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ANALYSIS OF INDIAN SPECIAL ECONOMIC ZONES ACT

~ Arika Halder

The World Investment Report 2019 reported that more than 140 economies around the world have Special Economic Zones(SEZs) in their countries. Almost all transitioning and developing economies have opted for SEZs that are believed to be a powerful economic drive through its liberal policies and usage of Global Value Chains(GVC) to attract investments and upgrade existing facilities, as the competition among developing nations continues to increase. India was formally introduced to SEZ, a decade after its liberalisation reforms and with growing global trade dynamics, India recognized its backdrop to promote exports of the country and help propel its GDP growth. The Government of India passed a comprehensive legislation of SEZ Act in 2005 and the rules were promulgated in 2006. The objective of SEZ was to bring foreign investments, create jobs, develop world class infrastructure and create a globally competitive and hassle free environment for companies engaged in exports of goods and services. India can become the manufacturing hub and service activities creating a multitude of employment for its young growing population(Govindam, 2018).

The SEZ has been recognized as an important mechanism for an overall development of the country along with driving growth in different sectors of the economy with the help of world class infrastructure and generating employment for the youth. To understand SEZ and analyse its impact on the society we need to make careful observations against the holistic approach that SEZ has created and can create when implemented with its maximum potential. The SEZ Act of 2005, clearly mentions the guidelines for any area to be noted as the Special Economic Zone and its functions under this act. The most prominent of them are promotion of exports of goods and services, creation of employment opportunities and promotion of investment from domestic and foreign sources(*ICSI* 2005). Thus, in this blog we will analyse the current status and performance of SEZs in India in terms of investment, exports and employment. Then we will look into how Foreign Direct Investment(FDI) is contributing to the socio-economic parameters. And lastly, the key challenges the SEZ face and the learnings that can be drawn from international SEZ.

The significant objective of establishing SEZ is to create balanced growth across all regions of the country. Most of the SEZ are set up in Maharashtra, Telangana, Karnataka, Tamil Nadu, Andhra Pradesh. If observed carefully, the majority of the SEZ includes the IT/ITES sector which showcases India's availability of trained manpower(Sharma et al., 2015). The manufacturing sector accounts for 40% of the SEZ. Within the manufacturing sector, pharmaceuticals, automotive and electronic sectors account for 50% of the exports (excluding petrochemical, gems and jewellery). The pharmaceutical industry is currently valued at $50 billion and is expected to grow $130 billion by 2030(Malik, 2024). The growth drivers include government support through the PLI Scheme, strong domestic demand, highest number of infrastructure development, low cost generic patented drugs and quality services at marginal costs. The electronics industry is involved in making highly complex products that have a high global demand. Indian electronics manufacturing increased from 1.3% in 2012 to 6% in 2020. Projects like "Digital India" and "Smart City" have accelerated adoption of products. The automotive sector has more than 90% of its exports engaged with the upstream segment of the value chain, comprising auto ancillary and component manufacturers. Also, the recent trend shows automobile manufacturers are trying to collaborate with foreign companies to upgrade their product and compete in the external market(Evaluating impact of SEZs in India through sectoral analysis and case studies 2021).

The performance of SEZ has always been seen with the lens of comparison with China and other Asian nations. But when internal growth and development is taken into account, the employment opportunities have increased considerably. With India's growing age population, the number of people employed in 2005 were 1,35,000 which has gone upto 22,33,000 persons in December 2019. SEZ has also attracted significant investments from 4035.54 crore in 2006 to 537657.67 crore in December 2019. The exports in SEZ have also increased consistently and stood at 787017 crore in 2019-20 from 22840 in 2005-06(Sharma et al., 2015).

The FDI inflows in the SEZ had a significant impact, in terms of productivity gains, job opportunities, upskilling, gender equality and sustainability. The socio-economic and environmental outcomes either directly from the activities of foreign firms or through spillovers from market interactions or both. Foreign multinational enterprises and their linkages with domestic firms enable productivity growth and enhance innovation capacity in SEZ. Job quality in SEZ is essential to ensure employees can work productively. To enhance productivity the government has given several monetary and non-monetary benefits, occupational safety standards, insurance, transport facilities, amended labour laws etc have been provided to its employees. The FDI inflows can provide us the knowledge of how foreign MNEs directly help in skill training its workforce through in-house worker or manager training or indirectly through knowledge transfer to domestic firms. Indian SEZ have led to innovation, technology and knowledge transfer that enhanced the overall skill ecosystem in India. Different SEZ employ females and promote gender equal employment that not only benefits in creating a diverse and strong workforce but also deepens social perspective. The FDI can also contribute to low carbon energy transition and electricity production(Evaluating impact of SEZs in India through sectoral analysis and case studies 2021).

Along with socio-economic benefits there lies issues and complications that SEZ has and is hindering its potential growth. The SEZ developers hardly experience significant export benefits in SEZ area compared to Domestic Tariff Area. Most developers wanted a periodic time for different processes when setting or exiting in the SEZ. Single Window Clearance Mechanism is not available in SEZ of all states. Developers voted for stamp duty exemptions and also voted for discontinuation of Minimum Alternate Tax(MAT)/ Dividend Distribution Tax(DDT). Developers have opted for De-notification & Exit from SEZ has increased because of poor global market situation in recent times, lack of infrastructure facilities, global recession, trade war, conflict situation around the world(Sharma et al., 2015).

SEZ plays a positive role in holistic development in the Indian Economy. From driving growth in different major sectors and generating significant development in the society of the country, SEZ has a much larger role to play than expected. Thus ensuring SEZs efficient and effective mechanism is important for India's $10 trillion GDP by 2030. Thus when compared to international practices led by different countries in their SEZ zone, the key learnings that can be taken are to establish well-defined institutional structure with effective one stop shop for SEZ development, attracting anchor investors for ecosystem development and incentivising hi-tech sectors, develop SEZ that are well connected to major markets and gateways, creating a business environment that provides investors with multiple options, providing high value services like quality of life and business services in SEZ, joint SEZ development for addressing capital and knowledge constraints(Evaluating impact of SEZs in India through sectoral analysis and case studies 2021). Thus for an overall growth and development, a comprehensive approach is a much need of the hour.

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