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# Special Economic Zones in India

Status, Issues and Potential

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*To our Parents*

*Anita and Amal Kanti Mukherjee*

Arpita Mukherjee

*Ganga and Nabakumar Pal*

Parthapratim Pal

*Nina and Santosh Kumar Deb*

Saubhik Deb

*Malabika and Manindra Nath Muhuri*

Subhobrota Ray

*Nisha and Madhukar Goyal*

Tanu M. Goyal

# Foreword

This book is the outcome of a study conducted in ICRIER's thrust area—the global competitiveness of agriculture, manufacturing, and services. India was one of the first countries to have an export-processing zone in Kandla in 1965. Inspired by China's success in enhancing its global share of exports through Special Economic Zones (SEZs), India drafted its own SEZ Act in 2005, followed by the SEZ Rules in 2006. Even after a decade, the efficacy of the SEZ policy in India continues to be debated. Those against SEZs have argued that it leads to uneven growth. Some critics refer to SEZs as tax havens. The revenue losses due to SEZs inspired the Ministry of Finance to withdraw certain benefits to SEZs such as the Minimum Alternative Tax (MAT) exemptions. Others have referred to SEZs as a channel for land grab, where land acquired for SEZs has either not been developed or has been put to other uses, with limited industrialisation. The wide differences across various ministries and departments of the central and state governments in their approach towards the development of SEZs have further fuelled this debate on whether India should have special zones with special incentives.

The case in favour of SEZs is based on the successes of countries such as China, Taiwan, and the Republic of Korea in promoting manufacturing, including high-value manufacturing and the attendant increase in their share in global exports. A number of developing countries have successfully used SEZs to link their economies to global production networks and value chains. The growth of the IT-ITeS sector in India and the export of such services would not have been possible without the SEZ policy. SEZs in Shanghai, China and in Incheon, Republic of Korea, have developed as integrated business hubs. India is attempting to replicate similar models in SEZs such as Sri City Private Limited in Andhra Pradesh and Mahindra World City Developers Limited in Tamil Nadu. The evidence shows that SEZs have led to the development of backward areas in India and have helped in employment creation. The Narendra Modi-led government, which came into power in 2014, has put its weight behind SEZs. The government is of the view that SEZs are an important component of the 'Make in India' initiative and they can help to develop manufacturing through the right policy incentives.

The vast majority of studies on SEZs in India take a short-term view. Only a handful of studies examine SEZs from a long-term perspective. Global experience shows that it takes more than 10 years for a large SEZ to become fully operational and break even. If this is true, then Indian SEZs may have faced premature criticism. Further, there is no study on the ease of doing business in SEZs vis-à-vis the domestic tariff area (rest of the country). The existing debate has also not examined the question of what role SEZs can play in the context of India's growing engagement in trade agreements.

Given the above and the fact that most of the debate on SEZs is based on perception, ICRIER was commissioned by the Department of Commerce, Ministry of Commerce and Industry, to do an independent evaluation of India's SEZ policy and make recommendations on how to make SEZs an engine of India's economic growth and development. ICRIER has submitted the report to the Department of Commerce. This book is the outcome of the primary and secondary research that ICRIER undertook during the course of the project. It covers a number of issues, which have not been addressed in the report that has been submitted to the Department of Commerce. To understand the SEZ policy, stakeholder consultations were held across the country in association with key industry chambers and export promotion councils. Further, detailed questionnaire-based surveys were conducted with SEZ developers and units inside and outside SEZs. The study findings have been discussed with policymakers in central and state governments and many of these are in the process of implementation.

The Indian government offers more than 300 subsidies and other incentives to promote manufacturing and services. However, India's share in world trade in manufacturing is low (2 % in 2014) and coupled with our inability to diversify the services export baskets beyond IT-ITeS and business services exports, a new look at the strategy towards exports in general and SEZs in particular becomes imperative. The book raises the legitimate question of whether incentives alone can attract companies into SEZs. It attempts to highlight what needs to be done to develop manufacturing, especially high-value manufacturing in SEZs and integrate into the global value chains (GVCs). It critically examines the performance of SEZs against the objectives laid down in the SEZ Act. It presents a snapshot of global SEZ policies and makes recommendations to the government based on global best practices and success stories. It also discusses issues related to land and incentives in SEZs and contemplates the appropriate policy in this regard.

The book offers policy suggestions such as integrating the SEZ procedures online with Customs IceGate to reduce delays and enhance efficiency in doing business. Under the WTO, a number of export-linked incentives are now actionable. Designing smart incentives that are compatible with WTO rules can benefit the industries located in SEZs. Integrating the SEZ policy with other cluster development policies of the central and state governments is also at the heart of the policy recommendations. SEZs are successful if they can create both backward and forward linkages within the domestic tariff area. The book makes several noteworthy suggestions to create and sustain the institutional and regulatory framework to facilitate such linkages. As India signs more bilateral trade agreements and

develops economic corridors, SEZs must be viewed as a key component of the trade agreements.

The book is the result of the diligence and sincerity of a number of ICRIER researchers and external consultants over a period of two industrious years. They deserve a lot of credit. I am also grateful to the SEZ Division of the Department of Commerce for sponsoring the survey and for giving researchers a free hand in evaluating this critical policy. We would also like to thank the Department of Commerce, Ministry of Commerce and Industry, and other government departments for sharing reports and databases, which have enriched the study. ICRIER has been a pioneer institute on research on SEZs. In the past, we had the opportunity to evaluate the socio-economic impact of SEZs. However, this is the most comprehensive research on SEZ covering both domestic and trade policy.

I am sure that the book will offer students, researchers, policymakers and industry bodies an analytical insight into SEZs, cluster development policy and trade policy in India. This book will help companies to develop understanding about the business environment in India. It will not only provide input to the government for domestic policy reforms but will also strengthen our hand during trade negotiations.

Rajat Kathuria



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We express our gratitude to Isher Judge Ahluwalia, Chairperson, Indian Council for Research on International Economic Relations (ICRIER) and Rajat Kathuria, Director and Chief Executive, ICRIER, for giving us the opportunity to work in this area and for their constant encouragement and support. This book would not have been possible without financial support from the Special Economic Zone (SEZ) Division, Department of Commerce, Ministry of Commerce and Industry. Officers in the SEZ Division provided us with useful insights and access to SEZ-related data and information. The Development Commissioners of SEZs, Export Promotion Councils for EOUs and SEZs (EPCES), Federation of Indian Chambers of Commerce and Industry (FICCI) and Confederation of Indian Industry (CII) helped us to organise industry consultations and workshops. One-on-one meetings with their members have enriched our understanding of the subject. The draft of the book was presented before policymakers in the Ministry of Commerce and Industry. We would like to thank them for their valuable inputs.

We are grateful to industry associations such as the National Association of Software and Services Companies (NASSCOM), Apparel Export Promotion Council (AEPC), Engineering Export Promotion Council (EEPC) of India, Federation of Indian Export Organisations (FIEO), Council for Leather Exports (CLE) and Basic Chemicals, Pharmaceuticals and Cosmetics Export Promotion Council (CHEMEXCIL) for their views on SEZs, the World Trade Organization (WTO), Regional Trade Agreements (RTAs) and the subsidy regime in this country. Policymakers from several central and state government ministries and departments shared their views and improved our understanding of the subject. A number of experts from the Asian Development Bank (ADB) and the World Bank also provided valuable inputs. We would like to thank Anwarul Hoda (Professor, ICRIER), Abhijit Das (Head and Professor, Centre for WTO Studies, Indian Institute of Foreign Trade), Rupa Chanda (Professor, IIM, Bangalore), Souvik Dutta (Assistant Professor, IIM, Bangalore) for their reviews and comments on specific chapters.

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# Abbreviations

ADB	Asian Development Bank
APEC	Asia-Pacific Economic Cooperation
APEDA	Agricultural & Processed Food Products Export Development Authority
APIIC	Andhra Pradesh Industrial and Infrastructure Development Corporation
APSEZ	Adani Ports and Special Economic Zone
ASEAN	Association of Southeast Asian Nations
ASIDE	Assistance to States for Infrastructure Development of Exports
ASSOCHAM	Associated Chambers of Commerce & Industry of India
ATF	Aviation Turbine Fuel
BEPZA	Bangladesh Export Processing Zone Authority
BEZA	Bangladesh Economic Zones Authority
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Co-operation
BoA	Board of Approval
BoE	Bill of Entry
BoI	Board of Investment
BOO	Build, Own and Operate
BTIA	Broad-based Trade and Investment Agreement
CAG	Comptroller and Auditor General of India
CAGR	Compound Annual Growth Rate
CBDT	Central Board of Direct Taxes
CBSA	Canada Border Service Agency
CECA	Comprehensive Economic Cooperation Agreement
CEPA	Comprehensive Economic Partnership Agreement
CRR	Cash Reserve Ratio
CSR	Corporate Social Responsibility
CUTS	Consumer Unity & Trust Society
CVDs	Countervailing duties
DC	Development Commissioner

DDT	Dividend Distribution Tax
DGCA	Directorate General of Civil Aviation
DGCI&S	Directorate General of Commercial Intelligence and Statistics
DMIC	Delhi-Mumbai Industrial Corridor
DTA	Domestic Tariff Area
DTAA	Double Taxation Avoidance Agreement
DTC	Direct Tax Code
EOU	Export Oriented Unit
EPCES	Export Promotion Council for EOUs and SEZs
EPZs	Export Processing Zones
ETDZ	Economic and Technological Development Zones
EU	European Union
FDI	Foreign Direct Investment
FEMA	Foreign Exchange Management Act
FEZ	Free Economic Zone
FIAS	Foreign Investment Advisory Service
FICCI	Federation of Indian Chambers of Commerce and Industry
FII	Foreign Institutional Investor
FTAs	Foreign Trade Agreements
FTWZ	Free Trade and Warehousing Zone
FTZ	Free Trade Zone
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GIFT	Gujarat International Finance Tec-City
GSP	Generalized System of Preference
GST	Goods and Services Tax
GVC	Global Value Chain
HALMAS	Halal Malaysia
HHI	Herfindahl-Hirschman Index
ICT	Information, Communication Technology
IDE-JETRO	Institute of Developing Economies—Japan External Trade Organization
IEAT	Industrial Estate Authority of Thailand
IFC	International Finance Centre
IFSC	International Financial Services Centre
IL&FS	Infrastructure Leasing & Financial Services Limited
ILO	International Labour Organization
IMF	International Monetary Fund
IRDA	Insurance Regulatory Development Authority
ISPRIL	Indian Strategic Petroleum Reserves Limited
IT	Information Technology
ITAT	Income Tax Appellate Tribunal
ITEs	Information Technology enabled Service
KIADB	Karnataka Industrial Areas Development Board

LARR	Land Acquisition, Rehabilitation and Resettlement
LoA	Letter of Approval
MADC	Maharashtra Airport Development Corporation
MAT	Minimum Alternative Tax
MFN	Most Favoured Nation
MFP	Mega Food Park
MIHAN	Multi-modal International Cargo Hub and Airport
MLC	Mega Leather Cluster
MoU	Memorandum of Understanding
MRO	Maintenance, Repair And Overhaul
MSE-CDP	Micro & Small Enterprises—Cluster Development Programme
NCAER	National Council of Applied Economic Research
NCR	National Capital Region
NFE	Net Foreign Exchange
NIMZ	National Investment and Manufacturing Zone
NOC	No-Objection Certificate
OECD	Organisation for Economic Co-operation and Development
OTC	Over-the-Counter
PAN	Permanent Account Number
PEZA	Philippines Economic Zone Authority
PPP	Public–Private Partnership
PTA	Preferential Trade Agreement
R&D	Research and Development
RBI	Reserve Bank of India
RCEP	Regional Comprehensive Economic Partnership
ROO	Rules of Origin
RTA	Regional Trade Agreement
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Agreement
SCM	Subsidies and Countervailing Measures
SEBI	Securities and Exchange Board of India
SEEPZ	Santa Cruz Electronics Export Promotion Zone
SEZ	Special Economic Zone
SGOAP IIPP	State Government of Andhra Pradesh Industrial Investment Promotion Policy
SGOG	State Government of Gujarat
SGOM	State Government of Maharashtra
SIR	Special Investment Region
SITP	Scheme for Integrated Textiles Park
SME	Small and Medium Enterprise
SPV	Special Purpose Vehicle
STPI	Software Technology Park of India
STT	Securities Transaction Tax
S&D	Special and Differential Treatment
TAN	Tax Deduction Account Number

TCS	Tata Consultancy Services
TRIPS	Trade Related Aspects of Intellectual Property Rights
UAE	United Arab Emirates
UNCTAD	United Nations Conference on Trade and Development
USA	United States of America
USDOC	United States Department of Commerce
USTR	United States Trade Representative
VAT	Value Added Tax
WCO	World Customs Organization
WDI	World Development Indicator
WTO	World Trade Organization

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