

# Historical Context and Evolution of Special Economic Zones in India

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## **Abstract**

With a view to face competition at global level and to generate foreign exchange by boosting exports, different countries adopted export oriented trade policies and build up export zones. In all over the world, China was the first country who adopted the idea of SEZ successfully. Like China, a few other countries Taiwan, Hong Kong, South Korea and Singapore also achieved industrial development after adopting SEZ policy. India also established SEZs to achieve the objectives of economic growth. In India SEZs are expected to give a big boost to exports and foreign trade. This paper is an attempt to show history and evolution of SEZs in India. Secondary data regarding the exports has been taken from the web links of Special Economic Zones, Ministry of Commerce & Industry, Department of Commerce.

*Keywords: Special Economic Zones, History of SEZs, Incentives and facilities offered to SEZs, Evolution of SEZs in India*

Special economic zones are the geographical areas, which enjoys more liberal business & trade laws from the rest of the country and are promoted with a few main objectives like; to boost exports and economic growth by increasing investment opportunities. The special economic zones units may be set up for both; to manufacture goods and to render services. SEZ can be set

up in the public sector, private sector or even by state governments in collaboration with any corporate entities. Industrial sectors like Engineering, Textiles, Information Technology, Electronics and Software, Chemicals & Pharmaceuticals, Gems and Jewellery, Food & Agro Products, Handicrafts, Garments, Leather goods, Plastics and Rubber goods, Power/Solar, Multi-Services are covered under Special Economic Zones.

The present paper is an attempt to show history and evolution of SEZs in India. Secondary data regarding the exports has been taken from the web links of Special Economic Zones, Ministry of Commerce & Industry, Department of Commerce. Simple tabular analysis has been performed on the data.

### **History of SEZ**

In all over the world, China was the first country who successfully adopted the idea of SEZ and established Special Economic Zones in 14 coastal cities. The main objective was to develop and improve the coastal area of China and to generate foreign exchange by boosting exports and importing advanced technologies. In China SEZ units were set up by the government, so they were larger in size, have better infrastructure and have better fiscal incentives. All these situations produced fruitful results to the nation. Like China, a few other countries Taiwan, Hong Kong, South Korea and Singapore also achieved industrial development after adopting SEZ policy. So to achieve growth on the same pathway the policymakers in India established a few free trade zones which were known as Export Processing Zones (EPZs). The first export promotion zone was started at Kandla in Gujarat in 1965 and the second EPZ was set up at Mumbai in 1974, but EPZs of India fell short of expectations and could not produce the desired results. Later on, an effort was made by Ministry of Commerce to set up SEZs in different areas of the country. Accordingly, Exports Processing Zones (EPZ) located at Kandla and Surat (Gujarat), Santa Cruz Mumbai (Maharashtra), Falta (West Bengal), Chennai (Tamil Nadu), Vishakhapatnam (Andhra Pradesh) and Noida (Uttar Pradesh) has been converted into SEZs by the government.

### **Objectives**

SEZ act was introduced in 2005 but it came into effect from 2006. The main objectives of the SEZ Act are; 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 infrastructure facilities.

### **Incentives and facilities offered to SEZs**

The incentives and facilities offered to the units in SEZs include; duty free import of goods for development, operations and maintenance of SEZ units, income tax benefits, exemptions from other taxes like Central Sales Tax, Service Tax, Custom Duty, Excise Duty, single window clearance for central and state level approvals etc.

The major incentives and facilities available to SEZ developer include; Exemption from Custom/ Excise Duties, Income Tax benefits, Exemption from Central Sales Tax and Exemption from Service Tax.

(Source: Special Economic Zones in India, Ministry of Commerce & Industry, Department of Commerce)

### **Evolution of SEZs in India**

Increase in number of formal approvals, Number of notified SEZs and Operational SEZs are the evident of progress in SEZs in the country. No. of formal approvals in 2009 were 577 and in 2012 these were 589. No. of notified SEZs in 2009 were 325 and in 2012 these were 389. Operational SEZs as on June 30, 2009 were 98 and on March 31, 2012 these were 153. Total No, of units approved in SEZs as on June 30, 2009 are 2301 and as on March 31, 2012 these were 3400. So we can say during almost 3 years gap there is positive increase in Special Economic Zone units in the country.

**Table 1: Export Performance from the functioning of SEZs**

<b>Year</b>	<b>Exports (Rs. In crores)</b>	<b>Growth rate over previous year</b>
2005-06	22840	---
2006-07	34615	52%
2007-08	66638	93%
2008-09	99689	50%
2009-10	220711	121.40%
2010-11	315868	43.11%
2011-12	364478	15.39%

**Source: [www.sezindia.nic.in](http://www.sezindia.nic.in) (Special Economic Zones in India, Ministry of Commerce & Industry, Department of Commerce.)**

The above table shows year-wise progress in exports from SEZs units in India and SEZ's share in India's exports from 2005-06 to 2011-12. The table shows a continuous growth over the last years. The Exports from SEZ units were 22840 crores in 2005-06. It increased to 66638 crores in 2007-08 and further rise to 220711 crores in 2009-10 and 364478 crores in 2011-12. The exports from SEZs show a rising trend and tremendous positive response in 2009-10 with 121% increase over the last year. Exports have also increased from 2010 to 2012 but during this period percentage increase shows a downfall to 43.11% in 2010-11 and 15.39% in 2011-12, which should be seriously considered.

### **Hindrances in evolution of SEZs in India**

The first vital issue regarding the evolution of SEZ units in India is the huge revenue loss to the government. Because of heavy Tax concessions, incentives, exemptions which are being granted to SEZs have resulted in huge fiscal deficit to the government since the SEZ concept has started.

Secondly, the requirement of land for SEZ units is very large. India is an agricultural based economy and majority of population depends on agriculture for their survival. Moreover, acquisition of land from the farmers is done at the prices determined by the government and not on market prices, which is not right. Because of land acquisition the displaced farmer community is particularly agitated and aggrieved with the policy and it became the main reason for slow progress of SEZs in India. Thirdly, Most of the SEZs are set up at prime agricultural land. Diversion of most fertile land to non-agricultural purposes may force the country to face serious conditions of food shortage. Fourthly, development of SEZ units is resulting in Inequality. The economy will be divided in two parts; a section (SEZ areas) enjoying all the concessions, exemptions and benefits and the other (non SEZ areas) deprived off from all these facilities. Lastly, lack of world class infrastructure and skilled human resources are also major hindrances in the success of SEZ units.

### **Conclusion**

To increase economic growth by boosting exports and attracting larger foreign investment and trade is the main purpose to promote SEZs in India. If clear-cut guidelines regarding the major issues and a few policy reforms be introduced, SEZs may helpful in achieving the objectives of economic growth by increasing investment opportunities, exports, employment and production in the economy. To avoid huge revenue losses to the government, tax concession and incentives should be provided to the backward state only. In case of land acquisition, waste & barren land should be used and if prime agricultural land acquisition is necessary, rehabilitation programme should be adopted for displaced people. The Government should provide assistance to the affected persons accordingly, by way of an adequate resettlement allowance, employment, training, bank loan etc. The scheme should not benefit the rich at the cost of the poor people. Apart from this, land acquisition and setting of SEZs should be done in a proper manner, so that it should not result in food insecurity and regional disparities. Last but not the least; SEZs should be supported by quality infrastructure, attractive fiscal incentives, and good governance with minimum regulation.

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**Web Links:**

- [www.sezindia.nic.in](http://www.sezindia.nic.in) (Special Economic Zones in India, Ministry of Commerce and Industry, Department of Commerce)