Research Paper
Impact Factor :**3.029**

IJMSRR
E- ISSN - 2349-6746
ISSN -2349-6738

BARRIERS IN THE DEVELOPMENT PATH OF SPECIAL ECONOMIC ZONES IN INDIA

Seema Pandey
Research Scholar, Department of Economics, University of Allahabad, Allahabad (U.P) India.

Abstract
The present paper attempts to analyze the major problems, challenges, and issues faces by Special Economic Zones in India. In India several problems have emerged with the set-up of SEZs issues and co-ordination between the Centre and the States governments, inadequate compensation and rehabilitation, size and location, regional disparities, de-notification of units, loss of government revenue, land acquisitions, regional disparities, labour problems, and not benefited to local areas. Despite the huge rate of approval and establishment of SEZs, and thus their apparent success, the development of SEZs has faced considerable opposition and is being stalled in some cases. This resistance has arisen because of various controversial aspects regarding the establishment of SEZs.

Keywords: Special Economic Zones; Domestic Tariff Area; Comptroller and Auditor General.

1. INTRODUCTION

A Special Economic Zones is considered the sensitive outer skin of its host country, it is also regarded as a barometer of anticipate impending macroeconomic trend. SEZs have generated interest in developing countries; for example, country pursuing an export-led growth strategy expects SEZs to stimulate external trade and encourage economic activity in the domestic market. In India, specifically, SEZs success in expected translates into exponential growth in the manufacturing sector (IBEF).

An SEZ is a demarcated area of land that provides impetus to manufacturing and services, with the primary objective of boosting exports. SEZs typically feature liberal tax laws and economic policies. Units situated in SEZs are deemed to be outside the customs territory of India. Therefore, goods and services coming into SEZs from the domestic tariff area (DTA) are treated as exports from India, while goods and services rendered from the SEZ to the DTA are treated as imports into India.

2. DEVELOPMENT PERIODS OF INDIAN SEZS

The development of SEZs in India can be classified into three phases (Anwar, 2014). The first phase was of slow growth until 1990 and the second phase until 2004. A highly regulated economy, bureaucratic red-tape, lack of an attractive and efficient framework for the investments to be generated into these zones mainly from private developers, both domestic and international, held back their growth until the 1990s. However, major economic reforms carried out by the central government after the 1989-91 crises, attracted private investors to invest in a host of other economic activities. Moreover, significant new developments took place during the second phase. The third phase began with the SEZ Bill being tabled in the parliament in 2005 for discussions and recommendations. The bill was passed in February 2006, and came to be known as SEZ Act of 2005 (Gopalkrishnan, 2007). SEZs have grown tremendously and at present there are nearly 436 formally approved SEZs in India out of which 347 zones have been notified (www.sezindia.nic.in March 2015). The third phase of the development of SEZs also witnessed a complete change of their ownership. Before the SEZ Act was passed, 17 of the total 19 SEZs in India were under the control of government. However, since the Act was passed, private developers have also shown a keen interest. While, both central as well as state governments are showing some interest in developing SEZs, many of the zones developed by them are joint ventures with private investors. Several state industrial corporations have entered into joint ventures with private investors to develop SEZs (Indiabulls Real Estate Ltd, 2012). But at the same time, they have faced many problem related to establishment of Special Economic Zones

3 SOME MAJOR OBSTACLES OF SEZS IN INDIA

3.1 Government Revenue Loss

A SEZ is specially delineated duty free enclave and shall be deemed to the foreign territory for the purpose of trade operation and duties and tariff. The Government of India has been extended a number of tax concessions for coming under SEZs in its annual budget. A study by the National Institute of Public Finance and Policy (NIPFP) has revealed that, and expressed doubts over the benefits that have come from this area. A total loss of around ` 1,00,00 crores was estimated for 2006-10. The finance minister estimated a total loss tax revenue worth ` 1,02,621 crores for the same duration. According to CAG report 2014, there were ` 83104.76 (IT ` 55158 & indirect tax ` 27946.76) between 2006-07 and 2012-13. The withdrawal of exemption from MAT/DDT was considered by business as an important measure affecting the promotion of SEZs in the country. Further, SMF's in India are performing excellently both in manufacturing and export area has when compared with SEZs (CAG Report 2014).

3.2 Land Acquisition Conflicts

At the domestic level, there are two major legal issues-acquisitions of land and governance within the SEZs. The issues related to selection of land, land acquisition and compensation relate to acquisition of land. The controversy is about the use of agricultural land for the sake of industrialization. In this context, SEZ has severely criticized as it has posed a threat to the food security. However, this issue is no longer valid, as the government has decided not to acquire prime agricultural land for SEZs. Only time can tell that how long the government can hold this commitment.

The Haryana government acquired 1,500 acres of agricultural land from farmers to kick-start the project of Reliance SEZ in between Gurgaon and Jhajjar on 25,000 acres strength. But the checks given to the farmers reveal that the government bought this fertile agricultural land from farmers for ` 20,80,0015 which is a pittance, and far below the prevailing market rate (Kumar 2009). This land would in open market cost around ` 10 crore per acre, and the SEZ got it for undisclosed prices, which are bound to be very low, as the state is also a partner in the SEZ.

The anti-SEZ movement in West Bengal is the strongest in the country. The movement of Singur against Tata's Nano car project was the first major blow against such land acquisition drives for industrial projects displacing a large number of people. The incident forced the Governor of West Bengal Shri Gopalkrishna Gandhi to make a statement on 9th November 2007 related to Nandigram as "no government and society can allow a war zone to exist without immediate and effective action and the manner in which the recapture of Nandigram village is being attempted is totally unlawful and unacceptable". Then the Nandigram movement against Salim group SEZ, Raigad movement against Reliance's Maha Mumbai SEZ, the overall anti-SEZ movement in Goa and Kalinganagar's (Orissa) movement against POSCO SEZ torched the path of all such movements across the country and posed a major challenge against the SEZ rush.

3.3 Inadequate Compensation and Rehabilitation

The compensation required under the Land Acquisition Act focuses entirely on the market value of the land asset. It assumes that land is the only thing that is lost and that formal landowners are the only ones to lose. Rehabilitation policy implicitly assumes the existence of homogeneous labour, which can migrate anywhere to get work. That is not true for the agriculturists. For them it is an interdependent life and kinship is crucial. This displacement is very painful since it breaks the family and neighborhood bonds that are not easy to establish in a new setting. The bonds may be between the labourer and the farmer or the farmer and the carpenter or the blacksmith, and so on.

Another important point is that the landless who will not receive any compensation and those performing non-farm activities like the potters, herdsmen, carpenters, and so on, who are traditionally integrated into the farm economy, are left without any redress for the severe disruption to their livelihoods that they face. In fact, the ones worst affected will be the sharecroppers and labourers, the petty traders and service providers. These landless people do not even have a legal basis for compensation.

Another key criticism of the forced land acquisition is that it often discriminates against the most vulnerable sections of society, particularly scheduled castes, and tribal peoples. As in the case of the Polepally, the small land holdings of these vulnerable groups may be targeted because such people are least likely to be able to resist the process and because many are previous land reform beneficiaries whose land it may be possible (as in Polepally) to acquire for a fixed rate of compensation that may be well below the local market rates for comparable land. Vulnerable groups are also the most likely to suffer from malpractice in the distribution of compensation or other rehabilitation benefits.

3.4 Issues of Power Generation and Distribution

Another area of concern is the generation and distribution of power of the SEZ developers/units. One opinion is that it should be left to the entrepreneur to decide if he would like to provide power as infrastructure, as defined in the SEZ Act, or set up a unit to sell power as a good. Another view is that power is a good, to be generated and distributed by unit; it cannot be infrastructure. It may be worth considering an appropriate policy to encourage power generation and distribution.

3.5 Infrastructure Facilities

Well-developed infrastructure facilities are a major attraction for investors.International experience also shows that government participation in developing zone infrastructure, especially in the initial stages, has played an important role in their success. Quality infrastructure and reliability of services help improve efficiency of operations. Availability of integrated facilities and services such as housing, recreation, educational and health care are added attractions to investors. A larger domain of infrastructure facilities and supporting services make SEZ's more attractive for investors. The NCR receives power from the integrated grid of UP power systems and the northern regional grid. The current power supply is much less than the demand. Towns and industrial areas of Ghaziabad and Noida have been getting preferential treatment in respect of power supply.

3.6 Coordination between the Centre and the States

Many developers complain that they get tax breaks and concessions from the center, but not from the States" Uncertainty in tax laws and poor administration of SEZ laws will only drive away foreign investors too". The state government will have a very important role to play in the establishment of SEZs. Representatives of the state governments, who are member of inter-ministerial committee on private SEZ is consulted while considering the proposal. Before recommending any proposals to the Ministry of Commerce and the Industry the States must satisfy themselves that they are in a position to supply basic inputs like water, electricity etc.

3.7 Size and Location

Another contentious issue in the SEZ Act relates to the size and location of these zones. Though multi-product SEZs are required to have a minimum, an area of 1000 hectares that specified for service sector zones is only100 hectares. In the case of single product zones, such as IT and gems and jewellery, it can be as small as 10 hectares. Despite the Finance Ministry‘s opposition, the Commerce Ministry had its way with the Empowered Group of Ministers and managed to retain the minimum area for IT and biotech zones at 10 hectares. About half of India’s small SEZs may not really take off, says Morgan Stanley economist Chetan Ahya in Mumbai. In today’s highly competitive, globalised world, the concept of small-sized special Economic zones are completely outdated. The major attraction for real estate developers is that most of these SEZs are going to be located near big cities and towns; where land is scarce and the state governments are supposed to offer it at concessional rates. Ideally, new SEZs should be located far from cities and towns to build new towns and should be spread over a minimum 1000 sq. km. Instead of offering all kinds of tax holidays and concessions, the government should provide infrastructure support to such zones by building highways and express ways to connect them to ports, airports and other large towns and cities. This would involve minimum displacement of population and help in developing some underdeveloped regions.

3.8 Regional Disparities

Most of the SEZs were initially located in comparatively well off states with better infrastructure and associated with port as well in India. The states like Andhra Pradesh, Maharashtra, Telangana, Karnataka, Tamil Nadu and Gujarat all wealthy states have managed to receive the majority of SEZs. Out of 436 formally approved SEZs, 286 were located in these states. Together, seven states (Maharashtra, Karnataka, Tamil Nadu, Telangana, Andhra Pradesh, Gujarat, Kerala, Haryana, Uttar Pradesh, Madhya Pradesh and West Bengal) constitute about 75 per cent of the total formally approved SEZs. There are no formally approved SEZs in states like Bihar, Jammu and Kashmir, Himachal Pradesh, Assam, Mizoram, Sikkim, Arunachal Pradesh, Meghalaya, Tripura, etc (www.sezindia.nic.in).This concentration of SEZs in richer pocket intensifies income gaps and disparities between states in India. Thus, the country‘s experience clearly indicates that SEZs intensifies an uneven economic growth within a country and the state has very little power in controlling these investments. In addition, the state efforts to redirect investments in backward regions have remained largely unsuccessful.

3.9 De-notification of Units

Once the Act came into force in early 2006, the massive rush of getting SEZ approval made Udyog Bhawan the hotspot of future industrial action in the country. Hit by the global economic downturn and protest over land acquisition private developers have slowed down their momentum, whereas some others have even decided to withdraw their commitment on setting up SEZs altogether. Ten big developers, namely DLF IT/ITES at Gandhinagar, Sonapet, Kolkata, Bhubaneshwar, Shiwaji Marg, Essar, Goregaon, Lahari Infra, Mytas Parsunathi, Hazira Ltd, Royal Palms India Ltd. are some of the worthy companies, which have de-notification allowing them to withdraw their project.

A developer who is not interested in continuing with the scheme has the option to exit by de-notifying with an undertaking to pay the concessions availed. Companies are de-notified due to various reasons like.

A. Global slowdown - drastic falls in export due to change in global perspective affect major players of SEZ;

B. Direct tax code - proposed new direct tax code threatens to take away exemptions and sops like income tax holiday has created uncertainty among developers;
C. Red tape - lack of clarity in policy has hit new projects; and
D. Policy hurdles - no flexibility to switch from exports to domestic markets has made SEZs available.

CONCLUSION AND RECOMMENDATIONS

From the above Analysis, it is clear that the SEZ policy has announced in April 2000 as a part of the export-import policy of India. This policy was intended to make SEZs an engine for economic growth by providing an attractive fiscal package, at both central and state levels, with quality infrastructure and minimal regulation. The SEZ Act, 2005, supported by the SEZ Rules, that came into effect on 10 February 2006 drastically simplified procedures and provided single window clearance on central and state matters.

Prior to the SEZ Act, there were only 19 SEZs in India. There were 72 notified SEZs in India in 2006. These increased to 381 in 2011 and 407 in 2014. However, after 2014, several SEZs were denotified; this led to the shrinkage of its number to 347 as on 10 March 2015. Quality infrastructure and reliability of services help SEZs to improve efficiency of operations. A larger domain of infrastructure facilities and supporting services make SEZ's more attractive for investors. Instead of directly allotting land to the private SEZ developers, the governments may develop. SEZs and allot land to units taking into consideration their actual requirement.

The developers of SEZs should be made solely responsible for rehabilitation of Project Affected Persons (PAPs). The developer should make adequate provisions for rehabilitation of displaced persons as per the relief and rehabilitation policy of the respective state governments. In order to redress the distress in the primary sector, Special Agricultural Zones (SAZs) or Agri-export Zones (AEZs) on the lines of Special Economic Zones should be established both in irrigated and rain-fed areas to support the farm families for increasing agricultural production and agricultural exports so that the country could usher in evergreen revolution. Through SAZs the governments can provide support to agricultural sector by developing needed infrastructure like storage, transport, processing, and value addition facilities. To generate employment to large number of farmers, the Farmers' Cooperative Organizations (FCOs) may be given permission to set up ' Kisan SEZs' to provide state of the art infrastructure facilities to a range of industries with primary focus on food processing and agro-based industries (Reddy et al.2009).

REFERENCES

1. Anwar, M.A., (2014), "New Modes of Industrial Manufacturing: India's Experience with Special Economic Zones", *Bulletin of Geography. Socio-economic Series*, No. 24, pp. 7–25.
2. *Comptroller and Auditor General (CAG), Report 2014.*
3. Ch. Panduranga Reddy, A. Prasad and M. Sampath Kumar (2009), "Balanced Regional Development of India through Special Economic Zones: An Empirical Study", *Journal of Social Science*, Vol. 20, No. 1, pp 1-13.
4. Gopalkrishnan, S. (2007), "In the Name of Growth: The Politics and Economics of Special Economic Zones in India", Study Prepared for Council for Social Development, New Delhi.
5. IBEF "SEZs Role in Indian Manufacturing Growth", Available at www.ibef.org.
6. Indiabull Real Estate Ltd, 2012: Available online at: http://www.indiabulls.com/realestate/Nashik_Sez/ what.html
7. Kumar. R (2009), Special Economic Zones in India: Inter State and Inter-sectoral Disparities, *Indian Development Review*, Vol. 7, No.1-2, pp. 117-136.
8. Singla, S; Atmavila, Y and Singh, A (2011), "Special Economic Zones in India: Policies, Performance and Problems", *ASCI journal of Management*, Vol. 40, No. 2, pp. 21-59.
9. Vishwanatham, N (2006), Designe of Special Economic Zones as Economic Engine of Growth‖, in Vishwanathan, N (ed.) Achieving Rural and Global Supply Chain Excellence: The Indian Way, Centre for Global Logistic and Manufacturing Strategies, Available at http://www.drona.csq.iisc.earnet.in
10. www.hinduonnet.com
11. http://www.sezindia.nic.in