

## The Role of Special Economic Zones (SEZs) in Export Promotion of India

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**Abstract:** *In this era of globalization every country is adopting the policy of import substitution and export Promotion. For the export promotion many countries adopted the policy of Special Economic Zones (SEZ). It was believed that the SEZ are the instrument of export promotion, earners of foreign exchange, stimulation of employment and foreign investment. Special economic zones concept has evolved across the globe and several developing countries like India have adopted this policy for set-up of industrial zones that focus on exports and helps in generating economic opportunity and able to attract Foreign direct investment. So SEZs can be defined as a geographically delimited area which is physically secured, has single window clearance system, less complicated administrative unit. In this paper, an attempt is made to review the concept of Special Economic Zone and its impact on the exports from India. The study is also covered the various problems related with the SEZs and solutions to resolve it. Also give some suggestions to improve the condition of SEZs and export promotion in India.*

**Keywords:** Special Economic Zones, Export Promotion, Foreign Exchange, Investment etc..

**Introduction-** India has progressively risen to become one of the world's key actors in the dynamic realm of international trade. The nation's aggressive attitude to promoting exports is in large part responsible for its economic strength. Special Economic Zones (SEZs) are one of the key instruments powering this expansion. These designated zones, distinguished by their distinctive infrastructure and regulatory frameworks, have been crucial in accelerating India's export growth.

A Special Economic Zone (SEZ) is a place with economic laws that are more lenient than those generally found in a nation. Free Trade Zones (FTZ), Export Processing Zones (EPZ), Free Zones (FZ), Industrial Estates (IE), Free Ports, Urban Enterprise Zones, and other more specialized zone types are included in the category "SEZ." An SEZ structure typically aims to improve exports, provide jobs, and attract more foreign investment. Shenzhen, China's most prosperous Special Economic Zone, grew from a small village to a city with a population of over 10 million people in just 20 years. Special Economic Zones have been formed in a number of nations, including Brazil, India, Iran, Jordan, Kazakhstan,

and Pakistan, following the Chinese precedents. The establishment of Special Economic Zones (SEZs) has been a fundamental policy of the Ministry of Commerce and Industry (MOCI), GoI, with India positioned to become the third largest global economy by 2030. These zones are geographical areas where a unique legal framework enables more lenient laws than those in effect throughout the rest of the nation. Free trade zones (FTZs), export processing zones (EPZs), free zones, industrial estates, free ports, and enterprise specific zones are only a few of the more specialized types of zones that fall under the umbrella term "SEZs."

SEZs were created to draw in foreign direct investment, produce jobs, build infrastructure, and make it easier to transfer technology and get access to the international market. Therefore, the goal is to create an environment that is hassle-free and competitive globally to promote exports. The Government of India announced its SEZ policy in 2000 and passed the SEZ Act in 2005 with this objective in mind. The SEZ Act's objectives included building an integrated infrastructure for export production, providing a package of incentives to entice foreign and domestic investment, and fostering employment opportunities.

### **Objectives of the Study:**

The study's main objectives are to:

- Review the concept of Special Economic Zones (SEZ)
- Analyze the various problems, solutions and importance of Special Economic Zones for export promotion in Indian Economy.

### **Literature Review:-**

Pakdeenurit (2014), The study covers the viewpoints of three key nations at the forefront of zone operations: India, the largest zone operator in the world, Chinese SEZ Shenzhen, the pioneer of special economic zones (SEZ), and the United States, which invented the concept. The study comes to the conclusion that SEZ policies were adopted by developing nations starting in the middle of the 20th century to enable key developmental initiatives like expanding employment opportunities, boosting foreign exchange, and promoting exports. Anita and Niraj (2016), made sure in their study that the zones do not use an excessive amount of scarce government resources; rather, they should serve as a breeding ground for the development of new skills and create income for the

government to fund development projects. SEZs are also a part of an economy, and these enclaves can't run effectively if there are supply bottlenecks, thus the country needs to enhance the investment climate of the country in order to attract more FDI. The government must establish environmental laws for SEZs and include local governments and bodies in SEZ governance. Kumari, B. (2018), According to her SEZs aid in the development of employment opportunities, draw FDI, and boost Indian exports. Currently, 1688.34 thousand individuals nationwide work in SEZs. In 2017, FDI in SEZs was 433142 crores, while in 2016, the export output from SEZs was 467337 crores, or 19.88% of India's total exports.

### Meaning of Special Economic Zones (SEZ)

Special Economic Zones are geographically isolated regions inside a nation that are governed by unique economic laws and policies. Their main goals are to promote exports, encourage foreign investment, advance industry, and create jobs. The SEZ policy in India was initially launched in 2000 with the intention of emulating the success of similar zones in nations like China and Taiwan. SEZs have developed into thriving centers for trade, services, and manufacturing over time.

### Special Economic Zones (SEZs) Objectives

An SEZ's goals include boosting exports, boosting foreign investment, creating jobs, and advancing regional development. According to the government, the main goals of the SEZs are to:

- Generate additional economic activity;
- Promote exports of goods and services;
- Promote investment from both domestic and foreign sources;
- Create employment opportunities; and
- Develop infrastructure facilities.

### Strengthening Export Promotion By SEZs

SEZs has had a significant impact on India's export promotion efforts in a number of ways:

**1. Tax Benefits:** One of the SEZs' most alluring characteristics is the considerable tax benefits provided to companies operating there. These incentives include temporary exemptions from income tax, excise taxes, and customs tariffs. These tax breaks lower the cost of producing products and services, increasing their ability to compete on global markets.

**2. World-class Infrastructure:** SEZs have access to cutting-edge infrastructure, including as technology parks, logistics hubs, and industrial parks. Companies may increase productivity, lower operating expenses, and maintain high levels of quality thanks to this infrastructure.

**3. Streamlined Regulator Framework:** A more straightforward and business-friendly regulatory

framework is advantageous for SEZs. This makes it easier for businesses to get through administrative roadblocks, which leads to quicker approvals, licenses, and permits. This simplified procedure facilitates international business establishment in India.

**4. Export-Oriented Units (EOUs):** Export-Oriented Units are granted exceptional rights within SEZs, such as the ability to import capital goods and raw materials without having to pay customs charges. This encourages domestic value addition and raises the exports of India's competitiveness.

**5. Foreign Direct Investment (FDI):** SEZs have demonstrated their ability to draw foreign direct investment (FDI) like a magnet. The welcoming environment for investments, good infrastructure, and tax advantages provided in these zones all appeal to foreign businesses. The promotion of exports is directly benefited by this FDI inflow.

**6. Employment Opportunities:** SEZs significantly increase the number of employment opportunities. Jobs for skilled and unskilled labor are created by the expansion of the manufacturing, service, and related businesses inside these zones, which supports general economic growth.

**7. Diversified Export Portfolio:** SEZs are home to a variety of businesses, from textile and pharmaceutical production to information technology and IT. India's export portfolio is strengthened by this economic diversification, making it more resilient to changes in the global market.

**Challenges and the Way Forward-**Although SEZs have been crucial in promoting exports, they have encountered difficulties such as problems with land acquisition, infrastructure constraints, and worries about equitable development. Policymakers must address these issues by ensuring that SEZs are created in a sustainable and inclusive manner in order to maximize their benefits. In several nations, including India, Special Economic Zones (SEZs) have proved crucial in stimulating economic growth and promoting exports. Their development and success, nevertheless, may run into a number of obstacles and issues. Here are some typical problems related to the creation of SEZs:

**1. Land Acquisition:** Purchasing land for SEZs can be a controversial matter, especially in places with a high population density. Local communities are frequently uprooted, which can cause social upheaval and legal challenges. It can be difficult to strike a balance between the necessity for economic development and the rights and livelihoods of those who will be impacted.

**2. Regulatory Obstacles:** SEZs are subject to a separate

set of rules than the rest of the nation. For firms, managing and following these regulations can be challenging. Investors may become uncertain as a result of frequent changes to laws and regulations.

**3. Bureaucratic Red Tape:** The approval procedure for licenses, permits, and clearances can be slowed down by administrative procedures and bureaucratic obstacles. For SEZs to draw investors and encourage ease of doing business, a streamlined, effective, and transparent approval process is essential.

**4. Sustainability Issues:** SEZs occasionally come under fire for their effects on sustainability, including problems with pollution, water consumption, and land degradation. It is extremely difficult to balance corporate development with environmental sustainability.

**5. Equity and Inclusive:** While SEZs can aid in economic expansion, it is uncertain whether all facets of society will gain equally. A significant difficulty is ensuring that the progress brought about by SEZs benefits local populations and is inclusive.

**6. Export Dependence:** SEZs that depend too heavily on exports may be more susceptible to changes in the world economy. The expansion and stability of SEZs can be significantly impacted by economic downturns in export destinations.

**7. Competition Among SEZs:** There may occasionally be fierce competition between several SEZs, which can result in inefficiencies and effort duplication. It might be difficult to coordinate and rationalize the growth of SEZs in an area.

**8. Global Economic Uncertainty:** The state of the world's economy has a significant impact on SEZs. The demand for goods made in SEZs may be impacted by trade disputes, protectionist measures, and world economic crises.

**9. Labor Issues:** It can be difficult to attract and keep skilled workers, particularly if there is a mismatch between the skills required by the industries in SEZs and the skills present in the local labor pool.

**10. Infrastructure Upkeep:** For SEZs to have continuous growth, it is crucial to maintain and upgrade their infrastructure. If this component is neglected, facilities may deteriorate and competitiveness may suffer.

#### Solutions to Reduce these Problems

Governments and policy makers must take a comprehensive approach to overcoming these obstacles and ensuring the SEZs' continued growth. This entails delicately handling land acquisition concerns, enhancing infrastructure construction, maintaining a supportive regulatory framework, supporting environmental sustainability, and encouraging equitable growth. Additionally, continuous

monitoring and evaluation of SEZ performance can aid in quickly identifying and resolving new problems. It takes a multifaceted strategy to reduce the concerns with Special Economic Zones (SEZs), including resolving issues with land acquisition, infrastructure, regulations, sustainability, and inclusivity. Here are few recommendations to help address these issues:

**1. Land Acquisition Transparency:** Ensure fair and transparent land acquisition procedures with sufficient compensation for impacted communities. Consult with local stakeholders in a meaningful way to address their issues and offer appropriate rehabilitation methods.

**2. Efficient Infrastructure Development:** Give roads, ports, power supplies, and digital connection a high priority within and surrounding SEZs. Set aside enough money and resources for infrastructure projects, and follow strict deadlines to prevent delays.

**3. Stable Regulatory Environment:** Keep the SEZ regulatory environment steady and predictable. To give investors a sense of security, frequent changes in laws and regulations should be minimized.

**4. Streamlined Administrative Processes:** Cut down on bureaucratic red tape and simplify administrative procedures. Implement single-window clearance procedures to hasten the issuance of SEZ-specific licenses, permits, and approvals.

**5. Inclusive Growth:** Development of policies to encourage inclusive growth within SEZs. Encourage companies to fund training and skill-development initiatives for regional residents. Establish procedures to guarantee that underprivileged communities directly receive a share of the benefits from SEZs.

**6. Environmental Sustainability:** In SEZs, encourage sustainable practices and enforce strict environmental requirements. Promote the use of eco-friendly technologies and make sure environmental laws are followed.

**7. Diversification of Industries:** Encourage the diversification of industries within SEZs to lessen over-dependence on a single industry. This may make SEZs more resilient to changes in the economy.

**8. Export Diversification:** Promote the diversification of export destinations to lessen reliance on a select few markets. Examine chances to extend the export portfolio and access new markets.

**9. Investment Supported Policies:** Investment-friendly Regulations Make SEZs more competitive globally by providing investors with alluring incentives and tax benefits. Make certain that these incentives are transparent and consistent.

**10. Monitoring and Evaluation:** To routinely evaluate the performance of SEZs, establish a strong monitoring

and evaluation structure. To quickly detect and address developing challenges, use data-driven insights.

**11.Labor Development:** Work with educational institutions to match the local workforce's capabilities to the demands of the SEZs' industrial sectors. Spend money on training and development initiatives to increase the employability of locals.

**12.Cluster Development:** Encourage the clustering of related industries within SEZs to promote economic development. Synergies, higher production, and simpler access to suppliers and clients may result from this.

**13.Infrastructure Upkeep:** Create a long-term plan for the upkeep and improvement of the infrastructure inside SEZs. Facilities can stay functional and avoid degradation by receiving regular maintenance.

**14.Coordination Among SEZs:** Promote collaboration and coordination among the many SEZs in the area to prevent duplication of effort and guarantee effective resource use.

**15.Global Engagement:** Engage actively with international markets, trade associations, and foreign investors to draw capital and broaden the scope of SEZs.

**16.Flexibility:** SEZ policies should be made flexible to account for shifting market dynamics and changing business requirements.

#### Suggestions to improve SEZs for Export Promotion

- ◆ The government ought to work toward removing the need for import and export licenses, streamlining the requirements for investment approvals and foreign worker work permits, and speeding up custom inspection processes and automated foreign exchange access.
- ◆ Given that the zones receive unique incentives and other facilities, particular consideration should be given to multi-product SEZs in order to maintain and promote the country's varied traditional exports.
- ◆ The Government of India should support Special Agricultural Zone (SAZ) to encourage farmers to adopt cutting-edge technologies for better amenities in the specifically designated zones. In 2011, Uttarkhand became the first state in the nation to establish SAZ.
- ◆ Agriculture should not be transferred to Special Economic Zones by the government. Farmers and food production suffer as a result. India is a populous country, so food security is a big problem.
- ◆ The person who lost their land to SEZs should be offered employment. They need to be properly employed and provided technical training.

For investors and developers, the SEZ policy and laws have provided a very favorable investment environment. To encourage investors and developers to

- ◆ make additional investments, which will, in turn, have a favorable impact on the expansion of the SEZs, a variety of tax perks and incentives have been offered.
- ◆ Governments and policymakers can help minimize the issues related to SEZs and support their sustainable expansion by putting these recommendations into practice and maintaining a balanced approach, thereby assisting in economic development and export promotion.

#### Conclusion-

It goes without saying that Special Economic Zones have played a significant role in fostering new economic activity at the national level. The standards of working conditions within the zones should not be compromised in order to achieve the SEZ's export and job creation goals. SEZs are also a part of an economy, and these enclaves can't run effectively if there are supply bottlenecks, thus the country needs to enhance the investment climate of the country in order to attract more FDI.

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