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A COMPARATIVE STUDY OF SPECIAL ECONOMIC ZONES (SEZS) IN INDIA AND CHINA

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***Abstract**: In context of India, many studies have explored methods for quantifying the effectivness of the Indian industries with the changes that have been seen over the past many years by studying the various issues like impact of New Economic Policy (NEP), the efficiency of Indian industries in the pre –reform period and the Foreign Direct Investment (FDI) inflow, ownership pattern etc. The issue for the efficiency of functioning of the Special Economic Zone indisputably forms the significance of policy goals. Special Economic Zones assumes greater significance in considering the major facilities those are extended to these enclaves, for setting the benchmarks w.r.t the performance standards. It is important to deeply analyse the effect of Special Economic Zone policy intervention over the performance. The objective of this SEZ is for the overall economic development.*

Key Words: *SEZ, New Economic Policy, Efficiency, Economic Development*

INTRODUCTION

A SEZ or a Free Trade Zone is the enclave of various units operating in the well defined location inside the geographical boundary of the country. At SEZ different economic activities are promoted by setting various policy measures which are not applicable to rest of the country. India is one of the country who recognized the significance of the (EPZ) i.e Export Processing Zone in the promotion of exports, with Asia's foremost EPZ in Kandla in the year of 1965. By the idea of overcoming the various shortcomings which were experienced due to absence of the infrastructure, multiplicity of controls and the unstable fiscal regime for attracting the larger investments from foreign in India. The policy of SEZ in India was announced in April 2000, which acted as a backbone for supporting the economic growth and quality infrastructure.

To bring faith into the investors for revival of the commitment of the Government's SEZ policy and to provide stability for enhancing better employment, an act known by the name of The Special Economic Zones Act, 2005, was passed duly by the parliament in the period of May, 2005. It has defined the rules of SEZ

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that came into force on 10th February, 2006, which provided single window clearance to the cases related to central and state government.. The main goals due to which the act was passed were generation of additional economic activity , making available the employment opportunities ,promotion of exports, and promotion domestic and foreign investment. There is a probability that this act would support us in bringing the huge inflows from the foreign and domestic regions in SEZ.

The mechanism for approval through Single Window clearance has been provided through a committee of 19 Board of approval (BOA)members. The applications are approved by the State Governments/UT with their consensus. The rules of SEZ allot various incentives and the facilities to attract inflows into the SEZs, which constitutes:-

1. Duty free procurement of goods on import or on the domestic goods
2. Tax exemption upto 100% on export funds for SEZ units (under the Income Tax Act with Section 10AA of) for initial 5 years and 50% for next successive 5 years.

Research Methodology: This is a descriptive study based on secondary data.

SWOT ANALYSIS FOR INDIAN SEZs

Strengths

1. The manpower is Skilled Manpower (There is Worldwide acceptance of capabilities in the sectors like Engineering designing & consultancy, Manufacturing auto parts).
2. The External commercial borrowing has been allowed till the limit of US $500 million for a year without any restriction. There is also the Permission for manufacturing products directly which fall under sector in whic 100% FDI is allowed.

Weakness

1. There are problems in the Infrastructure like the pathway or the roads of SEZs.
2. Labour reforms are inadequate
3. Convertibility of Currency on Capital A/c
4. Political changes may slower the implementations
5. Longer gestation period.

Opportunities

1. Almost 23 ports are available for multi-product SEZs.

2. Nowdays, more airports and smaller ports are being made by keeping in mind the view of SEZ.

Threats

1. There are threats like threat of loosing low labour costs as numbers of countries are in competition.
2. Effect on Government Revenues.
3. Formation of economic blocks.

The table 1 demonstrates sector wise distribution of SEZ in India.

Where as table 2 demonstrates investments and pattern of ownership of various SEZs in India.

Table 1
Sectorwise distribution of approved SEZ as on 30 -4-2014

Sector	*Format approval*	*In-principal approvals*	*Notified SEZ*	*Exporting SEZ (central gov.+state gov./pvt SEZ+ notified SEZ under act 2005*
Agro	6	2	5	0
Airport based multiproduct	4	0	0	0
Auto and related	2	1	1	1
Aviation/aerospace/copper	5	1	6	5
Beach and minerals	3	0	3	0
Biotech	30	0	19	2
Builing prod/ceramics/ transport equipments	2	2	2	2
Electronic product	3	0	3	1
Engineering	17	1	13	11
Footwear	6	0	5	3
Food processing	5	0	4	4
FTWZ	13	5	7	3
Gems and Jewellery	13	3	6	3
Handicrafts and carpets	5	0	3	3
IT/Electronic hardware/ Semiconductor	348	1	238	102
Metal	8	2	5	0
Light engg./automotive components	1	0	0	0
Multi product	24	13	16	19
Multi services	11	3	8	2
Non conventional energy	6	0	4	2
Plastic processing	0	2	0	0

contd. table 1

Sector	*Format approval*	*In-principal approvals*	*Notified SEZ*	*Exporting SEZ (central gov.+state gov./pvt SEZ+ notified SEZ under act 2005*
Petrochemicals	4	1	2	1
Pharma	22	2	20	11
Port based multiproduct	7	2	2	1
Power/Solar	3	1	3	3
Textile /apparel/wool	14	1	11	6
Writing and printing paper mills	2	0	1	0
Granite processing Industries/ allied/manufacturing	2	0	1	0
Grand Total	566	43	388	185

Source: Ministry of commerce and Industry(Department of Commerce, GOI)

Table 2
Fact sheet on SEZ as on 5-12-2014

Number of formal approval	491(excluding 67 SEZ approved by BOA for cancellation / denotification)		
Number of notified SEZ as on 5-15-2014	352(7 central govt.+11 state/Pvt. SEZ)		
No. of in principal approvals	33		
Units approved in SEZ (as on 09-30-2014)	3864		
Operational SEZ	196 (20 are multiproduct SEZ and rest are IT/Engineering/Gems and jewellery etc		
INVESTMENT	*INVESTMENT AS ON FEB 2006 (Rs.Cr)*	*INCREMENTAL INVESTMENT (Rs.Cr)*	*TOTAL INVESTMENT (AS ON 09-30s-2014(Rs.Cr)*
Central govt SEZ	2279.20	10002.80	12282
State/Pvt.SEZ set up before 2006	1756.31	8937.69	10694
SEZ notified under act	0	357308	357308
Total	**4035.51**	**376248.49**	**380284**

Source: Ministry of Commerce and Industry(Department of Commerce, GOI)

SEZs: COMPARATIVE STUDY OF INDIA AND CHINA

India and Chin are considered as close competitors with huge potential. Their populations is considered as big market by marketers and lost cost labour make them favourite production base for large MNCs. Following factors are significant regarding two countries and their economic performance.

TRADE OPENNESS

Trade openness ratio is referred to as the sum of merchandised export and imports divided by the GDP. The ratio for China ratio was considered to be 44% in the year 2000. China's foreign trade increased after it become part of WTO in the year 2001. Its trade openness ratio reached to 72% in the year 2007 but due to the global crisis, the ratio later decreased to 65% in the year 2008.

In the year 2000, The ratio of India's was about. 27%, which was twice as compared to 13% in 1990, but was only 62% of Chinese Trade Openness. Due to liberalization in trade after the year 2000, India's openness ratio increased and reached to 50.7% in 2008. In the year 2008,the export of India's recorded the value of $179 billion which was about 12% of the export of China's with the value of $1.43 trillion.

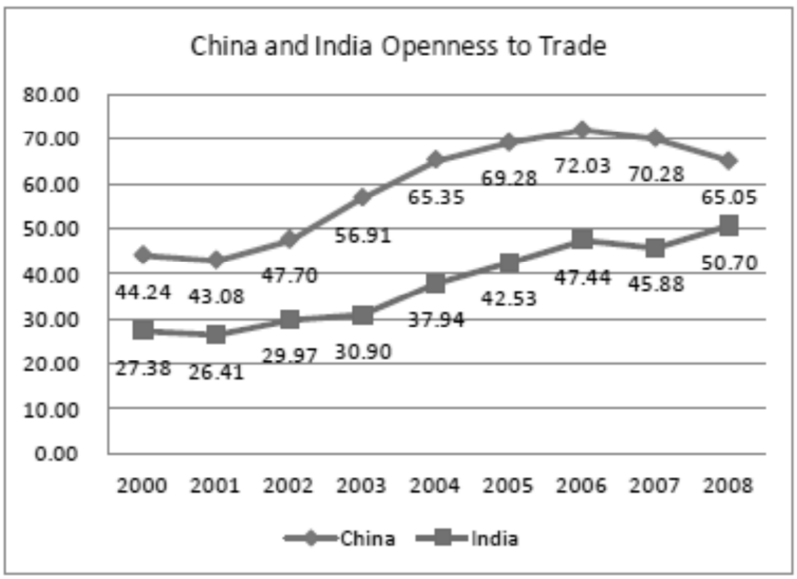

Figure 1: China and India's openness ratios

Sources: World Development Indicator (WDI), the World Bank.

PRODUCTIVITY GROWTH

The Economists usually keep the record of productivity: i.e TFP (Total Factor Productivity) and labour productivity, which is composed of intermediate materials, labour and capital. The current economists of trade generally work on firm-level production to analyse its data for understanding firm's TFP. Related literature works on firm-level productivity for China, including Yu (2010b), Feenstra *et al.*, (2011), and Brandt *et al.* (2011). Similarly, studies have been published on firm-level productivity for India such as Goldberg *et al.* (2011). Shenzhen one of the largest SEZ in China, has a spread over the area of 493 Sq Kms. (49,300 hectares). Whereas if we compare it to the the largest SEZ in India which is in Reliance Navi Mumbai and Maha Mumbai SEZ, which has a spread of approximately 14,000 hectares. Exports from Shenzhen SEZ had touched the figure of $100 Billion in the year 2005.

Total Chinese exports for 2005 were around $700 Billion which implies Shenzhen contributed 15% of Chinese exports. Chinese SEZ initiative is driven by the government whereas the Indian SEZs are driven by the private sector.

On the basis of size : The size of SEZ in china is big and accumulates itself in hundreds of hectares of the land ,where as if we compare India with it The SEZ are not allocated with much land as compared to China. There are 6 major SEZs at China alongwith 191 national level ETDZs. Beside this, there are different types of special economic zone in China at different levels, including export-processing zones (EPZs) ,high-tech industrial development zones (HIDZs) and free trade zones (FTZs) etc.

On the basis of location: The SEZ of China are mostly located on the coast for the better facilitation of import and export, whereas no such restriction is there in India.

On the basis of Labour laws: The labour laws are relaxed in China but flexibility is totally absent in case of India.

On the basis of Policy regime: The policies related to the SEZ are quite liberal in China in specified areas, whereas in case of India policy regime is based on fiscal standarads.

On the basis of investors: The investors include foreign investors in China who promise the stability in regimes, whereas in India all the investors are locals.

On the basis of commencement: SEZ in China originated in 1979 and in India they began with the concept of export processing zone in 1969 but they failed till the year 2000.

On the basis of number: China has six SEZ namely Shenzen, Shantou, Zhuhai, Xiamen ,Hainan and Pudong. In India 28 operational and about 200 have received the approvals to get started.

TARIFF REDUCTIONS

Tariff reductions were important for both India and China. In the year 1997, there was seen the reduction in tarrifs in China from 35% in the year 1994 to around 17% in the year 1997, so as to become the member of WTO. Import tariffs were even higher in India as in year 1986, the average tariff of the Indian economy was 137.6%. India started to reduce its tariff at the ending of 1990s. Till the year 2008, the tarrifs were as low as those of China. The reasons that led to failure in India were Stringent labour laws very Small Size of enclaves, Restrictive policies, Inadequate infrastructure, Lengthy procedures. In India special economic zone are now left for the private developers .

The enclaves of China are not numerous but the size is huge. Hainan covers an area of **33,000 sq. km.** Mumbai covers an area of almost**1000 sq. km.** whereas the China SEZ has almost area which is 33 times the area of Mumbai. Size means everything in an SEZ. In India SEZs are merely 10-20 hectares in size. Moreover India does not locate Special Economic Zones strategically.

LAWS

China has business friendly laws in contrast that to that of Indian economy. The labour laws China are highly flexible. Also , the economy of China being a dictatorship can easily acquire land. In India as a country the land acquisition faces a lot of problems. Land problems are one of the major reasons which explain that why SEZ in India is not as good as China.

China started setting the SEZs from the year 1978. But achieved success in the year 1990s.In India EPZ model was not flawless due to presence of multiplicity of clearances and controls, unstable fiscal regime and absence of world-class infrastructure. After the failure ,the SEZ policy was announced in the year 2000 and after 5 years in the year 2005 the SEZ act was passed. So SEZ of India's younger than China.

SIZE MATTERS FOR SEZs

The highest area of a single SEZ in India is 14000 hectares while the average area of the SEZs in china is around 50000 hectares. The cities like Shantou, Shenzhen, Zhuhai, Xiamen and Hainan, are carefully selected as all located close to ports and trade nations like Macau ,Hong Kong, and Taiwan.

China is getting flooded with inflows in FDI since 2000s.India has not been able to woo foreign investors successfully. Majority of the investment in India comes from local sources. Unlike India the initiative of China's SEZ is taken care of by the government. No requirement of minimum area to set up an SEZ in China, unlike as in India. The China's incentives varies in different zones ,they are on the basis of use of advanced technologies, of years of experience , extent of exports.

CHALLENGES FOR SEZ IN INDIA

Many challenges and problems are faced by the farmers today as farmers are being paid proportionally less income in the Special economic zone regions. Special economic zone today are also a cause of decline in crop production and decreasing the agricultural activity in the economy. The improper planning can lead to unbalanced development in the areas. Special economic zone can also become a cause of disparities within income of rich and poor increasing. If Special economic zone are setup for the sector of manufacturing proper control mechanism should be followed. The surroundings of Shenzhen in China are affected regions due to ill living conditions and steps should be taken to improve the living conditions in nearby regions . Proper treatment to effluents from industries should be taken care so that they donot affect the sorroundings. In India also the Special economic zone should be properly planned so as not to affect the Gurgaon Special economic zone affecting the Bharatpur bird sanctuary . So both domestic and international SEZ are not satisfactory due to certain issues in the development and performance of Special economic zones. Globally, very few Special economic zone have generated exports and technology up gradation.

CONCLUSION

India's SEZs offer tax and incentives for the businesses. Special economic zone in India are acting as a manufacturing destination. In this article, we examined comparatively the SEZ of India and China .Moreover Special economic zone in both the destinations discussed gives a medium for attracting foreign companies who want cheaper location setup for business. The set up of Special economic zone creates lot of employment in terms of labour required. For example Special economic zone are shopping malls, townships, amusement parks for attracting people, and therefore resulting in economic development of that region. In India 75% of the Special economic zone can be used for residential, commercial, shopping. The reason of developing the special economic zones in China is mainly import of foreign funds. The development of Special economic zone should also include Special economic zone and development of the infrastructure nearby. The policy regimes and labour laws are comparatively relaxing for China than India. But improper planning is leading to unbalanced development in the areas of India.

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