



## SPECIAL ECONOMIC ZONES IN INDIA

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### Abstract

“Development of a country depends on its economic development and this can be achieved by establishing mega industrial complexes and Special Economic Zones.” This idea was accepted by majority of the developing countries of Asia and Africa in the 21<sup>st</sup> Century. They adopted European developmental model as the best system for achieving industrial development which gives top priority for the development of big industries. The Special Economic Zones are important in today’s context for the third world and developing countries which have been in the race for rapid economic growth. India was one of the first country in Asia to recognize the effectiveness of the EPZ models in promoting exports and thereby achieving economic growth. The first Export Processing Zone was set up in Kandla, Gujarat in the year 1965. With a view to overcome the shortcomings experienced on account of the multiplicity of controls and clearances in giving permission for the establishment of industrial units, absence of world class infrastructure and an unstable fiscal regime made Central Government to adopt innovative policies for the development of Indian Economy. With a view to attract large scale foreign investment in India, the SEZ policy was announced in April 2000. The prime objective of creating SEZ was to enhance foreign investment and to provide an internationally competitive and hassle free environment for exports. The idea was to encourage exports from the country and to see that opportunities is made available to the domestic enterprises and manufacturers to compete globally. At present a total of 588 SEZ have got clearance from the Central Government and started functioning throughout the country. In the state of Karnataka 62 SEZ got permission from the state government and is in the stage of functioning. Creating of SEZ will definitely lead to the increase in the national exports and income. But the biggest challenge faced by SEZ’s in today’s context is the taking away of agricultural land from the farmers. For the creation of SEZs it requires a huge area of land which naturally displaces crores of people from their natural inhabitation. Acquisition of land for the creation of big industries, Special Economic Zones, construction of dams, infrastructure like highways disrupts the normal life of the weaker section of the population, tribals and downtrodden who depend on their small pieces of land and forest for their livelihood and has resulted in the violation of Human Rights. By keeping this objective in mind an attempt is made in this paper to discuss Special Economic Zones in the Indian context, its problems, relevance and how it has been effected the common people in India and also how SEZ’s should be modeled to benefit India.

**Keywords:** *Special Economic Zones, Displacement, Human Rights, Development Resettlement, Rehabilitation.*

### Introduction

After the liberation from the clutches of their colonial masters new formed Asian and African States concentrated more on the nation building Process. Naturally priority was given to the economic development with the assumption that economic development will lead to the all round development of the country. Therefore, these countries concentrated on the use of modern technology and on heavy capital investment. The reason was that, the use of modern technology and investment on big industries was responsible for the development of Western Countries and by imitating the same model even the newly liberated third world countries can also achieve economic development. But, given their western orientalism, the new leaders of the independent countries could not think of alternative models suited to their respective countries. The most powerful logic for modernization and development in India is based on the notion that the standard of living and welfare of the people can be improved by modern science and technology and by creating basic world class infrastructure. But this model has benefited only the elite classes, while it has created havocs and miseries to millions of people. Thus, in recent years the type of development encouraged and promoted in India has become a subject of increased criticism. In the objective of achieving economic development and to compete with their counterparts the authorities of the Central Government adopted liberal policies regarding the establishment of Industrial complexes after 1990s. This policy has been resulted in accepting Special Economic Zone policies by the Central Government after 2005 in India.

The Special Economic Zone policy was first introduced in India in the month of April 2000. The main objective of the creation of SEZ is to increase and attract foreign investment and to promote exports from the country. This was introduced by Murusoli Maran, then Union Commerce Minister after visiting SEZs created in China. He was very much influenced by this and thought that same model can be introduced throughout India for faster economic development and to attract private investment in big industries which can also encourage exports, thereby may bring foreign exchange in India which was needed. Under this scheme SEZ is conceived as a self contained area with world class infrastructure for commercial as well as residential purposes.



The concept of SEZ was first successfully introduced by China, wherein the creation of these industrial complexes contributed to 20 percent of the total Foreign Direct Investment. After the experimentation and influence by its success in China this was successfully implemented in Poland and Philippines. The success of SEZs and its contribution to the economy of China motivated India to enact the SEZ Act, which received the approval of the President of India on June 23, 2005 and it was notified by the Central Government on February 10<sup>th</sup> 2006. The main aim of the SEZ Act was to provide a stable economic environment for the promotion of export-import of goods in efficient, hassle free and a quick manner.

### **Objectives of SEZ Act 2005**

The SEZ Act was passed by the Parliament in the month of April 2005 which received Presidential assent on 23<sup>rd</sup> of June 2005. Over eight hundred suggestions received on the draft rules, after extensive consultation with the bureaucrats, industrialists, economist the SEZ Act of 2005. Supported by the SEZ rules were implemented on 10<sup>th</sup> February 2006. The main objective of the Act was to attract a large amount of foreign and domestic investment in SEZs, leading to generation of additional economic activity and creation of large number of employment opportunities which is very necessary for the development of the country and to have a stable economy. Through this act Central Government was intended to simplify the process of giving clearance for the creation of mega industrial complexes without any red tapism, hard procedure and delay. Simplified procedures and documentation, single window clearances for matters relating to centre and state governments for setting up of units in SEZ were the main objectives for encouraging foreign and domestic investors to start their industries in the SEZ areas. The main objectives of the SEZ Act of 2005 can be discussed as below:

- Promotion of exports of goods and services. Encouraging the domestic investors in the export oriented business thereby to get huge foreign exchange which will boost the economy of the country.
- Generation of additional Economic activity,encouraging the investors to invest in different large scale economic activities.
- Creation of employment opportunities by creating large industrial enclaves throughout the country it will create huge employment opportunities to the skilled and unskilled youth in India. There by this will solve the unemployment problem faced by the youth to some extent.
- Encouraging the domestic and foreign sources to invest in the country. This will result in improving the standard of living of the people and contribute to the growth of per capita and national income.
- Development of basic infrastructural facilities which is conducive for the creation of industrial enclaves throughout the country.

### **Main features of SEZ Act**

The Special Economic Zone Act of 2005 was intended to support the creation of huge industrial complexes throughout the country. The Act is investors friendly and encourages the development of industrial sectors. The main objective is to attract investors from within and outside India to invest a huge amount to start big industries. This will not only provide job opportunities to the local people but will also increase the standard of living of the people and indirectly increase the per capita and national income of the country. Following are some of the important features of the SEZ Act.

- SEZ would be a specifically duty free for enclaves and shall be deemed to be foreign territory for the purpose of trade operations, duties and tariffs.
- The SEZ can be created either by Public, Private or joint Sectors and even by the state government.
- As per the present modification it should have area preferably minimum five hundred hectares. Single product SEZs minimum land requirement has been cut to 50 hectares from hundred hectares.
- Raw material and goods going into the SEZ area from Domestic Tariff Area shall be treated as deemed exports and the finished goods coming from the SEZ area into the DTA shall be treated as the goods are being imported.
- SEZ units would have to be positive net foreign exchange earners and would not be subject to any minimum value addition norms or export obligations.
- Hundred percent Foreign Direct Investment would be permitted for all investments in SEZs except for activities under the negative list.
- SEZ units can be set up for manufacture of goods and rendering of services, processing, production, Grading, repair, remaking, re-engineering including making of gold, silver and articles there of or in connection therewith.
- The Ministry of Commerce and Industry through issue of Notification can also convert an existing Export Processing Zone into a Special Economic Zone.
- The development Commissioner would be responsible for administrative control of the Zone.

The SEZ Act of 2005 aims at satisfying the requirements of all important stakeholders in the SEZ that is the occupant enterprise, the developer, the operator, out zone supplier and residents. It also claims to provide a speedy and single window



clearance mechanism. The Central Government has created a committee of Board of approval to ensure orderly development of SEZs in India.

### **Incentives given to the investors in SEZs**

The Act of 2005 on SEZ has given attractive packages to those who invest in SEZs. Duty free import/domestic procurement of goods is allowed for SEZ units towards development operation and maintenance. Tax holiday for fifteen years, hundred percent repatriation of profits of subcontracting facilities are allowed. This can attract foreign direct investment for providing internationally competitive infrastructure, exemption from custom duties, central excise duties, service tax, Central sales taxes both to the developers and to the units. Hundred percent income tax exemption for 10 years in a block period of 15 years is given to the SEZ developers. The labour laws that hold within the SEZs are identical to the state and central ordinances that apply within the domestic tariff area. The only difference is that Development Commissioners also acts as the Labour Commissioners. That has been done to solve disputes related to labourers in a speedy manner.

The SEZ Act of 2005 speaks about liberal a labour law which encourages the industrialists to invest in a large scale in Special Economic Zones. There has been a huge rush to set up SEZs after the Act was implemented in the year 2006. The total number of approvals given and in the process of giving final assent for the creation of these industrial complexes as on July 2013 was 573 where 62 SEZ has got approval in the state of Karnataka and are in the stage of creation and functioning.

### **The Debate**

The SEZ policy which was enacted by the Central Government in India in the year 2005 has become one of the most debated issues in the recent year. This model was accepted and implemented with an idea of achieving economic development in a speedy manner, but being an agrarian society crores of people in India depends on agriculture and related work for their living. Creation of industrial complexes needs land and for this land has to be acquired by farmers whose daily earning depends on agricultural works. India being an agrarian society a large number of people depends on agriculture for their livelihood. If land is acquired by them then the life of the peasants' will become miserable. The previous study by the researches has proved that the money given as compensation in the majority cases is spent for unproductive purposes. Farmers are not left with other occupation to lead their life, therefore it is argued that acquiring land especially for the creation of special economic zones will create more problems than benefits. This is a major setback for the creation of industrial complexes in India.

The farmers of Nandi gram in West Bengal and other parts of Northern India resisted the acquisition of land for the creation of Special Economic Zones. There has been critical arguments by politicians, scholars, environmentalists, media and civil society against the creation of the Special Economic Zones in India. The supporters of SEZ argue that SEZs are important in today's context for developing countries especially India which is in the race for rapid economic growth. Those who oppose the creation of SEZs argue that that this will lead to a large scale land acquisition by developers, displacement of farmers, meager compensation is normally given to the victims and no alternative livelihood is arranged for them. It is argued that after independence till today forty million of people have been displaced from their original places in the name of developmental activities like construction of dams, railway lines, highways, airports and for the establishment of big industries. Now in the name of creating Special Economic Zones throughout the country once again there will be forced displacement of lakhs of common innocent people from their natural inhabitancy, especially farmers and tribal's. Which will result in the violation of human rights of these poor people. The statistics shows that in India till today nearly forty percent tribals and downtrodden lost their land in the name of development.

For the creation of Mangalore Special Economic Zone in the Mangalore rural taluk in the state of Karnataka, till today nearly four thousand acres of land has been already acquired by the authorities which directly displaced nearly fifteen thousand people belonging to nearly three thousand families. The biggest challenge faced by SEZs in today's context is the taking away of agricultural land from the small and medium farmers. It is argued that the farmers are being paid disproportionate money which is not in lieu to the current land prices. More over SEZs are leading to decrease in crop production thus slowing down of agricultural activities in the country. The supporters for the creation of SEZ reject this argument and justify that acquisition of land for development activities is unavoidable, SEZ developers are required to provide an adequate relief and rehabilitation package for the affected. It is also argued that the land requirement for the creation of all approved Special Economic Zones in India requires acquiring nearly 1,50,000 hectares which is less than 0.3% of total cultivable land in India.

India is basically an agrarian society where more than 65% of the population depends on agriculture for their livelihood. Small farmers depend on their small land, but today in the name of development, creation of special economic zones throughout the country their land is being forcibly snatched away from them. The loss of agricultural land has created mental agony and miseries to the poor farmer who do not have any other occupation to earn their livelihood. The critics on the



creation of SEZs argue that this will help only the rich and promoters will get land in very low price and will make their fortune out of real estate development. As per the observation made by the researchers it is proved that SEZ is not created in governmental and barren land. But private cultivated, agricultural and fertile lands have been acquired throughout the country for the creation of Industrial zones.

By observing the approval given by the Central Government for the creation of SEZ in the recent years it is found that SEZ are set up in states where there is already a strong tradition of manufacture and exports. This will once again increase the regional disparities and unbalanced growth of the states in the Indian federation. The developing seven states ie. Karnataka, Tamil Nadu, Gujarat, Maharashtra, Andhra Pradesh, Kerala and Haryana have major share of nearly 70% in the approval given for the creation of SEZs by the Central Government. On the other hand industrially backward states of north eastern region, Odissa, Jammu and Kashmir do not have much approval for the creation of SEZs. Industrialists are not ready to invest in these industrially backward states which has created regional imbalances regarding the economic development. As per the SEZ Act of 2005, special benefits, exemptions and tax free benefits are given to the industries which are created in the SEZs. This will encourage the companies which are already functioning successfully to simply relocate to SEZs to take advantage of the tax concessions being offered by the government. From the above discussions we can conclude that creation of SEZs to boost and encourage export oriented industries has also some negative implications on the people.

### **Conclusion**

Creation of SEZs throughout the country could drastically improve the economic activity in the country and help to have good foreign exchange, a strong economy, make the country's export competitive globally noticeable, may provide huge employment opportunities to the youth of the country. But this should not be done at the cost of farmers. Throughout the country land of the farmers has been acquired for the creation of SEZs even though they protested strongly against land acquisition. Pandit Jawaharlal Nehru, the first Prime Minister of India made a statement while addressing the people who were displaced from their original habitat for the creation of Hirakud dam in Odissa that 'the people have to sacrifice for the wider interest of the country'. At the same time it is also the responsibility of those who run the administration to take care of the poor people who lost their land for the development of the country. Sacrifices made by the people must be duly respected by giving them proper compensation and rehabilitation packages. Unfortunately development activities have been given top priority, interest of the displaced people has been totally neglected. Industrialisation is good for the development of the country while importance is to be given to the participation of the people in the decision making process. Proper compensation and rehabilitation is to be given to the displaced people who lost their valuable land for the creation of SEZs and mega industries in India.

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