

SPECIAL ECONOMIC ZONES AND EXPORT

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ABSTRACT

Preferment of export always ends up in rapid economic process of any country. Exports have appreciably contributed to economic prosperity of India in the number of decades. Indian international trade policies before 1947 were much paid notice on self-reliant and thus more focus was laid on least dependence on international trade as a source of income. This influenced the economy and thus concluded in degradation of state of living of individuals. With the intention to accommodate this and to advance the living standards of individuals the government of India framed the policy of „import-substituting“ industrialization. To implement this policy into practice, the government framed a composite, massive and sometimes expensive system related with cost control and quantitative restrictions but this abrupt extension was backed by an outsized accounting deficit. The trouble to extend the competence and competitiveness of Indian businesses led to the inspiration of the Special economic zone. The commencement of Special Economic Zone (SEZ) in India in the year 2000 observed many advantages. Earlier to the current the export policy of India was charged with heavy tax and duties but with the concept to push the export and development of those zones, the government of India eased the export policy. This day special economic zone characteristically includes a geographically bordered area, usually materially secured (fenced-in); one management/administration; eligibility for advantages based upon corporeal location within the zone; detached customs area (duty-free benefits) and single window procedures. Special economic zone are such industrial zones founded by Indian government to draw in foreign companies to take a position in the country. Managing trade these zones normally means company gets tax benefits and also the incentive to pay lower tariffs. In general, the aim of this scheme is to draw in more foreign investment generally via a foreign country business or a global business or say exports. Thus, conception of SEZ causes amplified trade, larger investment, formation of more job opportunities and successful management and administration.

Keywords: *Industrialization, Geographical, Financial Policies, Opportunities, Regulations, Export.*

Introduction

With an intention to motivate more businesses and to determine their units in the zone numerous financial policies, rules and regulations associated with tax incentives are introduced. Such policies and regulations cater to areas like state and native taxes, levies, stamp tax and other duties are particularly attracting for the investors, including both domestic and foreign investors for expansion of the Exports. These policies and guidelines cover areas like investing, taxation, trading, quotas, rules and regulation associated with customs and labour. Aside from this the businesses are proposed to tax holidays, which understates that upon instituting their units in such zones they're going to be granted a lower taxation period. Various zones like, Export Processing Zones (EPZ), Free Zones (FZ), Industrial Estates (IE), Urban Enterprise Zones, Free trade Zones (FTZ), Free Ports etc amalgamate together into one territorial unit called SEZ. Generally, the aim of this organization is to enhance foreign direct investment by foreign investors, which comprises a global business or multinational corporation (MNC). A land is around 100 sq km in terms of covered area (size). The target of fixing the Special Economic Zones in the country was to push the nation's exports by producing goods and services of reasonably

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lower cost of production in the present global competitive environment by giving them special incentives and encouragement. With the passage of time their number has increased. A number of them are functioning fine and have contributed to the country's export significantly. The present day Special Economic Zone policies of India are well complimented by the provisions of the Acts and Rules of Special Economic Zones.

Why Special Economic Zones are Developed?

These economic zones are established by efficient employment of funds from both government organizations and personal hands. It may be formed with the amalgamation of state organization and semi government organizations during which they need power to assess source, both public and personal sector can close and take hold of responsibilities and budget formation. They will even be established by the venture of personal and government organizations where the government sector gives support by creating necessary on infrastructure, investment, issue of bonds & debentures, etc. This assists the private industry to achieve a big rate of return. The important activities performed under these include trade to outside country but sales in domestic area are permissible on fulfilling certain criteria, but the most focus is on the elevation of exports of products and services, attracting investment from local and international sources foreign markets and exports. Indian SEZ policy aims to create these zones how for reinforcing economic process. Both at the central and state levels, these zones are backed by world class infrastructure supported by smart fiscal benefits and tax rebates and incentives.

Classification of Special Economic Zones is done based upon availability of both non-processing and processing regions, physical location, area of functioning, sector etc. The processing area is that the demarcated place in these zones where the units are established to manufacture goods and services while the non-processing provide the supporting infrastructure which has establishment, training institution, hospitals, residential etc. Some of the importance of zones in Indian perspective is as following:

- **Increment in Export of Products and Services:** They establish a segregated area to hold on export activities within the domestic region. The manufacture finds easy accessibility to world markets and a robust customer base for its product and services.
- **Attracting FDI:** They draw a substantial amount of export based Foreign Direct Investments and promote other sorts of coalition between national companies and intercontinental companies.
- **Boosting Domestic Sectors:** they assist the inclusion of domestic small and medium businesses by delivering them an environment which favours investment, low cost competition and growth in technology.
- **Attracting Investment from Domestic Sources:** They not only attract investment from outside sources in sort of FDI but plenty of investment are generated in zones from domestic sources for establishing SEZ and also creating infrastructure. Keeping visible the advantages of those zones, plenty of exporters which were present in the open area have established exporting activity in these zones now.
- **Employment Creation:** They produce enormous employment opportunities. The establishment of those zones generates many direct and indirect employment opportunities. By direct employment we mean that employment to workers who are directly related to the functioning of relevant zonal units like manufacturing industries working within. However, apart from this, zones also add into creation of sufficient indirect jobs for folks that start participating within the region of SEZ. For instance, zones have their personal township structure; subsequently there are setup every where to draw attention of individuals interested.
- **Exposure to New Technology and Processes:** With advancing technology worldwide, it becomes imperative for the units in the SEZ to deliver a high quality product or service at the world platform. Therefore the units in SEZ constantly upgrade their technology and process for better and competitive products.
- **Creation of Additional Economic Activity:** With increased and improved Foreign Direct investment and accessibility of personal equity, the national producers arise to conglomerate with these big names and export their products which currently holds the next brand value, as a result it help in creation of larger demand for the locally produced goods by local manufacturers. Furthermore the large resources mandatory for development are brought in sort of FDI thereby ensuring increase in economic activity. The exports generate more revenues for the country and a result economic process increases.

- **Infrastructure Related Facilities:** The foremost prominent role of zone is its contribution in the development of infrastructure. These zones have a noteworthy role in creation of wide economic development during a country once they are constructed and operated in the efficient manner. Development of SEZ provides a simple and well connected access to transport, local railways, and airport, establishing a secure environment with well managed drainage and facility and in-house customs clearance. Presents a chance to utilize the skilled and semi-skilled manpower and offers an opportunity to generously make use of various services like security, water, restaurants, electricity etc.

Role of Special Economic Zone in Export Promotion

Considering the requirement to boost foreign investment and promote exports from the country and realising the requirement that level field playing must be made available to the domestic enterprises and makers to be competitive globally, the government of India in April 2000 announced the introduction of Special Economic Zones policy within the country deemed to be foreign territory for the needs of trade operations, duties and tariffs. The units in the Zone are required to be a net exchange earner but they'd not be subjected to any pre-determined value addition or minimum export performance requirements. Sales in the Domestic Tariff Area by SEZ units are subject to payment of full Custom Duty and as per import policy operative. Further Offshore banking units are being allowed to be founded in the SEZs. The strategy for the new SEZs is aimed toward encouraging public-private participation, attracting foreign direct investment creating infrastructure and employment and generating economic activities. It's also being envisaged that a number of the prevailing Export Processing Zones would be converted into Special Economic Zones.

The SEZ Act is anticipated to allow a giant thrust to exports and consequently to the foreign direct investment ("FDI") inflows into India, and is taken into account to be one in all the best pieces of legislation that will well represent the long run of the commercial development strategy in India. The SEZs are given various incentives like foreign direct investments up to 100% are allowed which the units can use the products that are duty free during a period of 5 years. India's Export-Import (EXIM) Policy has become more dynamic and 'Development Oriented' with the passage of time and has assumed new dimensions in the globalise era. Special Economic Zones which are considered now as 'Engines of Economic Growth' are part and parcel of the EXIM Policies of the country.

These zones with the preferential fiscal policies would drive export, create employment and reduce regional disparities. Rather than being a drain on the budget these zones portend a healthy balance of payment situation with a narrowing down of the deficit. India's external debt servicing ratio, expressed as share of accounting receipts is 18.3%. A healthy accounting position in foreign trade will definitely result in a fall in an exceedingly heavy burden. the use generated and therefore the technology transfer due to FDI would definitely set in motion a cycle of upper investment, higher income generation, higher level of expenditure, higher saving capacity, higher investments and fit the economy to higher standards. Tax exemption in one area would be offset by revenues and savings by cyclical events of upper economic activity. Additionally SEZs aren't just industrial estates but comprise of a township. The zones are cater the to the holistic needs of the people working there and are built around employment and domestic needs, as world class SEZs developed on a public-private partnership. This idea is unquestionably catching up and today we've got a plethora of approvals for the establishment of SEZs m India. In addition to the generation of employment and their contribution in creating a healthy BOP account, SEZ could play key role in our moving towards an equal distribution of resources through mushrooming zones, which reduce regional disparity within the country. Thus migration of capital, labour and technology across geographical boundaries would scale back disparity in the least levels of growth. SEZs are going to be the launch pad for future economic process and have come to remain.

Downside of SEZs

The SEZ act 2005 consolidates existing specialized incentive packages and in several respects, extends these to produce a spread of advantages both in direct and indirect taxes for the promotions of exports also as for the event of those zones in private/ public/ joint sectors. Other major attractions held out by these zones are low cost finance, a system of single window clearance, self declaration procedures, single notified agency for inspections, etc, to supply a singular, hassle- free environment. While the new dispensation has undoubtedly several positive features, there's a downside that has not received the eye that it concerns. The provisions referring to indirect taxes are meant to catch up on any domestic taxes that the exports from these zones (or, for that matter, from the other areas) may suffer, and don't constitute incentives, as such. As for because it concerns direct taxes, it's pertinent to notice

that while most of the incentives for exports are either being phased out, like section 80HHC, or are being limited by sun set clauses (section 10A and 10B), the SEZ act, 2005, isn't constrained by either of those limits. The tax break includes not only tax free treatment of profits for entrepreneurs and developers within the SEZ, but also exemption from dividend distribution tax, minimum alternate tax (MAT), and financial gain tax on Transfer of assets just in case of shift of an industrial undertaking from an geographical area to SEZ. There's no income tax on interest payment to non-residents and not ordinary residents either. Even those not located within the SEZ, like investors in an infrastructure capital fund or company which has invested in SEZ, are eligible for tax free income from interest and dividends. A special dispensation for exports was desired when India's policy had an anti export bias. Export processing zones were conceived as 'islands' isolated from the restrictive environment that prevailed within the economy. The reforms initiated since 1991 made a transmutation in the environment for investors and exporters. Tax incentives and comparatively less stringent labour laws are presented because the two critical elements of this success story. In terms of tax incentives, there's a significant difference between the structure of the Chinese and also the Indian models. The Indian SEZ Act 2005 has made enjoyment of the tax holidays dependent on the units within the zone being net forex earners. The effect of the export- contingent subsidy underlying the tax concession is, therefore, likely to be classified under the Two's codes mutually which 'displaces or impedes the imports of a like product from another country' by 'price undercutting/ price depression' and thus 'counter available' in the country primal. In short, incentives of those kinds are often potentially neutralized by the importing country through countervailing duties, which undermine both the gains from such an incentives regime and also the revenue potential that grows with economic process. A proposition being advanced perspectives as a counter to the revenue loss argument is that employment generation/ transfer of technology/ FDI inflow to result from the putting in place of SEZ, tax heavens would set in motion like virtuous cycle of upper investment higher income- higher expenditure- higher savings and also the economy would be lifted to such heights that revenue loss resulting from tax exemptions under the SEZ regime would be offset by revenues and savings in the chain effect of upper levels of economic activity. After all, the correct environment for evenly spread growth requires far more extensive and efficient infrastructure and social insurance, without which it'll never be possible to relax our labour laws or give sufficient impetus to overall growth.

Conclusion

Special Economic Zones are an important instrument not just for boosting the country's exports but also for generation of employment, creation of world-class infrastructure and attracting foreign direct investment (FDI) into the country. Establishment of SEZs would result in faster growth of labour-intensive manufacturing and services in the country. SEZs aren't just industrial estates but comprise of a township. The zones are cater to the holistic needs of the people working there and are built around employment and domestic needs, as world class SEZs developed on a public-private partnership. This idea is certainly catching up and today we've got a plethora of approvals for the establishment of SEZs in India. Additionally to the generation of employment and their contribution in creating a healthy BOP account, SEZ could play key role in our moving towards an equal distribution of resources through mushrooming zones which reduce regional disparity within the country. Thus migration of capital, labour and technology across geographical boundaries would scale back disparity in the slightest degree levels of growth. SEZs are going to be the launch pad for future economic process and have come to remain. Developing economies must continuously position themselves to maximise their share within the global trade and FDI. The utilization of SEZ as a fiscal incentive to extend their share in exports and FDI is being increasingly witnessed. A tax incentive serves dual purpose behind any investment decision. Besides the particular financial advantages, they need great perception value and visibility and hence are a crucial factor for investment decisions.

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