
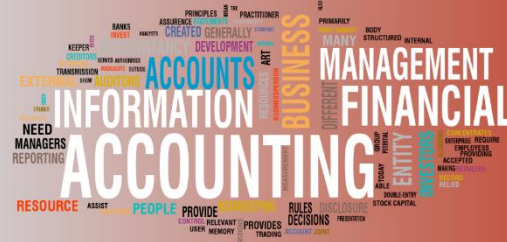


**Subject: Management**

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ACCOUNTING

**Paper: 08, International Business Operations**

**Module: 40, Special Economic Zones**



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Items	Description of Module
<b>Subject Name</b>	Management
<b>Paper Name</b>	International Business Operations
<b>Module Title</b>	Special Economic Zones: SEZ
<b>Module Id</b>	Module no. 40
<b>Pre- Requisites</b>	Basic knowledge International Business
<b>Objectives</b>	To study the basic concepts of SEZ's, Their relevance in developing nations.
<b>Keywords</b>	SEZ's

## QUADRANT-I

<b>Module 14: International Economic Institutions</b>
1. Learning Outcome
2. Introduction
3. Meaning and Concept of SEZ
4. Features of SEZ
5. Development of the concept of SEZ in India
6. Export and import of goods
7. Procedure for Applying To Establish an SEZ
8. Setting up of a unit in SEZ
9. Need of SEZ's specially in developing nations
10. Summary

### 1. Learning Outcome:

After completing this module the students will be able to:

- To know about the meaning of SEZ's
- To understand the functioning of SEZ's
- To gain knowledge about the role of SEZ's in India

### 2. Introduction

With the advancement in technology and growth in the standard of living all over the world, almost for every nation the increase in rate of growth has become a prime concern and objective too. Every nation takes appropriate steps to achieve their goals of growth and advancement. Industry plays a pivotal role in the increase of growth rate. That is why governments try to give plenty of facilities to the industries for efficient and greater production of goods and services. When certain facilities are given to industries they can become competitive in terms of price as well as quality. The governments all over the world provide added advantage by providing certain tax advantages, special schemes mostly in terms of custom duties. One of the important and widely accepted ways of providing with such added advantages is demarking certain area for the purpose of industrial growth by providing subsidies or special schemes to make the industry competitive in world market. Such demarked or identified area for growth and advancement of industry is regarded as Special Economic Zone. In different countries different type of activities

are allowed in a particular zone on the basis of level of government control. Countries like USA have earmarked certain sites where special custom procedures are allowed. They are basically involved in foreign trade that is why they have been termed as Free Trade Zone. In countries like UAE, total exemption has been provided from all taxes and duties on the profits in addition to other benefits and advantages, such zones are termed as Free Zones. Most common of the zones are Export Processing Zones. As the name suggests they are established for the purpose of promoting exports. These zones provide and concentrate on benefiting the exporters in many terms. They provide them all the facilities at one place. Relaxed custom procedures are one of the advantageous features of Export Processing Zones. All Export Processing Zones have been upgraded to Special Economic Zones in India, in the past years. Many developing nations have created SEZ'S to attract foreign investments. Countries like China, India, Poland have created many SEZ's and gained immensely from the model of special economic zones. SEZ's have become an important source of employment creation all over the world. Around 120 countries all over the world operate on SEZ model and gain tremendously. Export oriented activities get a good boost if a country declares some of its areas as special economic or free zones. SEZ's have immense capacity to generate employment opportunities. The setting up of SEZ's creates lot of indirect employment in terms of labour required. Many developing nations witnessed this thing and reaped positive benefits out of it. SEZ's have become a medium wherein it not only helps the developing nations to attract foreign companies looking for cheaper and efficient location to setup their offshore businesses, but it also allows and contributes in nations development by giving an opportunities to the local industries to improve their export through a proper channel. The domestic industries grow and flourish as they get new foreign partners from the outside world and can sell their product at a very competitive price. SEZs attract investment and foreign exchange, spur employment and boost the development of improved technologies and infrastructure. In this module we will know and understand that what is the concept of SEZ and how do they contribute in the development of an economy.

### **3. Meaning and Concept of SEZ**

Special Economic Zone (SEZ) is an explicitly delineated enclave which is generally duty free. It is deemed to be like a foreign territory for the purposes of conducting trade operations and duties and tariffs.

In SEZ a distinct geographical region is identified that has economic laws different from a country's typical economic laws. The basic objective of setting up a SEZ s , generally is to increase, induce and attract foreign investments. SEZs have been established in several countries, including China, India, Jordan, Poland, Kazakhstan, Philippines and Russia. Fastest developing nations like China have now the most prominent SEZ's like Shenzhen, Xiamen, Shantou. The

country has availed many benefits by establishing SEZ in the said areas as sea is very accessible from these SEZ's for transportation of goods.

In India SEZ is the extension of EPZ scheme. In SEZ's various additional benefits are provided as compared to EPZ's. The scheme of SEZ is very hassle free to induce foreign investors. The Special Economic Zones in India helps to boost exports of the country thereby contribute in earning foreign exchange. These zones provide various kinds of infrastructural facilities which are indispensable for the development of industries in the region. In countries like China normally these zones are huge in size and are very apt for mass production activities. These zones not only promote foreign investment but also provide the domestic industries ample opportunities to grow and diversify. Whether it is Free Zones, or Foreign Trade zones, Export Processing Zones or SEZ's the essence of these zones is to earmark areas for the purpose of customs and it also provide the industry various additional benefits, schemes, incentives as compared to other units which operate in the country.

#### **4. Features of SEZ:**

- It is a geographical region that has economic laws that are more liberal than a country's typical economic laws.
- An SEZ is a trade capacity development tool, with the goal to promote rapid economic growth by using tax and business incentives to attract foreign investment and technology. Today, there are approximately 3,000 SEZs operating in 120 countries, which account for over US\$ 600 billion in exports and about 50 million jobs.
- Moreover SEZ's provide a medium wherein it not only attracts foreign companies looking for cheaper and efficient location to setup their offshore business, but it also allows the local industries to improve their export through a proper channel and with the help of the new foreign partners to the outside world at a very competitive price.
- SEZ's offer relaxed tax and tariff policies which is different from the other economic areas in the country. Duty free import of raw materials for production is one example. Moreover the Free trade zones attract big players who want to setup business without any license hassles and the long process involved in it. Most of the allotment is done through a single window system and which is highly transparent system. The bottom-line therefore is increased export and FDI (Foreign Direct Investments) enabling increased Public-private partnership and ultimately resulting in a development of world class infrastructure, boost economic growth, exports and employment.

#### **5. Development of the concept of SEZ in India**

In India until 1991 the economy was marked with high complex bureaucratic system with so many procedural hassles. Licensing raj was one of the biggest hindrances in the development

of the economy. Foreign investment was limited as foreign investors were not allowed in all sectors. In 1991, India adopted the policy of Liberalization, Privatization and Globalization. In the changing circumstance and to make its global presence India wanted to increase its exports and enhance its foreign exchange earnings. Thereby to achieve this goal the idea of SEZ's was conceived. The basic objective of setting up of these zones is to promote and boost trading activities. All the units are freely allowed to import any kind of material required for production. Government by providing all infrastructural facilities support and assist the units to boost all the trading activities. To gain various advantages like tax benefits, cheaper labour and other resources the units operating in these zones operate on a large scale. Ultimately they get competitive advantage in terms of better quality product at competitive prices to compete in the global market. Initially before the scheme of SEZ's the concept of Export Processing Zones were initiated in 1965 in Kandla, Gujrat. Indian manufacturers were lacking behind in the global market in terms of quality. Therefore certain special benefits and subsidies were the only way by which the manufacturers could result in low cost of production and better quality products so that they could sell their products in the global market. Therefore government took an initiative to establish zones where people can come and start their units for not only boosting exports but to increase trade in every aspect. They were allowed several benefits in terms of procurement of raw material and other resources needed for better production. In the beginning the aim of the government was to boost export oriented activities. Therefore first EPZ was established in Kandla, Gujrat. The landlocked area was identified which was under continuous surveillance of custom authorities so as to protect the national interests. In these zones a strict check was maintained on the input and output of resources as well as the actions of the manufacturers. EPZ's were established in the era of 60's in many countries. They have helped in promoting export oriented industrialization with boosting the trading of domestic production also.

In India, in order to facilitate and encourage foreign trade investment, various exports oriented units are given special benefits in special economic zones. These units operate in an enclave which is governed by distinct rules as compared to the other territory, in terms of taxes and custom duties. **Special Economic Zones** are dealt like a foreign territory. SEZs are set up in India in order to enable internationally competitive environment for boosting exports. Only few items are prohibited to be traded in such zones. The units which operate in SEZ are allowed to import or export there required items except the prohibited items. These units are allowed to import there requirements duty-free which will be used as input for export production. They are also not required to obtain import licenses. Various kinds of units can be set up in these SEZs, ranging from manufacturing, processing, assembling etc. The essence of creating a foreign territory lies in the fact that these units are provided a free environment to produce and boost trading activities. The biggest advantage to these units is

that these activities are not custom supervised. No custom examination of their consignment is done; these units are directly supervised by the government of India. A letter of permission has to be obtained to run a unit in SEZ. SEZ units are also permitted to go for outsourcing or subcontracting a part of their production or processes. They can go for subcontracting abroad even or in the Indian domestic tariff area. Within SEZ, free inter unit transfer of goods is also allowed. These units have the facility to obtain their needs/requirements from the Indian domestic tariff area free from all duties and taxes. Whatever supply is done to the SEZ units, they are treated as deemed exports and thereby they are exempted from payment of central excise duty. If SEZs wish to sell their product in the Indian Territory, they can do it by paying all the duties and taxes. The Indian government has permitted to set up SEZs in the public sector, joint sector or by the governments. The minimum size of the SEZ has been prescribed to be not less than 1000 hectares. Only the units which are approved under SEZ scheme would be permitted to be located in SEZ. The said permitted units will have to abide by local laws, rules, regulations in regard to area planning, sewerage disposal, pollution control etc. They will also have to abide by with industrial and labor laws if they are locally applicable. Wherever the SEZs are landlocked, an Inland Container Depot will be an integral part of SEZ.

## **6. Export and import of goods**

SEZs may export wide variety of goods and services ranging from:

1. Bi-products for exports
2. Any kind of goods and service
3. Agro products
4. Sub assemblies and components
5. Partly processed jewellery
6. Scrap arising out of production process
7. Rejects of the goods.

The SEZ units are free to import all kinds of goods required for export production. These units can also import capital goods, whether new or secondhand, which are required for its activities. Certain items have been listed which are prohibited from imports. All goods will be imported under the SEZ premises.

## **7. Procedure for Applying To Establish an SEZ**

The applicant, who is interested to establish an SEZ, has to furnish an application to the chief secretary of the state by stating the following details:

1. Name and address of the applicant

2. The details of the promoter
3. A project report covering the details of the project
4. Details of any existing or proposed infrastructure
5. Location of the proposed zone
6. The distance of the zone from the nearest seaport, airport, railroad etc.
7. The proposed area of the zone
8. The financial details of the investment proposed
9. Mode of financing the project
10. The technical and the financial viability of the project
11. The details of foreign equity and repatriation of dividends if any
12. The details of the proposed industries to be allowed in the zone i.e. only specific industries to be established or will it be a multi product zone.

If the state government is satisfied with the above cited details, they shall forward it, along with their comments to the department of commerce, government of India. The state government will have to furnish the following information also:

1. That the proposed SEZ is free from environmental restrictions
2. The state government will provide water, electricity and other services as required
3. An undertaking that state government will provide full exemption in electricity duty and tax on sale of electricity for self generated and purchased power.
4. That the state government will permit the SEZ to generate, transmit and distribute power within SEZ
5. That the SEZ will be exempted from state sale tax, octroi, turnover tax, and tax, duty, cess, levies on supply of goods from Domestic Tariff Area to SEZ units
6. That there will be a single point clearance system and minimum inspection requirements under state laws or rules for the said SEZ
7. For all the units inside the zone, the powers relating to the Industrial Disputes Act and other related acts will be delegated to the development commissioner or any other official as designated by the state governments exclusively for the zone. The zone will be declared as a public utility service under the Industrial Dispute Act.

The said proposal along-with the above cited details will be considered by Inter Ministerial Committee in the Department of Commerce. If the proposal is accepted, a letter of permission will be issued to the applicant.

#### **8. Setting up of a unit in SEZ**

If any person wants to set up a manufacturing, trading or a service unit in SEZ, will have to prepare a project proposal for the same. The five copies of the project proposal will have to be

submitted to the Development Commissioner of the SEZ. All the approvals will be given by the Development Commissioner. The permitted units will have to furnish periodic reports to the Development Commissioner and the zone customs. The allowed SEZ units may import or procure their requirements of capital goods, raw materials, consumer bills, spares, packing material, office equipment etc. from the domestic sources duty-free. All the supplies made to the SEZ units will be treated as deemed exports. Such domestic suppliers are eligible for deemed export benefits.

## **9. Need of SEZ's specially in developing nations**

**SEZ's** Have become an important and indispensable tool for developing nations which aspire for achieving high growth rate. The following are the main points which support the need and rationale of developing SEZ's:

1. In developing nations to carry out any massive development project huge capital investment is required. For undertaking any kind of massive development program the government requires huge amount of funds. SEZ's can be a great source to attract FDI, thereby generating foreign exchange.
2. Generally in developing nation most of the industries are established by public sector. Private sector has huge potential in terms of financial resources, modern technology and competitive strengths. In order to attract private sector creation of SEZ's is an important source to raise the level of production. This in turn helps to earn foreign exchange and boost exports.
3. SEZ's with relaxed import tariffs help the Import dependent and export driven industries to flourish by helping them develop manufactured goods at competitive prices.
4. SEZ's promote and support all kind of trading activities. They act a great source of employment generation in developing nations.
5. Trade is quite hassle free in SEZ's therefore technology transfer from developed nations becomes easier in such zones. It in turn helps the developing nations to be benefitted from the modern techniques of production etc of the developed nations.

## **10. Summary**

The concept of SEZ's in India can be summarized in terms of their objectives which in turn becomes advantages when fulfilled. The concept is summarized in relation to Indian Economy as below:

1. The main reward of SEZ Units in India can be summarized as encouragement to industrialization and economic growth through sustainable development.
2. Better employment opportunities.
3. Better use of modern techniques of production.
4. Easy access to raw material for production.



5. Lower cost of production due to various subsidies, tax rebates, zero duties, customs etc.
6. Better quality product is produced so as to create acceptability in the global market.
7. Various competitive advantages.
8. Boosts and Generates additional economic activity.
9. Promotion of exports of goods and services.
10. Promotion of investment from domestic and foreign.
11. Development of infrastructure facilities.
12. Simplified procedures and hassle free environment.