Special Economic Zones

[UPSC Notes]

What are Special Economic Zones?

Special Economic Zone or SEZ can be explained as an enclave existing in the country that is all duty-free and has several business branches and commercial laws.

- It creates great encouragement for investment and generates employment in a country. Exports are promoted through the creation of Special Economic Zones.
- SEZs are not only restricted in creating employment opportunities and encouraging investments, but it also provides a strong background for the administration of various businesses in the respective areas, which will further contribute to making the businesses run smoothly.
- The Special Economic Zone or SEZ policy was declared in 2000 to overcome the problems faced by businesses.
- There are several controls and different clearances to be made before starting a venture in an SEZ.
- While implementing the policy of SEZ under the Foreign Trade Policy, India followed the steps of China as they were very successful in the creation of SEZ. Rules and policies for SEZs across India are governed by the Special Economic Zone Act, 2005.
- At present, we have 379 SEZs in India, out of which 64% of SEZs are concentrated in Karnataka, Andhra Pradesh, Tamil Nadu, Telangana, and Maharashtra.

Objectives of Special Economic Zones

Some of the important objectives of the SEZ are discussed below:

- SEZ provides a boost to the exports of goods and services as developers are provided with various exemptions only if they export goods and services.
- It creates ample employment opportunities in rural and semi-rural areas of the country.
- Infrastructural facilities are developed in and around places where SEZs are situated. This helps in the growth of trade and industry in domestic areas.
- Since developers in SEZ emphasize highly on exports of goods and services, foreign investments increase. This further helps the country in earning huge foreign reserves, which is extremely beneficial for the country.

Challenges of SEZ

The following points mentioned below analyze the challenges faced by the Special Economic Zones:

- Land Unutilized in the Special Economic Zones: The lack of demand for the Special Economic Zone space and disruption caused by the pandemic have created a challenge for the SEZs.

- Multiple Models already existing: There are multiple models of Special Economic Zone that are already existing in the market. For Example, Manufacturing Zone, food park and textile park, Delhi-Mumbai Industrial Corridor, Coastal Economic Zone, and so on. This poses a challenge in integrating various models.
- Competing ASEAN Countries: In the last few years, the ASEAN countries have implemented various policies to attract big or global players to invest in their Special Economic Zone. These countries have also worked on the development of skill initiatives. Moreover, the Indian Special Economic Zones have lost their influence or competitive advantage in the global market. Hence, it is the right time to have fresher policies that would attract global players to invest in the Indian SEZs.

Special Economic Zones in India

In Asia, the first EPZ i.e. Export Processing zone, was established in 1965 in Gujarat, Kandla. All these EPZs had a similar structure to that of Special Economic Zones.

- Under the foreign trade policy, the government of India started SEZs, which were first established in 2000.
- It was established to reform the bureaucratic and infrastructural challenges that were faced by the Export Processing Zones. EPZ had limited success as compared to Special Economic Zones.
- The Government of India passed a Special Economic Zones act in 2005. It came into force in 2006 with some new rules and regulations about the SEZs. But, the Special Economic Zones became operational in 2000 under the Foreign Trade Policy.
- India's SEZs were structured very closely with China's SEZs. Currently, In India, there are 379 Special Economic Zones that are notified.
- However, among them, 264 are operational. More importantly, 64 percent of total SEZs in India are located in Tamil Nadu, Telangana, Karnataka, Andhra Pradesh, and Maharashtra.

Performance of Special Economic Zones in India

- Employment: In 2006, the employment in SEZs was 1,34,704 persons. It has increased to 23,58,136 persons (2020-21).
- Investment: In 2005-2006, investment amounting to Rs. 4,035.51 crores was made in SEZs. It has increased to Rs. 6,17,499 Crore (2020-21).
- Exports: The export has seen a drastic change from Rs. 22,840 Crore (2005-06) to 7,59,524 Crore (2020-21).

Tax Benefits Under Income Tax for Units Set in SEZs

Under Section 10AA of the Income Tax Act, 1976, SEZs have been provided with various exemptions. These exemptions are discussed below:

1. 100% of profits are exempt from income tax for the first five years of production.
2. 50% of the profits are exempt from income tax for the next five years of production.

3. 50% of the profits are exempt for the consecutive five years provided such profit is transferred to the “Special Economic Zone Re-investment Reserve Account”.

General Conditions to Taking Tax Benefits

- There should be no splitting up or reconstruction of an existing business.
- Only 20% of old plants and machinery are allowed. However, second-hand imported machinery is fully admissible.
- Accounts of the unit in an SEZ should be audited by a Chartered Accountant.
- Where a unit located in SEZ is also transacting within India, then income deriving from such transactions is not exempt.

Special Economic Zones: Way Forward

Promotion of Micro, Small, and Medium Enterprises in the Special Economic Zones by linking it with Micro, Small, and Medium Enterprises schemes. Government can allow alternate and different sectors to come and invest in specific Special Economic Zones, which is also in the recommendations of the Baba Kalyani Committee on SEZs.Granting the Special Economic Zone Infrastructure status in order to improve the SEZs' access to long-term borrowings and finance.