

Special Economic Zone (SEZ) - UPSC Notes

A Special Economic Zone or SEZ is a specially marked territory or enclave within the national borders of a country that has more liberal economic laws than the rest of the country. This is a very important topic that features in the Indian Economy section of the UPSC syllabus. Know more about SEZs in India through this article.

Special Economic Zone - Definition

An SEZ is an enclave within a country that is typically duty-free and has different business and commercial laws chiefly to encourage investment and create employment.

- Apart from generating employment opportunities and promoting investment, SEZs are created also to better administer these areas, thereby increasing the ease of doing business.

SEZ Background

An SEZ Policy was announced for the very first time in 2000 in order to overcome the obstacles businesses faced.

- There were multiple controls and many clearances to be obtained before starting a venture.
- Infrastructure facilities were shoddy and well below world standards in India.
- The fiscal regime was unstable as well.
- In order to attract huge foreign investments into the country, the government announced the Policy.
- The Parliament passed the **Special Economic Zones Act** in 2005 after many consultations and deliberations.
- The Act came into force along with the SEZ Rules in 2006.
- However, SEZs were operational in India from 2000 to 2006 (under the Foreign Trade Policy).
- **Note:-** A precursor to the SEZs, the Export Processing Zones were set up in India well before. The first EPZ came up in Kandla in 1965 to promote exports. This was the first EPZ not only in India but in all of Asia as well.

Special Economic Zones Act, 2005

“It is defined as an Act to provide for the establishment, development and management of the Special Economic Zones for the promotion of exports and for matters connected therewith or incidental thereto.”

The chief objectives of the SEZ Act are:

1. To create additional economic activity.
2. To boost the export of goods and services.
3. To generate employment.
4. To boost domestic and foreign investments.
5. To develop infrastructure facilities.

SEZ Rules

The Rules provide for:

1. Simplified procedures to develop, operate and maintain SEZs and also to set up units and conduct businesses in the SEZs.
2. Single-window clearance to set up a Special Economic Zone, and also to set up a unit in an SEZ.
3. Single-window clearance for matters connected to the Central and State governments.
4. Simplified compliance procedures and documentation with a focus on self-certification.
5. Different minimum land requirements for different classes of Special Economic Zones.

SEZ Approval Mechanism

The SEZ approval mechanism is a single-window process provided by a 19-member inter-ministerial SEZ Board of Approval (BoA).

- The developer has to submit the proposal to the state government.
- The state government forwards this proposal to the BoA along with its recommendation within forty-five days.
- The developer or applicant can also directly submit the proposal to the BoA.
- The Board, which has been constituted by the Central Government, and is a 19-member Board takes the decision considering the merits of the proposal. All decisions taken by the Board are by consensus.
 - The Board is chaired by the Secretary of the Dept. of Commerce, Ministry of Commerce and Industry.
 - The other members are from various bodies and ministries such as the Central Board of Excise and Customs (CBEC), the Central Board of Direct Taxes (CBDT), Department of Economic Affairs, Dept. of Commerce, Ministry of Science and Technology, Ministry of Home Affairs, Ministry of Law and Justice, Ministry of Urban Development, etc.

- Once the BoA gives its approval, and the central government notifies the area of the SEZ, units are allowed to be established inside the SEZ.

SEZs Facilities & Incentives

The government offers many incentives for companies and businesses established in SEZs. some of the important ones are:

- Duty-free import or domestic procurement of goods for developing, operating and maintaining SEZ units.
- 100% Income tax exemption on export income for SEZ units under the Income Tax Act for first 5 years, 50% for next 5 years thereafter and 50% of the ploughed back export profit for next 5 years. (Sunset Clause for Units will become effective from 2020).
- Units are exempted from Minimum Alternate Tax (MAT).
- They were exempted from Central Sales Tax, Service Tax and State sales tax. These have now subsumed into GST and supplies to SEZs are zero-rated under the IGST Act, 2017.
- Single window clearance for Central and State level approvals.
- There is no need for a license for import.
- In the manufacturing sector, barring a few segments, 100% [FDI](#) is allowed.
- Profits earned are permitted to be repatriated freely with no need for any dividend balancing.
- There is no need for separate documentation for customs and export-import policy.
- Many SEZs offer developed plots and ready-to-use space.

Apart from the firms operating in SEZs, developers of SEZs also receive many benefits and incentives from the government.

SEZs in India

Currently, about 240 are operational in the country. About 64% of the SEZs are located in five states - Tamil Nadu, Telangana, Karnataka, Andhra Pradesh and Maharashtra.

The following table gives data about the SEZs as of February 2nd, 2020.

SEZs approved	421
SEZs notified	354
SEZs approved in-principle	33
SEZs operational	240

In 2018 - 19, about 20 lakh jobs were created through SEZs. Most of the SEZs being set up are primarily private investment-driven.

In the financial year 2017 - 18, the exports from SEZs have grown by about 13% when compared to the previous financial year.

Examples: SEEPZ Special Economic Zone (Mumbai), Kandla SEZ, Cochin SEZ, Madras SEZ, Visakhapatnam SEZ, NOIDA Export Processing Zone, Falta SEZ, etc.

Challenges

- Since SEZs offer a wide range of incentives and tax benefits, it is believed that many existing domestic firms may just shift base to SEZs.
- There is a fear that the promotion of SEZs may be at the cost of fertile agricultural land affecting food security, loss of revenue to the exchequer and cause uneven growth with adverse effects.
- Apart from food security, water security is also affected because of the diversion of water use for SEZs.
- SEZs also cause pollution, especially with the release of untreated effluents. There has been a huge destruction of mangrove in Gujarat affecting fisheries and dairy sectors.
- SEZs have to be promoted but not at the cost of the agricultural sector of the country. It should also not affect the environment adversely.

UPSC Questions related to Special Economic Zones (SEZs)

What is Special Economic Zone in India?

A Special Economic Zone or SEZ is a specially marked territory or enclave within the national borders of a country that has more liberal economic laws than the rest of the country.

How many special economic zones are in India?

There are 238 operational SEZs in India.

Which is the first SEZ in India?

The first Export Processing Zone was set up in Kandla in 1965.

Which state has the highest number of SEZs in India?

Tamil Nadu

Is SEZ a taxpayer?

SEZs are treated as foreign territory for tax purposes even though they are located within a country's borders. Supplies into SEZs are exempt from paying GST because they are considered as exports. But, when an SEZ supplies goods/services to anyone, it will be deemed

a regular inter-state supply and will attract IGST. However, when an SEZ supplies goods/services to a Domestic Tariff Area (DTA), it is exempt from paying taxes, although the receiver in the DTA has to pay.