

Economic Geography

Subject: Geography CBCS (HONS)

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UNIT-II

CC: 9T- Economic Geography

Point : 4. Special Economic Zone (SEZ)

Origin & History of SEZs

- *Yester years EPZs (Export Processing Zones) are today's SEZs*
- *One of the earliest & most famous SEZs were founded by China under Deng Xiaoping in the early 1980s*
- *Today the most prominent SEZs in China are Shenzhen & Pudong, a district of Shanghai*
- *However, India's first EPZ was set up in Kandla (Gujarat) in 1965 followed by Santacruz (Mumbai) in 1973*

Historical background

- *Four modernizations – Liberalization of Agriculture; Rural & Town Industrialization through Defence, Urban & Area Export-oriented enterprises through SEZs.*
- *Importance of the last in faster economic growth, modernization of Industry & Trade and export growth*
- *Policy of preferred regions – unequal growth – open-door policies*
- *Hong Kong and East Asian factors*
- *Overriding approach based on Deng's Observation: "For us to establish SEZs and adopt open-door policies, we must have a clear guiding ideology: that is, "Not to constrain but to release"*

The concept of SEZ is expected to bring large dividends to the State in terms of economic and

Industrial development and the generation of new employment opportunities. The SEZs are expected to be engines for economic growth..

What is a SEZ ?

- **Special Economic Zone (SEZ) is defined as 'a specifically delineated duty free enclave and shall be deemed to be foreign territory for the purposes of trade operations and duties and tariffs'.**
- **Special Economic Zone is one or more areas of a country where the tariffs and quotas are eliminated and bureaucratic requirements are lowered so that more companies are attracted to the area. The companies establishing in the area also get extra incentives for doing business.**
- **SEZs are an acknowledgement of the potential of export-led development strategy in accelerating economic growth.**
- **Government of India have notified Special Economic Zones (SEZs) Act 2005 and notified Special Economic Zone Rules 2006 with a view to augmenting infrastructure facilities for export production.**
- **Setting up of Special Economic Zones are permitted in the public, private, joint sector or by the State Governments.**

Incentives and facilities offered to the SEZs

The incentives and facilities offered to the units in SEZs for attracting investments into the SEZs, including foreign investment include:-

- **Duty free import/domestic procurement of goods for development, operation and maintenance of SEZ units**
- **100% Income Tax exemption on export income for SEZ units under Section 10AA of the Income Tax Act for first 5 years, 50% for next 5 years thereafter and 50% of the ploughed back export profit for next 5 years.**
- **Exemption from minimum alternate tax under section 115JB of the Income Tax Act.**
- **External commercial borrowing by SEZ units upto US \$ 500 million in a year without any maturity restriction through recognized banking channels.**
- **Exemption from Central Sales Tax.**
- **Exemption from Service Tax.**
- **Single window clearance for Central and State level approvals.**
- **Exemption from State sales tax and other levies as extended by the respective State Governments.**

SEZ Approval

Consequent upon the SEZ Rules coming into effect w.e.f. 10th February, 2006, Twenty-five meetings of the Board of Approvals have since been held. During these meetings, formal approval has been granted to 462 SEZ proposals. There are 135 valid in-principle approvals. Out of the 462 formal approvals, 222 SEZs have been notified.

Benefits derived from SEZs

Benefit derived from SEZs is evident from the investment, employment, exports and infrastructural developments additionally generated. The benefits derived from multiplier effect of the investments and additional economic activity in the SEZs and the employment generated thus will far outweigh the tax exemptions and the losses on account of land acquisition. Stability in fiscal concession is absolutely essential to ensure credibility of Government intensions.

Exports from the functioning SEZs during the last five years :

Year	Value (Rs. Crore)	Growth Rate (over previous year)
2003-2004	13,854	39%
2004-2005	18,314	32%
2005-2006	22 840	25%
2006-2007	34,615	52%
2007-2008	66,638	92%

SEZ Policy of 2000

- **New Policy in April 2000. SEZs permitted to be set up in the public, private, joint sector or by the State Governments**
- **Minimum size of 1000 hectares (4 sq. miles)**
- **Simplified procedures and more incentives**
- **Main measures were:**
 - **Conditions for automatic approval relaxed considerably**
 - **Customs procedures simplified**
 - **Units could produce items reserved for SSI units in domestic market**
 - **100% FDI investment for manufacturing**
 - **Profits could be repatriated fully**
 - **Freedom for sub-contracting**
 - **100% I.T. exemption for five years**
 - **Exemption from Central Excise Duty on capital goods, raw materials, consumable spares from domestic market**
 - **Reimbursement of CST paid on domestic purchases**

Evolution : from EPZs to SEZs

Deficiencies in EPZ policy were :

- Limited power of Zonal authorities
- Absence of single window facility within the Zone
- Rigid custom procedure for bondings & bank guarantees
- Restrictive FDI policy
- Procedural constraints & severe infrastructural deficiencies
- During 1991-2000, wide-ranging measures were initiated by the GoI for revamping and restructuring EPZs.
- This phase was thus marked by progressive liberalisation of policy provisions and relaxation in the severity of controls and simplification of procedures.



Functional SEZs at present

At present there are eight functional SEZs located at:

- **SantaCruz (Maharashtra),**
- **Cochin (Kerala),**
- **Kandla and Surat (Gujarat),**
- **Chennai (Tamil Nadu),**
- **Visakhapatnam (Andhra Pradesh),**
- **Falta (West Bengal) &**
- **Nodia (Uttar Pradesh) in India.**

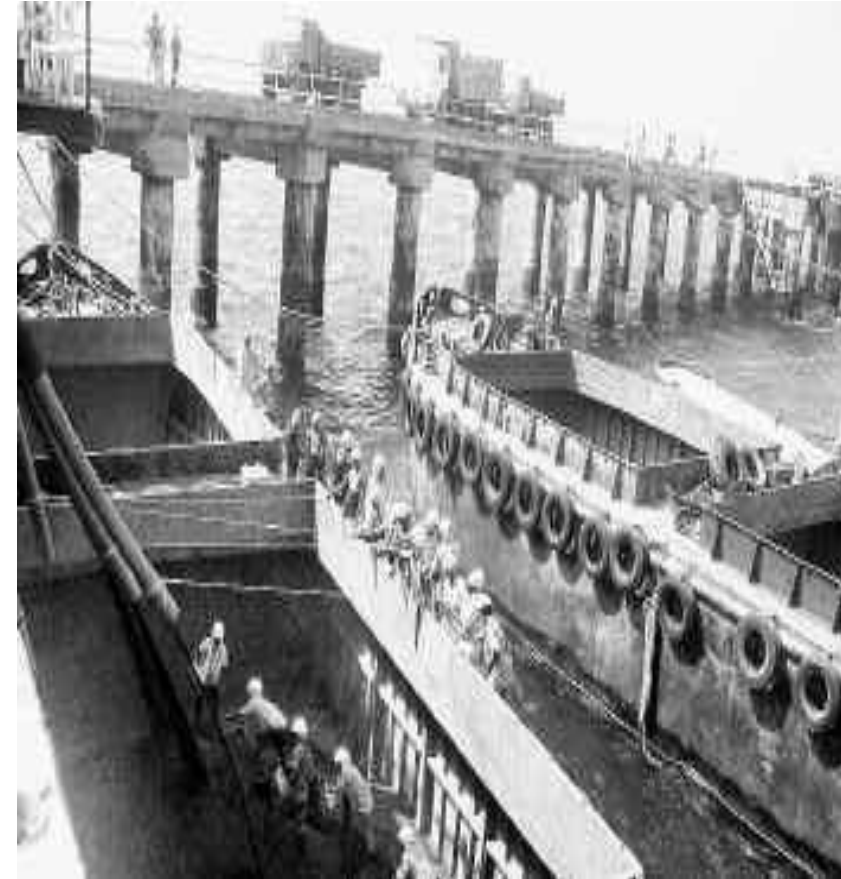
Further a SEZ at Indore (Madhya Pradesh) is now ready for operation.

Functional SEZs at present

Contd.....

In addition 18 approvals have been given for setting up of SEZ 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 (U.P),**
- **Vishakhapatnam and Kakinada (Andhra Pradesh),**
- **Vallarpadam/Puthuvypeen (Kerala)**
- **Hassan (Karnataka),**
- **Jaipur and Jodhpur (Rajasthan)**
- **on the basis of proposals received from the State Governments.**



Agriculture: Its function in Indian economy

Agriculture (a term which encompasses farming) is the process of producing food, feed, fiber and other goods by the systematic raising of plants and animals.

- **India has a labour force of 509.3 million.**
- **60% of which is employed in agriculture and related industries.**
- **agricultural crops include rice, wheat, oilseed, cotton, jute, tea, sugarcane, and potatoes.**
- **The agricultural sector accounts for 28% of GDP.**
- **Service and industrial sectors make up 54% and 18% respectively.**
- **Agriculture accounts for 8.56 % of India's exports. About 43 % of India's geographical area is used for agricultural activity.**
- **Agriculture is still the largest economic sector and plays a significant role in the overall socio-economic development of India**



Positive Impacts

- **To Nation**
 - **World class business environment**
 - **Increased FDI**
 - **Higher economic growth**
 - **Infrastructural development**
 - **Export growth**
 - **Employment Opportunities**
 - **Exposure to technology and global markets**

Positive Impacts

- TO Businesshouses
 - Hassle free operating environment
 - Single window clearance
 - Simplified procedure for setting up business, compliance proc with with self certification
 - Duty free import
 - Tax exemption- VAT, CST,ST, other levies
 - External commercial borrowings
 - 100% profit repatriation from export earnings

Positive Impacts

- To People
 - Employment opportunities
 - Impact on lifestyle and standard of living
 - Business infrastructure combined with social facilities
 - Better work culture , good education, leadership vision

Hurdles

— **Loss of revenue**

Grabbing of fertile land

Water scarcity- Threat to access

Food scarcity

Exploitation of labour

Landless farmers

Land acquisition

Single window actually is not

No strategic planning for electricity, water

Hurdles

- **To Environment**
 - **Mangrove destruction**
 - **Destruction of ground water rechargesystem**
 - **Pollution**

REASONS FOR SUCCESS

- **Unique locations – of the five SEZs, Shenshen, Shantou and Zhuhai are in Guangdong Province adjoining Hong Kong. Fourth, Xiamen, is in Fujian Province and nearer Taiwan.**
- **Large size with government and local authorities providing improved infrastructure with foreign collaboration Attractive incentive packages for foreign investment.**
- **Liberal customs procedures.**
- **Flexible Labor Laws providing for contract appointments for specified periods.**
- **Powers to Provinces and local authorities to frame additional guidelines and in administering the Zones.**

SEZ IN INDIA

SEZs in India

Experience with EPZs

- **Starting with Kandla in 1965; SEEPZ in 1972, based on reviews of working, Cochin, Falta, Madras (Chennai) and NOIDA in 1984 and Vizag in 1989**
- **Very limited impact**
- **Less than 40% of approvals fructified**
 - **Rest cancelled or lapsed**
- **Employed only 0.01% of labour force**
- **FDI was less than 20% of total investment**
- **Accounted for less than 4% of exports. Net export much lower as imports were over 60% of exports**

REASONS FOR FAILURE

SEZs in India

- (iii) Inadequate infrastructure**
 - (iv) Restrictive policies**
 - (v) Lengthy procedures – No Single Window**
 - (vi) Locational disadvantages**
 - (vii) Stringent labour laws**
- In the 1990s, as a part of reforms, powers delegated to zone authorities, additional fiscal incentives were given, policy provisions were simplified and greater facilities were provided leading to some, not very significant, improvements.**