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Management and Working of Special Economic Zones in India

Dr. Pramod Kumar
Assistant Professor, Department of Commerce, Deshbandhu College, University of Delhi.
E-mail - drpramodkumar.du@gmail.com

Miss. Akanksha
Assistant Professor, Department of Commerce, Deshbandhu College, University of Delhi.
E-mail - akanksha@db.du.ac.in

Abstract
Special economic zones (SEZs) in India were first introduced by the Government of India in 2005 and later amended and expanded. The SEZ Act, which governs them, was enacted on 18 April 2012. There are currently 148 SEZs across India. The main objective of the SEZs is to uplift the economic conditions of the country by leveraging specific zones within their state to implement policies that are not limited to any particular sector.The study aims to explore different management and working aspects of special economic zones in India.To provide a comprehensive study on management and working aspects of special economic zones in India, the researchers explored different information from a different reliable secondary source and compiled all information related to special economic zone and its challenges in India. The study concludes that SEZ provides an opportunity for foreign investors to start business without having to worry about excise, sales tax or custom duties over imports of machinery and capital goods used in the production sector. Exports from these zones are also zero rated. Industrial units can also claim exemption from customs duty on import of raw materials and intermediate goods based on actual usage.

Keywords: Special Economic Zones, Economic Activity, Gross Domestic Product, Liberalization Policy, Foreign Investment

Introduction
Special economic zones (SEZs) in India were first introduced by the Government of India in 2005 and later amended and expanded. The SEZ Act, which governs them, was enacted on 18 April 2012. There are currently 148 SEZs across India. The main objective of the SEZs is to uplift the economic conditions of the country by leveraging specific zones within their state to implement policies that are not limited to any particular sector. The policy seeks to promote wide-ranging industries, which in turn would help develop a high level of economic activity and also generate high levels of employment for all sectors involved in production activities. It also provides an opportunity for foreign investment in India.An important consideration while setting up an SEZ is its location with respect to facilities including transport systems, investment possibilities, technology upgradability, availability of skilled labour force etc being taken into account at the time of approval.
While the SEZ Act enables existing factories operating in unorganized industries to set up units in SEZs, more or less like any other factory, it also provides for special incentives for certain capital

intensive industries like textiles and heavy engineering. The SEZ Act has not yet been implemented on a wide scale. The government has currently planned to bring out more Acts for this purpose. For the first time India plans to create more than 100 SEZs that will be designated as 'thriving' areas where exports are 10% of the GDP (gross domestic product).

The liberalization policy of 1991 allowed foreign direct investment (FDI) in Indian financial services, thus creating an impetus for creating new entities. However, it did not address the problems of location, infrastructure, skill availability, etc. The SEZ Act was conceived to provide a framework for massive investment in the country's infrastructure, industries and services. As per the Act, an SEZ is a specially designated area that allows companies to develop new projects or expand existing operations using their own resources.

The SEZ policy was intended to steer investments into areas that otherwise would not have been considered meritorious by industry due to lack of any special benefits and incremental returns. A special economic zone (SEZ) is a location where foreign investment is encouraged and/or permitted for specific purposes beyond low tax rates and treaty benefits.

Objectives of study

- The study aims to explore different management and working aspects of special economic zones in India.
- To explore various challenges of special economic zones in India.

Research Methodology

To provide a comprehensive study on management and working aspects of special economic zones in India, the researchers explored different information from a different reliable secondary source and compiled all information related to special economic zone and its challenges in India. The research is based on limited published and unpublished data from limited reliable source and database

Literature review

India is among countries with the largest number of SEZs in the world.SEZs provide investment certainty, infrastructure availability, and time advantage for investors by creating more incentives than any other single tool. A recent research shows that there are 170 SEZs in India, employing over 80 lakh people with an annual turnover of more than Rs 7 trillion (2016). With these advantages, SEZ make a good case for themselves. But the idea of an Indian "special" economic zone is not without its critics who say that its benefits are skewed towards foreigners at the expense of Indian nationals(Levien, 2012).

SEZs are projected to account for a market share of more than 1.9 percent in the global FDI space by 2026.In the current low growth environment, SEZs have been able to attract substantial inflows from foreign investors because of certain key advantages that they provide to the investors. Besides other factors, lack of availability of skilled resources is one of the major concerns among all stakeholders involved in this process. SEZs have created a large pool of skilled workers through training and skill development programmes to meet the needs of SEZ industries(Parwez, 2016).

A recent research by UBS Investment Research shows that there are 170 SEZs in India employing over 80 lakh people with an annual turnover of more than Rs 7 trillion (2016). In order to better understand the advantages, limitations, and impact on Indian nationals, this article summarizes the working and issues related to SEZs in India. The article also sheds light on points to consider while designing them. Some alternatives that can be considered for building a 'skill' oriented economy or creating employment opportunities will be discussed as well(Jenkins, 2011).

In sum, the following points can be taken into consideration for an effective design of a Special Economic Zone:The very first SEZ to be set up in India was the Maruti Suzuki India Ltd. auto-manufacturing unit located in Gurgaon, Haryana. The SEZs were allowed only in the union territory of Andhra Pradesh initially and later extended to all other states. In fact, Andhra Pradesh has been a leader among Indian states in creating SEZs. As of 2006, there were about 75 Special Economic Zones established across India by state governments as well as companies. The largest SEZs are located in Andhra Pradesh, Gujarat, Maharashtra, Tamil Nadu and Karnataka(Palit & Bhattacharjee, 2008).

The government of India has set up three separate committees to guide its policies related to SEZs. All these have been tasked with the following objectives:Andhra Pradesh was the first state in India to create SEZs. The first were established in Kakinada and Guntur districts. As of 2015, there are eleven SEZs in the state of Andhra Pradesh(Jindal, 2018).

Andhra Pradesh has become a model for setting up Special Economic Zones across India due to its success rate, success criteria for investors as well as skilled workforce availability. The state has implemented SEZ to attract investments in various sectors across the state, including Automobiles, Chemicals & Plastics, Fertilizers, Engineering, Electronics & IT services etc.(Mukherjee et al., 2016).

LIC Housing Finance India Pvt. Ltd., a wholly owned subsidiary of LIC Housing Finance Ltd., Limited, is looking to set up a Special Purpose Vehicle (SPV) with investment from consortium of Indian companies, including Tata Motors Limited, Idea Cellular Ltd., Tata Power Company Limited and Grasim Industries Limited(Aggarwal, 2007).

Key Aspects of Special Economic Zones in India

The Indian Government has introduced a series of reforms aimed at reviving the economy and these include the introduction of Special Economic Zones (SEZs) where manufacturers may operate tax-free and duty-free for a defined period. Such zones benefit from lower labour and other input costs owing to cheaper wages, while also enjoying reduced restrictions on imports. SEZs have been opened in many States, including Telangana, Maharashtra, Jharkhand and Andhra Pradesh.

The establishment of SEZs has attracted significant attention both in India and abroad. The poor compliance with labour laws by manufacturing firms are operating in SEZs along with allegations of corruption, also present a major public relations issue facing successive governments. The poor enforcement of labour laws could lead to an erosion of intellectual property rights for manufacturers operating in SEZs, which could result in lower quality products sold at higher prices. There are also concerns regarding the possibility that SEZs may act as dumping grounds for ‘unwanted’ firms, adversely impacting domestic industry(Dhingra et al., 2009).

The relationship between SEZs and trade is complex. The World Trade Organization (WTO) and the United Nations Development Programme (UNDP) have both expressed concerns regarding the possible conflict between economies of scale and trading restrictions. The SEZs scheme is designed to reduce barriers to international trade while promoting development. However, it has been argued that such schemes would affect domestic industries and trade by leading to lower wages and employment in the manufacturing sector(Wong & Chu, 1984).

The Indian government introduced a series of reforms aimed at reviving the economy and these include SEZs, an innovation in their liberalization policy. SEZs are special economic zones where manufacturers may operate tax-free and duty-free for a defined period. Such zones benefit from lower labour and other input costs, while also enjoying reduced restrictions on imports. SEZs have been opened in many States, including Telangana, Maharashtra, Jharkhand and Andhra Pradesh. In addition to SEZs the government also introduced a profit-sharing scheme for Small and Medium Enterprises (SMEs), which is known as the Export-Promotion Programme. The SEZ policy has been designed to reduce barriers to international trade while promoting development. However, it has been argued that such schemes would affect domestic industries and trade by leading to lower wages and employment in the manufacturing sector.

The lack of enforcement of labour regulations and the ease with which foreign companies could operate in SEZs without transparent and open labour regulations were cited as potential problems for these special economic zones. The poor compliance with labour regulations by manufacturing firms operates in SEZs along with allegations of corruption, also present a major public relations issue facing successive governments. The poor enforcement of labour laws could lead to an erosion of intellectual property rights for manufacturers operating in SEZs, which could result in lower quality products sold at higher prices.

A special economic zone (SEZ) is an area of land, water, and airspace given over to foreign investors to allow them tax and duty-free access to the products they produce while taking advantage of benefits such as reduced regulatory oversight and reduced customs duties.

Challenges that SEZS face during their operation in India

There are various challenges that SEZs in India face during their operation. This segment of article examines how these zones operate from a political perspective, with a focus on what governments can do to make their operations more effective. It also looks at the impact SEZs have on trade policy in India, providing an overview of how privatisation has been implemented across various sectors in India through this mechanism.

Special Economic Zones (SEZs) in India have been a significant part of the Indian economy for a decade or so, with a total of twenty five such zones now operational. The primary purpose of SEZs is to facilitate foreign direct investment (FDI). In order to ensure that FDI is indeed going into manufacturing, SEZs often offer companies tax breaks on the value of imports and exports they produce. The Ministry of Commerce and Industry is responsible for overseeing SEZ policy and implementation, while the Ministry of Finance acts as an implementing agency for customs duties.

There is a political aspect to the operation of SEZs. Their success depends on each government’s ability to achieve self-sufficiency in the generation of employment and manufacturing output. As such, SEZs typically require support from both central and state governments in order to succeed. State governments typically provide land and infrastructure, while central governments provide tax concessions for exports and imports, as well as the services needed to administer these benefits. In addition, politicians benefit from a successful SEZ by being able to claim that it will help local people find employment that is better paid than non-SEZ work while also facilitating exports that can lead to revenue generation through customs duties.

The success of SEZs depends on their ability to generate employment and export revenues. The SEZs themselves need to be able to generate positive returns on investment, as well as provide jobs for those who work there. Successful SEZs also need to be able to attract new FDI, if they are not already exporting enough. This creates a tension that SEZs face, as they may need increased tax concessions and lower import duties in order to increase their export capacity. However, this also puts them at risk of losing the support of central and state governments should these levels fall below what is required for self-sufficiency.

The success of SEZs' operations is largely dependent on factors which are unique to the specific operation: for example, on the quality of the infrastructural and human resource base and their temporary nature. However, there are some general tendencies that can be identified as contributing to whether or not a particular SEZ can be successful within a particular country.

The first important factor is political stability. If governments cannot be relied upon to provide support for current and future operations, such as with timely land acquisition, appropriate tax concessions for imported products, stable power supplies etc., then the success of SEZs will depend on other mechanisms which cross borders. For example, as FDI does not require the presence of foreign investors, goods produced there can be taken across borders as domestic goods. In addition, as machines and other tools do not require a skilled workforce to operate them, an SEZ is therefore able to export labour-intensive manufacturing. However, if a country's government is unable to provide support on these fronts then it will be unlikely for a SEZ to succeed.

The second important factor is a government's ability to provide services such as land acquisition and security of tenure for labour and regular buyers whose operations depend on the success of the SEZ. With a national election being held in March India might face an election delay. With that risk, the government can provide additional support for SEZs such as with solid support from the state governments and the skill of its civil servants. However, if central and state governments are unable to provide support for key operations such as land acquisition to avoid delays in launching the operation, then it will become very difficult for a SEZ to operate successfully.

The third important factor is the extent to which firms within a country receive tax breaks and import support through their production operations during SEZ operations. This is particularly important because it is the duty of government to support its domestic industries, which might be given priority over SEZs during the implementation of protectionist policies. This will depend on whether or not the government views FDI as a priority for development, or if it views it as being harmful to domestic development.

The fourth important factor is the extent to which SEZs are able to successfully carry out privatization by attracting FDI. The Indian Government has decided to encourage FDI through special economic zones. These zones would be established across all economic sectors and would involve private sector investment in these sectors. However, the government still has to take decisions about the areas in which FDI is allowed. These decisions will be difficult given that all Indian States are not able to provide the same level of infrastructure and amenities for foreign companies. The states that are least developed might then be forced to offer some incentives for companies to set up shop within their territories while the more developed states might find it difficult to improve their infrastructures in order to attract FDI.

The fifth important factor is reflected in India's political situation. With elections being held in every frequent time in India, both central and state governments may have trouble making any long-term plans on how they would run these zones. The central government may be forced to make unpopular decisions. For example, due to local population pressure, it may be hard for the government to facilitate land acquisition in certain places.

The sixth important factor is the extent to which SEZs are able to attract FDI. It is suggested that success depends on whether or not a country's business environment is attractive enough for investors, as well as the regulation of FDI.

The seventh important factor is the creation of an SEZ will depend on the special economic zones ability to attract FDI. This could range from developing sufficiently skilled labour force, to providing well-developed infrastructure, which would attract FDI. However, it is important to note that even if a country has the necessary infrastructure and skills to create an SEZ, it will still fail if there are no investors or there are too many competing investors for one or two companies.

SEZs need two things: land and labour. Countries with sufficient agricultural lands can therefore create their own SEZs without having to bring in foreign investors through Duty-Free import tariffs. Land is a major issue because it can create a bottleneck for development. In India, the central government has been taking measures to encourage capital for SEZs by way of various incentives. These measures include tax breaks and providing loans to investors through special financial institutions such as the Special Investment Promotion Board (SIPB).

Another consideration for SEZs is the costs of labour. It is recommended that foreign investment in SEZs will reduce unemployment and the burden on the state's welfare system as well as local labor markets.Labour is needed for tasks such as payroll and construction, as well as the production of goods within a SEZ. Labor costs are therefore important for the success of a SEZ.

It is important to note that India's SEZs have been able to attract FDI through special incentives. The Indian Government has been offering tax breaks for investors to set up shop in these zones, as well as loans from the SIPB at low interest rates. In addition, local governments have also been offering financial incentives such as rent subsidies and hiring non-local labor on lower wages than those of domestic labor since they believe that this will help attract FDI. As mentioned earlier, India's main problem will be its inability to provide technology and technology transfer to these SEZs.

The Indian Government has also been attempting to attract FDI through campaign such as Make in India which would give tax breaks and provide loans at low interest rates for FDI. This campaign has been endorsed by the World Bank and IMF among many other international agencies.

SEZs are often established in areas with high GDP. Not only are these zones able to generate revenues, but they are also able to provide other benefits such as the generation of employment opportunities. However, other factors will come into play that may or may not have an effect on whether or not SEZs are successful during the implementation of these zones.

The first factor is human capital. If a country does not have enough skilled workforce, then SEZs might be unable to operate successfully because companies cannot train the necessary workers. This is important because it ensures that the company receives workers with skills required for their production process. However, the Indian Government hopes to increase the number of skilled workers by creating a skilled labor force abroad.

Secondly, it is important to consider the cost of living in SEZs. This is because companies will need to pay higher wages if they want their workers to be productive and earn a decent salary. India has been able to attract FDI into SEZs through providing reasonable wages and through subsidies on utilities such as electricity and water. However, many of these concessions will not be enough for some investors due to their location; they might therefore seek other more lucrative investment opportunities such as oil or minerals.

Major list of SEZs in India

The following are the special economic zones that exist in India. Most of these zones are operated by state governments, but there are also some private SEZs.

Ports:

- Mangalore Seaport (Karnataka)
- Marve Seaport (Maharashtra)
- Visakhapatnam Port (Andhra Pradesh)
- Kolkata Dockyard Ltd (West Bengal)
- Dhamra Port (Orissa)

"**Major Manufacturing Industries**":

Kalinganagar Industrial Complex (Orissa), Chennai Port-centric Industrial Park Ltd, Jawaharlal Nehru Port Trust, Mumbai International Container Terminal Ltd.

"Major Export-oriented Industries":

- EGL-IPI, Mumbai International Airport Ltd.
- "Major Agro-based Industries":
- Kolkata Dockyard Ltd.
- Mumbai Port Trust, Chennai Port-centric Industrial Park, Navi Mumbai Industrial Development Area.

Some of the important SEZ of different state of India given below,

- "Visakhapatnam SEZ is being developed as India's first SEZ along the lines of Singapore's Special Economic Zone & Embraces Technology Park model of development". It is also proposed to be the first SEZ in India to attract US firms. The Authority plans to establish an exclusive industrial belt under 250 acres which will have vital infrastructure facilities for both domestic and international industries.
- "India's first industrial park to be set up in Tirupati"
- A proposed industrial park made to the specifications of the government is likely to be established in the temple town of Tirumala Tirupati. The industrial park will come up at a cost of Rs 40 crore and will be spread over 25 acres. The project was approved by the urban development department recently. It aims to attract investments from across the country to develop a huge industrial area around the hill shrine.
- Muthupet SEZ-Bengaluru, Karnataka: Government of Karnataka has identified 14 industries for setting up manufacturing units in this SEZ including cutlery, pharmaceuticals, food processing, electrical equipment and footwear.
- Chennai SEZ : The Tamil Nadu government has identified six industries for setting up manufacturing units in this SEZ including micro-electronics, software, software services, hardware and telecommunications equipment.
- Karnataka Bangalore Metropolitan Regional Development Authority (BMRDA) has identified nearly 466 acres of land in the outskirts of the city to develop an industrial park. The park is envisioned as a multi-product cluster centre to provide employment to at least 30,000 people.
- EIS Industrial Park (in Pune) Maharashtra: EIS Group (formerly Emaar-Ismail-Singhania Group) has announced it would set up an integrated industrial estate on 6. 1 lakh square meter land which would be developed under the Delhi Mumbai Industrial Corridor Project. The land is situated off the Pune-Mumbai expressway.

- The government of Andhra Pradesh has approved a proposal to set up an industrial cluster close to the port town of Visakhapatnam in the state.
- The government of Tamil Nadu will develop a special economic zone for implementing projects in information technology and information technology enabled services (ITeS) sectors at a cost of Rs. 1,200 crore in Coimbatore. The project is to be implemented on a public-private partnership basis over an area of 68 acres which will be transferred to SEZ operator when the project is ready for operations. The main SEZ will have a capacity to generate jobs for at least 10,000 people.
- The government of Maharashtra has approved the setting up of an SEZ in Pimpri-Chinchwad at a cost of Rs. 1,500 crore. It is said to be the biggest IT SEZ in Asia. The Government has issued schedule permission for the project that includes special incentives to promote domestic industry over 20 years period.
- Mumbai SEZ is India's first Special Economic Zone, located in Navi Mumbai Industrial Development Area (NMID). in Maharashtra.
- The economic zones being developed by the government of Andhra Pradesh near Vishakhapatnam airport will have a total area of more than 1,000 acres and would be developed by Aerocity IT SEZ Ltd.
- The government of Orissa has identified the industrial city of Rourkela as a potential location for development of a special economic zone. The government has proposed the creation of a special economic zone over an area of 2,000 acres.
- The land acquisition process for setting up an SEZ in Kancheepuram district is underway according to a recent report by The Hindu newspaper, Chennai. The Tamil Nadu government had cleared the proposal to set up this SEZ last week.
- The government of Tamil Nadu has identified the Dhenkanal district in Odisha as a potential location for development of an SEZ.
- The government of Maharashtra is working on developing an SEZ at ChhatrapatiShivaji International Airport in Mumbai. It is proposed that this SEZ will have a capacity to generate jobs for over 30,000 people. The area near the airport will have an area of more than 1,200 acres for this purpose. It is proposed that the Electronic City could be developed by Tata Consultancy Services which has already started evaluating locations in Thane district.
- The Andhra Pradesh government has identified the area surrounding Visakhapatnam as a potential location for development of an SEZ.
- The government of Andhra Pradesh has announced that Tirupati is likely to be developed as India's first special economic zone (SEZ). The city, located near the hill temple will have a capacity to generate jobs for over 8,000 people.
- The government of Maharashtra (which covers Mumbai and Thane districts) has identified 12 locations in Thane and Navi Mumbai districts as locations for setting up SEZs. These areas include areas near Bhayander and Vashi in Thane district and areas around Panvel and Nerul in Navi Mumbai district.
- The government of Tamil Nadu has identified Chidambaranar Port at Tuticorin as a potential location for development of an SEZ. The main aim of this SEZ would be to create employment and improve infrastructure.

- The government of Andhra Pradesh has initiated the process of identifying industrial areas as special economic zones (SEZ) near Visakhapatnam, Vijayawada and Tirupathi. This is expected to ease industrial development in these regions and provide more employment opportunities.
  India has so far notified 148 special economic zones (SEZs). They are spread all over the country with Kerala accounting for 12 zones while Karnataka has 10 zones.

Conclusion

SEZs were introduced by the Indian government to promote investment and to provide a favorable environment for export oriented industries. The companies were given expeditious clearances, no customs duty on imported inputs and capital goods, relief from excise duty on excisable goods manufactured or produced in SEZs, 100% profit repatriation and other such fiscal incentives.

The main objective to establish SEZs is to promote export-oriented industries. The regions which are chosen as locations for those zones are those which have a significant potential for exports. The second objective is to promote growth of modern industry in India by attracting foreign investment through a well planned and priority-oriented infrastructure facilities.

The third objective is to benefit from the world-class infrastructure facilities that are offered through SEZs. There are several reasons given by the government for notifying specific areas as special economic zones.

The concept of an SEZ is a unique feature in India's industrial policy. It differs from a free trade zone which is a centrally regulated service sector-oriented processing industry, while an SEZ is a package of integrated infrastructure and investment incentives offered on a very large scale to promote export-oriented industrialization especially in backward regions of India. In short, SEZs are for industrial growth while FTZs are for service sector growth. The SEZ is intended to promote an export-oriented industry. The government has carved out SEZs in backward regions to promote industry there. The economic rationale for this is that the investment will increase the demand for labour, which will spur growth in the backward region. The developed regions are not suitable for this purpose since they are already well developed and have enough job opportunities for investors.

The SEZ provides an opportunity for foreign investors to start business without having to worry about excise, sales tax or custom duties over imports of machinery and capital goods used in the production sector. Exports from these zones are also zero rated. Industrial units can also claim exemption from customs duty on import of raw materials and intermediate goods based on actual usage.

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