

Strengthening Special Economic Zones (SEZs) for Global Competitiveness & Growth

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ABSTRACT

Special Economic Zones in India: how SEZs aim to drive industrial growth and jobs. The paper aims to promote export-led growth by attracting investments, creating employment opportunities, boost exports, attract investment and build infrastructure. Special economic zones are duty-free enclaves deemed to be foreign territory for the purpose of trade operations and duties and tariffs. SEZs have functioned as the undisputed engine of the Indian tech boom, contributing to over 50% of India's total IT and software exports. This paper is geographically demarcated enclaves where the state suspends or modifies the standard regulatory, fiscal, and trade regime to attract investment. The paper highlights in order to promote economic growth by utilizing tax incentives to draw foreign investment.

Keywords: employment, opportunities, development, exports, investment and infrastructure.

INTRODUCTION

A Special Economic Zone is a designated duty-free area deemed to be foreign territory for the purpose of trade operations, duties & tariffs. India is predicted to become one of the world's leading economic powers. This poses new challenges for international firms and others willing to take advantage of India's development. Special Economic Zones are the areas demarcated specifically for private companies to carry on production and trade activities. The units operating in these areas are entitled to various benefits such as exemptions in taxes, lesser tariffs and fewer customs duties. India's share of the world's population is 17 percent, but it accounts for less than two percent of the global GDP and only one percent of world trade. It lags behind China and other emerging East Asian economies in key indicators such as per capita income, adult literacy rates, quality of infrastructure endowment and volume of foreign trade and investment.

The definition of an SEZ is determined individually by each country. According to the World Bank in 2008, the modern-day special economic zone typically includes a "geographically limited area, usually physically secured (fenced-in); single management or administration; eligibility for benefits based upon physical location within the zone; separate customs area (duty-free benefits) and streamlined procedures"(Zone Definition 2008:11)

The development of an SEZ requires a large tract of land. Urban land supply is already under pressure because of increasing population and trade and commerce activities. Therefore, most of the areas acquired for SEZ constitute rural areas or suburbs of cities. Agricultural land has also been taken over by builders, increasing the pressure on land. However, many agro-processing industries and agricultural economic zones are to be built to boost the agricultural sector. The moot point is whether such developments will be commensurate with the agricultural land foregone for this purpose. If all the SEZs are constructed, we need more than 0.12% of total agricultural area. This area, if cultivated, could feed millions and would serve as a basis for the livelihood of many villagers.

In fact, land is fixed in supply. As the population increases, the price of land goes up. Had the land acquired so far been cultivated and properly utilized, it would have been more profitable than the construction of SEZs, says an estimate. From this point, the land acquisition is not as simplistic as it appears to be. The fact is borne out by the furore over the land acquisition issue in Nandigram. Even though rural land is the only option left for acquisition, obstacles faced are no less monumental. For villagers, land is both a question of survival and traditional belief of ownership leading to status in society. To overcome these difficulties, some of the provisions of both Land Acquisition Bill and Rehabilitation and Resettlement Bill have been amended.

Acquisition of land for public facilities and infrastructure can be forced by government. In that case, the socio-cultural environment is vitiated. Above all, the political fallout is a most important factor for the ruling party. However, rehabilitation and resettlement of the uprooted people is intrinsic to development. Government has come up with

Rehabilitation and Resettlement Bill, which is an improvement on the previous bill. Confrontation in West Bengal over land acquisition has thrown open a great divide between the objectives of development and the traditional belief of land ownership.

The gulf has to be bridged to the satisfaction of our farmer community that has already been suffering for long. The pressure on agricultural land acquisition has further increased on account of urban building activity. In many cases private builders lure the villagers with false promises. In a nutshell, land acquisition by government deserves to be carefully handled lest our farmers should suffer in the end. In the wake of the Allahabad High Court judgment on acquisition of land in NOIDA, a threatening situation has come up. Farmers are up in arms against the UP Government. The sale of land to the private builders has been declared null and void.

Millions of rupees of the builders and the home-buyers are likely to be wasted unless some solution is found. Hence acquisition of rural land is no simpler for any purpose. Finally, the Land Acquisition Policy in a new form has been incorporated in the revised LARR 2011. Now the Govt has proposed the clubbing of acquisition of land and resettlement in the proposed Land Acquisition and Rehabilitation and Resettlement Bill 2011.

Export Zones (AEZs) into SEZs. That way, the agricultural sector would benefit from concessions in export. One of the most important advantages of an SEZ is that it creates lakhs of new jobs, both for skilled and unskilled labour. The Information Technology Parks, Computer Software as well as Hardware Parks create lots of job opportunities for professionals. Even during the economic meltdown of 2008-09, SEZs registered impressive growth in exports, besides investment and employment generation.

However, there are several disadvantages of setting up of the SEZs. In fact, the policy has received severe criticism from various quarters across many states; SEZs tend to result in significant revenue losses for governments. This is because the SEZ units get 100 per cent tax holiday for the first five years and 50 per cent tax break for five more years thereafter. But, sometimes, the benefits in terms of growth and increase in exports becomes greater than what is needed to compensate the revenue loss, if any.

The most important issue with SEZs is site acquisition of land for the purpose of establishing the SEZs. Since agriculture is the only sector in the country which has not been doing well for the last few years, the agricultural lands could potentially be converted into SEZs. However, in the current scenario, acquiring fertile agricultural land for setting up of industries only aggravates the problems of the farmers whose lands are acquired. They lose their livelihood forever. Sometimes, they are not offered adequate amount of compensation. On the other hand, it is not possible to absorb this unskilled labour in the new technologically advanced industries. The problem of rehabilitation of the farmers becomes a major challenge for the government. The central as well as the state governments have been talking about rehabilitation of the uprooted families. Past experience, in cases of various projects, wherein people were promised adequate compensation and rehabilitation package, has not been positive.

The SEZs, which are the hubs of manufacturing units, are responsible for acute environmental pollution. The chemicals released from the SEZs pollute nearby water resources, creating shortage of clean water, and their emissions pollute the air of the nearby areas. SEZs cause both air and water pollution. The spectre of such environmental hazards has become a reality in China. Thus, necessary steps should be taken to handle this aspect of the problem. SEZs can bring about great transformation⁷ in developing countries. This particular aspect can be a ground for implementation of liberal market economy. Considering the great success of SEZs in China, one can expect that the SEZs model will be successful in India, too. But before implementing it, government of India should take the necessary corrective steps to mitigate the sufferings of and adequately compensate farmers whose lands may be acquired. The tragedies of Nandigram (West Bengal) and Dantewada (Chhattisgarh) are examples of a developmental process gone horribly wrong and thus, there is a need for an improved vision of development.

The evolution of India foreign trade can be traced back to its colonial past when exports exceeded imports and India had trade surplus. But the partition of India strained the balance of payments. Trade deficit in Five- Year Plans resulted in acute foreign exchange crisis and consequently, India had to devalue its currency. The composition of India's foreign trade is diverse, with exports comprising agro-base products, handicrafts, etc. and imports comprising of food grains, electrical and non -electrical equipments, etc. Indian imports have always exceeded its exports. Liberalization of the Indian economy helped in the expansion of India 'S foreign trade.

Foreign trade, in general terms, can be defined as the trade among different countries. It refers to the exchange of goods and services between two countries. It is also known as 'international' trade. Since India was a British colony, the pattern of its

foreign trade before 1947 was typically colonial. It served as a supplier of foodstuffs and raw materials to the industrialized nations particularly England and as an importer of manufactured goods. The volume of exports was high and imports took a backseat. This led to the exploitation of India as a country in two ways: the raw material from India was procured at low prices and finished goods were sold back at exorbitant prices. This practice also gave a severe blow to the indigenous Indian handicrafts.

Prior to Independence, India's foreign trade was moulded to suit the unilateral interests of the colonial rulers. But with the dawn of Independence, the colonial pattern of trade was changed to suit the needs of a developing economy. During the early years of development, imports increased at a fast rate resulting in heavy trade deficit. "SEZs also play a vital role in boosting exports. Many companies operating in these zones focus on manufacturing goods for international markets, helping to increase a country's exports, which can improve the trade balance and generate foreign exchange earnings"(Sinenko, Olga, 2017:117) During the Third Five-Year Plan period (1962-67), the increase in the volume of imports leading to trade deficit was mainly because of the additional defence needs following aggression by China and Pakistan, rapid industrialization and extensive failure of crops. Persistent adverse balance of trade since 1951 and consequent adverse balance of payment, acute shortage of foreign exchange, extensive borrowing from foreign countries and international institutions like IMF, induced India to devalue the rupee. Devaluation was resorted to in order to reduce the volume of imports, boost exports and create a favourable balance of trade and balance of payment. Green revolution in the late 1960's, helped India become self-sufficient in food grain production. Export promotion was launched and import policies were restricted. As a result, for the first time since Independence, favourable trade balance was achieved in 1972-73. However, in 1973-74, due to price hike of petroleum products, steel and non-ferrous metals, fertilizers and newsprint in international market, imports created a trade deficit. But overall, trade deficit during the Fourth Plan was of much lower magnitude as compared to the Second, the Third and the Annual Plans. In the Fifth Five-Year Plan (1974-79), exports exceeded imports.

"Indian exports are broadly classified into four categories: (i) Agriculture and Allied products which include coffee, tea, oilcakes, tobacco, cashew, kernels, spices, sugar, raw cotton, rice, fish and fish preparations, meat and meat preparations, vegetable oils, fruits, vegetables and pulses;(ii) Ores and Minerals which include manganese ore, mica and iron-ore;(iii) Manufactured Goods which include textiles and readymade garments, jute manufactures, leather and footwear, handicrafts including pearls and precious stones, chemicals, engineering goods, iron and steel; and (iv) Mineral Fuels and Lubricants. Over the years, exports have shown diversification and have been increasing"(Parameshwaran M, 237)

Imports are made to meet the essential requirements of domestic consumption, investment, production and inputs for exports. Import in India consists of bulk and non-bulk imports. Bulk imports include petroleum, oil and lubricants (POL) and non-POL items like fertilizers, iron and steel; non-bulk imports include gems, pearls, electrical and non-electrical goods. The other principal imports consist of precious and semi-precious stones, machinery, project goods, medicinal and pharmaceutical products, organic and inorganic chemicals, coal, artificial resins, etc.

The Government of India has initiated a number of measures to 'open up' the foreign trade sector since July 1991. Rupee was devalued. To give further boost to exports, there was a substantial reduction in customs tariff rates, decentralisation of many items of trade was undertaken and the convertibility of the rupee, first on trade account and then for all current account transactions, was introduced. In 1993-94, tariff cuts and liberalisation boosted exports, and gradually a cut in the imports led to a decline in the trade deficit. India's trade increased from 15% during the 1980s to around 20% in 1995-98. To sustain a high growth rate in an increasingly competitive export market, Market Access Initiative was launched in September 2001 to give more thrust to marketing our products in the global markets.

"The establishment of SEZs often leads to improvements in transportation networks, utilities, and communication systems, which can have positive effects beyond the zone itself, benefiting the wider economy. Additionally, SEZs can serve as hubs for technology transfer and innovation. Foreign companies often bring advanced technologies and expertise, which can help local firms improve their own operations and boost their competitiveness. This knowledge transfer is essential for skill development within the local workforce, enhancing their capabilities and preparing them for future economic challenges"(Rajneesh, Narula:2019:17). Boosting exports of these sectors has the added advantage of increasing employment as these are labour intensive, employing large number of workers mostly in the unorganised sector.

"Another drawback is the fact that tax incentives can disrupt the equilibrium between the state and companies. When companies make sufficient profits, they pay higher taxes, which allows the government to invest without raising taxes. However, if this is not the case, the government may need to increase taxes. In a tax incentive system, to maintain equilibrium, the revenue generated by the system must be high enough to prevent the state from having to raise taxes"(Litwack, John, 2012: 141)

The IMF's World Economic Outlook of April 2014 has projected world trade volume to grow from the 3.0 per cent in 2013 to 4.3 per cent in 2014 and 5.3 per cent in 2015 with a marked improvement in export and import growth of advanced countries. However the picture on the ground is not so optimistic with the Baltic Dry index (BDI), a good proxy of the robustness of world trade, being in the red" (Tantri, Malini L, 23)It is in one of the lowest phases since the 2008 global financial crisis with sub 1000 indices for most days since 14 April 2014, compared to the peak of 11,793 in May 2008. The pick-up in India's exports in April-May 2014, after five months of low/negative growth, though a positive sign, is partly due to the low base.

CONCLUSION

The composition and direction of India's trade has undergone substantial changes, particularly, after the liberalization process which began in the early 1990s. In an increasingly connected world, no country can remain isolated from the changes occurring in the rest of the world. A Special Economic Zone is a geographically delineated, duty-free enclave that is treated as foreign territory for trade operations, duties and tariffs. A Special Economic Zone or SEZ is a specially marked territory or enclave within the national borders of a country. Reforming India's SEZs is vital to enhance export competitiveness, attract FDI, and boost domestic manufacturing. SEZs drive economic growth, attract investments, promote exports, and create employment opportunities.

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