SEMIVGEOACOR09T Economic Geography

Special Economic Zone (SEZ)

What is a Special Economic Zone(SEZ)?

Special Economic Zone (SEZ) is a specifically delineated **duty-free** enclave and shall be deemed to be foreign territory for the purposes of trade operations and duties and tariffs. In order words, SEZ is a geographical region that has economic laws different from a country's typical economic laws. Usually the goal is to increase foreign investments. SEZs have been established in several countries, including China, India, Jordan, Poland, Kazakhstan, Philippines and Russia. North Korea has also attempted this to a degree

The Special Economic Zone (SEZ) policy in India first came into inception on April 1, 2000. The prime 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 that level playing field must be made available to the domestic enterprises and manufacturers to be competitive globally. The objective was making the Special Economic Zones an engine for economic growth, supported by quality infrastructure and an attractive fiscal package both at the Central and State level with a single window clearance.

Main objectives:

- Generation of additional economic activity
- Promotion of exports of goods and services
- Promotion of investment from domestic and foreign sources
- Creation of employment opportunities
- Development of infrastructural facilities.

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. An **export-processing zone** (**EPZ**) is a specific type of Free Trade Zone (FTZ) usually set up in developing countries by their governments to promote industrial and commercial exports. Seven more zones were set up thereafter. However, the zones were not able to emerge as effective instruments for export promotion on account of the multiplicity of controls and clearances, the absence of world-class infrastructure and an unstable fiscal regime. While correcting the shortcomings of the EPZ model, some new features were incorporated in the Special Economic Zones (SEZs) Policy announced in April 2000.

The Special Economic Zones Act, 2005, provided simplification of procedures and single window clearance on matters relating to Central and State governments. As a result of this Act and Rules coming into force, it was envisaged that the SEZs would attract a large flow of foreign and domestic investment in infrastructure.

All laws of India are applicable in SEZs unless specifically exempted as per the SEZ Act/ Rules. Each Zone is headed by a Development Commissioner and is administered as per the SEZ Act, 2005 and SEZ Rules, 2006. Units may be set up in the SEZ for manufacturing, trading or for service activity. The units in the SEZ have to be net foreign exchange earners but they are not subjected to any predetermined value addition except (Gems & Jewellery Units) or minimum export performance requirements. Sales in the Domestic Tariff Area from the SEZ units are treated as if the goods are being imported and are subject to payment of applicable customs duties.

Where are SEZs located in India?

At present there are **eight functional SEZs** located at Santa Cruz (Maharashtra), Cochin (Kerala), Kandla and Surat (Gujarat), Chennai (Tamil Nadu), Visakhapatnam (Andhra Pradesh), Falta (West Bengal) and Noida (Uttar Pradesh) in India. Further an SEZ in Indore (Madhya Pradesh) is now ready for operation.

In addition **18 approvals** have been given for setting up of SEZs at Positra (Gujarat), Navi Mumbai and Kopata (Maharashtra), Nanguneri (Tamil Nadu), Kulpi and Salt Lake (West Bengal), Paradeep and Gopalpur (Orissa), Bhadohi, Kanpur, Moradabad and Greater Noida (UP), Vishakhapatnam and Kakinada (Andhra Pradesh), Vallarpadam/Puthuvypeen (Kerala), Hassan (Karnataka), Jaipur and Jodhpur (Rajasthan) on the basis of proposals received from the state governments.

Who can set up SEZs? Can foreign companies set up SEZs?

Any private/public/joint sector or state government or its agencies can set up an SEZ.

Yes, a foreign agency can set up SEZs in India.

What is the role of state governments in establishing SEZs?

State governments will 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. Before recommending any proposals to the Ministry of Commerce and Industry (Department of Commerce), the states must satisfy themselves that they are in a position to supply basic inputs like water, electricity, etc.

Are SEZ's controlled by the government?

In all SEZs the statutory functions are controlled by the government. Government also controls the operation and maintenance function in the seven central government controlled SEZs. The rest of the operations and maintenance are privatised.

Are SEZs exempt from labour laws?

Normal labour laws are applicable to SEZs, which are enforced by the respective state governments. The state governments have been requested to simplify the procedures/returns and for introduction of a single window clearance mechanism by delegating appropriate powers to development commissioners of SEZs.

Who monitors the functioning of the units in SEZ?

The performance of the SEZ units are monitored by a unit approval committee consisting of development commissioner, custom and representative of state government on an annual basis.

What are the special features for business units that come to the zone?

Business units that set up establishments in an SEZ would be entitled for a package of incentives and a simplified operating environment. Besides, no license is required for imports, including second hand machineries.

How do SEZs help a country's economy?

SEZs play a key role in rapid economic development of a country. In the early 1990s, it helped China and there were hopes that the establishment in India of similar export-processing zones could offer similar benefits -- provided, however, that the zones offered attractive enough concessions.

Some Amendments in the SEZ Rules, 2006:

- Prescribing minimum built up area for Biotechnology and Gem & Jewellery Sectors;
- Prescribing minimum processing area for Free Trade Warehousing Zone (FTWZ);
- Providing for a lease period of not less than five years as against the earlier provision
- Stipulating the Upper limit of the area required for multi product SEZs at 5000 hectares, with the State Governments having the option to prescribe a lower limit;
- Revising the minimum processing area uniformly at 50% for multi-product SEZs as well as sector specific SEZs;
- Paving way for import of prohibited items by a unit in a Special Economic Zone or Developer of the Special Economic Zone from a place outside India to the Special Economic Zone with prior approval of the Board of Approval.
- Promoting IT/ITES SEZs in smaller cities of the country

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