

SPECIAL ECONOMIC ZONES (SEZs) AND SUSTAINABLE DEVELOPMENT

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ABSTRACT

Special Economic Zones (SEZs) denote geographical areas which enjoy special privileges as compared with non-SEZs areas in the country. The main motivating forces for setting up SEZs came from the Ministry of Commerce with a view to boost exports of goods and services, provide employment and increase investment from domestic and foreign sources. In the year 2009-10 India's exports from the SEZ came down to Rs 90000 due to global meltdown. This shows clearly India's dependence on Europe and the USA. The India's model of SEZs is quite comprehensive and competitive to any such package provided elsewhere in the world. Due to conceivable concession, economic and non-economic even endangering the environment and ecological balance and inviting a rift between this SEZ and non-SEZ employees the country is sowing the seeds of social unrest. Reliance wants to set up Maha Mumbai SEZ. Due to this set up, nearly 100 villages covering 1.5 lakh families face eviction in view of the notices served by the Maharashtra Government. Almost every family in these villages cultivates paddy through majority of them are small and marginal farmers. Sustainable developments are closely linked with environment and deplete able resources. Polluted air, water and land and global warming have now appeared to be a hurdle to sustainable development. So SEZs should have no place in the map of development for future generations. Sustainable development is essential for the present and future of mankind.

Keywords : Special Privileges, Board of Approval, DLF Commercial Developers, Tata Consultancy Services, New Direct Taxes Code, Sustainable Growth, Economic Growth, Livelihood.

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INTRODUCTION

Special Economic Zones (SEZs) denote geographical areas which enjoy special privileges as compared with non-SEZs areas in the country. The main motivating forces for setting up SEZs came from the Ministry of commerce with a view to boost exports of goods and services, provide employment and increase investment from domestic and foreign sources. The SEZ policy was introduced in April 2000 to provide internationally competitive and hassle-free environment for exports.

In the past three years (2006-2007, 2007-2008 and 2008-2009) there has been an incremental investment of Rs 1,04,867 Crore in SEZ employment in job creation. In the year 2009-10 India's exports from the SEZ came down to Rs 90,000 due to global meltdown. This shows clearly India's dependence on Europe and the USA. The India's model of SEZs is quite comprehensive and competitive to any such package provided elsewhere in the world. The current government's aim of making India a manufacturing hub and having a co-operative relationship with the state is desirable.

Sustainability requires that human activity only uses nature's resources at a rate at which they can be replenished naturally. However, the record on moving towards sustainability so far appears to have quite poor. The SEZ policy and its subsequent experiment has made clear that it is neither politically desirable, economically viable, or nor environmentally sustainable. For sustainable development there is no shortcut way which can be used for the benefit and well being of the people of the country. SEZ act will lead to large scale land acquisition by developers, displacement of farmers, meager compensation and no alternative livelihood for them.

OBJECTIVE

The objectives are as follows:

- The History and concept of SEZ.
- Sustainable Development in relation to SEZ.

DATA SOURCES AND METHODOLOGY

In order to examine the above objectives, the present study uses secondary data such as journals, magazines, publications and national news papers. The published research reports also helped to explore into the problem.

The History of the SEZ

During the 1980s the USA and its allies were reeling under serious recession- at that time under the leadership of USA a conference with 10 Latin American countries was held at the Institute of International Economics. In that meeting a ten point bail out programme was adopted unanimously. This is known as Washington Consensus and the ten points were

- i) Fiscal discipline;
- ii) Redirection of public expenditure towards education, health and infrastructure investment;
- iii) Broadening of the tax base and cutting marginal tax rate;
- iv) Interest rates that are market determined and positive (but moderate) in real terms; competitive exchange rates;
- v) Trade Liberalization replacement of qualitative restriction with low and uniform tariffs;
- vi) Openness with foreign direct investment;
- vii) Privatization of state enterprises;
- viii) Deregulation;
- ix) Legal security for property rights.

The net effect of the Consensus has been beneficial to the few at the expense of the many of the poor. In many cases commercial interests and values have superseded concern for the environment, democracy, human rights and social justice.

The Concept of SEZ (Special Economic Zone)

The special economic zone came from the said consensus. Argentina and Brazil and some other Latin American Countries implemented this SEZ policy in their countries.

India was one of the first countries in Asia to recognize the effectiveness of Export Processing Zone (EPZ) model in promoting exports with Asia's first EPZ setup in Kandla in 1965.

Seven more zones were setup thereafter. However, the zones were not able to emerge as effective instruments for export promotion on account of the multiplicity of controls and clearances, the absence of the world-class infrastructure, and an unstable fiscal regime.

With a view to overcoming the above shortcomings and attract larger foreign investments in India, the Special Economic Zone (SEZ) policy was announced in April 2000. The SEZ policy, 2000 was intended to make SEZs an engine for economic growth supported by quality infrastructure complemented by an attractive fiscal package, both at the centre and the state level, with minimum possible regulations. Under the new scheme, all the eight existing EPZ's have been converted into SEZs.

The special Economic Zones Act 2005, was passed by Parliament in May 2005, supported by SEZ rules, came into effect on February 10, 2006. The main objectives of the SEZ Act are generation of additional economic activity, promotion of exports of goods and services, promotion of investment from domestic and foreign sources, creation of employment opportunities and development of infrastructure facilities.

An important feature of the Act is that it provides a comprehensive SEZ policy framework to satisfy the requirements of all principal stakeholders in an SEZ- the developers and operators, occupant enterprise, out zone supplier and residents.

The responsibility for promoting and ensuring orderly development of SEZs is assigned to the Board of Approval (BoA) constituted by the Central Government.

The Act offers a highly attractive fiscal incentive package which ensures i) exemptions from customs duties, central excise duties, service tax, central sales tax and securities transactions tax to both the developers and the units.

Provisions have been made for

- i) The establishment of free trade and warehousing zones to create world class trade aimed at making India a global trading-hub;
- ii) The setting up of offshore banking units and units is an international financial service centre in SEZ's;
- iii) The public-private participation in infrastructure development and;
- iv) The setting up of a "SEZ authority" in each Central Government SEZ for developing new infrastructure and strengthening the existing one.

India and SEZ:

Overview: The SEZ policy was first introduced in India in April 2000, as a part of the Export-Import ("EXIM") policy of India. Considering the need to enhance foreign investment and promote exports from the country and realizing the need that level playing field must be made available to the domestic enterprises and manufacturers to be competitive globally, the Government of India in April 2000 announced the introduction of Special Economic Zones policy in the country deemed to be foreign territory for the purposes of trade operations, duties and tariffs. To provide an internationally competitive and hassle free environment for exports, units were allowed to be set up in SEZ for manufacture of goods and rendering of services. All the import/export operations of the SEZ units are on self-certification basis. The units in the Zone are required to be a net foreign exchange earner but they would not be subjected to any pre-determined value addition or minimum export performance requirements. Sales in the Domestic Tariff Area by SEZ units are subject to payment of full Custom Duty and as per import policy in force. Further Offshore banking units are being allowed to be set up in the SEZs.

Are SEZ's New to India? India is one of the first countries in Asia to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting exports. Asia's first EPZ was set up in Kandla in 1965. With a view to create an environment for achieving rapid growth in exports, a Special Economic Zone policy was announced in the Export and Import (EXIM) Policy 2000. Under this policy, one of the main features is that the designated duty free enclave to be treated as foreign territory only for trade operations and duties and tariffs. No license

required for import. The manufacturing, trading or service activities are allowed. While EPZs are industrial estates, SEZs are virtually industrial townships that provide supportive infrastructure such as housing, roads, ports and telecommunication. The scope of activities that can be undertaken in the SEZs is much wider and their linkages with the domestic economy are stronger. Resultantly they have a diversified industrial base. Their role is not transient like the EPZs, as they are intended to be instruments of regional development as well as export promotion. As such, SEZs can have tremendous impact on exports, inflow of foreign investment and employment generation.

A total of 105 SEZs are exporting at present. Out of these 65 are Information Technologies (IT)/ Information Technology Enabled Services (ITES), 15 multiproduct and 25 other sector-specific SEZs. The total number of units in these SEZs is 2761.

Total employment in SEZs is 4,90,358. Of this an incremental employment of 3,35,654 persons was generated after February 2006 when SEZ act came into force. According to Economic survey 2009-10, at least double this number obtains indirect employment outside the SEZs as a result of operation of SEZ units. Additional employment is also created by the developer of SEZ in infrastructure activities. As far as exports from SEZs are concerned, they increased from Rs. 13854 Crore in 2003-04 to Rs. 66,638 Crore in 2007-08 and further to Rs. 99,689 Crore in 2008-09. The Compound Annual Growth Rate (CAGR) of exports from SEZ over the period 2003-04 to 2008-09 was as high as 48.4 percent compared to the CAGR of 23.4 percent for the total merchandise exports of the country over the same period. The approach during The Eleventh Plan (2007-12) will be to make India a hub for telecom equipment manufacturing by establishment of telecom specific Special Economic Zones (SEZs).

The SEZ developers demand more benefit from the government. They want Commercial Real Estate (CRE) Project to be classified as infrastructure project by the RBI so that SEZs can get funds that are available to the infrastructure projects.

The demand of approval (BoA), under the Commerce Ministry, has granted extra time to as many as 37 Special Economic Zone (SEZ) developers, including Navi Mumbai SEZ, DLF Commercial Developers and Tata consultancy services, to implement their projects even as five developers surrendered their projects SEZ developers, including Maharashtra Industrial Development Corporation and Benchmark Realty, had approached the BoA to surrender their project in view of the uncertainty over the tax benefits for the SEZs in the new Direct Taxes Code. Other developers who got more time to execute their projects including Raheja SEZ, Parsvnath SEZ and wockhardt Infrastructure Development. It also approved three new proposals including one for setting up a sector-specific SEZ for petroleum and oil and gas industry in Visakhapatnam.

Regarding the revision of guidelines for power generation, transmission and distribution in SEZs, the board gave two weeks' time to the Department of Revenue for its comments. Under the SEZ Act, SEZ units get 100 percent tax exemption on profits earned in the first five years of operation, a 50 percent exemption for the next five years and another 50 percent exemption on re-invested profits in the following five years.

SEZ developers, on the other hand, get 100 percent tax exemption on profits for 10 years, which they can choose to invoke within the first 15 years of operation. Merchandise exports from the 143 operational SEZs totalled Rs. 72,255 Crore in the April –June period (2011), an increase of 23 percent vis-à-vis the same period last year.

The SEZ: Argument for and against

It is claimed that SEZs world quicken economic development particularly the growth rate. Secondly, it will help job creation and opportunities. Thirdly, it will help growth through exports and foreign trade. Fourthly, SEZ will open up ways for ancillary and complementary industries leading to 'mass' employment. Lastly, the SEZs will help economic revival through FDI and capital movement. In the first place-it must be admitted that SEZ will surely quicken economic growth rate as happened in Brazil and China. But this growth did not last even a decade because the SEZ ones polluted the atmosphere of the entire zone so badly that production in those areas had to be stopped. Secondly- the claim of mass employment is a tall claim. Multinational

corporations and the indigenous industrialist will not use labour intensive technology. They would employ highly capital intensive technology so that profit could be maximized. Highly qualified and skilled persons would get employment in these zones. Partha Mukhopadhyay has shown that as of 2008, 94 percent of the SEZ are less than 3 square km. in size, most of them in IT sector. They do not hire low skilled workers who need to be integrated into the labour force. Thirdly, the social cost of the Special Economic Zones is prohibitive. Why? – The laws allow the multinational corporations both foreign and national to grow more production at any cost and giving a go by to ecology and environment. So there is no way of stopping them in their attempt to denude nature and disturb ecological balance and inviting a rift between this SEZ and non-SEZ employees the country is sowing the seeds of social unrest.

Tax concession, incentives, exemptions etc being granted to units setup in SEZ will result in huge revenue loss to the government. For example, according to an estimate, the policy would cause a revenue loss of Rs. 9, 39,000 million over the four-year period 2007-2011. If an annual average of this four-year figure is drawn it comes out to be Rs 23475 million, which is about 6.7 percent of the central government's total revenue receipts during 2005-06.

There is a need to have a reconsideration of SEZ approach to industrialization and export promotion. The finance minister and the RBI do not see any justification in having a system of differential taxation in SEZ and non-SEZ areas, causing an erosion of tax revenue ranging from Rs. 1,00,000 Crore to Rs. 1,75,000 Crore according to different estimates. In the government central budget 2011-12, proposal of charging Minimum Alternative Tax (MAT) is made on both SEZ developers and the working units. The interim budget 2014-15 should emphasis on inclusive development which must be economically and ecologically sustainable and democratically legitimate. The estimated budgeted expenditure has been curtailed to contain fiscal deficit at 4.1% of GDP as desired in 2014-15 but at the cost of reduction of spending on various sectors.

Reliance wants to setup Maha Mumbai SEZ. Due to this setup, nearly 100 villages covering 1.5 lakh families face eviction in view of the notices served by the Maharashtra Government. Almost

every family in these villages cultivates paddy though majority of them are small and marginal farmers.

Why the government should subsidize the big business houses both Indian and foreign at the cost of farmers, is the moot question. In this political structure (a vibrant multi-party democracy), the government cannot ignore the perceptions of the people towards 'welfare' and 'public purpose' rather than blindly imitating China.

An audit by CAG (Comptroller and Auditor General of India) has shown a revenue cost of Rs. 246.72 Crores and additional Rs. 1724.84 Crores foregone. The Domestic Tariff Area (DTA) that is outside the SEZ area was at disadvantage.

Jagdish Bhagwati a staunch supporter of globalization has come out against SEZ. He said, "China needed SEZs because she depended much on export promotion oriented growth. India is a democratic country does not grab peasant's land." In every state people are coming forward to resist the move of setting up SEZ in our country.

Sustainable Development in relation to SEZ

SEZ strategy can help a country temporarily achieve high economic growth rate but not sustainable development. Sustainable growth concept advanced by the Brundtland report was defined as "development that meets the needs of the present without compromising the ability of the future generations to meet their needs."

'Sustainable development' extends the traditional concept of economic development in two directions. The concept has a future focus; it aims at ensuring a pattern of development that will not damage the reasonably foreseeable interests and needs of future generations. Second, it entails to focus not only economic goal but also social and environmental well being. The aim of sustainable development is to 'de couple' economic growth from adverse effects on the environment.

A livelihood is sustainable when it can cope with and recover from stress and shock, maintain or enhance its capabilities and assets both now and in the future while not undermining the natural resources base.

Sustainable development is closely linked with environment and depleteable resources. Polluted air, water and land and global warming have now appeared to be a hurdle to sustainable development. Economical Development will be sustainable only if it is pursued in a manner which protects the environment. With acceleration of economic growth these pressures are expected to intensify and we therefore need to pay greater attention to the management of water, forests and land. Management of water resources poses increasingly difficult challenges that will require attention the Twelve Plan.

The developed countries consume more petroleum products, meat, and many other earthly valuables than the third world nations. They let off more CO₂, CFC and green house gases than the third world countries. They have to agree to reduce emission of all these gases within a specified time otherwise the goal of attaining sustainable development will remain a distant dream. Additional secretary in the Ministry of Environment Susheel Kumar said India believed that developed countries should be held responsible for their high level of emissions, which have caused harm of developing countries. That responsibility should come in the form of compensation and a fair 2015 Paris Agreement.

CONCLUSION

Global environmental deterioration is continuing. It has to be arrested for man's future.

There is glaring inequality between nations in their use of scarce global resources. Will the developed nations agree to sacrifice a share of the benefits they enjoy for the developing nations?

The developed countries have always enjoyed the major share of world's valuable resources. They exploited the poor nations' wealth indiscriminately- the question of sustainability was never raised. For sustainable development- biodiversity should have to be retained and should not be allowed to be disturbed.

Environment and ecology should not be damaged. It is man who is responsible for environmental disorder and ecological imbalance. He is responsible for the big, holes in the ozone layer, unplanned and unscientific use of natural and mineral resources have denuded nature. Population growth all over the third world has, to some extent led to deforestation, depletion of ground water reserve. The well off families waste huge quantum of precious water every day. Rainwater harvesting is an important component of sustainable development.

Parliamentary Standing Committee report on SEZ is a path breaking document which indicates the direction in which the government of India must move if it wants to pursue industrialization with a human face. The policy makers should take up the question of designing a modern acquisition and also framing a Relief and Resettlement policy which helps those who are displaced, leading to smooth transition to new sources of livelihoods. Sustainable development is essential for the present and future of mankind.

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