

Don't Scrap the SEZ Act

Why in news?

The FM's Budget-speech announcement that new legislation would replace the SEZ Act came as a shock amid reports that the government was considering a new lease of life for SEZs.

What is a SEZ?

- A special economic zone (SEZ) is an area in a country that is subject to different economic regulations than other regions within the same country.
- Asia's first Export Processing Zone (EPZ) was established in 1965 at Kandla, Gujarat state.
- In India, the Special Economic Zones (SEZs) Policy was announced in 2000.
- SEZs in India functioned from 2000 to 2006 under the provisions of the Foreign Trade Policy and fiscal incentives were made effective through the provisions of relevant statutes.
- The Special Economic Zones Act was passed in 2005.
- **Objectives**
 - generation of additional economic activity
 - promotion of exports of goods and services
 - promotion of investment from domestic and foreign sources
 - creation of employment opportunities
 - development of infrastructure facilities

What is the status of SEZs in India?

- With 425 formal approvals, 376 SEZs have been notified in the country. Of this, 268 are in operation.
- SEZs host over 5,600 units and provide employment to 2.6 million.
- They also contribute around 20% of exports.
- Vast industrial infrastructure covering 57,000 hectares of land is already up in the country developed chiefly with private investments.

Why are SEZs so significant?

- Provides employment opportunities
- Promotes export
- Supports FDI and industrial growth
- Aids in diversification
- Provides scope for spatial rejuvenation,
- Contributes to urbanisation and border development
- Promote regional integration and international relations

What is the Budget proposal on SEZs?

- The Budget says that the SEZ Act will be replaced by a new legislation that will enable large existing and new industrial enclaves to optimally utilise available infrastructure and enhance competitiveness of exports.
- It will enable the States to become partners in development of enterprise and service hubs.
- It also says that customs administration in SEZs will be fully IT-driven.
- An infra cluster approach is proposed rather than one based on export subsidies which will be open to WTO challenge.
- The new SEZ legislation will have single window clearance and provide high class infrastructure.
- The new dispensation for SEZ, being considered by the government, could allow domestic units to come up in the unutilised area of SEZs and co-exist with SEZ units with proper monitoring.
- The suggestion of permitting SEZ units to do job work for DTA units for better capacity utilisation may also now be implemented.

To know more about SEZs, click [here](#)

What are the criticisms against replacing the SEZ Act?

- The promise of a distinct set of rules is appealing as it encompasses
 - single-window governance
 - high-class infrastructure
 - a secured environment in a geographically delineated area
- Leveraging the SEZs requires a strong bureaucratic understanding of the philosophy and prerequisites underlying the SEZs and strategic competencies to make the right choices to implement the policy effectively.
- In the policy circles of India, SEZs are still seen from the conventional lens of direct tax incentives.
- It is assumed that the SEZs have lost relevance and identity after the sunset clause has set in.
- Following orthodox thinking, the government's focus is on improving India's ranking in the World Bank's ease of doing business index.
- Various SEZ firms rated security, government interference, and corruption as obstacles.
- One of the most serious obstacles is the policy restrictions on domestic sales.
- This is not allowing firms to avail economies of scale and insure against the export market risks.

What is the way forward?

- The way forward is not to replace the SEZ Act but to make SEZs favourable investment destinations.
- **Domestic sales**- There is a need to allow SEZ firms to sell domestically after refunding the duties foregone on imported materials.
- Local sales strengthen SEZs' linkage with regional industries due to the incentive to localise and facilitate technological transfer from SEZs to domestic companies.
- China used this policy very effectively to create domestic production capability.
- **Local currency**- The IT firms must be allowed to provide domestic market services in rupee rather than the foreign currency.
- **Incentives**- Production/investment/employment-linked incentives can be offered to firms in

the SEZs to incentivise growth, and create a level playing field with the rest of the firms.

- The competition can be unleashed in the domestic markets instead of protecting from SEZ firms.

Reference

1. <https://www.financialexpress.com/opinion/dont-scrap-the-sez-act-way-forward-is-to-make-sezs-favourable-investment-destinations/2435946/>

