

**FOR SEMESTER 4 GEOGRAPHY (H)
STUDENTS**

PAPER – CC 8 (THEORY)



TOPIC : 8

COMPILED BY

**DR. RAJASHREE DASGUPTA
ASST. PROFESSOR,
DEPT. OF GEOGRAPHY
GOVT. GIRLS' GEN. DEGREE COLLEGE ,
KOLKATA -700023**

Introduction

- A Special Economic zone (SEZ) is a geographical region that is designed to **export goods** and **provide employment**. SEZs are exempt from federal laws regarding taxes, quotas, FDI-bans, labor laws and other restrictive laws in order to make the goods manufactured in the SEZ at a globally competitive price.
- It is a specifically delineated **duty-free enclave** and shall be deemed to be a foreign territory for the purposes of trade operations and duties and tariffs.
- To provide an **internationally competitive and hassle-free environment for exports**

History of SEZ

**First known
SEZ-
Puerto
Rico-1947**

**Ireland and
Taiwan
followed-
1960**

**China made
the SEZ's a
global
concept-
largest
number of
SEZ's –
Shenzen
1980**

**Revolution
came in
2000-
inorporatio
n of SEZ in
EXIM
policy**

**SEZ act
introduces
in India-
2005**

Categories that SEZ includes

Free trade zones (FTZ)

Free Zones (FZ)

Industrial parks or Industrial estates (IE)

Free economic zones

Urban enterprise zones.

Free Trade Zones (FTZ)

- Also known as export processing zone (EPZ), also called foreign-trade zone, formerly free port
- It is an area within which goods may be landed, handled, manufactured or reconfigured, and re-exported without the intervention of the customs authorities
- Only when the goods are moved to consumers within the country in which the zone is located do they become subject to the prevailing customs duties
- The world's first Free Trade Zone was established in Shannon, Ireland (Shannon Free Zone)
- Most FTZs located in developing countries like Brazil, Colombia, India, Indonesia, El Salvador, China, the Philippines, Malaysia, Bangladesh, etc.



Free Port Or Free Zones (FZ)

- ❑ Most commonly a free port is a special customs area or small customs territory with generally less strict customs regulations
- ❑ Many international airports have free ports, though they tend to be called customs areas, customs zones, or international zones.

Industrial Parks Or Industrial Estates (IE)

- ❑ It is an area zoned and planned for the purpose of industrial development
- ❑ It can be thought of as a more "lightweight" version of a business park or office park, which has offices and light industry, rather than heavy industry.
- ❑ Industrial parks are usually located on the edges of, or outside the main residential area of a city, and normally provided with good transportation access, including road and rail
- ❑ An example can be large number of Industrial Estates located along the River Thames in the Thames Gateway area of London

Free Economic Zones

- ❑ Free economic zones or free zones refer to designated areas in which companies are taxed very lightly or not at all in order to encourage economic activity.
- ❑ Sometimes they are called **free** ports
- ❑ Example : the free port of Trieste (in Italy)

Urban Enterprise Zones

- ❑ It is an area in which policies to encourage economic growth and development are implemented
- ❑ Urban Enterprise Zone policies generally offer tax concession, infrastructure incentives, and reduced regulations to attract investments and private companies into the zones.
- ❑ Urban Enterprise Zones are areas where companies can locate free of certain local, state, and federal taxes and restrictions.
- ❑ Urban Enterprise Zones are intended to encourage development in blighted neighborhoods through tax and regulatory relief to entrepreneurs and investors who launch businesses in the area.

Facts

Some EPZ's converted to SEZ's

Name of Area	State	Year of conversion	Area of SEZ (in Acers)
Kandala	Gujarat	1965	625
Seepz	Maharashtra	1975	110
Noida	Uttar Pradesh	1986	310
Madras	Tamil Nadu	1986	262
Cochin	Kerala	1986	103
Fatala	West Bengal	1986	280
Vishakhapattanam	A P	1994	360
Surat	Gujarat	1998	103

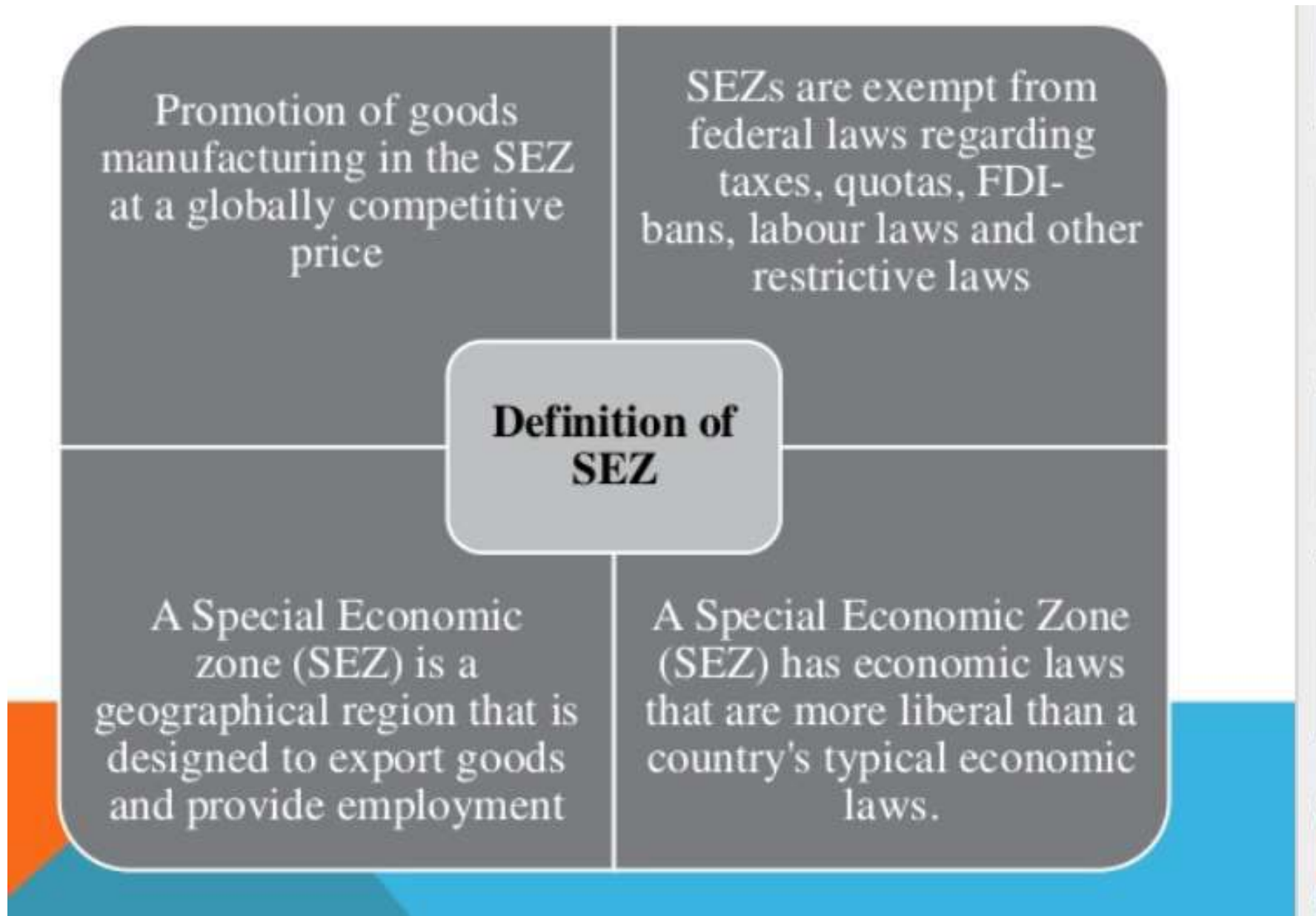
Advantages

- ❖ 15 year corporate tax holiday on export profit
- ❖ Allowed to carry forward losses
- ❖ No license required for import made under SEZ units
- ❖ Duty free import of goods for setting up of the SEZ units
- ❖ Exemption from payment of Service Tax
- ❖ Setting up Off-shore Banking Units (OBU) allowed in SEZs
- ❖ External Commercial Borrowings up to \$500 million a year allowed without any maturity restrictions

Disadvantages

- ❖ Revenue losses because of the various tax exemptions and incentives
- ❖ Acquire land at cheap rates and create a land bank
- ❖ May not match up to expectations

SPECIAL ECONOMIC ZONES (SEZ) IN INDIA



SEZ in India

- ❖ India was one of the first in Asia to recognize the effectiveness of the Export Processing Zone (EPZ) model 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

History of Special Economic Zones

- ❖ From 1965 onwards, India experimented with the concept of such units in the form of Export Processing Zones (EPZ).
- ❖ But a revolution came in 2000, when Murlisone Maran, then Commerce Minister, made a tour to the southern provinces of China. After returning from the visit, he incorporated the SEZs into the EXIM Policy of India. Five year later, SEZ Act (2005) was also introduced and in 2006 SEZ Rules were formulated.

Objectives of setting up SEZ in India

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 infrastructure facilities

Simplified procedures for development, operation, and maintenance 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

Benefits from SEZs

- ❑ Investment of the order of Rs.100,000 crore including FDI of US \$ 5-6 billion.
- ❑ 500,000 direct jobs.
- ❑ At present, 1016 units are in operation in the SEZs, providing direct employment to over 1.79 lakh persons; about 40 per cent of whom are women.
- ❑ Exports from the SEZs during the 10-year period could touch 352 billion dollars, nearly half of India's total annual exports.

Facilities of SEZ in India

Exemption on duties on Indian capital goods and inputs are offered as per the requirements of the approved business activity

Taxes are either exempted or waived and even reimbursed in case they are paid in advanced to the concerned authority

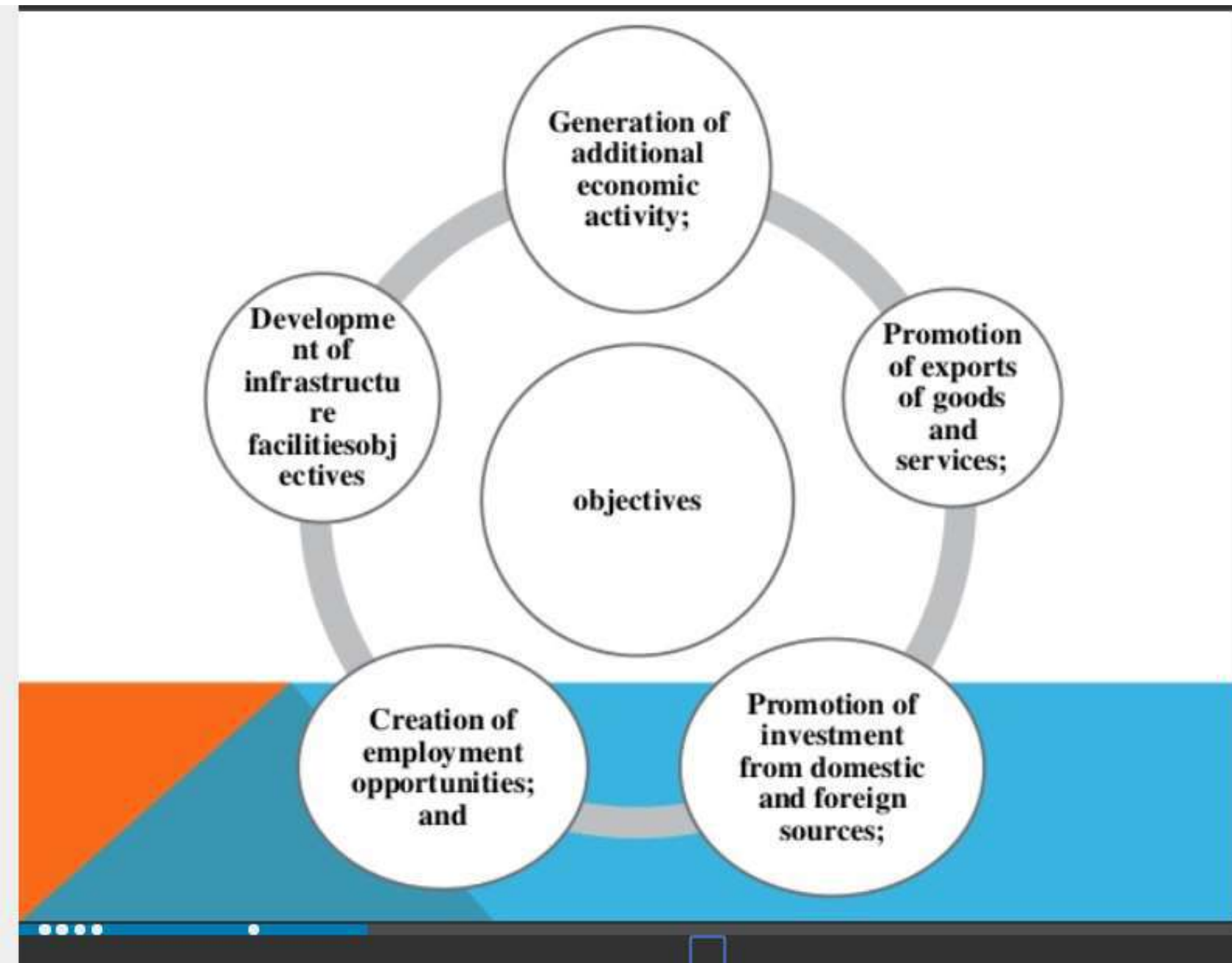
Duty-free imports of spares, raw materials, capital goods, and consumables are offered as per the requirements of the approved business activity

Preferential treatment of these units to the Indian market for easy dissemination of their products and / or service

Facilitated to retain 100 % in foreign currency in EEFC (Exchange Earners' Foreign Currency) account

Total tax exemption on corporate incomes as per the provisions of Section 10 A and 10 B of the Indian Income Tax Act

Easy and automatic acceptance system for use of existing trademarks, brand names and technological know-how



The salient features/provisions of SEZ

Rules

Different minimum land requirement for different class of SEZs;

Every SEZ is divided into a processing area where alone the SEZ units would come up and the non-processing area where the supporting infrastructure is to be created;

Simplified procedures for development, operation and maintenance of the Special Economic Zones and for setting up units and conducting business in SEZs;

Single window clearance for setting up of an SEZ;

Single window clearance for setting up a unit in a Special Economic Zones;

Single window clearance for matters relating to Central as well as State Governments;

Simplified compliance procedures and documentation with an emphasis on self certification

SEZ Controversy

In spite of the strong objectives of the Indian Government The SEZ policy is in following controversy

Generation of little new activity as there may be relocation of industries to take advantage of tax concessions,

Revenue loss due to Tax exemption .

Large-scale land acquisition by the developers, may lead to displacement of farmers with meager compensation,

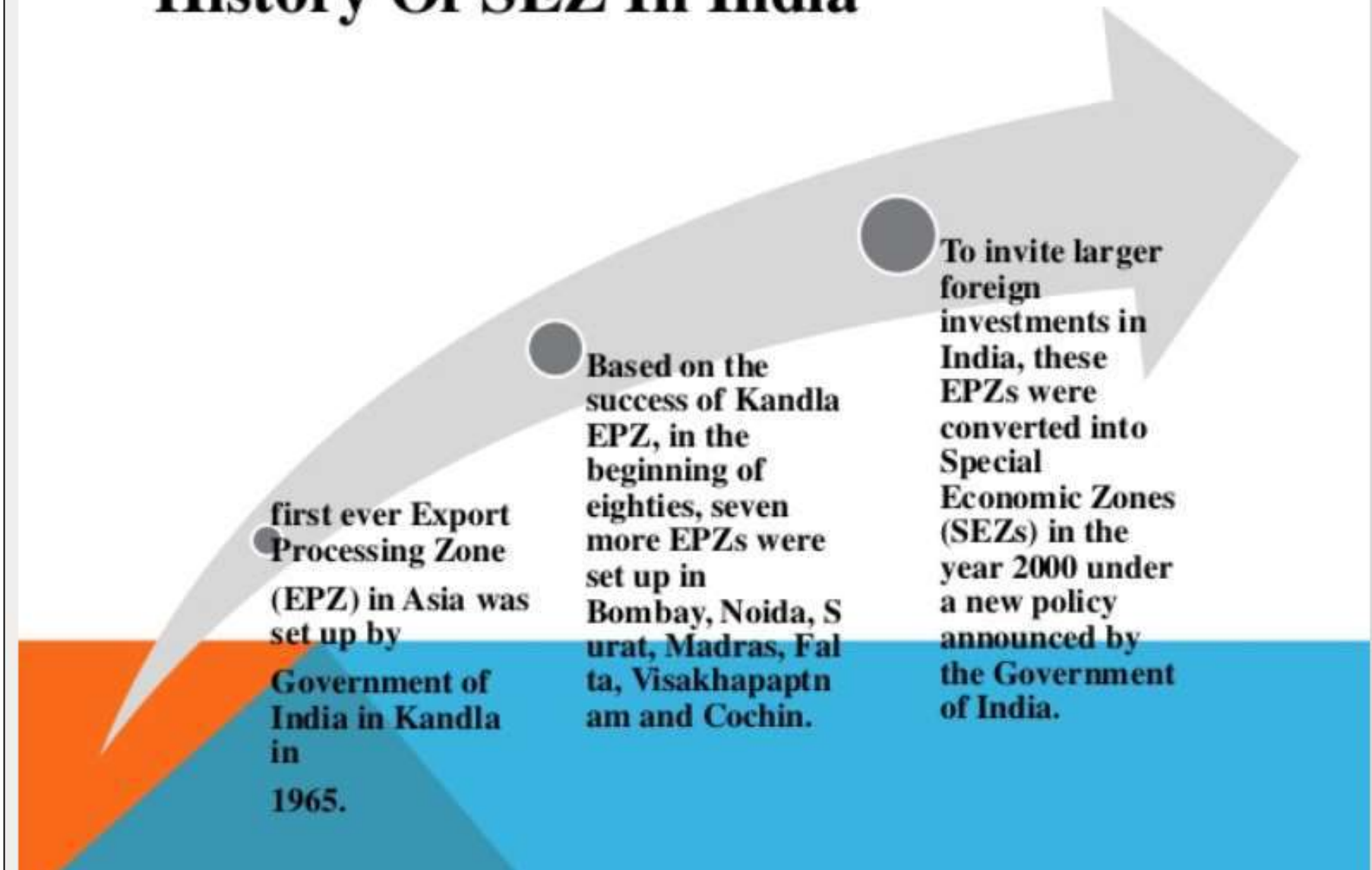
Acquisition of prime agricultural land, having serious implications for food security

Misuse of land by the developers for real estate

Uneven growth aggravating regional inequalities.

SEZ ACT & GUIDELINES FOR IMPLEMENTATION

History Of SEZ In India



Aim of SEZ's

The policy intended to make these SEZs an engine for economic growth supported by quality infrastructure complemented by an attractive fiscal package with minimum possible regulations.

SPECIAL ECONOMIC ZONES ACT, 2005 Promulgated On 23rd June, 2005

- An act to provide for the establishment,
- Development and management of the
- Special economic zones for the
- Promotion of exports and for matters
- Connected herewith or incidental thereto.
- Enacted by parliament in the fifty-sixth year of the republic of india.

Special Economic Zones Act, 2005 promulgated on 23rd June, 2005

An act to provide for the establishment, development and management of the special economic zones for the promotion of exports and for matters connected herewith or incidental.

Enacted by parliament in the 56th year of the republic of India.

Overriding Effect

Section 51

The provisions of the SEZ Act shall have effect not withstanding anything inconsistent herewith contained in any instrument having effect by virtue of any law other than this Act.

Single Window Clearance

Section 14

SEZ proposals approved by board of approval (BOA) at new Delhi.

SEZ units approved by approval committee headed by Development commissioner locally.

Board of Approval (BOA)

Section 8

- **Secretary/Additional Secretary – MOC**
- **2 Joint. Secretaries, GOI dealing with revenue**
- 1 Joint. Secretary, GOI dealing with Economy or Finance
- **About 10 Joint Secretaries, GOI dealing with Commerce, Industrial Policy, Science & Technology, Small Scale Industries / Agro & Rural Industries, Home Affairs, Defense, Environment & Forests, Law, Overseas Indian Affairs and Urban Development.**
- **Nominee of State Government**
- **Nominee of DGFT**
- **Development Commissioner concerned**
- **Professor in any IIM**
- **Deputy Secretary, MOC**

Approval Committee

Section 13

- Development Commissioner
- 2 Officers of Central Government
- 2 Officers of Central Government dealing with Revenue
- 1 Officer of Central Government dealing with Economy/Finance
- 2 Officers of the State Government
- Nominee of the Developer

Administration of SEZ

Section 13

- **Development Commissioner**
- **2 Officers of Central Government**
- **2 Officers of Central Government dealing with Revenue**
- **1 Officer of Central Government dealing with Economy/Finance**
- **2 Officers of the State Government**
- **Nominee of the Developer**

Processing Area

Section 6

Area for activities of manufacturing of goods, or rendering Services and area exclusively for trading or warehousing purposes.

Non-Processing Area

Section 6 (C)

Area for social purposes like Residential, Schools, Hotels, Hospitals as approved by BOA.
The BOA shall decide on the size of such facilities and areas.

Exemptions and Concessions

Section 7 & 26

**Developers and Units Exempted from
Customs Duty, Excise Duty, CST & Service
Tax.**

Income Tax Exemption

Section 27 of SEZ & Section 10AA of IT Act

- 100% for first 5 years
- 50% for next 5 years
- 50% income on re-investment for next 5 years

Concessions To Contracts in SEZ

Rule 10, 26

All Exemptions and concessions are allowed to Contractor appointed by a Developer or Co-developer.

Exemptions for Social Infrastructure in Non-processing Area

Rule 11 (10) Proviso

All Exemptions available for infrastructure for social purposes in the Special Economic Zone, as may be approved by the Board Zone, as may be approved by the Board

Minimum Area

Section 3(8) – Rule 5

- **Multi-product zone – 1000 Hectares**
- **Exclusive for services – 100 Hectares**
- **Assam, Meghalaya, Nagaland, Arunachal Pradesh, Mizoram, Manipur, Tripura, Himachal Pradesh, Uttaranchal, Sikkim, Jammu and Kashmir, Goa or in a Union territory – 200 Hectares.**
- **Specific sector or in a port or airport – 100 Hectares**
- **Electronics hardware/software, Information Technology ES – 10 Hectares (minimum built up processing area of one lakh square meters)**
- **Bio-technology, non-conventional energy, including solar energy equipment/cell, or gem and jewelry sectors – 10 Hectares**
- **Free Trade and Warehousing – 40 Hectares (with a built up area of not less than one lakh sqm)**

Clearance by State

Rule 5 (6)

The State Government shall, while recommending a proposal for setting up of an SEZ to the Board indicate whether the proposed area falls under reserved or ecologically fragile area as may be specified by the concerned authority.

Details of Land Area

Rule 7

The Developer shall furnish details of the land with proof of legal right and possession and a certificate from the State Government or the authorized agency that the said area is free from all encumbrances.

Notification of the SEZ

Rule 8

On acceptance of the terms and conditions of the Letter of Approval by the Developer the Central Government shall notify the area as a Special Economic Zone.

Details for Authorized Operation

Section 4 (2) – Rule 9

The Developer shall submit to the Board (BOA) the details of operations proposed to be undertaken in the SEZ at the time of seeking approval for setting up of SEZ or thereafter.

Permission for Procurement of Items under Tax

Rule 10, 12

After getting approval for authorized operation from the BOA, the developer shall make a list of items required duly certified by a chartered engineer and submit to the approval committee for approval.

Sub Contracting Of Works

Rule 41

Part of production or any production process can be undertaken outside SEZ with prior permission of the Specified Officer.

Permission For Procurement Of Items Under Tax

Rule 10, 12

- After getting approval for authorized operation from the BOA, the Developer shall make a list of items required duly certified by a Chartered Engineer and submit to the Approval Committee for approval.

Sub Contracting Of Works

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Part of production or any production process can be undertaken outside SEZ with prior permission of the Specified Officer.

Sales In Data

Rule 47

Goods, rejects, wastes, scraps, remnants, broken diamonds or byproducts arising during the manufacturing process or in Connection there with, Can be sold on payment of applicable duties under section30, subject to prescribed conditions.

Monitoring Of Utilization

Rule 15

The utilization of the goods imported or Procured from the Domestic Tariff Area by the Developer shall be monitored by the Approval Committee.

Transfer Of Letter Of Approval Of Developer

Rule 16

The Letter of Approval of a Developer can be transferred to another Developer following the procedure under Section in case the Board finds any Developer has defaulted the terms and conditions.

Details Required For SEZ Unit

Setting up of unit in a Special Economic Zone

Annual permission for sub-contracting

Allotment of Importer-Exporter Code number

Allotment of land/industrial sheds in the Special Economic Zone

Water connection

Registration-cum-Membership Certificate

Small Scale Industries Registration

Registration with Central Pollution Control Board

Power connection

Building approval plan

Sales tax registration

Approval from inspectorate of factories

Pollution control clearance, wherever required

Any other approval as may be required from the State Government

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Lease Of Land / Space

Rule 11 (5) Provision

The Developer can give land or built up space on lease in the processing area, for creating facilities such as canteen, public telephone booths, first aid centers, creche and such other facilities as may be required for the exclusive use of the Unit.

Allotment Of Land By Developer

Rule 11 (8)

The Developer may allot land in the processing area on lease basis to a person desiring to create infrastructure facilities for use by the prospective Units.

No Sale Of Land By Developer

Rule 11 (9)

The Developer shall not sell the land in a
Special Economic Zone.

Allotment Of Land By Developer In Non-Processing Area

Rule 11 (10)

The Developer may allot the land in the non-processing area for business and social purposes such as educational institutions, hospitals, hotels, recreation and Entertainment facilities, residential and business complexes as approved by the BOA.

Foreign Companies

Rule 19 (7)

Foreign companies can also set up manufacturing units as their branch operations in the Special Economic Zones in accordance with the provisions of Foreign Exchange Management Regulations, 2000 of RBI.

Transfer Of Goods

Rule 38

The goods or services admitted into Special Economic Zone without payment of duty may be transferred or given on loan to a Unit or Developer within the same Special Economic Zone or in another Special Economic Zone or to an EOU.

Monitoring Of Performance

Rule 54

Performance of the Unit shall be monitored by the Approval Committee. In case the Approval Committee come to the conclusion that a Unit has not achieved positive NFE Earning or failed to abide by any of the terms and conditions of the Letter of Approval or Bond-cum-Legal Undertaking, the said Unit shall be liable for penal action under the provisions of the Foreign Trade(Development and Regulation) Act, 1992.

Self Declaration

Rule 75

Unless otherwise specified in these rules all inward or outward movement of goods into or from the Zone by the Unit or Developer shall be based on self declaration made and no routine examination of these goods shall be made unless specific orders of the Development Commissioner or the specified Officer are obtained.

Additional Area in the SEZ

Section 4 & 5

Additional area in the SEZ will be included on following conditions:

- Generation of additional economic activity
- Promotion of exports of goods and services
- Promotion of investment
- Additional employment opportunities
- Development infrastructure facilities
- maintenance of sovereignty and integrity of India.

Change of the Entrepreneur

Rule 19

Change of Entrepreneur permitted if the incoming Entrepreneur undertakes to take over the assets and liabilities of the existing unit.

Cancellation Of Approval

Section 10

The Approval Committee may, at any time, if it has any reason or cause to believe that the entrepreneur has persistently contravened any of the terms and conditions or its obligations subject to which the letter of approval was granted to the entrepreneur, cancel the letter of approval.

Offences By Companies

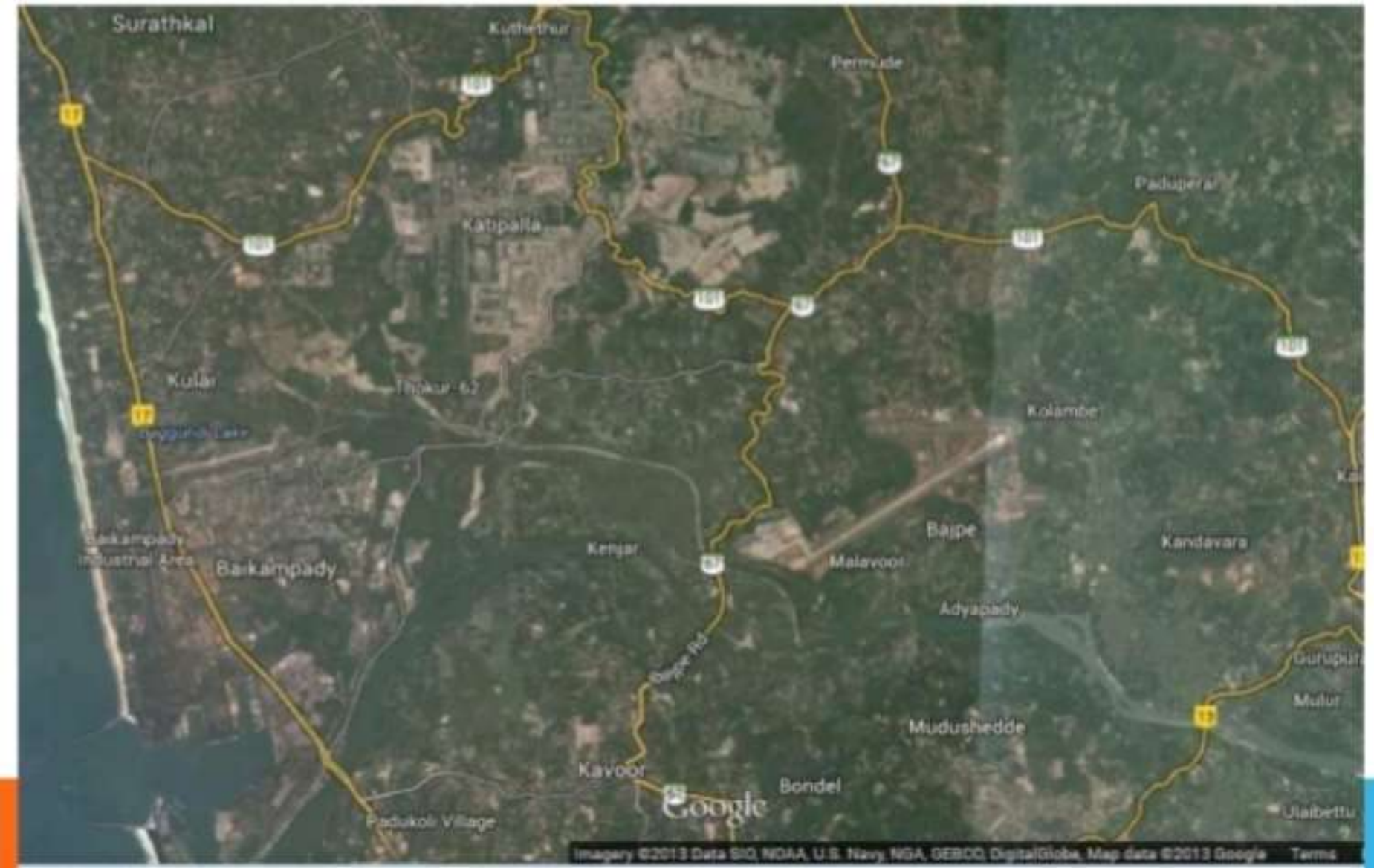
Section 25

Where an offence has been committed by a company, every person, who at the time the offence was committed was in charge of, and was responsible to, the company for the conduct of the business of the company, as well as the company, shall be deemed to be guilty of the offence and shall be liable to be proceeded against and punished accordingly

SEZ TYPES

MULTI PURPOSE SEZ

SECTOR SPECIFIC SEZ



Sector Specific SEZ

Petrochemical

• IT/ ITES

Engineering Based

Free trade zones (FTZ)

Automotive Components

Positive Impacts

Promote FDI

Boost Economic Growth and Exports

Infrastructure Development

Generate Local Employment Opportunities

Growth opportunities for Tier 2 cities

Ease of procedure to start business

Duty free imports and tax exemptions

SEZ encompasses conglomeration of industries

Hurdles And Key Challenges

- Land acquisition is not easy

- Environment Hurdle, Locating SEZ and due exercise of control

- Landless farmer and exploitation of labour

Conclusion

- SEZ policy has increased economic activity

- The companies are able to reap rich dividends with minimum investments

- Need to develop an better SEZ model in which all the parties involved get benifted

THANK YOU

