is the full-fledged industrial estate, set up in Manchester in 1896. The concept followed by developing and transitional nations, starting with a Puerto Rican private venture in 1947. The first public industrial estate was set up in Singapore in 1951. India, the Dominican Republic and Taiwan all started building export processing zone in 1965. Simultaneously Mexico started maquila programme where Maquiladoras could be established with duty free imports for re-export. In the 70's and in the 80's

SEZs flourished, in the Southeast Asia, Latin America and to some extent in Africa and the Middle East and the rest of Asia. The World Bank (2008) estimates that today there are 3000 zones in 135 countries, accounting for over 68 million direct jobs and over \$500 billion of direct trade related value added within zones.

### The objectives of Special Economic Zones

United Nations Publication of 1985 listed the most common objectives underlying the establishment of zones are as following:

- Creating employment.
- Generating foreign exchange earnings.
- Attracting foreign capital and advanced technology.
- Acquiring management skills including labor.
- Creating linkages between Export Processing Zones industries and the domestic economy.



The government of India passed SEZ Act in 2005. The main objectives of the Special Economic Zones Act, 2005 include:

- Promotion of investment from domestic and foreign sources.
- Development of infrastructure facilities.
- Creation of employment opportunities.
- Promotion of exportable goods and services.

In contrast of the above stated general objectives and objectives of SEZ, Act an attempt made to assess advantages and disadvantages of SEZs in India.

Special Economic Zones, epitomizing the contemporary approach to development being followed not only in India but holding its sway the world over had been in existence in India since 1965, but got a fillip with the shift from import-substitution based industrialization strategy to export led economic growth facilitated through the general process of liberalization of economy in the early 1990s. Till 1990s there existed a mismatch between the general regulatory macro-economic policies of the government and the liberalized regime demanded by such free zones. The recognition of the significant role of these zones necessitated streamlining the process of their establishment, development and management which in turn required consistent, well planned and authoritative declaration of rules and regulations regarding the same. All these factors and considerations led to

replacement of ad-hoc, dithering initiatives devoid of well-defined objectives with a set of coherent policy measures culminating in enunciation of Special Economic Zones Scheme in April 2000. This scheme replaced the old Export Processing Zone regime. Before delving into the features of the scheme and further developments it is essential to clarify here the nomenclature used to refer to these special zones.

Most of the zones set up in India from 1965 to 2005 were christened as „export processing zones.“ However, the term now in vogue is „special economic zone“ instead.

The international labour organization recognizes special economic zones, export processing zones, free port, information processing zone, financial services zone, commercial free zone, maquiladoras as different but related typologies of zones. However the common features shared by these zones are as follows:

- They allow duty-free imports of raw materials and intermediate inputs and capital goods production for exports.
- Government red tape is streamlined, allowing “one-stop shopping” for permits, investment applications, and the like. In addition, labour laws are often more flexible than for most firms in the domestic market.
- Firms in zones are given generous, long-term tax concessions.



- Communication services and infra-structure are more advanced than in other parts of the country. Utility and rental subsidies are common.
- Zone firms can be domestic, foreign, or joint ventures. Foreign direct investment plays a prominent role.

Despite these common features the basic difference between a special economic zone (hereinafter referred to as SEZ) and an export processing zone (hereinafter referred to as EPZ) is that the former is an integrated township with fully developed infrastructure whereas an EPZ is just an industrial enclave. As mentioned earlier since the scheme relating to EPZs in India could not succeed on account of piecemeal reforms, policy reversals, poor site selection, weak incentives, poor regulation of zones and failure to provide world class infrastructure, it was replaced by Special Economic Zones scheme in 2000 and later by Special Economic Zones Act, 2005. The Special Economic Zones

Act, 2005 was enacted "in order to give long term and stable policy framework with minimum regulatory regime and to provide expeditious and single window clearance mechanism." After the enactment of the said law the existing EPZs like Kandla Export Processing Zone set up in 1965, Santa Cruz Electronics Export Processing Zone set up in 1974, four EPZs set up in mid 1980s i.e. Vishakhapatnam EPZ, Chennai EPZ, Cochin EPZ, Falta EPZ and NOIDA EPZ were also converted into SEZs.

The authoritative laying down of norms and procedures regarding establishment of SEZ, the incentives conferred on the same, the rules regarding their management by the legislature gave impetus to setting up of SEZs in India. As on 17<sup>th</sup> Jan<sup>n</sup> 2013, 579 SEZs stood formally approved out of which 384 have already been notified along with 7 central government and 12 state/Pvt. SEZs. The number of operational SEZs as on 30<sup>th</sup> September<sup>n</sup> 2012 is 160 with 17 being multi product SEZs and the remaining being information technology and information technology enabled services SEZs, engineering, electronic hardware, textiles, biotechnology, gems and jewellery and other sector specific SEZs.

#### **Importance of Special Economic**

**Zones in India:**Worldwide SEZs have played a vital role in the promotion of exports, employment generation as well as overall development of an economy. There are costs too and in some countries it has been found that associated costs are sometimes more than the benefits

#### **Attracting Foreign Direct**

**Investment:** Free trade and foreign direct investment have been powerful channels for transmission of technology from the industrially developed advanced countries to the developing nations. The process has benefited both: the parent companies spread for economic advantage and the developing countries gain advantage in the development ladder from resource-base, low-tech production to high-tech value added products and services. FDI inflows in India have been growing rapidly since 2004, including a threefold increase in the year 2007, because of SEZs with excellent infrastructure and special operating law



to attract foreign investment. In 2007-08, India received FDI of US\$ 24.57 billion as against US\$ 15.7 billion during 2006-07, a growth of 56 percent. The growth of foreign investment in India is steadily increasing, but still far behind China. Cumulative FDI inflows since August 1991 up to September 2006 were US\$ 43.29 billion. During the same period China was able to attract more than US\$ 200 billion.<sup>9</sup> The reasons for slow FDI inflows are multiplicity of Central and states laws infrastructure bottleneck, lack of political will to implement the remaining, yet much required, reforms such as capital account convertibility, labour laws etc.

### **Providing Employment Opportunities**

One of the important objectives of SEZ is to reduce unemployment by creating employment opportunities in developing countries. In order to increase the job creation effect, SEZs are often established in areas where a big number of workers are idle, often backward areas. Empirically it is also found that activities taking place in SEZs are low-skilled often assembly work and other basic manual work. SEZs in India play an important role in providing employment opportunities.

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.

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. 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.

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. The main objectives of the SEZ Act are:

- (a) generation of additional economic activity
- (b) promotion of exports of goods and services;
- (c) promotion of investment from domestic and foreign sources;
- (d) creation of employment opportunities;
- (e) development of infrastructure facilities;
- (f) foreign exchange earnings

It is expected that this will trigger a large flow of foreign and domestic investment in SEZs, in infrastructure and productive capacity, leading to generation of additional economic activity and creation of employment opportunities. The SEZ Act 2005 envisages key role for the State Governments in Export Promotion and creation of related infrastructure. A Single Window SEZ approval mechanism has been provided through a 19 member inter-ministerial SEZ Board of Approval (BoA). The applications duly recommended by the respective State Governments/UT Administration are considered by this BoA periodically. All decisions of the Board of approvals are with consensus. The SEZ Rules provide for different minimum land requirement for different class of SEZs. Every SEZ is divided into a processing area where alone the SEZ units would come up and the non-processing area where the supporting infrastructure is to be created.

**References:**

- 1 Aravanan, S, Special economic zones: A review. *Indian economic panorma*, 18(2), 2008(July): 15-16
- 2 Banerjee-Guha, Swapna, Space relations of capital and significance of new economic enclaves: SEZs in India, *economic and political weekly*, 43(47), 2008(November): 51-60
- 3 Banerjee-Guha, Swapna, Sp ace relations of capital and significance of new economic enclaves: SEZs in India. *economic and political weekly*, 43(47), 2008(November) 51-60
- 4 Dhar, T.N., Special Economic Zones and impacts on land resources and socio-economic implications. *Indian Journal of Public Administration*, 57(1), 2011(Jan- March): 15-25
- 5 Dogra, Bharat, SEZ : Tinkering won't help-the law should be repealed. *MAINSTREAM*, 45(26), 2007(June): 5-6