

SPECIAL ECONOMIC ZONE (SEZ) – AN OVERVIEW

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Abstract

The paper deals with Special Economic Zone, Its Introduction, Acts, History of SEZ's and types of SEZ's in India and around the world.

Key Words: SEZ, Sez Act, 2005.

Introduction

Special Economic Zone

There is no standard definition of SEZ. At the initial stage they were mere enclaves, but as the concept developed, the definition was enlarged to encompass new features. World Bank defines "Special economic zone or Export processing zone as an industrial area that constitutes an enclave with regard to custom tariffs and the commercial code in force in the host country and is intended to provide an internationally competitive duty-free environment and quality infrastructure for the promotion of exports at a low cost".(World Bank and UNIDO).

According to the Sez ACT 2005 "A Sez is a specially delineated duty-free enclave and shall be deemed foreign territory for the purpose of trade operations and duties and tariffs". (SEZ ACT, 2005)

The International Confederation of Free Trade unions (ICFTU) defines the EPZ "as a clearly demarcated Industrial zone which constitutes a free trade conclave outside a country's normal customs and the trading system where foreign enterprises produce principally for export and benefit from certain tax and financial incentives". (Das, 2009).

The following common traits can be extracted out of the above definition.

1. They are industrial conglomerates for developing trade.
2. They have their own territory/ enclave/assigned area.
3. They are like foreign territory within the national boundaries.
4. They enjoy special concessions/ exemptions.
5. Raw materials and capital goods flowing into Sez/Epz are equivalent to import and finished goods moving out of Sez/Epz are equivalent to export.

History of Special Economic Zones (SEZs)

The first SEZs appeared in the late 1950s in industrialized countries. They were designed to attract foreign investment from multinational corporations. The first was at Shannon Airport in Clare, Ireland.

In the 1970s, SEZs were also established in Latin American and East Asian countries. The most successful SEZs to date have been in China. There were more than 7,000 SEZs as of 2022, according to the United Nations Conference on Trade and Development. They are found in every part of the world—notably in developing and transitional economies that use them as a tool for industrialization.

Types of Zones:

A wide variety of trade zones have emerged over the last 70 years with different objectives, activities, incentives and features. ILO has made a great effort to epitomize the select characteristics of these zones. Types of Special Economic Zones (SEZs)

- **Free-Trade Zone:** Free-trade zones are specially secured areas that are designated for the processing of imported and exported goods. Also called commercial-free or foreign-trade zones, these areas involve special customs procedures and duty-free treatment.
- **Export Processing Zone:** These zones are generally meant for commercial and industrial exports. The goal is to encourage economic growth through foreign investment. Export

processing zones offer certain benefits, such as tax and import duty exemptions, and little to no barriers.

- **Industrial Park:** As the name suggests, industrial areas or parks are designed to be used for industrial instead of commercial or residential purposes. Tax-related incentives are common benefits for those that use these special zones.
- **Specialized Zone:** Some of the most common uses for these areas include technology hubs, airport-based zones, and logistics parks.

Special Economic Zones in India

The winds of Liberalization, Globalization and Privatization were blowing hard from the west, hitting the emerging countries to integrate with the global economies or perish in isolation. India picked up the early signal and brought about a wholesome change in the policies and strategies of development. The year 1991 is a historical year in the economic history of India. It's the year of transformation. Separating the economy from the shackles of controls to an environment of freedom and impetus to integrate. Therefore, SEZ in India can be studied in two parts. A pre-reform period and the post-reform period.

The Special Economic Zones Act, 2005:

One of the finest pieces of legislation viz. The SEZ ACT, 2005 was passed by the Parliament in May 2005, received presidential assent on the 23rd of June, 2005. The SEZ ACT, 2005 and SEZ RULES became effective on and from 10th, February 2006. This great legislation did not materialize overnight. It is the untiring efforts of the Ministry of Commerce and Industry that the Act saw the light of the day. Every stakeholder was involved in a discussion of the draft Sez Bill. Numerous meetings were held all over the country and the draft was uploaded on the websites of the commerce Department inviting suggestions/comments. This resulted in the SEZ Act 2005 and Rules, 2006.

Objectives of SEZ:

Sec 5 of the SEZ Act narrates the prominent objectives of setting up SEZ.

- 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. Maintenance of Sovereignty and integrity of India, the security of the state and friendly relations with foreign states.

Besides the above, there are other ancillary/incidental objectives which are mentioned in various literature on SEZ.

- g. Augmenting foreign exchange reserves.
- h. Encouraging the transfer of technology and skill development.
- i. Development of backward regions.
- j. Enhancing the standard of living

The essence of SEZ Act and Rules was "Ease of doing business". This was well reflected in the mechanism called "single window clearance". The rules provide for single-window clearance.

- For setting up of an SEZ.
- For setting up of a unit of SEZ.
- On issues relating to central and state government.

In terse, the procedures were made simple and documentation was accepted with self- certification.

Major Incentives and Facilities Available to SEZ:

Some incentives for setting up a sourcing or manufacturing platform within an Indian SEZ include:

- Duty free import and domestic procurement of goods for the development, operation, and maintenance of your company/SEZ unit
- 100% Income Tax exemption on export income for SEZ units under Section 10AA of the Income Tax Act for first 5 years, 50% for the next 5 years thereafter 2for Units will become effective from 01.04.2020)
- Income tax exemption on income derived from the business of development of the SEZ in a block of 10 years in 15 years under Section 80-IAB of the Income Tax Act. (Sunset Clause for

Developers has become effective from 01.04.2017)

- Exemption from customs/excise duties for development of SEZs for authorized operations approved by the BOA
- Exemption from the Goods and Service Tax (GST) and levies imposed by state government (supplies to SEZs are zero rated under the IGST Act, 2017, meaning they are not taxed)
- Exemption from Minimum Alternate Tax (MAT)
- Single window clearances for all state and federal government approvals
- Exemption in electricity duty and tax on sale of electricity by certain states in India
- Presence of customs officer in the SEZs to facilitate and expedite the trade processes
- Some states also offer land to SEZ developers at concessional rates to promote industries in accordance with the state's prevailing Industrial Policy

Challenges:

Unutilized Land in SEZs:

- Due to lack of demand for SEZ space and disruptions caused by the pandemic.

Existence of Multiple Models:

- There are multiple models of economic zones such as SEZ, coastal economic zone, Delhi-Mumbai Industrial Corridor, National Investment and Manufacturing Zone, food park and textile park which pose challenges in integrating the various models.

Competition from ASEAN Countries:

- In the past few years, many of the ASEAN countries have tweaked their policies to attract global players to invest into their SEZs and have also worked on a developmental set of their skilling initiatives.
- Consequently, Indian SEZs have lost some of their competitive advantages globally and hence need to have fresher policies.

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