

## **SPECIAL ECONOMIC ZONES (SEZ): PROGRESS, POLICY AND PROBLEMS IN INDIAN ECONOMY**

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### **ABSTRACT**

*Export Processing Zones (EPZ) were established primarily with the motives of promoting exports, accelerate foreign investments and recognizing the need to have a global platform to expose domestic firms and producers to the internationally competitive markets, when the pioneering EPZ in Asia was set up at Kandla (Gujarat State) in 1965. Since then, a number of EPZs have come up in various sectors and in different states. But a revolution in EPZs / Special Economic Zones (SEZ) came up in 2000 when Murasoli Maran, then Union Commerce Minister made a tour of SEZs in China and incorporated it as part of the Annual declaration of EXIM Policy of India. Five years later, SEZ Act was promulgated in 2005 and in 2006, SEZ rules were formulated. However, the recent progress of SEZ has been tardy and sluggish mainly because of Minimum Alternate Tax (MAT) and phasing out the profit linked incentives and replace them with investment linked incentives. Under these circumstances, this research paper assesses the progress of SEZ, and understands why the developers and industrialists have described them as riddled with fiscal issues and as inadequate rather than leading to the coveted export promotional and trade developmental policy.*

*This paper is presented as follows: The Introduction portrays the progress of EPZ/SEZ in Indian economy. The second part would assess the SEZ administration and various aspects of SEZ policy. Third part brings out a discussion of the problems in implementation of SEZ in the economy. Fourth part adds the international comparison of SEZs in China, Bangladesh and Sri Lanka. Emerging issues for discussion of policy makers/administrators and further research are posed in the conclusion.*

**Keywords:** Special Economic Zones, Export Processing Zones, Globalization, Export promotion, Fiscal incentives

### **INTRODUCTION**

In this era of globalization, export promotion is seen as an important policy measure for achieving economic growth in many developing economies, and India is no exception. India

initiated the process of industrial growth in 1948, immediately after independence, when it announced the Industrial Policy Resolution (IPR). As a part of the IPR based strategy, import substitution oriented industrialization was perceived as an important objective of economic growth. Export promotion has been one of the primary concerns of the government, when Jawaharlal Nehru, then Prime Minister announced the setting up of the pioneering Export Processing Zone at Kandla (Gujarat State) in 1965. Acceleration of the foreign investments and recognizing the need to have a global platform to expose domestic firms and producers to the internationally competitive markets was also considered as a part of this strategy. Provision of better infrastructure and tax holidays became a feature of EPZ policy since then. The EPZs has progressed over four distinct phases over the last four decades and more, which are described in the following paragraphs:

(i) The Initial Phase (1965-1985)-the first EPZ was set up in a highly backward region of Kutchh in 1965 and the second EPZ was established by Santacruz EPZ at Mumbai in 1973. Kandla EPZ and Santacruz EPZ were subjected to rigid control measures and the packages of incentives were not attractive in the overall inward looking trade policy then. There was no single window facility within the zone. Zone authorities had limited powers. Entrepreneurs had to acquire individual clearances from various state government and central government departments. Day to-day operations were subjected to rigorous controls. Custom procedures for bonding, bank guarantees and movement of goods were rigid. FDI policy was also restrictive. According to the business environment rating index which rated investment climate in 43 countries on the basis of 18 independent factors, Indian EPZs were rated at the bottom for attracting FDI (TCS 1976). In 1980, the government introduced the Export –Oriented Units (EOU) which facilitated setting up EOUs beyond the boundaries of the EPZs and the administration of EOUs was also brought under the same authorities as EPZs.

Various committees were appointed to review the working of the EPZs. These Committees pointed out the growth of EPZs was handicapped by absence of implementation authority to centrally coordinate and regulate the zones, procedural constraints, infrastructural deficiencies, limited concessions and the powers of the EPZ had also limitations. Though these committees made several important recommendations to improve the working of EPZs, the policy regime remained virtually static.

(ii) Expansionary Phase (1985-1991)- Towards the end of 1970s, the government had realized the failures to step up its manufactured exports in the background of the Second Oil Price Shock and related Balance of Payments(BOP) problems .To provide more fillip to exports, four more EPZs were created viz ,Noida (Uttar Pradesh) ,Falta (West Bengal) ,Cochin (Kerala) and Chennai (Tamil Nadu).Subsequently, Visakhapatnam EPZ was established in Andhra Pradesh in 1989 ,though it could not become operational before 1994.All these EPZs ,with the exception of Chennai were set up in industrially backward regions. The primary objectives of these EPZ were not still specified and there were no significant changes in other laws and procedures governing the EPZs.

(iii) Consolidating phase (1991-2000): With a massive dose of liberalization being ushered in the economy, wide ranging measures were also introduced by the government for revamping and restructuring the EPZs also. This phase was marked by progressive liberalization of policy provisions and relaxation in the severity of controls along with

simplification of procedures. The emphasis was on delegating the powers to zonal authorities, providing additional fiscal incentives, simplifying the policy provisions and providing greater facilities. The scope and coverage of EPZ/EOUs scheme was enlarged in 1992 by permitting the agriculture, horticulture and aqua culture units also. In 1994, trading, re-engineering and re-conditioning units were also included.

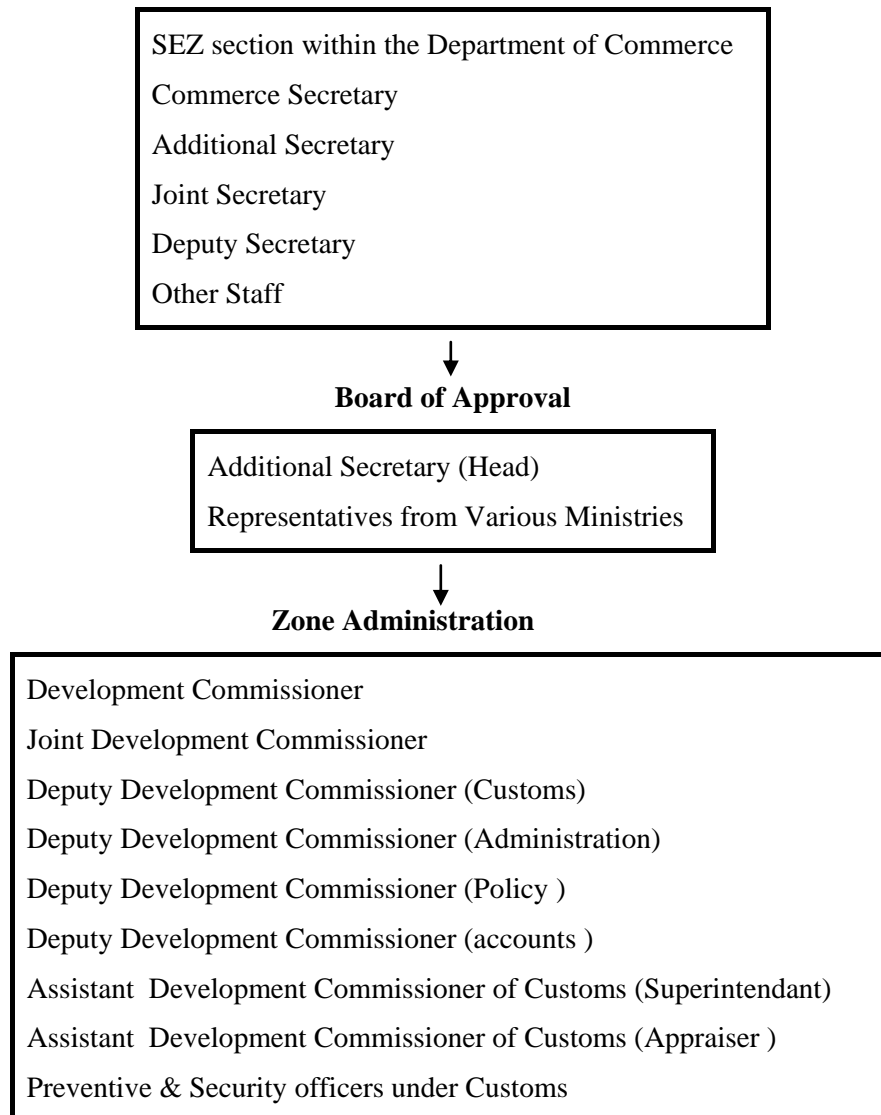
(iv) Emergence phase (2000 onwards): This phase witnessed a major shift in direction, thrust and approach. The EXIM Policy (1997-2002) has introduced a new scheme from April 1, 2000, by Murasoli Maran, then Union Commerce Minister for the establishment of Special Economic Zones (SEZ) in different parts of the country, after a tour of SEZs in China. Under this scheme, SEZ is conceived as a self-contained area with high class infrastructure for commercial as well as residential infrastructure. SEZs are permitted to be set up in the public, private and joint sector or by the State Governments with a minimum size of not less than 1000 hectares. The numbers of fiscal and non fiscal incentives were extended to the units operating in the SEZs. Several measures have been adopted to improve the quality and governance of these zones. These include relaxation in the conditions for approval process and simplifying the custom rules. Development Commissioners are given the powers of the Labour Commissioners. SEZ Policy thus became an identity towards ensuring the success of EPZs.

From November 1, 2000 the EPZs at Kandla, Santa Cruz, Cochin and Surat were converted into SEZs. In 2003, other existing EPZs at Noida, Falta, Chennai and Vizag were also converted into SEZs. In addition approvals were also given for the setting up of 26 SEZs in the various parts of the country by the private /joint sectors or by the State Governments. These included SEZs at Nanguneri (TamilNadu) , Positra (Gujarat) ,Kulpi (West Bengal) , Paradeep (Orissa) ,Bhadohi and Kanpur (Uttar Pradesh), Kakinada (Andhra Pradesh) , Dronagiri (Maharashtra and Indore (Madhya Pradesh) ).

### **SEZ Administration, Policy & Legislations**

The functioning of the SEZs is governed by a three tier administrative set up. The Board of Approval (BoA) is the apex body and is headed by the Secretary, Department of Commerce. The Approval Committee at the Zone level deals with approval of units in the SEZs and other related issues. Each Zone is headed by a Development Commissioner, who is ex-officio chairperson of the Approval Committee. Once an SEZ has been approved by the Board of Approval and Central Government has notified the area of the SEZ, units are allowed to be set up in the SEZ. All the proposals for setting up of units in the SEZ are approved at the Zone level by the Approval Committee consisting of Development Commissioner, Customs Authorities and representatives of State Government. All post approval clearances including grant of importer-exporter code number, change in the name of the company or implementing agency, broad banding diversification, etc. are given at the Zone level by the Development Commissioner. The performances of the SEZ units are periodically monitored by the Approval Committee and units are liable for penal action under the provision of Foreign Trade (Development and Regulation) Act, in case of violation of the conditions of the approval.

## The organogram of SEZ



Development Commissioner (DC) is the chief executive officer of the Various SEZs in the economy. He is responsible for day –to –day administration, approves investment proposals under the automatic route / incentives and enforces various regulatory provisions. He is assisted by Joint Development Commissioner and other staff as given above. The DC oversees the Approvals Committee at the level of SEZs and reports to the Secretary in the Department of Commerce, who is the Chairman for the Board of Approvals with the Government of India. Further Executive GOM would be constituted to discuss and decide the contentious issues relating to SEZs. At the same time, it became the responsibility of the private developer to install infrastructure –social or otherwise –attract new units to the SEZ and manage the zone. It is also developer’s responsibility to fund and manage the project on a commercial basis and work closely with the State Government concerned.

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. SEZs in India functioned from 1.11.2000 to 09.02.2006 under the provisions of the Foreign Trade Policy and fiscal incentives were made effective through the provisions of relevant statutes. To instill confidence in investors and signal the Government's commitment to a stable SEZ policy regime and with a view to impart stability to the SEZ regime thereby generating greater economic activity and employment through the establishment of SEZs, a comprehensive draft SEZ Bill prepared after extensive discussions with the stakeholders. A number of meetings were held in various parts of the country both by the Minister for Commerce and Industry as well as senior officials for this purpose. The Special Economic Zones Act, 2005, was passed by Parliament in May, 2005 which received Presidential assent on the 23rd of June, 2005. The draft SEZ Rules were widely discussed and put on the website of the Department of Commerce offering suggestions/comments. Around 800 suggestions were received on the draft rules. After extensive consultations, the SEZ Act, 2005, supported by SEZ Rules, came into effect on 10th February, 2006, providing for drastic simplification of procedures and for single window clearance on matters relating to central as well as state governments.

The main objectives of the SEZ Act are:

- a) generation of additional economic activity
- b) promotion of exports of goods and services;
- c) promotion of investment from domestic and foreign sources;
- d) creation of employment opportunities;
- e) development of infrastructure facilities;

It is expected that this will trigger a large flow of foreign and domestic investment in SEZs, in infrastructure and productive capacity, leading to generation of additional economic activity and creation of employment opportunities. The Act and Rules further envisaged that there should be simplification of procedures and practices for development and conduct of businesses ,single window clearances for matters relating to centre and state governments for setting up of units in SEZ and simplified compliance procedures and documentation with an emphasis on self –certification .

**Fiscal benefits /incentives-** The SEZ policy comprised a fiscal package along with certain entitlements and concessions. Duty free import/domestic procurement of goods is allowed for SEZ units towards development, operation and maintenance. Further 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 up to US \$ 500 million in a year without any maturity restriction through recognized banking channels. The latter included CST exemption for supplies to the Direct Tariff Area (DTA) to the SEZ, Duty drawbacks for suppliers 'exporting to SEZ 'the exemption of DTA supplies to SEZ from Income Tax and Customs duties and SEZ access to external commercial borrowing .They were also allowed to make overseas investment and commodity hedging. In addition, international banks would

be allowed to set up branches (off –shore branches) within SEZs, but free of India based commercial banking obligations like the CRR and SLR. SEZ units would be allowed to get finance at international borrowing rates from the branches of such banks.

Developers pay no customs or excise duties for BoA authorized improvements in existing SEZs .Tax concessions are extended to export income for a ten year block out of 15 years (Sec. 80 I AB of the IT Act). Other exemptions include waivers on CST, State excise and ST, MAT (Sec.115 JB of IT Act), Dividend Distribution Tax (Sec.115 O) and Service Tax (Sections 7, 26 and Second Schedule of SEZ Act 2005).One similarity with non –SEZ units is that the latter too can import raw material inputs duty free and get tax reliefs for the creation of infrastructure. Units in turn, get import duty waivers for development, operation and maintenance. They also get 100 per cent Income Tax exemption on export income for the first five years, 50 per cent for the next five years, and 50 per cent on reinvested export profits for five more years. Exemption from Service Tax (Section 7, 26 and Second Schedule of the SEZ Act .Post 2005, the private developers are given direct tax benefits for a block of ten years and they can also avail indirect tax benefits through customs duty waivers and other benefits. Similarly, the units set up in these zones could also avail of both direct and indirect tax concessions with single window clearances.

**SEZ land Use and Industry emphasis** –The maximum permissible size of SEZs has been changed and re-set at 5000 ha for Multi –product zones based on the EGOM.State Governments may however reduce that even further. The minimum processing area was also re-set at 50 per cent for both type of SEZs (35 % for Multi-product and that can be relaxed to 25 %).The minimum for multi-product SEZs has now been fixed at 1000 ha .SEZs within Union Territories or special states could settle for less : 200,100 or 50 ha respectively. It is important to note that multi product and single product SEZs have to be contiguous land, the only exceptions being that the ones that specialized in IT/ITES, gems and jewellery and biotechnology. The latter needed only 25 acres and can be near existing conurbations, whereas larger SEZs would have to be located at distance and served by (often new) trunk roads and related infrastructure.

**Emphasis on Export in SEZs**-Export promotion and import substitution were endowed as significant factors in establishing the SEZs right from the pioneering Kandla (1965) and SEEPZ (1973) based on Chakravarthy-Eckaus-Lefebber-Parikh model. Ardhana Aggarwal wrote in her seminal article thus in 2006:

“A micro –level analysis of the zone’s contribution to industrialization efforts in India reveals that EPZs have had catalytic effects in new production sectors exporting new products, and in building the country’s image in certain products in international markets .The foundation of modern jewellery industry in India, for instance, was laid in SEEPZ in 1987-88. It was there that the ‘wax-setting technique ‘was introduced in jewellery production which made mass production possible and dramatically transformed the labour intensive jewellery industry from its cottage industry status into highly mechanized modern industry. SEZs accounted for over 55 % of total jewellery exports from India in 2002-03.These zones have been instrumental in creating the base for growth of the electronics industry through technology transfers, spillovers and demonstration effects. Until the early 1980s, electronic hardware exports were primarily originating from the EPZs. Even during



2000-02, the share of SEZs in total hardware exports was as much as 26 %.The Indian software saga really began in SEEPZ, Mumbai.”

In fact, the most notable aspects about the SEZ in the economy has been its emphasis on total export orientation, provision of world class infrastructure, fiscal incentives /tax holidays to the developers and enterprises, single window clearance and minimum possible regulations in the administration of SEZs .By March 2005,811 companies were operating in eight functional SEZs, generating INR 18.3 billion (approx. US \$ 4 billion) in exports and providing employment to 1,00,650 persons, of which one third were women. Given these moderate results, the Special Economic Zones Act 2005 was enacted in February 2006, and it triggered a rush to establish new SEZs in the economy. By September 2006, 181 new SEZs were established and another 200 applications were pending.

**Labour laws and work conditions** – The labour laws that hold within the SEZs are identical to the State and Central ordinances that apply within the DTA –the only difference that within the zones that the Development Commissioners also double as Labour commissioners. That has been done to favour rapid dispute resolution. At the same time it is important to note that the State governments are the real administrators, and to an extent, the interpreters of labour laws. In practice, the labours in SEZs get superior working conditions, since the SEZ units have to comply with the conditionality of their external parent companies.

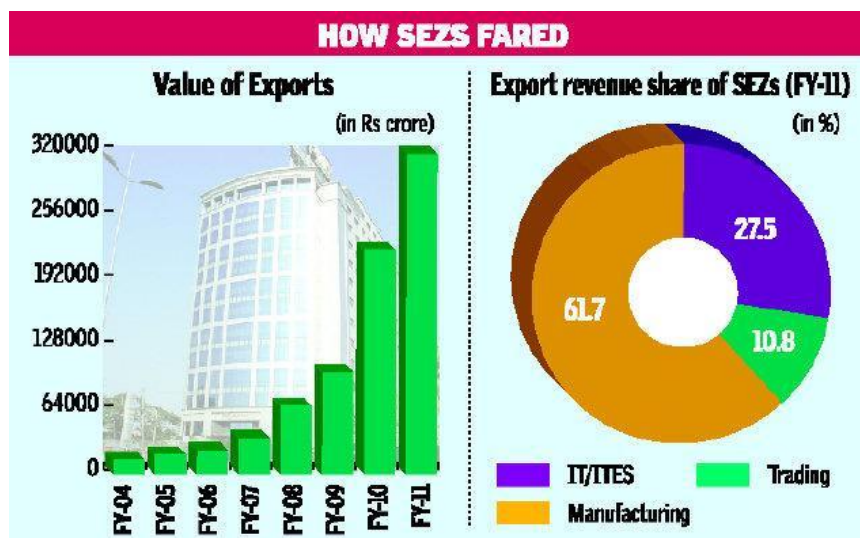
### Problems

The Government has notified 389 SEZs till date, of which 170 are fully operational and the balance are being developed. These employ over 1 million people directly. The total investments in SEZs are about Rs.2.36 lakh Crore, while exports from SEZs jumped from Rs.22, 840 Crore in 2005-06 to Rs.4.76 lakh Crore in 2012-13.

Exports from the functioning SEZs during the recent period:

Year	Value (Rs.)	Growth Rate ( over previous year
2003-2004	13,854	39%
2004-2005	18,314	32%
2005-2006	22 840	25%
2006-20007	34,615	52%
2007-2008	66,638	93%
2008-2009	99,689	50%
2009-2010	2,20,711.39	121.40%

**Source:** Government of India (web site)



**Source:** Government of India (web site) FY-Financial Year

As observed from the above diagrams, the share of export revenue from manufacturing units is high at 61.7 %, IT/ITES has 27.5 % and trading accounts for 10.8 %. These statistics though impressive, are not obtained without problems! Interestingly, the problems arise from the same issues which have already been described as benefits of SEZs earlier!

**Fiscal revenue loss-** SEZs have lost their sheen and attractiveness after an 18.5 % Minimum Alternate Tax (MAT) added with a cess was imposed on SEZ developers and Units along with a 15 % dividend distribution tax added with a cess on developers in Union Budget 2011-12. Fiscal incentives /benefits given to SEZ units and developers ceased when the period for such incentives /benefits lapsed after the duration allowed by the respective statutes and legislations. However, State Governments contended that the duration allowed in insufficient and benefits inadequate. Income Tax Department raised the issue of revenue loss on account of fiscal benefits /incentives given to SEZ units and developers beyond the duration allowed by the statutes and legislations. The sum of the tax that will be forgone comes to Rs.57,531 Crore ,assuming a corporate tax of 33.6 %, a 20 % profit margin and a projected export turnover of Rs.8,00,000 Crore. But the Government claims that the revenues that flow from Direct and Indirect Taxes would be much greater. After comprehensive discussions with the stakeholders, the Parliamentary Standing Committee (PSC) on SEZs has Okayed the Commerce Ministry’s view that SEZs will be beneficial for the economy. The PSC notes that SEZs would yield Rs.1.5 lakh Crore as indirect revenue and create 5 lakh direct and 15 lakh indirect jobs. The Commerce Ministry has disputed that tax waivers to SEZs will lose over Rs.1.5 lakh Crore in revenue terms. The Commerce Ministry has noted that these numbers were hypothetical as without the SEZs the investments from which these revenues accrued would have never taken place. The Commerce Ministry has instead said that “on the contrary the economic activities and employment generated in SEZs will far outweigh the tax exemptions! The benefits derived from multiplier effects of the investments and additional economic activity in the SEZs and the employment generated thus will outweigh the tax exemptions and losses on account of



land acquisition. Stability in fiscal concession is essential to ensure credibility of government intentions “.

**Tax related legal controversy-** The Karnataka High Court has in its recent order upheld the imposition of Minimum Alternate Tax on Special Economic Zones (SEZ) developers and units operating in SEZs ( June 2013) . It has also upheld the levy of Dividend Distribution Tax (DDT) on dividends declared by SEZ developers. These taxes were introduced for the SEZ units and developers by the Finance Act, 2011. A bunch of companies having units in SEZs and SEZ developers such as Mind Tree, Biocon, Opto circuits, Opto Infrastructure , Piramal Infrastructure , to name a few ,had petitioned the Karnataka High Court against the withdrawal of MAT and DDT exemption available to them earlier. The petitioners claimed that they had heavy investments and established units in SEZs on the basis of the tax holiday benefits available which included MAT and DDT exemption. Thus withdrawal of the exemption was violative of the various articles of the Indian Constitution. It was also violative of the Doctrine of Promissory Estoppels and Doctrine of Legitimate expenses. On enactment of Budget proposals of 2011, both SEZ developers and units in SEZs were brought within the ambit of MAT, from the financial year 2011-12 onwards. Prior to such enactments, MAT exemption was available to them. The current rate of MAT is 20.96 % and it is computed against book profits. Earlier SEZ developers did not pay DDT on dividend distributed by them. From June 1, 2011 dividend distributed by SEZ developers was covered by DDT which is currently 17 %. The Karnataka High Court dismissed the petition on various grounds. It held that it is a settled position of law that every tax exemption should have a sunset clause. As the MAT and DDT exemption for SEZs did not have a sunset clause, the flaw was removed by an amendment made by the Finance Act, 2011. Second these exemptions created an inequality between SEZ companies, which was removed by the amendment. The HC pointed out that such exemption also resulted in erosion of the tax base. It upheld the right of the government to make amendments to the fiscal policies. “The legislature can never be precluded from exercising its legislative power by resorting to the Doctrine of Promissory Estoppels added the HC.” (Hon’ble Judge H. N. Nagamohan Das- Mind tree Limited Vs UOI Karnataka HC- June 17, 2013)

**Land Use & Industry emphasis-** The debate on SEZs is mainly about whether SEZs have led to creating a world class infrastructure by public or private sector investments. According to the most recent estimates, for the period 2007-12 ,we would need to invest in excess US\$475 billion in infrastructure alone, at current prices, of which US\$160 billion will be required for energy ,US\$66 billion for railways ,US\$ 49 billion for national highways ,US\$ 11 billion for sea ports and US \$ 9 billion for airports. That kind of money is simply not available with Government of India, and to marshal it the Government would have to evolve consistent policies to attract funding for next three to five years. Hence islands of world class infrastructure will have to be created through private investments in a spatial manner to attract units for both foreign direct investments (FDI) and domestic investments. Under these circumstances the Union Government has wisely left to the State Governments and private sector to moot SEZs and announcing working rules. Many of them have been eager to adopt incentive packages that are ‘SEZ –Act compliant ‘in terms of investment and industrialization. Andhra Pradesh Gujarat, Haryana, Himachal Pradesh, Karnataka, Tamil Nadu and West Bengal have announced packages which have been tailored to attract investors from neighborhood & rival states. Yet not all states have been so proactive, thus far

93.3 % of SEZs have been created in these states. The Parliamentary Standing Committees on both Finance and Finance have been opposing the SEZ Policy. It has often been said that SEZs have led to large scale realty scams, offering the developers the opportunity to make quick money while enjoying tax exemptions /incentives.

Industry emphasis also has been skewed in favour of electronics, IT/ITES, BPOs, Gems and Jewellery than a diversified industry wide emphasis. The Government is on the right path in joining hands with the private sector to promote such zones. Thereby it can hope to generate additional economic activity, develop infrastructure, increase investment (domestic as well as FDI) raise net export earnings, boost employment and in process, induct R&D.

**Dilution in land acquisition rules-** According to the Commerce Ministry and SEZ authority, SEZs may be developed and managed in the private sector or jointly by state government and by a private agency or exclusively by State Government or their agencies. In the case of privately developed SEZs, the investors could be either Indian individuals, NRIs, Indian or foreign companies. New infrastructural development rules such as Standard Design Factory building Operation & maintenance of infrastructure in the zones may also be undertaken through private/joint/state sector .Any person who intends to set up a SEZ, may after identifying the area can make a proposal to the BoA but also will have to obtain the concurrence of the State Government. SEZ developer will have to get a no-dispute certificate for that area where he wants to establish SEZ from the Chief Secretary of that state. After getting clearance from the state, BoA considers that proposal and if the proposal is within the purview of SEZ act, BoA can approve the proposal. However if a state Government wants to set up a SEZ , BoA considers that proposal, and if the proposal is within the purview of SEZ act, then BoA can approve the proposal. The Central Government has prescribed minimum area requirement for setting up SEZs. The following table shows the minimum requirement area for various sectors:

Sector	Minimum Area(in hectares)
Multi Product /Green field	1000
Service sector	100
Bio Technology	10
Information Technology	10
Gems & Jewellery	10
All other sectors	100

**Source:** SEZ authority (web site)

The area requirement for multi-product SEZs has been relaxed 200 hectares and for sector specific SEZs to 50 hectares, and for certain states(Assam, Meghalaya Nagaland , Arunachal Pradesh, Manipur, Mizoram ,Tripura ,Himachal Pradesh, Uttranchal , Sikkim ,Jammu &Kashmir ,Goa ) and Union Territories ,keeping in view the difficulty in finding the large tracts of contiguous land in such states/union territories. According to the SEZ act, at least 25 % of the SEZ area shall be used for developing industrial area, for setting up SEZ units and the remaining 75 % can be used for building infrastructures like roads, hotels, power generation station, educational institutions, and other facilities.

## A Comparative Analysis of SEZs in China, Bangladesh & Sri Lanka

At this juncture, it is enlightening to have a comparative analysis of SEZs in China, Bangladesh & Sri Lanka who are our neighborhood economies, to know where Indian economy can learn from their experience. The following table presents the comparative analysis of SEZs in China, Bangladesh and Sri Lanka:

SEZ Feature	China	Bangladesh	Sri Lanka
Evolution of the Policy	Attract foreign trade investment & technology	To promote export oriented FDI	Promote export oriented FDI
Authority of SEZ	Autonomous powers for local authority under the overall guidance of Central Government	BEPZA created under the chairmanship of the Prime Minister	GCEC was directly set up under the President, which was subsequently renamed as BOI in 1992
Statutes & Legislations	Economic Reforms 1979	BEPZA Act of 1980	Law no .4 in 1978 now known as BOI Act
Objectives	<ul style="list-style-type: none"> <li>*Function as zones of rapid economic growth</li> <li>*Allow tax &amp; business incentives to attract foreign investment &amp; technology</li> </ul>	<ul style="list-style-type: none"> <li>*Foster &amp; generate economic development by encouraging foreign investments.</li> <li>*Diversify the source of foreign exchange earnings.</li> <li>*Encourage the establishment &amp; development of industries &amp; commercial enterprises.</li> <li>*Generate productive employment opportunity and upgrade labour &amp; management skills through acquisition of advanced technology.</li> </ul>	<ul style="list-style-type: none"> <li>*Foster &amp; generate economic development</li> <li>*Encourage FDI</li> <li>*Diversify the sources of foreign exchange</li> <li>*Establishment &amp; development of SEZ units</li> </ul>
Location of the first zone	Advanced region	Advanced region	Advanced region

Contd...

SEZ Feature	China	Bangladesh	Sri Lanka
Development strategy of the SEZ	Rapid development	In phased manner	In phased manner

## CONCLUSIONS

Since setting up the pioneering EPZ at Kandla, a backward region Kutchh in Gujarat as early as 1965, the EPZ/SEZs have grown significantly and contributed to exports remarkably in our economy. Based on the above study, a few concluding remarks /directions for further research are made as follows:

- China, Bangladesh and Sri Lanka have set up SEZs in advanced regions which have proved attractive to foreign investors and enterprises. Locating and promoting SEZ at backward regions has led our Government to incur high infrastructure costs in setting up the SEZs.
- While promoting and setting up the SEZs in the backward regions has been accorded with the State Governments /private agencies, political interests have become more important than economic growth and export promotion motives.
- Migration of employable labour in the SEZs in the backward regions has also meant creating training and technology upgradation facilities for them, while the SEZs have been set up in advanced regions in China, Bangla Desh and Sri Lanka.
- It is significant to note that the SEZ s in China, Bangladesh and Sri Lanka administer the fiscal and business incentives with autonomous powers under the broad guidelines of the Federal Government. While in India, the SEZs have been managed by the respective local autonomous authority, the granting of fiscal and business incentives are empowered with the Union Government, and specifically Income Tax Department. This dichotomy of powers creates a conflict of interest between the Union Government, the State Government or Private agencies who have been attracted to promote and set up the SEZs at various centers/backward regions.
- Tax and business incentives are meant to attract FDI and advanced technology to the enterprises on a long term basis. Withdrawal of the incentives after a time horizon is a significant setback to the units in SEZs and would dampen the investment and growth of SEZs and updating the technology at the Unit level.
- The State Government /the private agencies have jointly promoted and set up the SEZs at backward regions .SEZs can also set up under the Public Private Partnership model (PPP) by private entrepreneurs. All these indicate the inadequacy of financial resources with the Union Government for setting up the SEZs.

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