



# Special Economic Zones

## through the Lenses of Trade Facilitation

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### Introduction

In recent years, a significant shift is observed in India's trade policy, specifically towards infrastructure and institutions strengthening as part of reducing the turnaround time required for transactions as well as cutting down on transaction costs<sup>1</sup>. Stated otherwise, the focus is more on Trade Facilitation (TF) measures<sup>2</sup>. In this context, it is quite welcoming to note that, the process of liberalisation initiated in the Indian economy in 1991 has, over time, brought about far reaching changes in all spheres of the economy and in turn influencing India's position in the global map as well. Among the measures introduced in the post reform period, the Special Economic Zones policy proposed in the Export Import Policy statement in 1997-2002 aimed at accelerating the trade sector performance along with building trade infrastructure of the country. And as part of it, the government has made a conscious effort towards eliminating hurdles like time-consuming bureaucratic procedures through introducing a single window clearance so as to expedite the myriad procedures involved in the establishing of SEZs. Although there are several studies that have attempted to analyse India's SEZs policy from different perspectives, quite a few important aspects still remain unaddressed. For instance, there has been no conscious attempt made to study the specifics of these enclaves within the framework of TF<sup>3</sup>. Also, there are no studies accounting for deviations, if any, from the promises outlined in the policy via-a-vis the real business practices.

Though issues raised by SEZ sector may not come directly under the purview of a multilateral

agreement, but definitely emphasise sector specific initiatives needed to be taken to harmonise trade related system and practices. In this background, the objective of the policy brief is to broaden the understanding of the nuances of the trade facilitation imperatives undertaken in the context of Indian SEZs, major TF specific issues affecting SEZs exporter and thereby suggest executive policy options to promote SEZs as engine of growth.

### Major Findings:

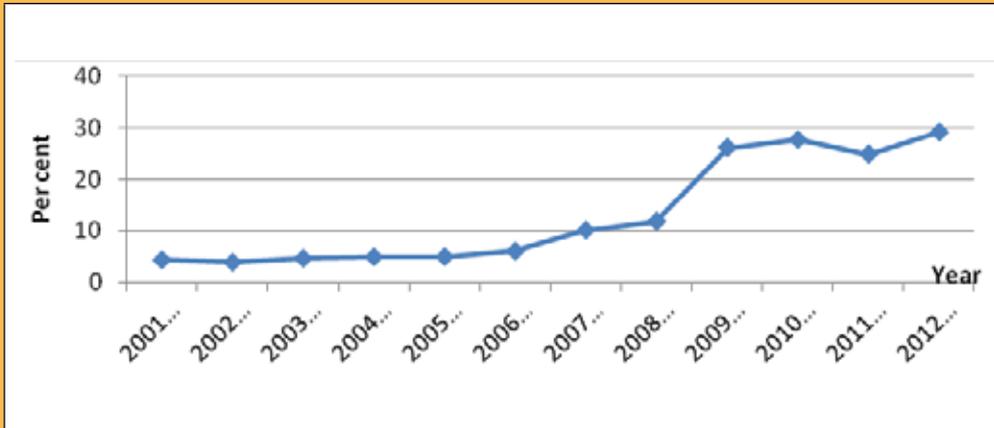
- SEZs policy has already taken the first step towards identifying and implementing statutory provisions required for reducing the timeline and transaction costs involved in the trade-related issues. Specifically, these can be seen in its attempts at setting up Offshore Banking Units (OBU), SEZ online, Export Promotion Council for SEZs and EOUs (EPC SEZ-EOUs), custom clearance on priority and system decentralization. Despite these, SEZ exporters do face many issues pertaining to documentation, procedures and formalities that tend to result in an increase in either the number of days required to trade or implicit and explicit trade costs.
- With respect to performance, at the aggregate level, the introduction of SEZs in place of the EPZs has had positive and significant impacts on India's export performance. Currently its contribution to the country's total exports amounts to around 29 percent. An improved trade performance in absolute value terms apart, the improved performance is also reflected in an increase in the number of exporting units.

<sup>1</sup> Such a conscious approach could also be due to a shift in the policy priorities of most of the developing countries from a short-term crisis management to a long-term Structural Adjustment Programme (SAP).

<sup>2</sup> See for instances: Dee *et al* 1996; APEC, 1997, 1999 and 2004; Stapples, 1998; Milner *et al*, 2000; Wilson *et al*, 2003; Portugal Perez and Wilson, 2010 and others.

<sup>3</sup> This is done specifically by arguing that SEZs are expected to immunize exporters against the constraints affecting the rest of the economy, such as infrastructural and administrative issues and hence India's position in world trade.

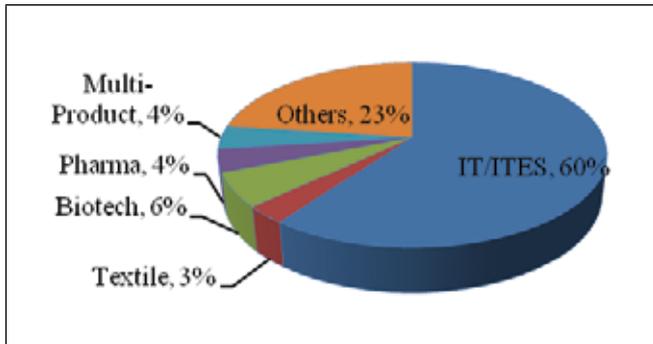
**Figure 1: Share of SEZs in the Country's total exports**



Source: Author's Calculations based on various sources.

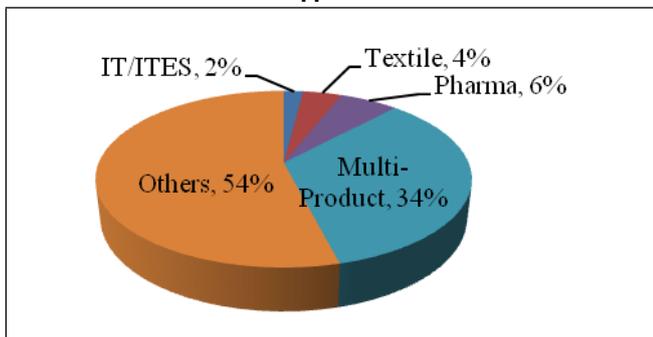
- With regard to sectoral composition, the SEZ policy in the present context has not been very successful in diversifying exports. This finds a reflection in the sectoral composition of formally approved SEZs (Figures two and three) and also in terms of the sectoral composition of exports basket. This could be also indicative of the lack of co-ordination between industrial and trade policy divisions of the government.

**Figure 2: Sector-wise Distribution of SEZs having Formal Approval**



Source: www.sezindia.nic.in (As on Nov 2016)

**Figure 3: Sector-wise Distribution of SEZs having In-Principal Approval**



Source: www.sezindia.nic.in (As on Nov 2016)

- Among the selected SEZ, the lowest transaction costs as well as time required for exports is observed in the case

of conventional SEZ as compared to new generation SEZs as the former has closer proximity to airport, seaport and also administrative set up to get approval to documentation, etc. without any substantial delay. Within conventional SEZs, Gems and Jewellery sector of Santacruz SEZ incur very little transaction costs. This is largely due to the operation of MMTc as special custodian of SEEPZ G & J and as air cargo agent<sup>4</sup>. This is one of the best trade facilitation practices available within SEZs structure.

- Despite having a good system in place, SEZ exporters do face many issues pertaining to (a) Documentation and procedures (b) technical regulations (c) tax benefits/refund and formality that result in increase in either the number of days required to trade and/or implicit and explicit trade costs. For instance, the existing system of SEZs online does not encourage direct online request for any error corrections in the documents (Shipping Bill or Bill of Entry or any other documents). Further, compared with EDI system that is available for non SEZ exporters in India, the corresponding costs for per transaction to SEZ online users and its Annual Maintenance Charges (AMC) are relatively high.

**Table 1: Comparison between EDI and SEZ Online**

SI No	EDI	SEZ online
1.	It is connected to port, airport, bank and all trading agents involved in trading activity	It is not linked to any trading party involved in facilitating trade. In fact it is not even connected to SEZ gate
2.	It demands only two hard copies	It demands 4 copies
3.	All activities are done online	This involves a lot of duplications of work. First through online, customs has to approve and then it has to physically verify the documents. It does not encourage direct online request for any kind of errors in SB or BoE
4.	Transaction fee is very minimal. Per transaction they charge 66 INR which includes printout of duty paid challan and copies of SB, BoE. Annual Maintenance Charges (AMC) is 16, 000 INR	It charges 200 INR per transactions without any provision for copiers of Shipping Bill or Bill of Entry. Annual Maintenance Charges (AMC) is 20, 000
5.	It has CHA login id	It does not have CHA login id

Source: Authors compilation

<sup>4</sup> It was set up in 1988 as a custodian of SEEPZ G & J and also as air cargo agent.

- In order to boost investor confidence, both state and central governments have offered numerous tax benefits and subsidies. However, during our interaction with exporters, it was noted that exporters find it extremely difficult to avail many of such benefits/refund largely due to the cumbersome procedures involved, documentation costs, etc. and the frequent change affected in such provisions.. In addition to this, the way rules and regulations are being interpreted at various levels also add to the inconvenience in availing such tax benefits.
- One of the striking differences between conventional SEZ and new generation SEZ is in terms of infrastructure (both within and surrounding). Specifically in the case of new generation SEZs, despite being in operation for few years, the state of infrastructure is far behind what was promised by developers.

## Policy Recommendations

**Jurisdiction and Supervision of New SEZs:** As per the current SEZs policy, supervision of all the upcoming SEZs is assigned to one of the seven conventional SEZs Development Commissioners (Table 1). This invariably increases time taken for doing business within new SEZs. Therefore, alternative approaches like using the existing SEZ online portal can be used for raising complaints by the developers and exporting units so that issues can be resolved online.

**Emphasis should be placed on zone and sector-specific problems:** As it provides a more realistic and investor-friendly atmosphere to do business. In addition, there is a need for a close monitoring of new SEZs developers in terms of their obligation to offer basic and supportive infrastructure to the exporting units.

**Table 1: Jurisdiction of Seven Conventional SEZs**

SEZs	Jurisdiction	Formal (%)	In-Principle (%)	Notified (%)
Kandla (KSEZ)	Gujarat	7.99	14.29	8.29
Santa Cruz (SSEZ)	Maharashtra, Goa, Dadra & Nagar Haveli, Daman & Diu	19.05	32.65	17.62
Noida (NSEZ)	UP, Rajasthan, Haryana, Uttaranchal, Punjab, Delhi, J and K, HP, Chandighad	17.86	10.2	18.39
Falga (FSEZ)	All eastern and north eastern states	9.18	14.29	6.48
Chennai (MSEZ)	Tamil Nadu and Lakshadweep	11.73	12.24	13.73
Cochin (CSEZ)	Kerala, Karnataka and Lakshadweep	15.48	2.04	15.8
Vizag (VSEZ)	Andhra Pradesh	18.54	12.24	19.69

Source: Based on data collected from sezindia.nic.in (As of Feb, 2014)

**Need to upgrade SEZs online:** The basic purpose of SEZ online is to automate transactions and reduce the duplication of work and eliminate unnecessary data elements. However, the e-initiative developed by NDML so far has not been able to meet the stated objectives behind its promotion. This is largely due to the fact that e-initiative is treated as software to feed data rather than as a mechanism to facilitate trade. Unlike EDI, it is not linked to any trade facilitating agencies. Moreover, SEZ online transaction fee and AMC charges are relatively high as compared to EDI. As a result, there is a lot of duplication of work and loss of time in the process. Thus, it needs to be restructured by connecting it to different agents involved in facilitating SEZ exporters' trade (like, Custom port, banks, air cargo, warehouse, CHA). There is also a need for revising the rate of transaction costs through SEZ online.

**Systems related to refund and reimbursement:** In a bid to make SEZs as engines of growth, both the central and state governments have offered numerous tax benefits and exemptions. However, there seems to be lack of coordination in the implementation of such promotional schemes. During our study, it was reported that exporters found it very difficult to claim several of these exemptions and also to get refund of expenses incurred. Thus, systems related to refund and reimbursement of such benefits need to be simplified and made investor-friendly. Offering incentives and subsidies may act as a necessary condition, but a sufficient condition would be to make them reachable to exporters without any hassle.

**Time-bound disposal of applications:** There is a need for ensuring time-bound disposal of applications by the respective DC. For the purpose, the government should fix a time limit for the disposal of each category of applications and also put in place an appellate authority for adjudication should there be lapses in the implementation of these provisions

**One stop service' to exporters and developers:** Undoubtedly, by establishing the single window clearance system, the SEZ policy has initiated the first step toward identifying and implementing statutory provisions required for reducing the timeline and transaction costs involved in the trade related issues. However, many of such enabling policy initiatives are yet to be implemented. This has resulted in the duplication of work and documentation process which is avoidable. To remedy this, the government should introduce an integrated 'one stop service' to exporters and developers.

**Data on SEZs:** Reliable data is crucial in objectively evaluating the performance parameters of SEZs in the country. However, unfortunately, there is no systematic data set made available for conducting research on the topic either at the zonal level or at government level. In this context, we strongly argue for a systematic data collection and storage of database related to various dimensions of SEZ performance.

For the complete report see, Tantri Malini L., 2014. Trade Facilitation and Trade Performance: An Appraisal in the Context of Selected SEZs CESP, ISEC, Bengaluru and also see Tantri, Malini L (2016) Imperatives of Trade Facilitation on Trade Performance: An Appraisal in the Context of India's Select SEZs, ISEC Monograph, ISEC, Bengaluru

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