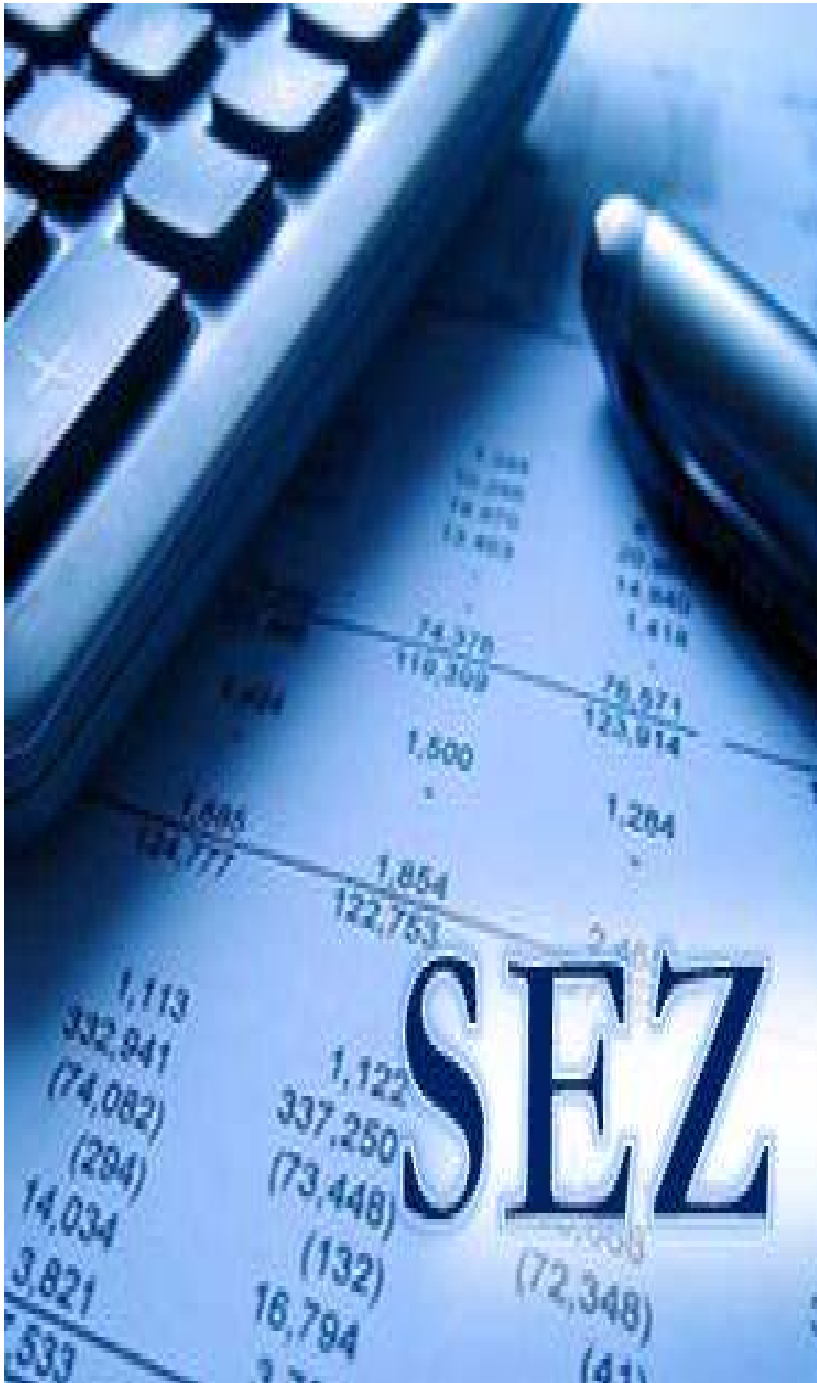


SPECIAL ECONOMIC ZONE:  
AN INVESTMENT OPPORTUNITY IN INDIA



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**ABSTRACT:**

Special Economic Zones (SEZs) are a phenomenon of modern international trade and have been utilised by both developed and developing countries to promote exports, encourage foreign direct investment and improve the international competitiveness of the country. SEZs help increase the investment, reduce barriers of operation and facilitate investment. This paper presents an insight into SEZ, characteristics of various types of SEZ and strengths and weaknesses of the Indian SEZ policy. The paper discusses the various factors which are crucial to the success of SEZ and if adopted can shape the future of the country.

**KEYWORDS**

*Special Economic Zone, SEZ, Export Processing Zone, MAT.*

## INTRODUCTION:

The term Special Economic Zone (SEZ) refers to any modern economic zone where business and trade laws differ from the rest of the country. Establishment of special economic zones (SEZ) can enhance the prosperity of the country. SEZs are known as 'Foreign Trade Zone' (FTZ). The first SEZ was established in New York, the United States of America (USA) in the year 1937.

Today USA, the pioneer country has 257 areas of FTZ and 545 areas of FTZ sub zone. In Asia, India was one of the first countries to establish an SEZ namely 'Export Processing Zone' at Kandla in 1965. Almost at the same time a well-known SEZ Shenzhen was also established in China to give a boost to the country's economy.

SEZ has been broadly defined as an area with a special privilege that is established specifically by any country in order to attract the foreign businesses to invest in the country. They offer a special investment policy or rule or regulations and special support in infrastructure such as tax concessions, a financial support or issuance of work permits to foreign workers.

The Companies operating in SEZs are offered a series of incentives, the most common being :

- Fiscal incentives including tax breaks, tax exemptions and tax holidays.
- Regulatory incentives like exemption of foreign exchange regulations, flexibility on import and labour regulations.
- Incentives of infrastructural nature such as easy access to improved services, research facilities and skilled labour.

## TYPES OF SEZ

The SEZs can be of different types depending on the objectives, infrastructure, politics and geographical locations. Today most of the SEZs are operated by the private sector. Some of them are also jointly managed by the private sector and the Government.

### A.Free Trade Zone(FTZ):-

This is the most expansive type of SEZ. It is basically a tax free area that provides essential facilities for trading, shipping, import and export business. The companies or industrial units operating are usually given concessions related to tariffs, labour and environment.

### B.Export Processing Zone(EPZ):-

This is a unit bearing clusters of specially designed zones of aggressive economic activity for the promotion of export. EPZs enjoy special government of India support with respect to fiscal incentives, tax rebates and other exclusive benefits for the growth of exports. They encompass pre-defined infrastructural facilities and regulations pertaining to establishment of such zones and environmental situations.

### C.Urban Enterprises Zone:-

It is an area established by the government to encourage economic growth and development by

offering tax concessions, infrastructure incentives and reduced regulations to attract investment. Establishment of this type of special economic zones intends to provide a better quality of life for people in the community and enhance competitiveness of the community or the country.

#### D. Single Factory:-

This type of special economic zone provides incentives to increase the specialisation of a selected industry in order to increase its ability to compete with the foreigner in the same industry. Factories do not have to locate within a designated zone to receive incentives and privileges.

#### E. Free Ports:-

Free port zones which encompass large areas typically promote activities related to trade in goods or services. They accommodate all types of activities, including tourism and retail sales, permit on-site residence and provide a broader set of incentives and benefits.

#### SEZ and the WTO

One of the major issues a country needs to assess when it implements any type of incentive programme is its compliance with the Subsidies and Countervailing Measures (SCM) agreement of the World Trade Organisation (WTO). The WTO classifies some countries as developing and Least Developed Countries (LDC). LDCs are exempted from certain WTO disciplines of the SCM until such a time that their income level reaches a particular threshold.

The obligations in the SCM Agreement have an impact on the design of free-zone programmes of WTO members. India has been however able to offer subsidies that are considered prohibited by the WTO. It is on the list of countries in Annex VII (b) of the WTO SCM Agreement that are excluded from prohibition on export subsidies until their Gross National Income (GNI) per capita exceeds \$1000 in 1990 dollars for three consecutive years.

#### SEZ and India

The Special Economic Zone (SEZ) policy first came into inception in India on April 1, 2000. Its main objective was to enhance foreign investment and provide an internationally competitive and hassle free environment for exports. The idea was to promote exports from the country and realising the need for provision of a level playing field to the domestic enterprises and manufacture to increase their global competitiveness. The policy relating to SEZ, so far a part of the foreign trade policy was originally implemented through piecemeal and adhoc measures. However, the SEZ Act, 2005 was enacted to provide an umbrella of legal framework covering all important legal and regulatory aspects of SEZ development as well as units operating in SEZs. Today SEZs are located across the entire length and breadth of the country with the prominent ones being Santa Cruz (Mumbai, Maharashtra), Cochin (Kerala), Kandla and Surat (Gujarat), Chennai (Tamil Nadu), Visakhapatnam (Andhra Pradesh), Falta (West Bengal) and Noida (Uttar Pradesh).



State governments have a very important role to play in the establishment of SEZs. Representative of the state government, who is a member of the inter-ministerial committee on private SEZ is consulted while considering the proposal. However before recommending any proposal to the Ministry of Commerce and Industry, the states must ensure the supply of basic inputs such as water and electricity.

### Current Scenario

Special economic Zones (SEZs) are central to realising Prime Minister Narendra Modi's ambitious 'Make in India' agenda. Under the original scheme, businesses in SEZs were exempted from the Minimum Alternate Tax (MAT) on book profits and developers over exempted from payment of the Dividend Distribution Tax (DDT). Subsequently, with the indications that companies were misusing the policy for real estate arbitrage and Information Technology (IT) companies were using the policy to recover tax benefits which they lost once the Software Technology Parks of India (STPI) scheme ended, these exemptions were withdrawn.

Since 2011-12, the MAT exemption for SEZs and developers were withdrawn and DDT exemptions for developers were terminated. MAT was levied on book profits at the rate of 20 percent while DDT was at 20 percent on dividends distributed to shareholders. It is being increasingly felt that imposition of MAT has made SEZs unattractive and adversely impacted investor sentiment. This is because MAT exemptions are punishable under WTO into rules and there is a need to provide better business facilitation packages and incentives that comply with the WTO regulations.

### CONCLUSION

The SEZ policy continues to be relevant from a 'Make in India' perspective but several policy initiatives are necessary to get those going. Incentives should not be the only reason for units to be located in SEZs. Success of the SEZs depends on the business facilitation measures adopted. A more holistic approach is required wherein location, infrastructure logistics and professional zone management are key factors determining the success of SEZs.

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