SEZ 2.0

Why in news?

The government's recent proposal to change laws governing the Special Economic Zones Act comes as a big boost for the sector.

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
- Once an SEZ has been approved by the Board of Approval and Central Government has notified the area of the SEZ, units are allowed to be set up in the SEZ.

What are the incentives for setting up in an Indian SEZ?

- Duty free import and domestic procurement of goods for the development, operation, and maintenance of your company/SEZ unit
- 100% income tax exemption on export income for first five years, 50% for five years thereafter, and 50% of the export profit reinvested in the business for the next five years
- Exemption from GST and levies imposed by state government (supplies to SEZs are zero rated under the IGST Act, 2017, meaning they are not taxed)
- Exemption from Minimum Alternate Tax (MAT)
- Single window clearances for all state and federal government approvals
- Exemption in electricity duty and tax on sale of electricity by certain states in India
- Presence of customs officer in the SEZs to facilitate and expedite the trade processes
- Offering land to SEZ developers at concessional rates by some states.

What is the current status of SEZs in India?

- About 376 SEZs are notified but currently only 270 SEZs are operational in India.
- In the April-December 2021 period, exports from SEZs increased by 25% to 93 billion dollars.
- UNCTAD report suggests that SEZ exports did not rise at a faster rate than overall exports even before the pandemic.

- It appears that SEZs have ceased to be attractive after the tax holiday for units and developers was wound down between 2017 and 2020.
- The proliferation of Free Trade Agreements between 2005-15 robbed SEZs of their advantages, as importers outside SEZs benefited from zero-rated imports without being subject to Domestic Tariff Area (DTA) related restrictions.

What measures were taken by the government to revamp SEZs?

The government has set a target of creating 100 million jobs and achieve a 25% of the GDP from manufacturing sector by 2022.

- The government constituted a committee headed by **Mr Baba Kalyani**, in 2018 to study the existing SEZs of India and prepare a policy framework to adopt strategic policy measures.
- **Recommendations of the Baba Kalyani committee**
    - Rename SEZs in India as 3Es- Employment and Economic Enclave
    - Framework shift from export growth to broad-based employment and economic growth
    - Separate rules and procedures for manufacturing and service SEZs
    - Ease of Doing Business (EoDB) in 3Es such as one integrated online portal for new investments
    - Extension of Sunset Clause and retaining tax or duty benefits
    - Unified regulator for IFSC
    - Dispute resolution through arbitration and commercial courts
- **Budget 2022-23**- 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.

References

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