# 7 Centres of Export oriented production: Special Economic Zones (SEZs) and Export Oriented Unit (EOUs)

The Special Economic Zones Policy was announced in April 2000 with the objective of making the Special Economic Zones an engine for economic growth, supported by quality infrastructure and an attractive fiscal package both at the Central and State level with a single window clearance. The SEZ concept recognizes the issues related to holistic economic development and provides for development of self-sustaining Industrial Townships so that the increased economic activity does not create pressure on the existing infrastructure.

## I. Special Economic Zones Act, 2005 and Special Economic Zones Rules, 2006

Asia's first EPZ was set up in Kandla in 1965. Seven more zones were set up 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 world-class infrastructure and an unstable fiscal regime. While correcting the shortcomings of the EPZ model, some new features were incorporated in the Special Economic Zones (SEZs) Policy announced in April 2000.

To instill confidence in investors and signal the Government's commitment to a stable SEZ policy regime and with a view to impart stability to the SEZ regime and thereby generating greater economic activity and employment through the establishment of SEZs, a comprehensive Special Economic Zones Act, 2005, was passed by Parliament in May, 2005. The Act received Presidential assent on the 23rd of June, 2005. The SEZ Act, 2005, supported by SEZ Rules, came into effect on 10th February, 2006, providing simplification of procedures and single window clearance on matters relating to Central and State governments. As a result of this Act and Rules coming into force, it was envisaged that the SEZs would attract a large flow of foreign and domestic investment in infrastructure and production capacity leading to generation of additional economic activity and creation of employment opportunities.

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.

## II. Amendments in the SEZ Rules, 2006

The following important amendments have been made to the SEZ Rules, 2006:

- Prescribing minimum built up area for Bio-technology and Gem & Jewellery Sectors;
- Prescribing minimum processing area for Free Trade Warehousing Zone (FTWZ);
- Inclusion of specific provisions regarding grant of in-principle approval and its extension;
- Providing for a lease period of not less than five years as against the earlier provision of lease period being co-terminus with the validity of Letter of Approval;
- Stipulating the Upper limit of the area required for multi product SEZs at 5000 hectares, with the State Governments having the option to prescribe a lower limit;
- Revising the minimum processing area uniformly at 50% for multi- product SEZs as well as sector specific SEZs;
- Type of land to be mentioned in the application form of SEZ;
- Reimbursement of duty in lieu of drawback for supply of goods to SEZ developers against Indian rupees;
- Term “vacant land” defined for the purpose of SEZs;
- Clubbing of contiguous existing notified Special Economic Zones notwithstanding that the total area of resultant Special Economic Zones exceeds 5000 hectares
- A number of other amendments to delegate powers and to simplify the procedure;
- SEZ Authority Rules, 2009 has been made for the smooth functioning of zones and SEZ Authority has been set up accordingly.
- Routing proposal for setting up of SEZ through Development Commissioner, to facilitate developers and for better administrative efficiency.
- Including all the existing legislation/ rules for generation, transmission and distribution of power. Prescribing a time limit of 10 years for constructing the minimum built up area prescribed under Rule 5.
- Adding a new provision that once SEZ is notified and becomes operational, the validity of Letter of Approval will continue as long as the SEZ remains notified.
- Prescribing various forms and procedure for smooth functioning.
- Making it mandatory to all the developers and units to use the online system for better monitoring as also better facilitation in respect of the users.
- Classifying Cities of the country.
- Promoting IT/ITES SEZs in smaller cities of the country.
- Allowing setting up of FTWZs without any minimum area requirement in the existing SEZs.
- Paving way for import of prohibited items by a unit in a Special Economic Zone or Developer of the Special Economic Zone

from a place outside India to the Special Economic Zone with prior approval of the Board of Approval.

- Amending Annexure-II of Special Economic Zone Rules, 2006 to substitute the term “Apparel” mentioned is column (3) against Serial Number 3 of the Annexure by the words “Textiles and Articles of Textiles”.
- Enabling Board of Approval to extend validity of Letter of Permission of unit beyond 4th year.
- Making validity of Letter of Approval of a co-developer of SEZ co-terminus with that of the developer.
- The following amendment to the SEZ Rules, 2006 were notified on 12th August, 2013:-
    - Minimum Land Area Requirements for setting up of SEZs in various categories has been reduced by half.
    - To allow greater flexibility and address the intermediate size land tracts falling between different categories, Graded Scale for Minimum Land Criteria has been introduced.
    - Sectoral broad-banding provisions have been introduced for categories of sectors to encompass similar/ related areas.
    - IT and ITES SEZs – Minimum land requirement criteria has been Dispensed with.
    - Transfer of Assets by SEZ Units upon their exit.
    - Vacancy Norms clarified.

## III. Current status of approvals for setting up of Special Economic Zones

Seven Export Processing Zones set up by the Central Government at Kandla (Gujarat), Santa Cruz (Maharashtra), Cochin (Kerala), Noida (U.P.), Chennai (Tamil Nadu), Falta (West Bengal) and Visakhapatnam (Andhra Pradesh), were converted to SEZs on announcement of the SEZ Policy. Another EPZ set up in the private sector in Surat was also converted to an SEZ. In addition to these, 11 more SEZs were set up by the State Governments/private sector during the period 2000-2005 in the States of West Bengal (2), Gujarat (1), Madhya Pradesh (1), Uttar Pradesh (1), Rajasthan (2) and Tamil Nadu (4). After the coming into force of the SEZ Act, 2005 on 10th February 2006, 566 formal approvals have been granted for setting up of Special Economic Zones, out of which 388 SEZs have been notified and are in various stages of operation. A total of 185 SEZs are exporting.

While there is some concentration in certain states, the fact that the approved SEZs are spread over 20 States and 3 Union Territories indicates that these are not confined to any particular region. State-wise distribution of SEZs as on 20.06.2014 is in Table 7.1. The total land area involved in the formally approved SEZs including notified SEZs is around 62,238 Ha.

**Table: 7.1**
**State-wise Distribution of approved Special Economic Zone**

(As on 20.06.2014)

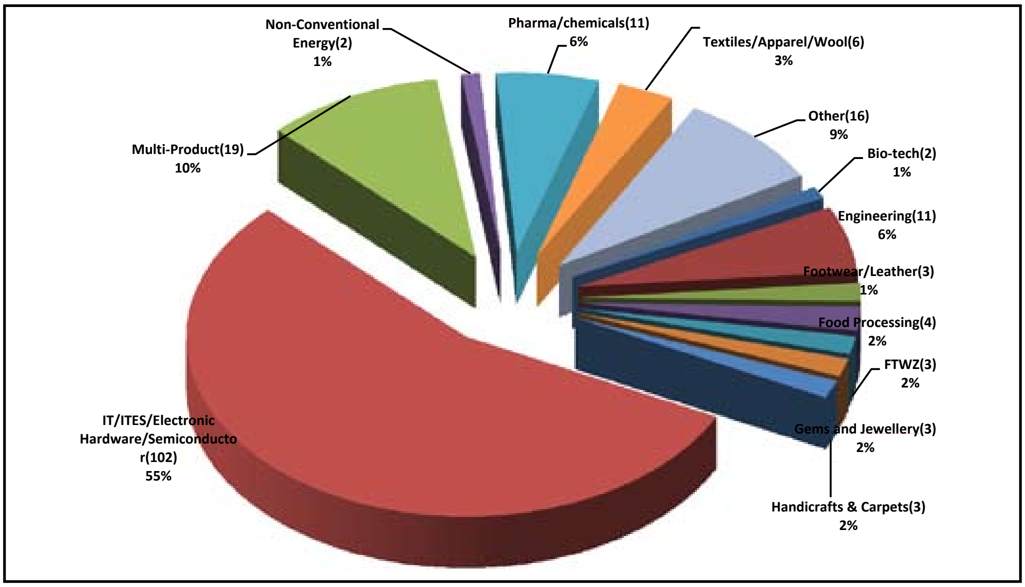
| State | Formal Approvals | In-principle approvals | Notified SEZs | Exporting SEZs (Central Govt. + State Govt./ Pvt. SEZs + notified SEZs under the SEZ Act, 2005) |
|---|---|---|---|---|
| Andhra Pradesh | 108 | 4 | 78 | 42 |
| Chandigarh | 2 | 0 | 2 | 2 |
| Chhattisgarh | 2 | 1 | 1 | 1 |
| Delhi | 3 | 0 | 0 | 0 |
| Dadra & Nagar Haveli | 2 | 0 | 1 | 0 |
| Goa | 7 | 0 | 3 | 0 |
| Gujarat | 42 | 6 | 29 | 18 |
| Haryana | 40 | 3 | 29 | 5 |
| Jharkhand | 1 | 0 | 1 | 0 |
| Karnataka | 61 | 0 | 40 | 25 |
| Kerala | 30 | 0 | 24 | 11 |
| Madhya Pradesh | 19 | 1 | 9 | 2 |
| Maharashtra | 100 | 14 | 66 | 22 |
| Manipur | 1 | 0 | 1 | 0 |
| Nagaland | 2 | 0 | 2 | 0 |
| Odisha | 10 | 1 | 5 | 1 |
| Puducherry | 1 | 1 | 0 | 0 |
| Punjab | 8 | 0 | 2 | 2 |
| Rajasthan | 10 | 1 | 10 | 5 |
| Tamil Nadu | 66 | 5 | 53 | 34 |
| Uttar Pradesh | 32 | 1 | 22 | 9 |
| Uttarakhand | 2 | 0 | 1 | 0 |
| West Bengal | 17 | 3 | 9 | 6 |
| GRAND TOTAL | 566 | 41 | 388 | 185 |

Source: Department of Commerce

The six major sectors of IT/ITES, Hardware etc., Textiles and Apparel (including Wool), Pharma and Chemicals, Biotech, Engineering and Multi-products account for bulk (80%) of the SEZ formal approvals granted so far. IT/ITES/Electronic Hardware/Semiconductor is the single most important segment accounting for about 61% of the total formal approvals followed by Biotech and Engineering SEZs. More than half of the 566 formal approvals issued so far have reached the stage of notified SEZs.

Sector-wise details of SEZ is as in the following diagram:-

**Chart 7.1**
**Sector-wise distribution of SEZs in India**
**(Number & Percentage of operational SEZs (185) as on 31.3.2014)**




## IV. Employment, Investment and Exports in SEZ

The details of employment and investment generated in the Special Economic Zones are given in Box 7.1 and Box 7.2.

**Box 7.1**
**Direct Employment in Special Economic Zones**
**(As on 20.06.2014)**

- SEZs in India provide direct employment to over 1283309 persons;
- The incremental employment generated by the SEZs in the short span of time since the SEZ Act came into force in February 2006, is of the order of 1148605 persons.

**Box 7.2**

**Investment in Special Economic Zones**

- The Special Economic Zones notified under the SEZ Act, 2005 have already made an investment of Rs. 296663 crore since the coming into force of the SEZ Act in February, 2006.

## Export Performance

The exports in the current year i.e 2013-14 from the SEZs have been to the tune of Rs. 4,94,077 crore (as on 31.03.2014). Exports from the functioning Special Economic Zones during the last seven years are in Table 7.2.

**Table: 7.2**

**Exports from the functioning SEZs during the last seven years**

| Year | Value (Rs. Crore) | Increase (%) (Over previous year) |
|---|---|---|
| 2007-2008 | 66,638 | 93.00 |
| 2008-2009 | 99,689 | 50.00 |
| 2009-2010 | 2,20,711 | 121.40 |
| 2010-2011 | 3,15,868 | 43.11 |
| 2011-2012 | 3,64,478 | 15.39 |
| 2012-2013 | 476159 | 31.00 |
| 2013-2014 | 494077 | 4.00 |

*Source: Department of Commerce (SEZ Division)*

## SEZ Policy Reform Initiative

While above achievements are in no way insignificant, a comprehensive analytical assessment of the performance of the sector has highlighted the need that certain aspects of the SEZ Policy and Operational framework perhaps require a re-look with a view to possible reform in order to ensure that the laid down objectives of the SEZ Policy are better achieved.

The geographical dispersion of the SEZs is mainly limited to six States, namely, Andhra Pradesh, Maharashtra, Gujarat, Tamil Nadu, Kerala, and Karnataka. These States account for the nearly 92% of the SEZs established so far. Further, most of the established SEZs, Particularly, IT/ ITES SEZs have come up in and around major urban centres. The sectoral dispersion of the SEZs also indicates that manufacturing SEZs are not markedly visible. With the availability of land becoming increasingly difficult, setting up of multi product SEZ becomes more challenging as it required minimum 1000 hectares of contiguous and vacant land. The operational issues relating to FTWZs, procedure for refund of CST, service tax etc., also need further elaboration.

In order to address these concerns, inputs have been received from the stakeholders after meetings with the Principal Secretaries (Industries) of the State Governments, and by organizing outreach seminars under the auspices of the Zonal DCs. Inputs have also been received from trade associations like NASSCOM, ASSOCHAM, Federation of Indian Chambers and CII etc. Further action in this regard is in progress.

In short span of about six years since SEZs Act and Rules were notified in February, 2006, formal approvals have been granted for setting up of 566 SEZs out of which 388 have been notified. Out of the total employment provided to 1283309 persons in SEZs as a whole, 1148605 persons is incremental employment generated after February, 2006 when the SEZ Act has come into force. This is apart from million of man days of employment created by the developer for infrastructure activities. Physical exports from the SEZs has increased from Rs. 476159 crore in 2012-13 to Rs. 494707 crore in 2013-14, registering a growth of 4%. There has been overall growth of export of 2063% over past eight years (2005-06 to 2013-14). The total investment in SEZs till 31.03.2014 is Rs. 296663 crore approximately, including Rs. 292627.49 crore in the newly notified zones. 100% FDI is allowed in SEZs though automatic route as per the provisions of the SEZ Act, 2005. A total of 185 SEZs are making exports. Out of this 102 are IT/ITES, 19 Multi product and 64 other sector specific SEZs. The total number of units in these SEZs is 3799.

### Export Oriented Units (EOUs)

The Export Oriented Units (EOUs) scheme introduced in early 1981, is complementary to the SEZ scheme. It adopts the same productions regime but offers a wide option in locations with reference to factors like source of raw materials, ports of export, hinterland facilities, availability of technological skills, existence of an industrial base and the need for a larger area of land for the project. As on 31st March, 2014, 2154 units are in operation under the EOU scheme. State-wise distribution of EOUs is given in table 7.3:-

**Table 7.3**
**State-wise distribution of functional EOUs**

| States/UTs | Functional EOUs as on 31.03.2014 |
|---|---|
| Andhra Pradesh | 271 |
| Chhattisgarh | 1 |
| West Bengal | 59 |
| Bihar | 1 |
| Jharkhand | 2 |
| Orissa | 17 |
| Assam | 0 |
| Tripura | 0 |
| Mizoram | 1 |
| Manipur | 0 |
| Meghalaya | 1 |
| Nagaland | 0 |
| Arunachal Pradesh | 0 |
| Sikkim | 0 |
| Gujarat | 211 |
| Kerala | 76 |
| Karnataka | 451 |
| Tamil Nadu | 402 |
| Pondicherry | 12 |
| A & N Island | 3 |
| Maharashtra | 279 |
| Goa, Daman & Diu | 50 |
| Dadra & Nagar Haveli | 23 |
| Delhi | 34 |
| Haryana | 79 |
| Uttar Pradesh | 79 |
| Punjab | 14 |

| | |
|---|---|
| Rajasthan | 66 |
| Himachal Pradesh | 5 |
| Jammu & Kashmir | 3 |
| Chandigarh | 3 |
| Uttrakhand | 3 |
| Madhya Pradesh | 9 |
| **Total** | **2154** |

**Table 7.4**
**Export Performance by EOUs'**

(Rs. In Crores)

| Year | EOUs Exports |
|---|---|
| 2008-09 | 1,76,923.02 |
| 2009-10 | 84,135.66 |
| 2010-11 | 76,031.13 |
| 2011-12 | 79,343.28 |
| 2012-13 | 92089.80 |
| 2013-14 | 82072.71 |

Exports during 2013-14 from EOUs were of the order of Rs. 82072.71 crore as compared to the export of Rs. 92089.80 crore during 2012-13.

EOUs are mainly concentrated in textiles and yarn, food processing, Gem & jewellery, Computer Software, electronics, chemicals, plastics, granites and minerals/ores. Chapter 6 of the Foreign Trade Policy and Handbook of Procedure, (Vol.I) spells out the policy framework for EOUs.