

Special Economic Zone (SEZ) and Indian Economy

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Introduction:- *On the track of China's growth because of Special Economic Zones, Indian Government has considered it as a dream project to promote export, generate employment, and to attract huge investment. "A Special Economic Zone (SEZ) can be defined as a geographical region that has economic laws that are more liberal than a country's typical economic laws" (An Encyclopedia). A policy was introduced on 1st April, 2000 for setting up of SEZs in the country with a view to provide an internationally competitive and hassle free environment for exports. Units may be set up in SEZ for manufacture of goods and rendering of services. The policy provides for setting up of SEZs in the public, private, joint sector or by State Governments. It was also envisaged that some of the existing Export Processing Zones would be converted into SEZs."*

SEZ & INDIAN ECONOMY

The crucial issue related to the setting up of an SEZ is not merely the economic regulation or de-regulation, but the legal regime affecting the functioning of an enterprise working within the SEZ. The SEZ Act, 2005 not only provides for tax exemptions and removal of regulatory barriers, it also provides for the setting up of a different system of corporate administration. By this, the researcher does not mean a different type of corporate entity, but a different method of regulating corporate entities. The policy is expected to give a big push to exports, employment and investment in SEZs. The ministry of commerce claims that these zones are expected to attract investment of about Rs 1,00,000 crore including FDI of Rs 25,000 crore and create additional 5,00,000 direct jobs, by December 2007.

SEZs accounted for over 55 per cent of total Indian jewellery exports in 2002-03. Zones have also been instrumental in creating the base for the growth of the electronics industry through technology transfers, spillovers and demonstration effects. Until the early 1980s, electronic hardware exports were primarily originating from EPZs. Even during 2000-02, the share of SEZs in total hardware exports was as much as 26 per cent.

ISSUES & ANALYSIS

The SEZ act 2005 recently enacted By the Govt, of India is expected to give a big push to the export, employment, and investment in the SEZ. But it has given boost to critiques whether SEZ policy is a right momentum or not. Various critiques and issues are as follow:

- Critics believe that the SEZ Act currently enforce may not sure that nation would gain significantly. Government is providing incremental Benefits to the SEZ units, which are disproportionate to the incremental benefits that may occur to the nation. The total expected revenue loss would be around Rs. 175000 Crores. Creating an island free from regulatory obstacles is not the only mean to promote the economic activities. Changes in the overall policy and legal requirement can be a very effective way.
- India is a democratic country. Political parties formulate their government in the center and state after winning the election. Every time when government will change, policy of that government will be quite different to the previous government. That government will enact new rules and regulation. So making the economic activities free from regulatory obstacles can be a very effective step. Whatever

government comes and whatever government goes, economic activities will go on without interruption.

- The government is placing the tax paying domestic units at a disadvantage against supplies to the domestic tariff areas from the concept of SEZ. The government has slammed the breaks on trading units seeking to enter the numerous SEZs coming up across the country with the intention the trading unit may come to the SEZ for availing income tax benefits without actually setting up any new manufacturing unit. Moreover the RBI governor **Y. V. Reddy** directed all the schedule banks offer credit for SEZs on the same terms and conditions as offered to real estate developers.
- The ongoing resentment and violence for resistance over land acquisition for SEZ implies that how sensitive the issue of land acquisition. Those who criticize the SEZ on the ground of land acquisition may not have undergone the realities of the land statistics. Critics of SEZ policy argue that acquisition of agricultural land could threaten our food security. But the land statistic of India Presented here will reveal the fact.
 - Total land in India
 - ➔ 2973190 sq. Km.
 - Total agricultural land
 - ➔ 1620388 sq. km.
 - Sez formally approved (234)
 - ➔ 350 sq. km.
 - Sez in principal approval (162)
 - ➔ 1400 sq. km.
 - Total area proposed for SEZ
 - ➔ 1750 sq. km.

(which is merely 0.047% of the total land and 0.086% of the total agricultural land)

(Source: www.sezindia.nic.in)

So one can imagine that how small is the 0.086% and would stop critiquing on the ground that there is any trade off between agriculture growth and SEZ development. And this type of meaningless debate is quite fruitless in our developing economy. What is worrying is that a significant number of notified SEZs (43 out of 63) in India have areas of less than even 1 square km. The treatment of such small processing areas as SEZs does not appear to be a prudent policy as they are not large enough to lead to any economies of scale. Indian SEZs seem real small compared to the Chinese SEZs of Schenzen and Hainan, which occupy on approximate area of 400 square km and 34000 square km respectively. There are other aspects of SEZ policy, which show that economies of scale are not being considered many of these SEZs are being developed as appendages to big cities.

Allover it is not very difficult for state government to follow the Maharashtra example of stating unambiguously that arable and fertile land will not be acquired and whatever land will be acquired will be at market rates. Under these two administered conditions, farmer's interest will be protected. **Mrs. Sonia Gandhi** in her speech made a strong case for protecting the interest of farmers whose land is being diverted to non-agricultural uses. She sent a clear message to the center as well as congress ruled state governments that it is important to put an effective compensation, resettlement and rehabilitation policy in place for land outsets of industrial project. She even hinted that farmers should be made 'stake-holder' in the activity undertaken on land acquired from them.

One should also note that government implementation in the field of infrastructure has often been plagued by poor planning as well as rampant corruption. SEZs should lead to the creation of centers of excellence in the industrial and service sector. The reason for such optimism is the use of incentives at all levels of economic activity. The better quality of facilities provided by the developers, the higher is there turn/rent that they will earn on such facilities. The private sector firms will compete with each other for entry into SEZs so

that the best SEZs will get the best entrants. Thus there is a built in incentive for developers to improve quality of infrastructure as long as marginal returns from quality improvements exceed the marginal cost. Investing in SEZs with better quality infrastructure is profitable for firms as long as the benefits from such marginal quality improvements exceed the marginal cost that they have to pay for such improvement.

SEZ would not be able to attract incremental investment. In 63 SEZs notified after the SEZ act the FDI Inflows is \$2052.4 million and it is expected that FDI inflow could be of the order of \$2 billion over the next two years. These notified SEZs have attracted 15000 Crores as investment and create the employment of 25000. The 234 SEZs' with formal approval would require 33808 hectares of land. The zone will attract investment to the tune of Rs. 3000000 Crores and create 4 million jobs by the year 2009.

SEZ Would not be able to boost export as it would be at the cost of the domestic units production Government of India has considered SEZ as a dream project to boost exports in year 2007-08 total export estimated from SEZ is Rs 67300 crore. Government has expected to increase export from SEZ to Rs. 100,000 Crore in year 2009. Export trends and situation of Indian SEZ are shown in successive tables.

Table-1: Yearly Export from SEZ (2000-01 to 2007-08)

YEAR	Export (in Crores)	Fixed Base Index
2000-01	8552.3	100
2001-02	9189.6	107.45
2002-03	10053.4	117.55
2003-04	13853.6	161.99
2004-05	18309.1	214.08
2005-06	22839.5	267.06
2006-07	34787.5	406.76
2007-08	67299.6	786.92

Source : www.sezindia.nic.in

From table-1 it is clear that the export from SEZ is continuously increasing, it was Rs.8552.3 Cro re in the year 2000-01 and shows a slight increment up to the year 2004-05. it rose up to Rs. 18309 crore in year2004-05 almost doubled as compared to the year

2000-01. But after the enactment of SEZ act 2005 export from SEZ shows a fast increasing trend. It rose to 34787.5 Crore in year 2006-07 and it is projected to increase upto Rs. 67299.6 Crore in year 2007-08.

Table-2 : India's Yearly Export , Yearly Export From SEZ and Its Share in India's Total Export (2000-01 to 2005-06)

Year	India's Total Export (Rs. In Crore)	SEZ Export (Rs. In Crore)	% share of SEZ Export in India's Total Export
2000-01	203571.02	8552.3	4.20
2001-02	209017.98	9189.6	4.40
2002-03	255137.28	10053.4	3.94
2003-04	293366.74	13853.6	4.72
2004-05	375339.52	18309.2	4.88
2005-06	456417.88	22839.5	5.00

Source: www.sezindia.nic.in & www.commerce.com

From the Table-2 percentage share of SEZ export in total export of the country is continuously increasing except in year2002-03. In 2000-01 share of SEZ export in total export of the country was 4.20% and it increased to 4.39 % in 2.001-02. In the year 2002-03 share of SEZ export goes down to 3.94 % but it showed a continuously increasing trend. After it, it increased to 4.72 % in the year 2003-04 and then rose up to

Approx. 5% in year 2005-06.

From above findings it is clear that SEZ can stake of the state. **Mukesh Ambani** said, " We will get the best of the fortune 500 companies here". Clearly

SEZ are the latest buzzword in India's charge on to the world stage.

CONCLUSION:

If India wishes to continue on the growth trajectory of the past decade and a half for the next four or five decades, then such policies are inevitable. SEZs are one important means of facilitating these policies. According to estimates provided by the **Ministry of Commerce**, 4 million jobs will be created through SEZs by December, 2009. This underlines their usefulness as channels of employment creation SEZ is a mean to achieve growth and employment which industries are eager to utilize effectively. But government should formulate the rehabilitation and resettlement programme keeping in mind that any sort of political and social unrest due to land acquisition runs counters the very interest of industrialization. SEZ act enacted in 2005 provides a single window clearance and approval procedure. It delegates no additional power to development commissioner. Government has considered SEZ a dream project to boost export, investment and employment in the coming years.

No doubt the pace of growth of SEZ export is very slow. The reason of this slow progression in the persistence of SEZ in its nascent stage along with lack of infrastructure, availability of incentive and sort fall of capital goods as compared to other countries having high export from SEZs like China. India has the right mix of factors, such as availability of large and skilled workforce, built-in

comparative advantage in several industries, a strong policy framework and already buoyant export sector and wide domestic market. SEZ can be seen as a tool to combine all these factors into a powerful alchemy to power investment creation.

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