

# SEZ Scenario in India

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## Executive Summary

Special Economic Zones (SEZs) were established in many countries as testing grounds for implementation of liberal market economy principles. These zones are primarily viewed as instruments for enhancing the acceptability and credibility of transformation policies, attracting domestic and foreign investments and also for the opening up of the economy. SEZs in India seek to promote the value addition component in exports, generate employment as well as mobilize foreign exchange.

Globally, many countries initiated Free Trade Agreements (FTAs) which eventually led to a spurt in investments in infrastructure developments for Free Trade Zones (FTZs) and SEZs. A close examination of the evolution of SEZs in countries with similar economies like India, China, Iran, UAE and Jordan, will help us to understand their success stories and thereby implement those factors. The study of these success stories would also help to curb the SEZ bottlenecks faced by India today, a classic example of a SEZ success story is China's Shenzhen SEZ is discussed vividly in this report.

India decided to follow the footsteps of China in the late nineties and has been proactive in the development of SEZs since then. They have formulated policies, reviewed them occasionally and also ensured that ample facilities are provided to the SEZ developers as well as the companies setting up units in SEZs. We have discussed in depth, in this report, the conducive environment created by the Indian government for nurturing the SEZ business as well as the periodic amendments. These favourable conditions resulted in the biggest ever corporate rush for the development of SEZs across the length and breadth of India. The government has officially published that over 577 SEZs had received formal approval, out of which 363 SEZs have been notified and 114 are operational. Further, the Indian Commerce ministry, in a report published in September 2010, revealed that, SEZs attracted investments worth INR 1,28,390 crore (USD 27.64 billion) and created direct employment for 5,50,323 people. For the fiscal year 2009-2010, the SEZs recorded exports worth INR 2,20,711.39 crore (USD 47.51 billion) witnessing a growth rate of 121.40 percent over the previous fiscal year. The report carries further details of the capital investments in SEZs, their distribution, and detailed export data of some operational SEZs.

Despite all the efforts, SEZ development has become the most controversial issue for India today. As robust as the investments seems to be, it is evident that many projects have been put on hold indefinitely or simply shelved due to the bottlenecks faced at the initial stages of the project. Investors are of the opinion that the investments being too high, the guarantee of a good ROI in the long term looked bleak primarily. The reasons cited by them are the non-cooperation of the local masses where the project is being set, the delays in local clearances, political interventions etc. and the repetitive changes in policies some of which directly impact the ROI of the project. Although the existing SEZ Act, Amended Policies, Direct tax drafts and FDI Policies for SEZs are very lucrative; the rationale behind the rapid economic and industrial growth of the Indian SEZ policy is being questioned. Therefore, it is imperative to understand all aspects of SEZs such as basic concepts, its various models and the life cycle of its business before initiating any policy or investments for these projects.

The report emphasizes on certain issues which brings clarity to the basic concept and business of SEZs in India. The report helps you answer questions like:

- What is a SEZ?
- What is the approximate capital expenditure required for a SEZ?
- Big SEZ investments announced in India?
- Turnover of existing SEZs in India over the past three years?
- Future government projections for SEZs?
- Pros and Cons in the existing SEZ policy setup?
- Major Events and Debates in SEZs?
- Direct Tax codes associated with SEZs
- Major incentives SEZs provide to businesses housed within.

The answers to the above not only concerns those companies willing to leverage the SEZ facilities but also the investors and their stakeholders. In a nutshell this report is a must read for individuals, corporate and institutions who wish for better understanding of the SEZ concept, get more clarity on the SEZ policies in India, identify and understand the bottlenecks faced by India and finally be well abreast about the steps taken by the government as well as some highlights on the potential steps they must adopt to make SEZ a hassle free issue. The diagram below is a snapshot of the different types of SEZs

