Special Economic Zone (SEZ) bill

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Manifest pedagogy

The case for revitalising SEZs gains significance as exports need to push up for greater capacity utilisation and kick start the fall in savings and investments in the Indian Economy. SEZ acts and its impact are both important for the prelims and mains perspectives and carry an important dimension of the economic reform process

In news

- Special Economic Zone (SEZ) amendment act

Placing it in syllabus

- Changes in industrial policy

Static dimensions

- What are SEZs
- Exports from SEZs
- Employment generation by SEZs
- Problems of SEZs

Current dimensions

- Features of new SEZ policy

Content

India was one of the first in Asia to recognise the effectiveness of the Export Processing Zone (EPZ) in promoting exports, with Asia's first EPZ set up in Kandla in 1965. With a view to overcome the shortcomings experienced on account of the multiplicity of controls and clearances;

absence of world-class infrastructure and an unstable fiscal regime and with a view to attract larger foreign investments in India, the Special Economic Zones (SEZs) Policy was announced in April 2000. The prime objective was to enhance foreign investment and provide an internationally competitive and hassle free environment for exports

This policy intended to make SEZs an engine for economic growth supported by quality infrastructure complemented by an attractive fiscal package, both at the Centre and the State level, with the minimum possible regulations

The Special Economic Zones Act, 2005 came into force in June, 2005. 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

The SEZ Act 2005 envisages key role for the State Governments in Export Promotion and creation of related infrastructure. A Single Window SEZ approval mechanism has been provided through a 19 member inter-ministerial SEZ Board of Approval (BoA). The applications duly recommended by the respective State Governments/UT Administration are considered by this BoA periodically. All decisions of the Board of approvals are with consensus. Every SEZ is divided into a processing area where alone the SEZ units would come up and in the non-processing area where the supporting infrastructure is to be created

Salient features of SEZ are

- Designated duty-free industrial park to be treated as foreign territory for trade operations, duties and tariffs.
- No licence required for import.

- Exemption from customs duty on import of capital goods, raw materials, consumable spares etc.
- Exemption from central excise duty on procurement of capital goods, raw materials, consumables, spares etc. in the domestic market
- Reimbursement of central sales Tax paid on domestic purchase.
- The units in the park will become net foreign exchange earners within 3 years.
- Performance of the units to be monitored by a committee headed by Development Commissioner and the participation of Customers.
- 100% foreign Direct Investment in the manufacturing sector allowed, except few sectors.
- Profits allowed to be repatriated freely without any dividend balancing requirement.
- Duty-free goods to be utilized in five years
- No routine examination by Customers of export and import cargo
- No separate documentation required for customs and EXIM Policy
- Developed Plots and ready to use build up space

Employment generation by SEZs

SEZs being set up under the SEZs Act, 2005 and SEZs Rules, 2006 are primarily private investment driven. No funds are sanctioned by the Central Government for setting up of SEZ. However, the fiscal concessions and duty benefits have been allowed to developers/units as per the SEZs Act, 2005 and Rules thereunder

Ministry of Commerce and Industry data show that 232 out of the 373 Special Economic Zones (SEZs) in India are operational. In Chhattisgarh, Odisha, Punjab and Chandigarh all approved SEZs are operational. Tamil Nadu tops the chart of operational SEZs with 75 per cent of its SEZs functioning without any hitch

As many as 64 percent SEZs are located in five States including Telangana, Tamil Nadu, Maharashtra, Karnataka and Andhra Pradesh. Calculated on a cumulative basis, **employment through SEZs is around 20 lakhs in 2018-2019**

The government had constituted a **Group under Bharat Forge**, to study the Special Economic Zone (SEZ) Policy of India. The Group submitted its report in November, 2018 and recommended a framework shift from export growth to broad-based Employment and Economic Growth (Employment and Economic Enclaves-3Es) and formulation of separate rules and procedures for manufacturing and service SEZs

The Government of India has set a target of creating 100 million jobs and achieving 25% of GDP from the manufacturing sector by 2022, as part of its flagship ‘Make in India’ programme. Furthermore, the Government plans to increase manufacturing value to USD 1.2 trillion by 2025. While these are ambitious plans to propel India into a growth trajectory, it requires evaluation of existing policy frameworks to catalyse manufacturing sector growth. At the same time, SEZ policy needs to be compiled with the relevant WTO regulations

Problems of SEZs

- Since the SEZs in India have been extended wide range of incentives and tax concessions, it is perceived that some of the companies and many existing manufacturing units in India may shift their base to the SEZs to reap the benefits.
- There are apprehensions that promotion of SEZs may lead to loss of fertile agricultural land thus affecting food security, revenue loss to the exchequer and adverse consequence of uneven growth.
- The development of these zones pose threat to the water and food security. The diversion of water for use within

SEZs would result in lack of access to water for people living in the SEZ areas and consequently affect irrigation facilities, crop production and development of agriculture.

- Release of untreated effluents from SEZs may adversely affect the health of people residing in the area. Large scale destruction of Mangrove in Gujarat has already affected fisheries and dairy sector of the state.
- The lack of infrastructure and other bottlenecks are the main reasons for the promotion of SEZ policy. Hence the SEZs need to be promoted but not at the expense of farming community and development of agricultural sector in the country

Exports from SEZs

According to the data compiled by the Export Promotion Council of India for Export Oriented Units and SEZs (EPCES) under the ministry of commerce, **exports from SEZs rose 21% in a year to Rs 7 lakh crore in FY19** due to progress in terms of clearances and facilities. The jump was despite levy of Minimum Alternate Tax (MAT), imposition of Dividend Distribution Tax (DDT) and the impending sunset clause from 2020, when tax benefits are to end. EPCES has urged the government to continue with the exemptions granted to SEZs and to remove MAT and DDT from these zones.

In the SEZs, single-window clearance, approachable development commissioners and approval for new units or changes in the Letter of Permission at monthly meetings of unit approval committees are given as reasons for the higher ‘Ease of Doing Business’. The top country for export in value remains the United Arab Emirates (UAE) followed by America. The year 2018 saw 80 per cent jump in export to Saudi Arabia, along with a surge to Britain, Australia and Singapore. As of March 31, there were 232 SEZs, of which 25 are multi-product and the rest are sector specific, with 5,109 approved units.

SEZ bill

Recently the Ministry of Commerce and Industry introduced a bill to allow trusts to set up units in special economic zones (SEZs). The Union Cabinet had in February approved the introduction of the Special Economic Zones (Amendment) Bill, 2019 to replace an ordinance promulgated by the previous government. The **ordinance seeks to amend the definition of a person under the SEZ Act 2005, which will enable a trust notified by the Central government to be considered for grant of permission to set up a unit.**

According to the law, an individual, a Hindu divided family, a company, co-operative society or a firm fall in the definition of a "person". The amendment seeks to provide flexibility to the central government to include 'trusts' in the definition of a 'person' in a bid to facilitate investments in these zones. Both the parliamentary houses have passed the bill. It is now set to become a law after receiving the President's nod.

Bill opens up the possibility for all types of trusts to operate from the SEZs – public charitable trusts, private trusts run by big and small corporate houses, business trusts like real estate investment trusts (REITs) and infrastructure investment trusts (InvITs), private companies with their own PF trusts and port trusts run by the government.

These trusts run a wide range of activities ranging from health, education, skilling and other livelihood generation activities to manufacturing and financing.

Baba Ramdev's Patanjali Yogpeeth for example, a trust which operates from Haridwar, can now operate from the Vishakhapatnam SEZ and export its products like ayurvedic medicines, cosmetics and food products with ease by using the port facility nearby.

Boost to 'business trusts' in a real estate and infrastructure

The case of business trusts, operating in India from 2014, is particularly interesting from the point of view of potential beneficiaries.

A business trust is defined under the Income Tax Act (through an amendment in 2014) as “a trust registered as an Infrastructure Investment Trust (InvIT) or a Real Estate Investment Trust (REIT), the units of which are required to be listed on a recognised stock exchange, in accordance with the regulations made under the Securities and Exchange Board of India Act, 1992 (15 of 1992) and notified by the Central Government in this behalf”.

These trusts (REITs and InvITs) are like mutual funds, raising resources from investors to directly invest in realty or infrastructure projects. These trusts are conceived as an answer to India’s need for mobilising finances from the private sector to meet the needs of infrastructure development. These are as yet in a nascent stage in India.

Utilisation of vacant land and non-operational SEZs

The amendment would also facilitate the use of the SEZ land lying vacant. According to the Ministry of Commerce and Industry, 40 per cent of the notified SEZs are non-operational and more than 50 per cent of land notified for the SEZ use is lying vacant.