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A COMPARATIVE STUDY ON INDO-CHINESE SEZs

K. G. MALLIKARJUNA

Assistant Professor of Economics, SBSYM Degree College, Kurnool, Andhra Pradesh, India

ABSTRACT

SEZs (Special Economic Zones) are fundamentally different from the traditional free zones. Special economic zone is a particular area inside a state which acts as foreign territory for tariff and trade operations. The first "modern zone" was established in Ireland in 1959. Since then, a variety of different zone setups have evolved. Indian policymakers' ongoing fascination with special economic zones was inspired by China's roaring success with these enclaves of galvanised production. Is India getting something wrong in its SEZ policy, or should we merely conclude that India will soon be 33 times as successful as China? China's success in attracting oodles of foreign direct investment and becoming one of the top exporting countries of the world hinged on the careful implementation of its SEZ policy. More than two decades later, India, too, is trying to tread on the same ground.

KEYWORDS: SEZs, Zones, Greenfield SEZs, Domestic Tariff Area (DTA)

INTRODUCTION

SEZs (Special Economic Zones) are fundamentally different from the traditional free zones. Special economic zone is a particular area inside a state which acts as foreign territory for tariff and trade operations. Govt. provides tax exemption (IT, Excise, customs, sales etc.), subsidised water and electricity etc. SEZ can be sector specific or multi product sez. It helps in the development of infrastructure of the area around the SEZ, provides employment to people, make the exports more viable. All this will help the country's products to become more competitive vis-a-vis providing all round development of region. It should be noted that if 100 acres are allotted for SEZ, then only 30-35% of area is used for setting up plants. Rest of the area is used to provide housing facilities, malls, multiplexes etc.

NEED FOR THE PRESENT STUDY

So many studies in the past made an attempt to analyse the success stories of SEZs in India and China separately. Some studies also attempt to find out sluggish growth of SEZs in Indian context. So, in this comparative study, an attempt is made to understand the establishment, policy, decisions, and growth of SEZs in both India and China.

OBJECTIVES OF THE STUDY

Present study having following objectives.

- To provide a brief introduction to the concept of SEZs.
- To analyse the salient features of Indian SEZs and probable forms of SEZs.
- To make swot analysis of SEZs in Indian economic conditions and discussion in detail of merits, demerits, opportunities, threats etc.

- To compare Indian SEZs with Chines SEZs so as to enable the policy makers to find out where the actual problem actually exits.
- To make some recommendations to the Indian government for the betterment of the situation regarding SEZs.

DISCUSSIONS AND INFERENCES

Special Economic Zones in India were established in an attempt to accelerate foreign investment and endorse exports from India and recognizing the need of a global platform to expose the domestic firms and producers to the competitive world market. The announcement of formulating a Special Economic Zones policy in India was made by the government in April 2000 and was anticipated to be an overseas province for trade purposes, commercial operations, duties and taxes.

SEZs when equipped are anticipated to provide premiere infrastructure services and sustenance services, besides permitting for the tariff free import of merchandize and raw materials. Furthermore, attractive financial subsidiaries and trouble-free custom tariffs, banking and other methods are provided in such business zones. Establishing SEZs is also recognized as communications development methods.

Mentioned below are Some of the Salient Features of Indian Special Economic Zones

- Indian SEZs are developed by government, private and joint sector, unlike its international counterparts where zones are chiefly maintained by their respective governments. This provides equal prospects to both Indian and global players.
- Government has allocated a least favorable area of 1,000 hectares for Greenfield SEZs. Although, there are no limitation in context of favorable area in constructing sector specific SEZs.
- 100% of Foreign Direct Investment is allowed for all endowments in Special Economic Zones, apart from activities cataloged under the unconstructive record.
- SEZ divisions are obligatory to be encouraging net foreign exchange yielders and are not entitle to any least amount of value addition guidelines or export responsibilities.
- Commodity surge from Domestic Tariff Area (DTA) into a SEZ is recognized as exports and commodity surge into DTA from SEZ are recognized as imports.

Types of Zones

The first "modern zone" was established in Ireland in 1959. Since then, a variety of different zone setups have evolved that are subsumed under the SEZ concept.

- **Free Trade Zones** (FTZs; also known as commercial free zones) are fenced-in, duty-free areas, offering warehousing, storage, and distribution facilities for trade, transshipment, and re-export operations.
- **Export Processing Zones** are industrial estates aimed primarily at foreign markets. Hybrid EPZs are typically sub-divided into a general zone open to all industries and a separate EPZ area reserved for export-oriented, EPZ-registered enterprises.

- **Enterprise Zones** are intended to revitalize distressed urban or rural areas through the provision of tax incentives and financial grants.
- **Free Ports** typically encompass much larger areas. They accommodate all types of activities, including tourism and retail sales, permit on-site residence, and provide a broader set of incentives and benefits.
- **Single Factory EPZ Schemes** provide incentives to individual enterprises regardless of location; factories do not have to locate within a designated zone to receive incentives and privileges.
- **Specialized Zones** include science/technology parks, petrochemical zones, logistics parks, airport-based zones, and so on.

Activities that SEZs Generally Involve

They are much larger in size; offer broader range of activities such as

- A single-window management,
- Streamlined procedures,
- Duty-free privileges,

Fundamentals of SEZs

Whether the enclave is termed an EPZ, FTZ or SEZ, the cardinal factors are

- Appropriate infrastructure and transport facilities,
- Low factor cost,
- Flexible labour laws,
- Convertibility of currency,
- Stable legal and administrative regime, and
- A commitment to the canons of an open economy
- And also access to the domestic market on a duty-paid basis.

For example look at Chinese SEZ-Shenzhen SEZ, it consists of

- Total Area of Shenzhen – 1,952.84 sq. kms
- Area of SEZ - 395.81 square kilometers
- Harboring 3.5 million people
- $30 billion in FDI,
- 3 million employment
- Equipped with the state-of-the-art infrastructure

- Effective port facilities,
- Simplified procedures,
- Fully flexible labour policy in terms of hiring and firing.

SWOT Analysis for Indian SEZs

Strengths

- Skilled Manpower – knows English
- Worldwide acceptance of capabilities in fields like
  - Pharmaceutical manufacturing & research
  - Clinical trials
  - Manufacturing auto parts
  - Engineering designing & consultancy, IT & ITES
  - Entertainment etc etc
- Financial & other institutional Networks like Stock Exchanges, Insurance Companies, Educational Institutes
- Attraction of a large ‘Indian’ market:
  - Growing middle class with purchase power

Weakness

- Infrastructure bottlenecks –connecting infrastructure like Roads leading to SEZs.
- Political changes
- Convertibility of Currency on Capital A/c
- Red Tape
- Labour reforms
- Zones by & large are still zones not smart cities.
- Inappropriate locations
- Long gestation period 4 to 5 years in absence of infrastructure development.

Opportunities

- An alternative manufacturing base particularly compared to Chinese SEZs.
- Services SEZs do not require movement of input and output physically and hence, surrounding infrastructure may not matter much.
- For multi-product SEZs, almost 23 ports are available. Most of them are likely to be EDI compliant.

- New small ports & airports are also being developed keeping SEZ concept in mind.

Threats

- Loosing edge of low labour costs - many countries are competing.
- Formation of economic blocks, Effect on Government Revenues.
- Negotiations for FTAs with many countries may erode competitiveness.
- The pattern of buying & selling may not continue. With relocations of industries in other third world countries, new competitors will emerge.

Major Issues

- Land Acquisition
- Role of State Govt. in Land Acquisition
- Compensation Packages to land owners
- Rehabilitation packages for displaced farmers
- State Govt.'s commitment to create infrastructure
- Time frame for operationalisation
- Control over SEZs – MoC or MoF
- Amendments to Laws and Rules

SPECIAL ECONOMIC ZONES – INDIA VS CHINA

Indian policymakers' ongoing fascination with special economic zones was inspired by China's roaring success with this enclaves of galvanised production. New Delhi has sanctioned close to 200 SEZs. Guess, how many SEZs China has since kicking off the policy in 1979? Exactly six: Shenzhen, Zhuhai, Shantou, Xiamen, Hainan and Pudong.

Is India getting something wrong in its SEZ policy, or should we merely conclude that India will soon be 33 times as successful as China?

China's success in attracting oodles of foreign direct investment and becoming one of the top exporting countries of the world hinged on the careful implementation of its SEZ policy. More than two decades later, India, too, is trying to tread on the same ground.

Following are the areas where Chinese SEZs look different to Indian SEZs.

The Chinese started their liberalization and industrialization with the formation of SEZs in late 70s and early 80s. But in India, SEZ is being incorporated 15 years after the start of liberalization process. China had a Master Plan and an economic framework on how to build and proceed with SEZs, most probably inspired by the success of Asian Trading Hub, Hong Kong. The Chinese started building massive cities for manufacturing and industrialization under their SEZ framework. They also rolled out red carpet for foreign companies to build and operate from these SEZs.

If you look at the Map on your left, China has only 5 SEZs, India has approved 200 and still counting. All the Chinese SEZs are located along the coast line. Indian SEZs are mostly concentrated near major cities and more than half are being developed by Real Estate Companies in order to make a quick buck by grabbing land at cheap prices under SEZ land acquisition act which is a scam in itself. KPMG India, Tax Head, Sudhir Kapadia said, "*They (Chinese SEZs) are close to ports and trade nations like Hong Kong, Macau and Taiwan. A lot of thought has gone into the location of these SEZs.*"

Chinese SEZ blueprint says, *Size Matters for SEZ.* Shenzhen is the largest SEZ in China, as is already explained above, is spread over 493 Sq Kms. (49,300 hectares). While the largest SEZ in India, Reliance - Navi Mumbai and Maha Mumbai SEZ, is mere 14,000 hectares. Exports from Shenzhen SEZ reached $100 Billion in 2005. Total Chinese exports for 2005 were around $700 Billion which implies Shenzhen contributed 15% of Chinese exports.

Chinese SEZ initiative is government driven; Indian SEZs are driven by private sector. Dr. J J Irani, former CMD of Tata Steel and currently one of the powerful Directors on Tata Son's is of the opinion, "*India should also go slowly like China has done*". Mohandas Pai, Executive Director, Infosys Technologies said, *“We should look at entire districts, with a port and a hinterland for SEZ. We should make large-scale investments in that so there is synergy, and we should ensure that manufacturing has priority, followed by services, but the vision has to be much larger. The way it is today, the vision is too myopic, and too small, and I am afraid we will not get the benefit that China did*".

In an excellent article written by Amiti Sen, the comparison between Chinese and Indian SEZ policy is discussed. Read the full article as it appeared in The Economic Times here. I am giving below the salient points in a tabular form.

Table 1

Issue	China	India
Size	Very big. Typically in hundreds of hectares.	Even 10 hectares will do.
Location	Well thought out and located only on coasts. To facilitate exports and imports easily.	Anywhere. No restriction.
Labour laws	Relaxed in the SEZs.	Flexibility is totally absent.
Policy regime	Experimentation of liberal policies in the specified areas while insulating them from the rest of the country.	Based on fiscal sops.
Investors	Basically foreigners who are wooed with sops and promise of stability in policy.	Basically locals. Not foreign investor driven; which should have been the case.
Commencement	In 1979	In 1969 with the export processing zone concept. But failed to muster courage in giving these regions foreign territory status till the year 2000 when Murasoli Maran announced the SEZ policy.
Number	Only six: Shenzhen, Zhuhai, Shantou, Xiamen, Hainan and Pudong	Anywhere and any number. So far 28 operational. About 200 received approvals.
Tax holidays	Present.	Longer and steeper than in China.

Size, location, flexible labour laws and stable policies are the factors primarily responsible for making Chinese SEZs attractive to foreign investors. In India, it is the fiscal sops being offered to developers and units which are the primary driving force.

Stringent labour laws applicable in China were relaxed in the regions and foreign investors were wooed with sops and the promise of stability. Though India had a head-start in the direction by building its first export processing zone in 1969 with certain minimum infrastructure and fiscal sops (seven more followed later), it could not muster enough political will to build full-fledged SEZs with foreign territory status in the matters of international trade till the turn of the century.

In 2000 A.D., former trade minister late Murasoli Maran announced that India should try to replicate the Chinese success story in SEZs and announced an SEZ policy. However, when five years later the SEZ Act was passed by Parliament and rules were framed, what India had was a policy very different from China's. For anybody wondering why China is already an economic power and Asia's other giant, India, is struggling to catch up, consider four letters: SEZs.

Chinese SEZs are industrial areas designed to attract outside investment by offering liberal foreign ownership policies and generous tax incentives. As the ongoing debate about them in India shows, they're the latest example of how ideas that work just great in Communist China don't quite translate so well in Democratic India.

CONCLUSIONS

As a model that is supposed to drive the overall development of the country, SEZ has to ward off the rest with an enclosure. It is a model of creating privileged pockets that Indian government made itself committed to Nandigram bloodshed, continuous protests against Reliance's SEZ in Navi Mumbai, or cancellation of SEZ in Goa are the expressions of the non-privileged discriminated by this model.

When Indian government introduced SEZ from its home country, the fact that China is an authoritarian state might have been diluted by impressive figures of FDI. It is undeniable that the State has played an essential role in SEZ/development zone policy in China. On one hand, the strong state has made the economy of scale possible and guided it for the overall reform process On the other hand, it has guaranteed an uninterrupted investment environment for the corporate interests. Whether learning from China's SEZ would drag India into more suppressing governance for so-called efficiency and high growth or it would learn the lessons of China to listen to people remains to be seen.

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