

# Special economic zones (sez): features and benefits



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A Special Economic Zone (SEZ) is a geographically bound zone where the economic laws in matters related to export and import are more broadminded and liberal as compared to rest parts of the country. SEZs are projected as duty free area for the purpose of trade, operations, duty and tariffs. SEZ units are self-contained and integrated having their own infrastructure and support services.

Within SEZs, a units may be set-up for the manufacture of goods and other activities including processing, assembling, trading, repairing, reconditioning, making of gold/silver, platinum jewellery etc.

The recent rush to set-up SEZs could fuel the economic growth and provide the cost advantage to industry in the rapidly changing global market.

SEZs, being islands of opportunity, are offering business opportunity across the sectors. FDI in SEZs is set to rise rapidly once the development completes. Attractiveness of these SEZs would depend on products that have low import tariff and high volume products that have a domestic and international market.

Like anywhere else in the world, the three pillars of the SEZ Act are fiscal incentives, regulatory freedom, and world-class infrastructure.

## **History**

Yester years EPZ's (Exporting Processing Zones) are today's SEZ's.

The world first known instance of SEZ have been found in an industrial park set up in Puerto Rico in 1947. In the 1960s, Ireland and Taiwan followed suit,

but in the 1980s China made the SEZs gain global currency with its largest SEZ being the metropolis of Shenzhen.

Special Economic Zone (SEZ's) Scheme in India was conceived by the Commerce and Industries Minister Murasoli Maran during a visit to special Economic Zones in China in 1999.

The scheme was announced at the time of annual review of EXIM Policy effective from 1. 4. 2000.

The basic idea behind establishing these zones is to reserve areas where export production could take place free from all rules and regulations governing imports and exports and to give them operational flexibility.

The policy provides for setting up of SEZ's 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 Special Economic Zones. Accordingly, the government has converted Export Processing Zones located at Kandla and Surat, Cochin, Santa Cruz, Falta, Madras, Vishakapatnam and Noida into Special Economic Zones.

Special Economic Zones in India were established in an attempt to accelerate foreign investment and endorse exports from India and recognizing the need of a global platform to expose the domestic firms and producers to the competitive world market. The announcement of formulating a Special Economic Zones policy in India was made by the government in April 2000 and was anticipated to be an overseas province for trade purposes, commercial operations, duties and taxes. SEZs when

equipped are anticipated to provide premiere infrastructure services and sustenance services, besides permitting for the tariff free import of merchandize and raw materials. Furthermore, attractive financial subsidiaries and trouble-free custom tariffs, banking and other methods are provided in such business zones. Establishing SEZs is also recognized as communications development methods.

- Full law and rules effected Feb 2006
  - Special Economic zones Act may 2005
  - New Policy in April 2000
  - Export
  - Processing Zone(EPZ policy 1965
  - 1st EPZ was set up in Kandla (Gujrat))
  - In 1990's as a part reforms powers delegated to zone authorities
- Chronology of SEZ framework

## **Objectives**

- Generation of additional economic activity
- Promotion of exports of goods and services
- Promotion of investment from domestic and foreign sources
- Creation of employment
- Development of Infrastructural facilities.
- Simplified procedure for development, operation and maintaining of the special Economic Zones and for setting up units and conducting business
- Single window clearance for setting up of a SEZ and an unit in SEZ

- Single window clearance on matters relating to Central as well as State Governments.
- Easy and Simplified compliance procedures and documentations with stress on self certification.

### **Some of the salient features of Indian Special Economic Zones:**

Establishment of SEZ-Indian SEZs are developed by government, private and joint sector, unlike its international counterparts where zones are chiefly maintained by their respective governments. This provides equal prospects to both Indian and global players.

Government has allocated a least favorable area of 1, 000 hectares for greenfield SEZs. Although, there are no limitation in context of favorable area in constructing sector specific SEZs.

Foreign Direct Investment (FDI) – 100% of Foreign Direct Investment is allowed for all endowments in Special Economic Zones, apart from activities cataloged under the unconstructive record like,

- Arms and ammunition and other items of defence
- Narcotic and Psychotropic substance
- Hazardous Chemicals
- Distillation and Brewing of alcoholic drinks
- Cigarettes and Tabacco.

SEZ divisions are obligatory to be encouraging net foreign exchange yielders and are not entitle to any least amount of value addition guidelines or export responsibilities.

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Commodity surge from Domestic Tariff Area (DTA) into a SEZ is recognized as exports and commodity surge into DTA from SEZ are recognized as imports.

## **Formats for SEZ's in India**

### **Types of SEZ**

Sector Specific SEZ-units may be set up for manufacture of one or more goods in a sector rendering of one or more services in a sector

Multi-product SEZ-units may be set up for

- manufacture of two or more goods in a sector or goods falling in two or more sectors
- trading and warehousing
- rendering of two or more services in a sector or services falling in two or more sectors.

Other SEZ's

SEZ in a port or airport

SEZ for Free Trade and Warehousing

## **Indian Special Economic Zones – Organizational Set-up**

SEZs are controlled by a three tier Organizational Set-up described as under:

1. Supreme controlling body in the Department is known as The Board of Approval
2. At district level, The Unit Approval Committee tackles with SEZs development and other associated issues

3. Every district is led by a Development Commissioner, who also controls the Unit Approval Committee.

## **SEZ Institutional Framework – Overview**

### **Indian Special Economic Zones – Benefits**

Besides offering high end infrastructure and availability to a large skilled workforce, SEZ also offers attractive incentives and advantages to firms and developers.

### **Benefits of Indian Special Economic Zones:**

Full Income tax exemption for a period of 5 years and an extra 50% tax relief for additional two years.

Manufacturing industry is allowed an FDI influx of 100% via automatic channels excluding few industries.

Services to establish off-shore banking divisions in SEZs

Service Tax and Central Sales Tax exemption

External commercial lending of upto US\$500 million is allowed for SEZ divisions in a year sans any maturity limitations via certified banking networks.

No import authorization obligations.

Services to sustain foreign exchange proof of payments of upto 100% in Exchange Earners' Foreign Currency Account.

SEZ franchisees are allowed 100% FDI in offering customary telephone facilities in the areas.

No limitation of foreign endowments for small scale industry reticent products.

Tax relief from sectoral authorization obligations for goods reticent for SSI industry

Tax relief from custom tariff on import of merchandize, raw products, spare parts etc

Tax relief from Central Excise tariff on acquirement of merchandize, raw products, spare parts etc from the local market

No regular assessments by Customs for export and import freight.

Capacity to comprehend and repatriate export advances within a year.

Revenues permitted to be repatriated sans any dividend assessment needs

Authorization for Employment prospects on behalf of local exporters for direct export.

Authorization for off-shoring of local and global players. This service is accessible to jewelry sector also.

## **Major SEZ Benefits**

### **Benefits**

The SEZ Act also provides a number of incentives to units proposed to be set up in SEZs. SEZ units may be set up for carrying on manufacturing, trading

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or service activity. A unit set up in SEZ has the following facilities and incentives:

- 1) Land Grabbing at very low prices.
- 2) If SEZ built on agricultural land the farmers will lose their livelihood as they are not skilled laborers it would be tough to relocate them to other jobs. Already Farmers are having very bad days in India, one of the leading agriculture countries.
- 3) Since the companies that operate under SEZ enjoy a lot of tax holidays it would create a burden on the finance ministry as tax collected would be less.
- 4) Huge downward impact on Tax: GDP ratio & the common man has to pay the price of it.
- 5) 15 year corporate tax holiday on export profit – 100% for initial 5 years, 50% for the next 5 years and up to 50% for the balance 5 years equivalent to profits ploughed back for investment.
- 6) Allowed to carry forward losses.
- 7) No licence required for import.
- 8) Duty free import/domestic procurement of goods for setting up of the SEZ units.
- 9) Goods imported/procured locally are duty free and could be utilised over the approval period of 5 years.

10) Exemption from customs duty on import of capital goods, raw materials, consumables, spares, etc.

11) Exemption from Central Excise duty on the procurement of capital goods, raw materials, consumable spares, etc. from the domestic market.

12) Exemption from payment of Central Sales Tax on the sale or purchase of goods, provided that, the goods are meant for undertaking authorized operations.

11) Exemption from payment of Service Tax.

12) The sale of goods or merchandise that is manufactured outside the SEZ (i. e, in DTA) and which is purchased by the Unit (situated in the SEZ) is eligible for deduction and such sale would be deemed to be exports.

13) The SEZ unit is permitted to realise and repatriate to India the full export value of goods or software within a period of twelve months from the date of export.

14) “ Write-off” of unrealized export bills is permitted up to an annual limit of 5% of their average annual realization.

15) No routine examination by Customs officials of export and import cargo.

16) Setting up Off-shore Banking Units (OBU) allowed in SEZs.

17) OBU’s allowed 100% income tax exemption on profit earned for three years and

18) 50 % for next two years.

19) Exemption from requirement of domicile in India for 12 months prior to appointment as Director.

20) Since SEZ units are considered as 'public utility services', no strikes would be allowed in such companies without giving the employer 6 weeks prior notice in addition to the other conditions mentioned in the Industrial Disputes Act, 1947.

21) The Government has exempted SEZ Units from the payment of stamp duty and registration fees on the lease/license of plots.

22) External Commercial Borrowings up to \$ 500 million a year allowed without any maturity restrictions.

23) Enhanced limit of Rs. 2. 40 crores per annum allowed for managerial remuneration

## **Conclusion**

The SEZ's could drastically improve the economic activity in the country, make the country's export competitive and globally noticeable, be net foreign exchange earner and provide immense employment opportunity. But this should not be done at the cost of bringing down the agricultural activities, Land grabbing and real estate mafia should be properly regulated so that the common man is not the net sufferer to get the net foreign exchange earner up and running. As compared to china where majority of the SEZ's were setup by the government, similar should be adopted in India, if not fully it should be a public-private partnership and regulatory bodies should be properly managed to weed out fallacies. To be economically viable

SEZ's should be approved over a particular land area (greater than 1000 acres) for rapid economic growth in the area and for it to be profitable and self sustainable. Relaxed Tax norms, Labor laws and DTA regulations will surely attract foreign investment and major industries to setup industries in the SEZ's making it profitable and meeting its desired results!