SEZs IN INDIA: CONCEPT, OBJECTIVES AND STRATEGIES

By,

Dr. R. SHASHI KUMAR
M.A., M.Phil., Ph.D.
READER
DEPARTMENT OF ECONOMICS
BANGALORE UNIVERSITY
BANGALORE—560 056
KARNATAKA STATE
INDIA

E-mail: drrshashi@yahoo.com
Mobile: 098444 17452

Paper presented in the National Seminar on
SPECIAL ECONOMIC ZONES
Organized by Sri Adichunchanagiri College of Arts, Commerce and Science,
Nagamangala—571 432, Mandya District, Karnataka,
On September 12, 2008.

It is better to know some of the questions, than all of the answers
- *James Thurber*

1. INTRODUCTION

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. It also increases the need for proper knowledge about India's corporate environment – its strengths, constraints and the implications for Sweden, Europe and the rest of the industrialized world.

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.

However, it must be noted that India's economy predominantly continues to concentrate on absorption of existing technology rather than development of new R&D or innovation at the global knowledge frontier. The country has much to gain from increased absorption of existing knowledge by promoting economy wide transfer and diffusion of local and internationally available technology. There is considerable scope for more effective absorption of existing knowledge by expansion of foreign investments and trade, building effective capacity among Indian corporations, public education and research institutions coupled with various forms of collaboration between Indian and foreign partners.

The Indian economy is expected to grow at a rapid rate of 6–10 percent between 2007 and 2012 and beyond. By the year 2032, China will have the world's largest economy, followed by the U.S. and India. In terms of purchasing power parity (PPP), even today India's GDP is already the third largest in the world after the U.S. and China. While much of the country is likely to remain poor and industrially backward, other parts have the potential to grow as fast as China or other East Asian economies.

1.1. Note on Special Economic Zones

Special Economic Zones (SEZs) Scheme in India was conceived by the Commerce and Industries Minister Murosoli Maran during a visit to Special Economic Zones in China in 1999. The scheme was announced at the time of annual review of EXIM Policy effective from 1.4.2000. The basic idea is to establish the zones as areas where export production could take place free from all roles and regulations governing imports and exports and to give them operational flexibility. Special Economic Zone (SEZ) is a specifically delineated duty free enclave, which shall be deemed to be a foreign territory for the purposes of trade operations and duties and tariffs.

1.2. India's Economic Potential and SEZs

With a population of 1.1 billion and a GDP per capita of US$3,400, India is a rising power that no international company can afford to ignore. In 2005, the International Monetary Fund (IMF) reported India's GDP to be US$3.63 trillion in terms of purchasing power parity, ranking fourth in the world. By some definitions, India's middle class consists of 300 million people and its expansion will raise consumption and make economic growth faster and more sustainable. As is well-known, India has developed a world-class information technology and business process outsourcing ("BPO") sector that exports its services globally. Yet for all of India's achievements, the country is still wrestling with high poverty and unemployment rates. India may have excelled in BPO, but when it comes to export manufacturing, India is the poorer cousin of China. Hence, there is great interest within India to promote the export-oriented manufacturing sector through Special Economic Zones or SEZs.

2. THE GLOBAL DEBATE ON SEZs

Traditionally SEZs are created as open markets within an economy that is dominated by distortionary trade, macro and exchange regulation and other regulatory governmental controls. A long-held view of development economics is that investment, in particular foreign investment, in enclaves such as SEZ, pushes forward the process of industrial development by creating horizontal and vertical spillovers. Horizontal spillovers are technology leakages and management know-how from multinational firms to local industry competitors. Vertical spillovers are also known as *forward and backward linkages*. Horizontal spillovers emerge from incentives for a corporation to develop the supply chain through technology transfers to suppliers of the MNC as well as those to whom these MNCs are suppliers. Such transfers include management know-how, staff training, and improved production efficiency. However, global evidence reveals that horizontal spillovers are insignificant as MNCs are not willing to set up business where technology leakages benefits competitors. On the other hand there is evidence from developing countries like Indonesia and China that shows the significant positive spillovers of vertical linkages. In particular the MNCs try developing local supply chains that in turn help develop local industries in other areas.

Worldwide, the first known instance of an SEZ seems to have been an industrial park set up in Puerto Rico in 1947 to attract investment from the US mainland. In the 1960s, Ireland and Taiwan followed suit, but in the 1980s China made the SEZs gain global currency with its largest SEZ being the metropolis of Shenzhen. From 1965 onwards, India experimented with the concept of Export Processing Zones (EPZ). These did not quite deliver as much as was expected, however. Thus, in 2000, the new Export and Import Policy allowed for SEZs to be set up in the public, private or joint sector or by state governments. Eight EPZs were converted into SEZs. Altogether, a total of 19 SEZs were established prior to the promulgation of the SEZ Act, which were later – in 2005 – legally deemed as SEZs under the new Act. More than 300 SEZs have obtained either formal or “in principle” approval over the years. SEZs have been enabled with a view to providing an internationally competitive and hassle-free environment for exports. Units may be set up in SEZs for manufacturing goods and rendering services. All the import/export operations of the SEZ units are on a self-certification basis. Sales by SEZ units in the domestic tariff area are subject to payment of full custom duty and to the import policy in force. Furthermore, offshore banking units may be set up in the SEZs.

Thirty years ago, 80 special economic zones (SEZs) in 30 countries generated barely US $6 billion in exports and employed about 1 million people. Today, 3,000 SEZs operate in 120 countries and account for US $600+ billion in exports and 50 million direct jobs. After the success of the first SEZ when it appeared in Taiwan’s Kaohsiung harbor 40 years ago, some economists thought that greater trade liberalization around the world would soon make these zones obsolete. That was especially true after 1995, when the founding of the WTO promised to bring trade barriers crashing down and usher in a new golden age of globalization. Such “special” zones were to be expanded to entire countries, regions and ultimately, the world. Instead, zones have had an enduring appeal—even in mostly open economies such as Taiwan’s. In fact, their numbers are booming: In 1995, there were 500 in 73 countries; by 2002, there were 3,000 in 120 countries. A large number of them are operating in developing countries.

2.1. What do SEZs Produce?

SEZs are the markers of government's strategy to create an "export-oriented" economy. Vast majorities of developing world have invested in servicing the needs of the European and the American consumers. Developing countries aim for export economies for garnering foreign exchange.

3. SEZs IN INDIA

3.1. Foreign Trade Zones / Free Trade Zones

The Government of India has established several foreign trade zone schemes to encourage export-oriented production. These provide a means to bypass many of the domestic economy's fiscal and infrastructural obstacles that otherwise make Indian goods and services less competitive in international markets. The most recent of the schemes is the Special economic Zone (SEZ), a duty-free enclave with separately developed industrial infrastructure. Other schemes include the Export Processing Zone (EPZ) and the Software Technology Park (STP), both of which are designated areas for export-oriented activities. In addition, India allows an individual firm to be designated an Export Oriented Unit (EOU). All of these schemes are governed by separate rules and granted different benefits.

In May 2005, the Government of India passed new legislation called the “Special Economic Zones (SEZ) Bill 2005” endorsing its commitment to a long-term and stable policy for the SEZ structure which had previous been only an administrative construct. In addition to tax breaks, the law provides a one-stop clearance and approval mechanism for setting up SEZ units. SEZs are regarded as foreign territory for the purpose of duties and taxes, and operate outside the domain of the custom authorities. SEZ units are allowed to retain 100 percent of their foreign exchange earnings in special Export earners Foreign Currency Exchange accounts. They are free to sell goods in the domestic tariff area (DTA) on payment of applicable duties. Sales from DTA firms to SEZ units are on par with regular trade transactions and hence eligible to benefit from all export incentive and foreign currency exemption schemes. In addition, many state governments have granted a sales-tax exemption for DTA-SEZ sales. SEZ units are also exempt from the central government's service and excise tax regimes. SEZ businesses are expected to be a positive foreign exchange earner within five years from the commencement of production.

None of the FDI equity caps are applicable to units in SEZs, including those sectors reserved for small-scale industries. SEZs are exempted from the requirements of industrial licensing. The new law increased the tax holiday period (phased out over time) from 10 years to 15-years for both SEZ developers and SEZ production units. The SEZ legislation also provides for the establishment of an International financial Services Centre to facilitate financial services for SEZ units. Offshore banking units (OBUs) will be permitted to operate in SEZs, virtually like a foreign branch of a bank, to make available financing at international rates. The OBUs will enjoy exemption from certain Reserve bank of India requirements.

The set up of large scale SEZ's in India is designed to serve both domestic and export markets. They are envisaged to have world-class infrastructure with integrated real estate, power and transportation facilities, single window clearance approval and administrative processes, flexibility, internationally-competitive labor laws and transparency/clarity of governance.

3.2. EPZ and SEZ differences

Conceptually, EPZs and SEZs are different – the former is an industrial estate whilst the latter is an industrial township. Despite criticisms that India's attempt to convert its Export Processing Zones (EPZs) into SEZs is an insurmountable task, India has gone full steam ahead.

The SEZ and EOU/EPZ schemes have a common philosophy and common objectives. Therefore, by and large the procedures are the same. The one critical difference is that whereas the EOUs are 'stand alone' units the units in the SEZ/EPZ are in a well defined enclave. However, a perusal of the supporting customs and central excise duty exemption notifications and procedures reveals a confusing scenario. This is since there are an unduly large number of notifications (over 50) and circulars and instructions (over 300) in existence. It can well be contemplated that both the tax administrators and the units themselves would have a lot of doubts in view of the sheer volume of relevant material. It is also quite possible that cases of misuse of the scheme, which are on the rise in recent years, are on account of the absence of codification of the law and procedures in respect of the said schemes.

3.3. Salient features of an SEZ

An SEZ is a geographically demarcated region that has economic laws that are more liberal than the country's typical economic laws and where all the units therein have specific privileges. SEZs are specifically delineated duty-free enclaves and are deemed to be foreign territory for the purposes of trade operations, duties and tariffs. The principal goal is to increase foreign investment. Through the introduction of SEZs, India also wants to enhance its somewhat dismal infrastructural requirements, which, once they have been improved, will invite even more foreign direct investment.

As far as trade and commerce are concerned, SEZs are regarded as international territory. Local raw materials bought by producers within SEZs are regarded as exports whereas those goods that are produced in SEZs and sold in the DTA (Domestic Tariff Area) are regarded as imports.

3.4. Objectives of SEZs

The objective behind an SEZ is to enhance foreign investment, increase exports, create jobs and promote regional development. To put in the government's own words, the main objectives of the SEZs are:

(a) Generation of additional economic activity;
(b) Promotion of exports of goods and services;
(c) Promotion of investment from domestic and foreign sources;
(d) Creation of employment opportunities;
(e) Development of infrastructure facilities.

4. EVOLUTION OF SEZs IN INDIA

In India, the first zone was set up in Kandla as early as 1965. It was followed by the Santacruz export processing zone which came into operation in 1973. The government set up five more zones during the late 1980s. These were at Noida (Uttar Pradesh), Falta (West Bengal) Cochin (Kerala), Chennai (Tamil Nadu) and Visakhapatnam (Andhra Pradesh). Surat EPZ became operational in 1998. The EXIM Policy, 2000 launched a new scheme of Special Economic Zones (SEZs). Under this scheme, EPZs at Kandla, Santa Cruz, Cochin and Surat were converted into SEZs. In 2003, other existing EPZs namely, Noida, Falta, Chennai, Vizag were also converted into SEZs. In addition, approval has been given for the setting up of 26 SEZs in various parts of the country. Apparently, India is now promoting the EPZ programme much more vigorously than in the initial phases of their evolution. Huge amounts of public resources are being invested in the zones.

SEZs in India were announced by the government in March 2000. To provide a stable economic environment for the promotion of Export-import of goods in a quick, efficient and hassle-free manner, Government of India enacted the SEZ Act, which received the assent of the President of India on June 23, 2005. The SEZ Act and the SEZ Rules, 2006 ("SEZ Rules") were notified on February 10, 2006. Since then 15 SEZs including 8 EPZs (Export Processing Zones) have been set up at Kandla, Surat, Mumbai, Kochi, Noida, Chennai (3 SEZs), Visakhapatnam, Indore, Jaipur and Jodhpur, Falta, Manikanchan, and Salt Lake.

4.1. Genesis and Distinguishing Features

The new law is aimed at encouraging public-private partnership to develop world-class infrastructure and attract private investment (domestic and foreign), boosting economic growth, exports and employment. Investment of the order of Rs.100, 000 crores over the next 3 years with an employment potential of over 5 lakh is expected from the new SEZs apart from indirect employment during the construction period of the SEZs. Heavy investments are expected in sectors like IT, Pharma, Bio-technology, Textiles, Petro-chemicals, Auto-components, etc.

The SEZ Rules provides the simplification of procedures for development, operation, and maintenance of the Special Economic Zones and for setting up and conducting business in SEZs. This includes simplified compliance procedures and documentation with an emphasis on self-certification; single window clearance for setting up of an SEZ, setting up a unit in SEZs and clearance on matters relating to Central as well as State Governments; no requirement for providing bank guarantees; contract manufacturing for foreign principals with option to obtain sub-contracting permission at the initial approval stage; and Import-Export of all items through personal baggage.

Indian SEZ policy has following distinguishing features:

a) The zones are proposed to setup by private sector or by state Govt. in association with Private sector. Private sector is also invited to develop infrastructure facilities in the existing SEZs.
b) State Governments have a lead role in the setting up of SEZ.
c) A framework is being developed by creating special windows under existing rules and regulations of the Central Govt. and State Govt. for SEZ.

The salient features of the Indian SEZ initiative further include the following points:

- Unlike most of the international instances where zones are primarily developed by governments, the Indian SEZ policy provides for development of these zones in the government, private or joint sector. This is meant to offer equal opportunities to both Indian and international private developers.
- 100 per cent FDI is permitted for all investments in SEZs, except for activities included in the negative list.
- SEZ units are required to be positive net foreign-exchange earners and are not subject to any minimum value addition norms or export obligations.
- Goods flowing into the SEZ area from a domestic tariff area (DTA) are treated as exports, while goods coming from the SEZ into a DTA are treated as imports. In addition to the duty exemptions, the units in the Indian SEZs do not have to pay any income tax for the first five years and only pay half their tax liability for the next two. SEZ developers also enjoy a 10-year “tax holiday”. The size of an SEZ varies depending on the nature of the SEZ. At least 50 per cent of the area of multi-product or sector-specific SEZs must be used for export purposes. The rest can include malls, hotels, educational institutions, etc. Besides providing state-of-the-art infrastructure and access to a large, well-trained and skilled workforce, the SEZ policy also provides enterprises and developers with a favorable and attractive range of incentives.
- Facilities in the SEZ may retain 100 per cent foreign-exchange receipts in Exchange Earners’ Foreign Currency Accounts.
- 100 per cent FDI is permitted for SEZ franchisees in providing basic telephone services in SEZs.
- No cap on foreign investment for small-scale-sector reserved items which are otherwise restricted.

- Exemption from industrial licensing requirements for items reserved for the small-scale-industries sector.
- No import licence requirements.
- Exemption from customs duties on the import of capital goods, raw materials, consumables, spares, etc.
- Exemption from Central Excise duties on procurement of capital goods, raw materials, consumable spares, etc. from the domestic market.
- No routine examinations by Customs for export and import cargo.
- Facility to realize and repatriate export proceeds within 12 months.
- Profits allowed to be repatriated without any dividend-balancing requirement.
- Exemption from Central Sales Tax and Service Tax.

4.2. The incentives for developers of SEZs include

- Exemption from duties on import/procurement of goods for the development, operation and maintenance of SEZs.
- Income tax exemption for a block of 10 years in 15 years.
- Exemption from Service Tax
- FDI to develop townships within SEZs with residential, educational, health-care and recreational facilities permitted on a case-by-case basis.

4.3. SEZs is governed by a three tier administrative set up

- The Board of Approval is the apex body in the Department,
- The Unit Approval Committee at the Zonal level dealing with approval of units in the SEZs and other related issues, and
- Each Zone is headed by a Development Commissioner, who also heads the Unit Approval Committee.

4.4. Provisions of the SEZ Rules are given below:

- Different minimum land requirement for different class of SEZs;
- Every SEZ is divided into a processing area where alone the SEZ units would come up and the non-processing area where the supporting infrastructure is to be created;
- Simplified procedures for development, operation and maintenance of the Special Economic Zones and for setting up units and conducting business in SEZs;
- Single window clearance for setting up of an SEZ;
- Single window clearance for setting up a unit in a Special Economic Zones;
- Single window clearance for matters relating to Central as well as State Governments;
- Simplified compliance procedures and documentation with an emphasis on self certification.

4.5. Who can set up an SEZ and what requirements are there?

An SEZ can be set up jointly or individually the Central Government, a state government or any other body, including a foreign company, for the purpose of (1) manufacturing goods, (2) rendering services, (3) for both of these reasons or (4) as a Free Trade and Warehousing Zone (FTWZ). The SEZ Rules specify the minimum land area that is required for setting up an SEZ in general. This requirement depends on the type of SEZ to be established.

The requirements concerning the minimum size of an SEZ are relaxed with regard to certain small states. Thus, in the states of Assam, Meghalaya, Nagaland, Arunachal Pradesh, Mizoram, Manipur, Tripura, Himachal Pradesh, Uttaranchal, Sikkim, Jammu and Kashmir, Goa or in a Union Territory, the minimum area requirement for multi-product SEZs or a sector-specific SEZ has been reduced to 200 and 50 hectares or more respectively. In the case of a multi-product or a sector-specific SEZ, at least 50 per cent of the area must be earmarked for developing the processing area. The very specific requirements for sector-specific operations can be seen from sec. 5 para. 2 lit. b) and c) SEZ Rules. If the developer proposing to set up an SEZ is not in possession of the minimum contiguous area, the Central Government may approve more than one developer. In such cases, each developer shall be considered as a developer in respect of the land under its possession. Whereas, at first, there was no ceiling regarding the maximum size of an SEZ, a meeting of the so called Empowered Group of Ministers (EGoM) held on April 5, 2007 brought about a capping at 5,000 hectares, which can still be undercut by states as land matters are state matters according to Indian constitutional law (see table 1 and 2). Table 2 illustrates some sector specific SEZs restrictions on foreign-owned equity and other requirements.

Table 1
MinimumContigous Area Requirements for Certain Types of SEZs

Types of SEZ	Hectares
Multi-product	1,000 or more
Sector-specific or in one or more services or a port or an airport	100 or more
Sector-specific: electronic hardware or software, IT, gems and jewellery, bio-technology, non-conventional energy, including solar energy equipment and solar cells	10 or more
Free Trade and Warehousing Zone	40 or more

Table 2
Sector Specific SEZs and Foreign Equity Allowed

Industry / Sector	Foreign Equity Allowed	Comments
Advertising and Film	100%	Certain conditions apply in the film industry
Alcoholic beverages	100%	Prior Government approval is needed
Automobiles	100%	Automatic approval route available
Cigars/cigarettes of tobacco	100%	Prior Government approval is required
Defence and strategic industries	FDI cap of 26%	There are no automatic approvals and a license from the Defence Ministry is required
Drugs and pharmaceuticals	100%	Automatic approval route is available subject to some conditions
Information technology	100%	Automatic approval route is available except for aerospace and defence sectors
Manufacturing	100%	Automatic approval route is available except for certain products
Petrochemicals and petroleum	Varies: 100% And automatic approvals are available in some sectors	FDI limits and incentives vary in sub-sectors and an approval from the FIPB is required except for private sector oil refining
Ports and harbors	100%	Automatic approvals route available for manufacturing and construction
Roads, highways and mass rapid transit system	100%	Automatic approval route available for construction and maintenance
Satellites	49%	Limited to 49% for the operation and maintenance of satellites
Telecommunications	Varies according to sub-sectors	Licenses will be required in some cases, however 100% FDI is allowed for the manufacturing of telecommunications equipment

5. SEZs IN INDIA: A GLANCE

5.1. Profile of proposed SEZs

The first SEZ creation proposal came from Gujarat State to set up SEZ in Kandla. Subsequently, the proposal came from other states of India. As many as 439 SEZs have been approved in principle out of which 198 have been notified till 8 March, 2008.The highest approval were accorded to state of Maharashtra followed by Andhra Pradesh and Tamil Nadu Most of these are located in coastal areas where transportation and other supporting infrastructure facilities are available for export processing.

As can be seen from the details of the 439 SEZs in India, the smaller ones constitutes major proportion of SEZs. 19 SEZs have area more than 1000 hectares and covering more than half of the total area under SEZs. Only 26 SEZs have area between 200 and 500 hectares (See table 3).

Table 3
Area-wise SEZs Distribution

Area (ha)	Number	Total Area (ha)
Up to 49	279	5352.8
50-100	39	3159.9
101-200	74	9021.2
201-500	26	7313.1
501-1000	2	1228.0
1000+	19	28432.6
Total	**439**	**54507.6**

Source: SEZ India, NIC

The distribution of SEZs which have area more than 50 hectares shows that out of 160 SEZs nearly 113 or 70 per cent accounts for the SEZs having area less than 200 hectares. More than 85 per cent of SEZs having area of more than 1000 hectares are developed in multi product sector while nearly 63 per cent of total approved SEZs are developed in IT/ITeS sector.

Table 4
Medium and Large SEZs Sector-wise Distribution*

Sl. No.	Formal Approvals	Sector	50-100 Ha.	101-200 Ha.	201-500 Ha.	501-1000 Ha	1000+	Total No.s
1.	20	Multi-product	-	-	3	-	17	20
2.	275	IT/Electronic Hardware	21	8	5	-	-	34
3.	19	Pharma/Chemicals	2	13	3	-	-	18
4.	18	Textiles/Wool	2	10	3	-	-	15
5.	14	Multi-services	2	7	4	-	-	13
6.	16	Engineering	2	8	2	-	-	12
7.	6	Metal/Stationery/Steel	-	3	3	-	-	6
8.	7	Footwear/Leather	1	5	-	-	-	6
9.	6	Port-based Multi-product	1	1	2	1	1	6
10.	3	Power/energy	-	2	-	-	1	3
11.	55	Other	8	17	1	1	-	27
Total	439		39	74	26	2	19	160

Source: - SEZ India, NIC
* Excludes SEZ with area less than 50 ha.

6. FACTS OF SEZs IN INDIA

Presently, the only way to assess the success of an SEZ is by way of exports generated. The Ministry of Commerce expects SEZs in India to attract investments worth US$ 75 billion, employ half a million people, and generate exports worth US$ 25 billion by 2009-10. Of all SEZs, one stands out based on pure export performance projection. Flextronics at Chennai has been operational from the second half of 2006, and aims to export US$ 1.7 billion worth of cell phones and electronics by 2007-08. This is all the more remarkable because the SEZ isn't all done yet. The Mumbai SEEPZ-SEZ and the Surat SEZ are riding on outstanding performances thanks to the gems and jewelry sector, with export projections of US$ 2.75 billion and US$ 2 billion respectively for 2007 and 2008. With more SEZs on the horizon, perhaps an objective assessment of success needs to be worked out.

7. SEZs IN KARNATAKA

7.1. Karnataka-State Policy for Special Economic Zone: Preamble

Government of Karnataka has proposed to set up a SEZ at Hassan, which is midway between Bangalore and Mangalore on NH-48. The Proposal approved in respect of the Hassan SEZ is detailed in G O No. 94 SPI 2001 dated 19th April 2001 and 20th Oct. 2001. Government is also proposing to establish an exclusive SEZ for electronic hardware near the proposed International Airport at Devanahalli. Government is also proposing to convert existing Export Promotion Industrial Park at White Field, Bangalore and the proposed Export Promotion Industrial park at Mangalore (which is under implementation in SEZ. Government may also consider establishing of SEZs in other parts of the State. The Government Vide G.O. No. CI 282 2001-dated 25th Feb.2002 as formulated a State Policy for Special Economic Zones to govern the development, operation and management of Special Economic Zones and industrial units to be established therein.

In view of the above, the matter of formulating a policy regarding the development of SEZs has been under the consideration of the State Government. The following policy initiatives are therefore, proposed for the SEZs.

1. Implementing Agency: Karnataka Industrial Areas Development Board (KIADB) will be the State agency for implementation of SEZs either independently or in association with the private sector partners.

2. Development Commissioner: All matters pertaining to SEZs in the State will be looked after by an exclusive Development Commissioner for each SEZs and will function from the SEZ site.

3. Environment Clearance: NOCs, consents and other clearances required for the Karnataka State Pollution Control Board for units and activities within the SEZs would be granted by the empowered officer of the Board working under the administrative supervision and control of the designated Development Commissioner for the SEZs. The activities / Projects which fall within the ambit of the environmental Impact Assessment Notification, 1994 (as amended on 4th May 1994) will have to obtain environment clearance from the Ministry of Environment & Forest, Govt. of India. Delegates the powers to the designated development Commissioner or other authority within the SEZ, the clearances may be sought accordingly. According Environmental clearance to the projects and activities will vest with the designated Development Commissioner of the SEZ.

4. Water Supply: The SEZ authority shall ensure the provisions of adequate water supply within the SEZ.

5. Power: The SEZ authority will ensure continuous and good quality power supply to the SEZs. Public Sector Enterprises or Joint Ventures promoted by them can establish independent Power Plants (IPPs) which will be permitted to establish dedicated provision of power to the SEZ, including generation, transmission and distribution, besides fixing tariffs for the zone. The SEZ authority should ensure standby arrangements.

6. ST. Duties, local taxes & Levies: Developers of SEZs, and industrial units and other establishments within the SEZs will be exempted from all State and Local taxes and levies, including ST, Purchase Tax, Entry Tax, TOT, Cess etc., in respect of all transaction made between units / establishments within the SEZs and in respect of the supply of goods and services from the Domestic Tariff Area to units / establishments within the SEZ. All the industrial unit and their expansion located in the SEZs irrespective of their location within the State shall be fully exempted from payment of Stamp Duty & Registration Fees. Further industrial units within the SEZ will be eligible for all other incentives and concessions as per general policies of the Government.

7. Labour Regulations: The powers of the Labour Commissioner, Government of Karnataka, shall be delegated to the designated Development Commissioner of other authority in respect of the area within the SEZs. Modalities will be devised for the grant of various permission required form the Chief Inspector of Factories & Boilers within the SEZs themselves through the stationing of exclusive personnel for the purpose or through other means so that clearances relating to various labour laws can be provided at a single point in the SEZs.

8. SSI & IT Registration: The power to grant Provisional & Permanent SSI Registration and Letter of Intent and Registration of Information Technology Units, will be delegated to the Development Commissioner or other designated authority in respect of units in the SEZs.

9. SEZs as Industrial Townships: The State Government will take appropriate steps to declare the SEZs as Industrial Township to enable the SEZs to function as self-governing, autonomous municipal bodies.

10. Law & Order: The State Government shall make appropriate and exclusive arrangements within the SEZs for the maintenance of law and order.

11. Escort Services: Directorate of Industries & Commerce, Karnataka State Industrial Investment & Development Corporation, Karnataka Udyog Mitra., Resident Commissioner, Karnataka Bhavan, New Delhi and Resident Director, Karnataka Udyog Mitra, New Delhi shall provide effective escort services to entrepreneurs / promoters who are desirous of making investments in SEZ.

12. Committee for review & Development of SEZ: The State Government shall constitute a Committee of Secretaries and other concerned officials, including representatives of the SEZ authorities / promoters, under the Chairmanship of the Chief Secretary to resolve various issues pertaining to the promotion, development and functioning of SEZs in the State.

In addition to these, the following institutional framework has been done by Karnataka for promotion of SEZs.

- ✦ Karnataka government has set up Karnataka State Financial Corporation [KSFC]
- ✦ Karnataka State Industrial Investment and Development Corporation [KSIIDC]
- ✦ New Industrial Policy 2006-2011
- ✦ Karnataka Export Promotion Policy 2002-07
- ✦ Mahiti - Millennium IT Policy
- ✦ The Millennium Biotech Policy
- ✦ The Millennium BPO Policy

7.2. SEZs in Karnataka

The proactive steps taken by the Government has resulted in encouraging the establishment of SEZs for specific sectors like IT & ITES, Hardware, Apparel, Petrochemicals, etc, through both public / private initiatives, opening up growth corridors across various locations like Bangalore, Mysore, Mangalore and Hassan.

The Government of Karnataka has been instrumental in driving growth through:

1. Sector specific SEZ for Pharmaceuticals & Biotechnology at Hassan
2. Sector specific SEZ for Food Processing and Agro-based industries at Hassan
3. Sector specific textile SEZ at Hassan
4. IT SEZ at Mangalore
5. Coastal SEZ at Mangalore

Some of the important SEZ in Karnataka are as follows:

- Karnataka Biotechnology and Information Technology Services - SEZ on biotechnology sector in Bangalore's Electronics City, over an area of 43 acres
- Shree Renuka Sugars Limited - SEZ on sugarcane processing complex covering 100 hectares, comprising a sugar plant, power station and distillery, at Burlatti in Belgaum district
- Ittina Properties Private Limited and three other - SEZs in IT sector, covering electronics, hardware and software sectors in Bangalore, over an area of 15.732 hectares
- Wipro Infotech - SEZ on IT / ITES at Electronics City, Sarajpur Bangalore
- Hewlett Packard India Software Operation Pvt. Ltd. - SEZ on IT
- Food processing and related SEZ services in Hassan, over an area of 157.91 hectares
- SEZs on pharmaceuticals, biotechnology and chemical sectors in Hassan, covering of 281.21 hectares.

Pattern of SEZs in Karnataka

Promoter	Project	Industry
Mangalore Refinery & Petrochemicals Ltd.	Mangalore Refinery – Expansion	Petroleum Products
Krishna Bhagya Jala Nigam Ltd.	Upper Krishna Irrigation	Irrigation
Bengaluru Metro Rail Corpn. Ltd	Bengaluru Metro Rail – Phase – I	Railways
Government of Karnataka	Special Economic Zone for IT Hardware	SEZ/EPZ
Nagarjuna Power Corpn. Ltd	Mangalore Power	Coal/Lignite Based Power
Karnataka Power Corpn. Ltd.	Bidadi Power	Gas Based Power
Government of Karnataka	Hemavathi Irrigation	Irrigation
Bengaluru Water Supply and Sewerage Boards	Cauvery Water Supply Scheme Stage IV Phase II	Water and Sewerage Pipeline & Distribution
Bengaluru Water Supply & Sewerage Board	Water Supply Scheme (Bengaluru)	Water & Sewerage Pipeline & Distribution
Nuclear Power Corporation of India Ltd.	Kaiga Atomic Power Stage II	Nuclear Based Power
Bidadi	9000 acres integrated satellite Township	Real Estate
New International airport, Devanahalli	International Airport	Airport

8. PROBLEMS OF SEZs

8.1. Why is the SEZ Policy being opposed?

When the SEZ Act was passed in 2005, it generated a euphoric response from the private sector. The general feeling was that the government had finally given the space and incentive for private industry in upcoming sectors like IT-ITES, BT, real estate, and pharmaceuticals to boom. The last eight months have seen an unprecedented rise in SEZ fever with state governments undertaking widespread acquisition and leasing out/selling land for SEZ development; the central government's blitzkrieg approval for over 250 SEZ projects and private entrepreneurs seizing this opportunity. All of these have raised concerns in the eyes of those who do not see SEZs benefiting them but rather increasing hardships for economic livelihood and sustenance. And these concerns are not unfounded. Some of the prime concerns being raised by farmers groups, fisher folk communities, marginalized communities and other movements on the government's SEZ policy are:

1. Large scale and unjustified acquisition of land
2. Inadequate resettlement and rehabilitation policies and plans
3. Inadequate employment opportunities for local people through SEZs leading to loss of livelihood
4. Increasing burden on natural resources and the environment and alienation of local communities from these resources
5. SEZs contributing to real estate boom and creating real estate zones
6. Potential revenue loss from heavy subsidizing in SEZs
7. Concerns over the process of approving and implementing SEZs – where is local government consultation and sanction?
8. No wider public consultation
9. Threat to water security
10. Bypassing local governments and ignoring local communities
11. Increases regional disparities

The main question that voices and agitations across the country are raising is – if SEZs are truly meant to boost growth, what is the intended growth and for whose benefit? Going by the SEZ policy, private profit seems to be the barometer of growth and the preference by policy is for private players to lead the nation's growth. The issue of development and the links between growth and development are however missing.

In a country with 65 percent of the population depending on agriculture as a means of livelihood, industry ought to be complementary to agriculture. Through SEZs however, industry is being promoted at the cost of agriculture. Valuable resources spent to create SEZs will be at the cost of building better infrastructure for the rest of the country, something that will affect both the domestic industry as well as agriculture.

9. STRATEGIES FOR STRENGTHENING SEZs

1. Capping months of debate on the pros and cons of developing SEZs, the commerce ministry has issued a caveat that prime agricultural land should not be used for business purposes India's commerce ministry has asked the chief ministers of all Indian states to ensure that prime agricultural land was not allotted to business houses for development as SEZ, and that in any event agricultural land must not exceed 10 percent of land allotted.

2. It said that SEZs should serve as a bridge between rural and urban economies. The concept of PURA (Provision of Urban Facilities in Rural Areas), which is how developed countries have holistically conceptualized their rural habitations, needs to be remembered at a time when India is entering an era of SEZs. The explosion in the economy envisaged through SEZs will have to be linked to integrated infrastructure in rural and urban areas. India should focus on comprehensive and integrated spatial planning within and beyond SEZs. This however is a dream come true here.

3. Encourage the development of several manufacturing clusters: Permitting greater flexibility in the use of contract labour, simplifying administrative procedures and extending SEZ-like benefits to existing clusters or implementing the concept of ‘virtual SEZs’ will help.

4. Implement and govern them effectively, streamline the processes of availing them, avoid delays and corruption in the system.

5. Creation of Zonal Administration like:

- Zone management: It manages the general administration.
- Investor services: It co-ordinates with EPZ units and helps in processing import/export documents, custom clearance, helps in issuance of visas.
- Engineering services: It looks after infrastructure matters
- Security: It provides all security related matters
- Industrial relations: It looks after labour related problems.
- Finance: It receives payments towards, ground rent, water bills, import, export and other charges, taxes including stamp duty.
- Internal audit: The unit ensures monitoring of financial areas.

9.1. Advantage India

India’s “stability beneath the surface” arises from:

- Low labour costs;
- A well-established legal and dispute resolution system;
- Fully-functional financial institutions and transaction management systems;
- A large and young population;
- Government de-regulation in certain industries;
- An English-speaking workforce.

10. CONCLUSION

The SEZ policy in India underwent gradual relaxation of procedural and operational rigidities. The changes effected in this policy since 1991 have been far reaching and significant. It is believed that the overall and EPZ investment climate has an overwhelming bearing on the SEZ performance. In India, however, a conducive policy framework has had only a limited impact on the zone performance. Though the gross exports, foreign exchange earning and employment increased phenomenally in absolute terms, their growth rates declined substantially. Growth in exports per unit of employment also slowed down indicating deterioration in the export performance. Net value addition performance compares favourably with other Asian countries but it has not been consistent and the trend growth rate in value addition had not been statistically different from zero. Furthermore, zones also failed to promote non-traditional exports. Traditional sectors namely electronics and gems and jewellery dominate the zones. This could be due to the piecemeal nature of the policy changes. Various committees were set up to examine the performance of the zones. These committees made far reaching recommendations regarding incentive package, development of infrastructure and improvement in governance.

However, policy changes remained slow and extremely cautious. Even the introduction of the SEZ policy did not impact on the SEZ performance. Their performance continued to slide SEZs are expected to induce dynamism in the export performance of a country by eliminating distortions resulting from tariffs and other trade barriers, the corporate tax system, excessive bureaucracy, and missing infrastructure. Fall in the protective walls and reforms in the tax system reduced the gap between EPZ and other units in the wider economy in respect of tax incentives. There should have been significant improvement in the quality of infrastructure and governance to compensate them for the lost benefits. But this did not happen. Dysfunctional policies, regulations, lack of single window clearance facilities, poor attitude of the officials, centralised governance, stringent labour laws and poor physical and financial infrastructure, all accounted for an undesirable investment climate. The Draft Bill 2004 may not lead us far. The study argues that the SEZ scheme requires a complete re-orientation if the hype created over SEZs is to be justified.

With so many complications involved, will this SEZ finally materialise at all? And finally for what? What kind of a development goal is one that will render around 50,000 farmers landless (per SEZ), destroy livelihood sources for a much larger number of people, pull all the stops against exploitation of labour and cause huge chunks of resources, private and otherwise, to pass on into private hands? Is the administration prepared for the huge backlash of discontent, protest and social upheaval that oppression on such large scale could trigger? These questions are not going to be easy to answer.