

Research Paper

SEZs and Industrialization in Uttar Pradesh

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ABSTRACT

Many SEZs have been established in our economy in the recent past. The idea of building special economic zone is under furious debate. The purposes of establishment of SEZs are export promotion, generation of additional socio-economic activities, increase in investment-domestic and foreign, acceleration in growth and job creation, development of rural infrastructure and maintenance of security within the state and friendly relation with foreign states. Industries at large believe that SEZ will be able to promote industrialization by improving infrastructure, enhancing investment and reducing transaction cost. To attract the level of investment in infrastructure creation, government incentive appears to critically important, undoubtedly necessary. But the criticism is that the incentive offers are excessive and inequitable and will entail revenue loss. This paper looks at the policy of special economic zones in India and their suitability for fulfilling the goals of export promotion, employment generation and maintenance of the economic growth of Uttar Pradesh.

Introduction

On the track of China's growth because of SEZs Indian Government has considered it as a Dream project to promote export, generate employment, and to attract huge investment. "A Special Economic Zone (SEZ) can be defined as a geographical region that has economic laws that are more liberal than a country's typical economic laws." (Wikipedia, an Encyclopedia). A policy was introduced on 1st April 2000 for setting up of Special Economic Zones in the country with a view to provide an internationally competitive and hassle free environment for exports. Units may be set up in SEZ for manufacture of goods and rendering of services. The policy provides for setting up of SEZ's in the public, private, joint sector or by State Governments. It was also envisaged that some of the existing Export Processing Zones would be converted into Special Economic Zones. Accordingly, the Government has converted Export Processing Zones located at Kandla and Surat (Gujarat), Cochin (Kerala), Santa Cruz (Mumbai-Maharashtra), Falta (West Bengal), Madras (Tamil Nadu), Visakhapatnam (Andhra Pradesh) and NOIDA (Uttar Pradesh) into a Special Economic Zones (Table 1). The promotion of SEZs is an attempt to deal with infrastructure deficiencies; procedural complexities, bureaucratic hassles and barriers raised by monetary, trade, fiscal, taxation, tariff and labor policies. These structural bottlenecks affect the investment climate adversely by increasing production and transaction costs. Due to given socio-economic and political institutions, the establishment of industrial enclaves (SEZs/EPZs) is seen as an important strategic tool for expediting the process of industrialization in U.P. As a result of these benefits, many states have been promoting zones with the expectation that they will provide the engine of growth to propel industrialization.

Table -1
List of all the EPZs converted into SEZs with their size

Location	Size (Sq.KM)
Kandla (Gujarat)	2.99
SEEPZ (Mumbai)	0.38
Cochin (Kerala)	0.40
Surat (Gujarat)	NA
NOIDA (UP)	1.22
Chennai (TN)	1.04
Vizag (AP)	1.43
Falta (WB)	1.12

Source: Export Promotion Council. Ministry of Commerce, Government of India

Uniqueness of SEZs

Uniqueness of SEZs is Special Economic Systems and Policies. In other words the control government gives to the Special Economic Zones, special policies and flexible measures, allowing them to utilize a special economic management system such as:

1. Special tax incentives for foreign investments in the Special Economic Zone
2. Greater independence on international trade activities
3. Economic characteristics are represented as “4 primacies”
 - a. Constructions primarily rely on attracting and utilizing foreign capitalists
 - b. Primary economic forms are Sino-foreign joint ventures and partnerships as well as wholly foreign – owned enterprises.
 - c. Products are primarily export – oriented.
 - d. Economic activities are primarily driven by market.

Objectives of SEZs Policy are

1. Attract Foreign Direct Investment (FDI)
2. Earn foreign exchange and contribute to exchange rate stability
3. Boost the export sector, especially nontraditional exports
4. Create employment opportunities
5. Introduce new technology
6. Develop backward region
7. Stimulate sectors such as electronics, information technology, R&D, tourism, infrastructure and human resource development that are regarded as strategically important to economy.
8. Create backward and forward linkages to increase the output and raise the standard of local enterprise that supply goods and services as to the zone.

Salient features of SEZs

- i. No license required for import
- ii. Manufacturing, trading or services activities allowed
- iii. Full freedom of subcontracting
- iv. No routine examination of export – import cargo by customs authorities
- v. SEZ Units to have positive net foreign exchange earner
- vi. Financial incentives, like tax, holidays, duty free imports and exports
- vii. Single window clearance
- viii. High quality infrastructure
- ix. Strategic location and market access

Industrial location for Industrialization

Prof. Sargent Florence introduced two main concepts for the degree of location. The location factor, which measures the degree of concentration of a particular industry in an area can be computed in two ways: first, by dividing (a) the percentage share of the region in the total workers employed in the total industry by (b) the percentage share of the region in the total working population, and second, by dividing (a) the percentage share of the industry in the total workers employed in the region by (b) the percentage share of the industry in the total working population.

Factors affecting industrial location

The following factors are affecting the location of industry:

1. Raw material,
2. Suitable labour,
3. Access to markets,
4. Site and service,
5. and Finance.

1 Raw Material

The total cost of all the raw materials delivered at the works of the industry has to be taken in to consideration. The question of supply of raw material has to be viewed from different angles;

- (a) If the materials are home produced or imported;
- (b) If there are financial linkages with raw material supplies so that the raw materials may be obtained below prices;
- (c) Nature of the raw materials-if localized or ubiquitous;
- (d) Reliability and continuity of the sources of supply; and
- (e) The security of the means of transport.

2 Labour

Both quantity and quality of labour influence industrial location. The quantity of labour depends upon the competition for labour in the local market. The quality covers special skill, training and adaptability of labour.

3 Site and Service

First, the physical condition of the site such as the solidity of the ground for foundation deserves careful consideration. Second, the facilities of supplying gas and electricity, telephone and postal facilities, drainage water supply conditions have to be considered.

Third, the site in relation to the other industries has to be examined.

The industrial location of SEZ in the U.P. context consists of a processing zone where commercial activity takes place. The processing zone is made up of one or several SEZ units, which could possibly be run by different entrepreneurs. Apart from the processing zone a large area can be allocated for the provision of housing, health, education, recreation and other

amenities.

Table2
Minimum area requirement for SEZ

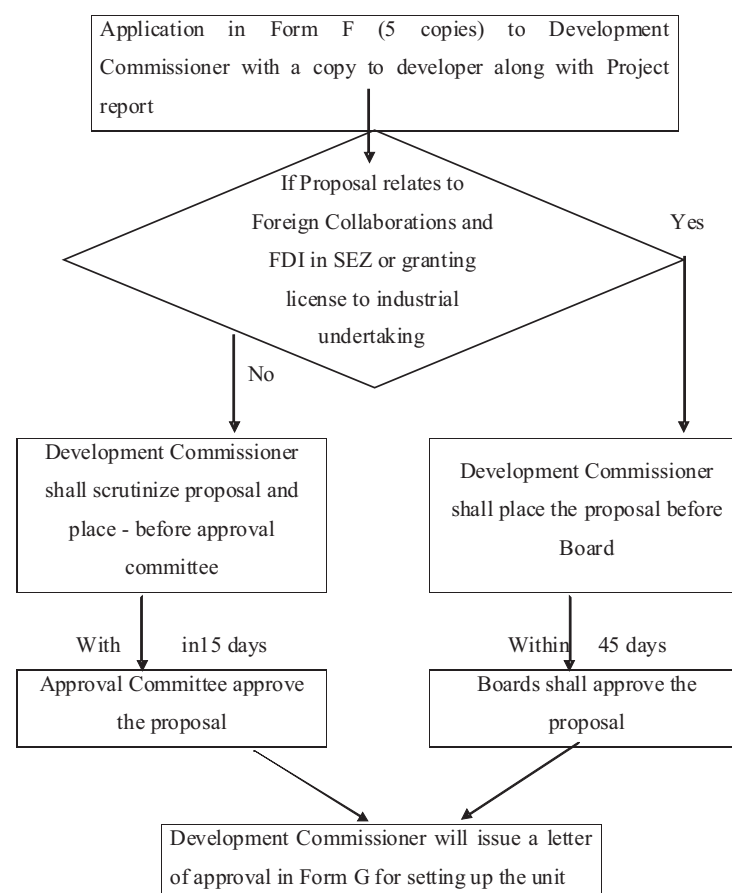
Type	Area	Area for States
Multi-product	1000 hect.	200 hect.
Multi services	100 hect.	100 hect.
Sector specific	100 hect.	50 hect.
Electronic hard and software	10 hect.	10 hect.
Gems & Jewellery	10 hect.	10 hect.
Bio-Technology	10 hect.	10 hect.
Non-con. energy	10 hect.	10 hect.
FTWZ	40 hect.	40 hect.

Source: www.sezindia.nic.in

Approval Procedure

There are separate procedures for approval of SEZs and SEZ units. A proposal for a SEZ can be made by a developer regarding a demarcated land area, directly to the Board of Approval or through the U.P. government which forwards the proposal along with its recommendation to the Boards of Approval. The Board of Approval is constituted by the Central Government and operates on the basis of consensus. The Secretary, Department of Commerce but the Ministries of Finance, Science and Technology, Small Scale Industries, Home Affairs, Law and Justice and Urban Development are also represented on the Board Whenever the proposal regarding a particular is heard a nominee of the state government is present. There are a total of 19 members in all including the floating state government representative. The developer might be the Central or State government or any private individual or any cooperative venture between two or all of these parties. The developer prepares the development plan and submits it for approval. Once approval is granted, the developer implements the proposal of infrastructure development in the SEZ in concert with the co developer. Such development increase's the real estate value of the land. Part of the land area can be used to develop residential facilities and other amenities while a designated proportion is developed for commercial processing /industrial activity. The idea therefore is to develop planned townships, which serve the industrial and service sector. As mentioned above a separate approval mechanism for Installation of units inside the processing area of SEZ exists. An Approval Committee headed by the Development Commissioner, of the Zone and consisting of customs officials and representatives of concerned state government gives approvals. This Committee is also responsible for all post approval clearances.

Flowchart for setting up a unit



Issues and Economy of SEZ

SEZs being developed by private developers, we could see much of the pent up and bottlenecked investment in the economy actually fructifying, supply catching up with demand and the burgeoning current account deficits in the economy coming down. Current account deficits signify the health of the economy. Expanding current account deficits often can be synonymous with low returns of private firms, as well as potential indebtedness of economic entities. There is therefore a very realistic chance of both foreign and domestic investment cooling off, with adverse implications for the balance of payments. The development of SEZs is expected to ease supply bottlenecks through better infrastructure and productive physical capital. Thus, one should also see inflationary pressures easing in the economy with supply catching up with demand. The special economic zone act 2005 recently enacted by the govt, of India is expected to give a big push to the export, employment, and investment in the SEZ. But it has given boost to critiques whether SEZ policy is a right momentum or not. Various critiques and issues are as follow:

If the SEZ is primarily for export it would be one thing. But current requirement of being net forex reserve positive is a condition that can be met very easily if the import content of what is manufactured is low. This is very true that in this way, the net forex reserve would be positive but the imports are because of our insufficiency in production of these goods domestically, because either it is very costly to produce or non availability of necessary resources. Critics believe that the SEZ Act currently enforce may not sure that every state would gain significantly. Government is providing incremental Benefits to the SEZ units, which are disproportionate to the incremental benefits that may occur to the states. Creating an island free from regulatory obstacles is not the only mean to promote the Economic activities. Changes in the overall policy and legal requirement can be a very effective way. Uttar Pradesh is economically marginalized state. Political parties formulate their government in the center and state after winning the election (Like current situation in Uttar Pradesh). Every time when government will change, policy of that government will be quite different to the previous government. That government will enact new rules and regulation. So making the economic activities free from regulatory obstacles can be a very effective step. Whatever government comes and whatever government goes, economic activities will go on without interruption. The government is placing the taxpaying domestic units at a disadvantage against supplies to the domestic tariff areas from the concept of SEZ. The government has slammed the breaks on trading units seeking to enter the numerous special economic zones coming up with the intention the trading unit may come for the SEZ for availing income tax benefits without actually setting up any new manufacturing unit. Moreover the RBI governor Y.V. Reddy directed the entire schedule banks offer credit for SEZs on the same terms and conditions as offered to real estate developers. Absorption of agricultural labor is inevitable for move on the path of development and for increase the per capita income. SEZs are one important means of facilitating that absorption, not to put any part at disadvantage. With the installation of world class infrastructure in the SEZs, it is necessary that facilities to endow workers with factory skills are also made available Skill transfer and installation of infrastructure are complementary factors in the process of labor absorption. The ongoing resentment and violence over resistance over land acquisition for SEZ implies that how sensitive the issue of land acquisition. Those who criticize the SEZ on the ground of land acquisition, rehabilitation and compensation may not have undergone the realities of the land statistics. Critics of SEZ policy argue that acquisition of agricultural land could threaten our food security. But the land statistic of Uttar Pradesh presented here will reveals the fact.

The Reliance Energy has plans to build the world's largest gas based power plant of 3500 MW in Dadri, in Ghaziabad. The investment outlay is more than Rs. 10,000 crore. However the real investment is the 2500 acres of land in the most fertile region. At the launch of the project on February 22, 2004, the government had announced that rate given to the farmers for the acquired land would be Rs. 350 per sq. mt. while the prices in the market around was 13,500 per sq. mt. Further, The government of UP had waived off all the stamps fees and other related costs for buying the land for Reliance, along with the subsidy in which the Reliance would pay only 40% of the costs and government would pay the rest. Land in Dadri (Delhi) is worth Rs. 13,500 per sq. mt. whereas farmers are being offered only Rs. 120 per sq. mt. Further the power project only needs 700 acres, but 2500 acres have been acquired because of high real estate value. And finally no legal procedure has been followed in acquiring the land. (Tyagi, 2007).

Moreover it is not very difficult for state government to follow the Bhatta Persoul in NOIDA example of stating unambiguously that arable and fertile land will not be acquired and whatever land will be acquired will be at market rates. Under these two administered conditions, farmer's interest will be protected. Mrs. Sonia Gandhi in her speech made a strong case for protecting the interest of farmers whose land is being diverted to non-agricultural uses. She sent a clear message to the center as well as congress ruled state government that it is important to put an effective compensation, resettlement and rehabilitation policy in place for land oustees of industrial project. She even hinted that farmers should be made 'stake-holder' in the activity undertaken on land acquired from them. One should also note that government implementation in the field of infrastructure has often been plagued by poor planning as well as rampant corruption. SEZs should lead to the creation of centers of excellence in the industrial and service sector. The reason for such optimism is the use of incentives at all levels of economic activity. The better the quality of facilities provided by the developers, the higher is there turn/rent that they will earn on such facilities. The private sector firms will compete with each other for entry into SEZs so that the best SEZs will get the best entrants. Thus there is a built in incentive for developers to improve quality of infrastructure as long as marginal returns from quality improvements exceed the marginal cost. Investing in SEZs with better quality infrastructure is profitable for firms and the benefits from such marginal quality improvements exceed the marginal cost that they have to pay for such improvement. As long as the net marginal domestic product generated from quality improvements is positive these improvements will be in the interests of both developers and their clients.

Conclusion

If Uttar Pradesh wishes to continue on the growth trajectory of the past decade and a half for the next four or five decades, then such policies are inevitable. SEZs are one important means of facilitating these policies. According to estimates provided by the Ministry of Commerce, more jobs will be created through SEZs in future also. This underlines their

usefulness as channels of employment creation, income generation, SEZ is a mean to achieve growth and employment which industries are eager to utilize effectively. But government should formulate the rehabilitation and resettlement programmes keeping in mind that any sort of political and social unrest due to land acquisition runs counters the very interest of industrialization. SEZ act enacted in 2005 provides a single window clearance and approval procedure. It delegates no additional power to development commissioner. Government has considered SEZ a dream project to boost export, income and employment in the coming years. No doubt the pace of growth of SEZ export in our state is very slow. The reason of this slow progression in the persistence of SEZ in its nascent stage along with lack of infrastructure, availability of incentive and sort fall of capital goods as compared to other states like, Andhra Pradesh, Maharashtra, Gujarat etc.

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