CHAPTER - I
INTRODUCTION

1.1. Introduction

This section introduces the concept of SEZ. It highlights on need and importance of SEZ, industrial sites, relevance of the study, objectives, the research methodology adopted by the researcher, tools and techniques used for the data analysis and area presentation of the study. A Special Economic Zone, abbreviated as SEZ, is a geographically bound zone where the economic laws in matters related to export and import are more broadminded and liberal as compared to rest of the parts of the country. SEZs are projected as duty free area for the purpose of trade, operations, duty and tariffs. Such industrial units are self-contained and integrated having their own infrastructure and support services. Within SEZs, industrial unit may be established undertake manufacturing activities including processing, assembling, trading, repairing, reconditioning, unearthing precious metals like gold, silver, platinum jewellery etc. Generally, SEZs are constructed by utilizing an array of institutional compositions varying from complete government-owned organizations to privately-owned firms.

In some cases, the government-owned organizations perform as quasigovernment groups in which they follow a pseudo-corporate organization composition and have total control over their budget construction. SEZs are also constructed under the tie-up of private and government organizations where the government sector offer’s assistance by introducing provisions on infrastructure, investment, issue of bonds & debentures, etc. This enables the private industry to attain a considerable rate of return on the venture. Hence, Special Economic Zones (SEZs) are specifically delineated duty-free enclaves treated as foreign territory for the purpose of trade operations, duties and tariffs. They offer total exemption from most of the duties and taxes.
1.2. HISTORY OF SPECIAL ECONOMIC ZONE

Prior to the Second World War during 1930s the world experienced a recession period that contributed to the global changing scenario. In this period each and every country tried to improve and develop its economic condition. One of the part of the plan was, since 1929, to increase import and setup Special Economic Zones after air land. In the year 1956 it was gradually termed as Import Process Zones. After the process of Hong Kong, Taiwan, Malaysia, Singapore, development of import–export planning became substitute structure and the involved stakeholder countries felt the need to be develop the zones.

World’s first Free Zone concept started in Puerto Rico in 1947 with the aim of attracting firms from USA. In accordance in the year 1951 it passed the Tax Exemption law. The concept of Free Zone greatly affected economy as can be seem from following points:

- Per Capita GNP grew over 45 times in 40 years
- Employment grew by 9% per annum
- Higher education went up from 2% to 60% in 40 years

India recognized the effectiveness of Export Processing Zone (EPZ) in mid-sixties and came up with Asia’s first structured EPZ at Kandla in 1965 followed by seven other such zones which were later set up in Mumbai, Chennai, Surat, Falta, Kochi, Noida and Vizag. The spread of SEZ in initial years was very slow and the concept gained popularity only after the success of Chinese SEZs.

The concept of SEZ can also be traced back to Ireland where the first Export Processing Zone was set up in 1960. However, it was in China that the SEZ model became successful on large scale. Starting in 1980s, China today has more than 1500 open zones, under various names. According to World Bank estimates, there are about 3000 running place in SEZs in 120 countries.
1.2.1. EMERGENCE OF SEZs IN INDIA

Special Economic Zones in India were established in an attempt to accelerate foreign investment and encourage exports from India. They recognized the need of a global platform to expose and explore the domestic firms and producers to the competitive world market.

For a country like us, faster economic growth, industrialization and development of infrastructure are two primary needs of the hours. This naturally required a amount of capital outlay which could not be met by domestic investors and thus emerged the need for vast amounts of foreign capital (FDI). To attract Foreign Direct Investment (FDI) several measures were taken including attractive fiscal packages, both at the Central and State government level, with minimum possible regulations (single window clearance). The intention of the policy maker is to make SEZs an engine for economic growth.

1.2.2. History of SEZs in India

The seeds of the Special Economic Zone (SEZ) were sown in the mid-sixties. Present day basic model of Indian Special Economic Zone was structured with the establishment of the first Export Processing Zone (EPZ) at Kandla in the year 1965. Several other Export Processing Zones were set up in various parts of India in the subsequent years. But The lack of good economic policy and inefficient management hampered the success of these Export Processing Zones. Thus, the performance of these Export Processing Zones of India fell short of expectations.

The modern day Special Economic Zone came into existence because the economic reforms incorporated in the early 1990s did not result in the overall growth of the Indian economy. The SEZ policy of India was devised to act as a catalyst to achieve the economic growth of the early 1990s. The economic reforms formulated during the 1990s did not produce the desired results. The Indian manufacturing sector witnessed a sudden dip in the overall growth of the industry, during the second-half of 1990s. Red tape, lengthy
administrative procedures, rigid labour laws and poor physical infrastructural facilities were the main cause of decline in Foreign Direct Investments (FDI) inflow into India. Further, the Indian markets were not mature enough to facilitate easy entry of Foreign Institutional Investors (FIIs) into the Indian economic system. Also, the legal framework of Indian economy was not strong enough to prevent misuse of Indian markets by the foreign investors. Thus, the lack of investor friendly environment in India prevented growth of Indian industry, in spite of implementation of liberal economic policy by the central government. This led to in the formation of a much larger and more efficient form with world-class infrastructural facility.

The present day Special Economic Zone policies of India was well complemented by the provisions of the Acts and Rules of Special Economic Zone. A number of meetings were held across India for the formulation of - ‘The Special Economic Zones Act, 2005’, which was subsequently passed by Parliament in May 2005.

The SEZ Act, 2005 and SEZ Rules became effective on and from 10th February 2006. The SEZ Act 2005 defines the key role for the State Governments in Export Promotion and creation of infrastructural facilities. A Single Window SEZ approval mechanism has been facilitated through a 19 member inter-ministerial SEZ Board of Approval or BOA; and the decision of the SEZ Board of Approval was made binding and final.

1.2.3. Indian Perspective

India pursued restrictive import substitution policies in terms of Government’s announcement in Lok Sabha in April 1960 to establish the first Free Trade Zones (FTZ) at Kandla (KAFTZ) in Gujarat. The zone becomes operational in the year 1966-67. India, thus acquired the distinction of establishing the First FTZ in Asia and Second amongst the developing countries next only to Puerto Rico. Then Export Processing Zone were setup at Bombay and four more EPZs in 1980s at Calcutta, Cochin, Madras and NOIDA followed by yet another at Vishakhapatnam. The EPZs in India were
developed, owned and managed by the Central Government; and the zone units were permitted of processing or manufacturing with project specific value addition for strict compliance. In absence of conducive macroeconomic policy framework, inadequate infrastructure, lack of promotional strategy, the performance was not significant in terms of contribution exports, foreign exchange earnings, foreign direct investment and GDP. The prevailing scenario was appropriately described as, ‘if the EPZ are ‘grafted’ in isolation on an inward looking economy, their performance will not be optimal as is borne out by the Indian experience.’

Chinese development strategy of export-led growth, developing Special Economic Zones as the vanguard in its opening up drives has been, by all account, highly was successful. It has been instrumental for country’s rapid economic development. With annual rates of growth in economic output and foreign trade that averaged nearly 10 percent respectively during 1978-2000, China’s performance has, in many ways, become the envy of the world countries: developed and developing alike.

Now, India has embarked upon an ambitious plan to emulate the Chinese model of Special Economic Zones to boost exports, attract FDIs and thereby accelerating economic progress. The new Export & Import Policy effective from April 01, 2000 was introduced for setting up of Special Economic Zones in the country with a view to provide an internationally competitive, re-engineering and service activities. Eminent economist, Meghnad Desai is of the view that:

“Specific manufacturing growth strategy would be required for a growth rate in manufacturing at 12 to 15 percent with an aim of doubling the manufacturing labour force from the present of around 40 million to 80 million over 20 years. China achieved such a rate between 1980 and 2000. There is no reason why Indian cannot do the same.”

India was one of the first country in Asia to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting exports, with Asia's
first EPZ set up in Kandla in 1965. With a view to overcome the shortcomings experienced on account of the multiplicity of controls and clearances; absence of world-class infrastructure, and an unstable fiscal regime and with a view to attract larger foreign investments in India, the Special Economic Zones (SEZs) Policy was announced in April 2000.

**In India, at present, current fact sheet on Special Economic Zones are following:** No. of Formal approvals -574 and Number of notified SEZs (As on 26th February, 2010) – 350 (out of 573) + (7 Central Govt. + 12 State/Pvt. SEZs); Number of valid In-Principle Approvals 151; Operational SEZs (As on 31st December, 2009) - 105 (Out of this 15 are multi product SEZs, remaining are IT/ITES; Engineering, electronic hardware, textiles, Biotechnology, Gem& Jewellery SEZs and other sector specific SEZs); Units approved in SEZs (As on 31st December, 2009)- 2,761.

**Land allocated for SEZs:** - Notified SEZs-42,888 Ha; Formal Approvals (FA) incl. notified SEZs-74,883 Ha; Valid In-Principles approvals (IP)- 1,26,963 Ha; Total area for proposed SEZs (FA+IP)- 2,01,845 Ha; Total area for the notified SEZs would not be more than 0.014% of the total land area of India. Land is a state subject. Land for SEZs is procured as per the policy and procedures of the respective State Govts.

**Investment** - As on 31th December, 2009 SEZs notified under the Act Incremental Investment Rs. 1,15,603.78/- Crore; **State/Pvt. SEZs set up before 2006;** Incremental Investment Rs. 5,043.39 crore and Rs 6,799.70 crore, **Central Government SEZs** - Incremental Investment Rs. 3,707.76/- crore; Rs. 5,986.96/- crore; **Total** Incremental Investment Rs. 1,24,354.93/- crore, Rs. 1,28,390.44/- crore.

**Employment** - As on 31st December, 2009 SEZs Notified under the Act Incremental Employment- 2,27,669 persons; Total Employment-2,27,669 persons; State/Pvt. SEZs set up before 2006: Incremental Employment 48,787 persons; Total Employment- 61,255 persons; **Central Government SEZs:** Incremental Employment-78,671 persons; Total Employment-2,00,907
persons. **Total:-** Incremental Employment-2,27,946 persons; Total Employment-3,62,650 persons;

**Exports in 2008-09:** Rs. 99,689 crore (Growth of 50% over 2007-08)
Overall growth of exports of 620% in five years (2004-2009);

**Exports in 2009-10 (As on 31st December,2009)** Rs. 1,52,092.685 crore (Growth of 127% over the corresponding period of Financial Year 2008-09).

### 1.3. SALIENT FEATURES OF 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 green-field SEZs. There is however, no limitation in the 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 encourage net foreign exchange yielders and are not entitled 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.

### 1.4. BENEFITS OF SPECIAL ECONOMIC ZONES

- Income tax exemption.
- Manufacturing industry is allowed FDI influx of 100% via automatic channels excluding a few industries.
- Services can establish off-shore banking divisions in SEZs.
- Service Tax and Central Sales Tax exemption.
External commercial lending of up to US$500 million is allowed for SEZ divisions in a year sans any maturity limitations via certified banking networks.

- No import authorization obligations.
- SEZ franchisees are allowed 100% FDI in offering customary telephone facilities in the areas.
- No limitation of foreign endowments for small scale industry reticent products.
- Tax relief from sectoral authorization obligations for goods reticent for SSI industry.
- Tax relief from custom tariff on import of merchandize, raw products, spare parts etc.
- Tax relief from Central Excise tariff on acquirement of merchandize, raw products, spare parts etc from the local market.
- No regular assessments by Customs for export and import freight.
- Capacity to comprehend and repatriate export advances within a year.
- Revenues permitted to be repatriated sans any dividend assessment needs.

1.5. CONCEPT OF SPECIAL ECONOMIC ZONES (SEZS):

A Special Economic Zone in short SEZ is a geographically bound zone where the economic laws in matters related to export and import are more broadminded and liberal as compared to rest parts of the country. SEZs are projected as duty free area for the purpose of trade, operations, duty and tariffs. SEZ units are self-contained and integrated having their own infrastructure and support services.

1.5.1. Meaning of SEZ Act

In this Act, unless there is something repugnant in the subject context “Act”, means the State SEZ Act 2002. “Special Economic Zones (SEZ)” means a geographical area is declared and notified as Special Economic Zones by Government of India (GOI). “Unit”, means a unit / enterprises in whole or
part which occupies space within zones for carrying out its approved business. “Zones”, means Special Economic Zones constituted from and/or developed within the specified area under provision of this Act.

What are special economic Zones?

Special Economic Zones means a geographical area declared and notified as Special Economic Zones by government of India was announced since dated 31 August, 2004 through policy announced from 2004-2009.

1.5.2. Definition of special Economic Zone:

“SEZ is a specifically delineated duty free enclave and shall be deemed to be foreign territory for purposes of trade operations and duties and tariffs”.

As per law, SEZ units are deemed to be outside the customs territory of India. Goods and services coming into SEZs from the domestic tariff area or DTA are treated as exports from India and goods and services rendered from the SEZ to the DTA are treated as imports into India.

The proposed legislation on SEZs to be enacted in the near future would cover the concepts of the developer and co-developer, fiscal concessions under the Income Tax and Customs Act provide for Offshore Banking Units (OBUs) etc. A brief on the facilities available under the SEZ scheme is given as under:

Scheme - This may be called the Special Economic Zones Scheme.

For the purposes of Special Economic Zone scheme, unless the context otherwise requires, the following words and expressions shall have the meanings attached to them as given in the Policy.

1.5.3. Status of SEZs

1) Special Economic Zone (SEZ) is a specifically delineated duty free enclave and shall be deemed to be foreign territory for the purposes of trade operations and duties and tariffs.

2) Goods and services going into the SEZ area from DTA shall be treated as exports and goods and services coming from the SEZ area into DTA shall be treated as if these are being imported.
3) The Special Economic Zones may have areas, demarcated as,-

   a) Processing areas for setting up of units for production of goods and
      rendering of services; and
   b) Non-processing areas, if any.

1.5.4. Identification of Special Economic Zones

A) The State government may identify any areas or areas to be a Special
   Economic Zones and may invite or accept proposals for the development
   of such area as Special Economic Zones, in such manner as may be
   prescribed.

B) The proposal for establishing a Special Economic Zones shall be
   forwarded by the State Government to the Central Government for its
   approval.

C) Without prejudice to the provisions of sub-section: (1) and sub-section (2)
   any area identified as a Special Economic Zones prior to the coming into
   force of this Act, shall be deemed to have been duly identified as a Special
   Economic Zone under this section.

1.6. ESTABLISHMENT OF SPECIAL ECONOMIC ZONE

1.6.1. Procedure for making proposal to establish Special Economic Zone

1) A Special Economic Zone may be established under this Act, either jointly
   or severally by the Central Government, State Government, or any person
   for manufacture of goods or rendering services or for both or as a Free
   Trade and Warehousing Zone.

2) Any person, who intends to set up a Special Economic Zone, may, after
   identifying the area, make a proposal to the State Government concerned
   for the purpose of setting up the Special Economic Zone.

3) Notwithstanding anything contained in sub-section (2), any person, who
   intends to set up a Special Economic Zone, may, after identifying the area,
   at his option, make a proposal directly to the Board for the purpose of
   setting up the Special Economic Zone. Provided that where such a
proposal has been received directly from a person under sub-section, the Board may grant approval and after receipt of such approval, the person concerned shall obtain the concurrence of the State Government within the period, as may be prescribed.

4) In case a State Government intends to set up a Special Economic Zone, it may after identify the area, forward the proposal directly to the Board for the purpose of setting up the Special Economic Zone. Provided that the Central Government may: a) after consulting the State Government concerned, b) Without referring the proposal for setting up the Special Economic Zone to the Board, c) after identifying the area; set up and notify the Special Economic Zone.

5) Every proposal under sub-sections (2) to (4) shall be made in such form and manner containing such particulars as may be prescribed.

6) The State Government may, on receipt of the proposal made under sub-section (2), forward the same together with its recommendations to the Board within such period as may be prescribed.

7) Without prejudice to the provisions contained in subsection (8), the Board may, after receipt of the proposal under sub-section (2) to (4), approve the proposal subject to such terms and conditions as it may deem fit to impose, or modify or reject the proposal.

8) The Central Government may prescribe the following requirement for establishment of a Special Economic Zone, namely: a) The minimum area of land and other terms and conditions subject to which the Board shall approve, modify or reject any proposal received by it under sub-section (2) to (4); b) The terms and conditions, subject to which the Developer shall undertake the authorized operations and his obligations and entitlements.

9) Provided that different minimum area of land and other terms and conditions referred to in clause (a) may be prescribed by the Central Government for a class or classes of Special Economic Zones.
10) If the Board—(a) approves without any modification, the proposal received under sub-section (2) to (4), it shall communicate the same to the Central Government; (b) approves with modifications the proposal received under sub-section (2) to (4), it shall, communicate such modifications to the person or the State Government concerned and if such modifications have been accepted by such person or the State Government, the Board shall communicate the approval to the Central Government; (c) rejects the proposal, received under sub-section (2) to (4), it shall record the reasons therefore and communicate the rejection to the Central Government which shall intimate to the State Government or the person concerned. The Central Government shall, on receipt of communication under clause (a) or clause (b) of sub-section.

11) Grant, within such time as may be prescribed, a letter of approval on such terms and conditions and obligations and entitlements as may be approved by the Board, to the Developer, being the person or the State Government concerned: Provided that the Central Government may, on the basis of approval of the Board, approve more than one Developer in a Special Economic Zone in cases where one Developer does not have in his possession the minimum area of contiguous land, as may be prescribed, for setting up a Special Economic Zone and in such cases, each Developer shall be considered as a Developer in respect of the land in his possession.

12) Any person who, or a State Government which, intends to provide any infrastructure facilities in the identified area referred to in sub-section (2) to (4), or undertake any authorized operation may, after entering into an agreement with the Developer referred to in sub-section (10), make a proposal for the same to the Board for its approval and the provisions of sub-section (5) and sub-sections (7) to (10) shall, as far as may be, apply to the said proposal made by such person or State Government.

13) Every person or a State Government referred to in subsection (11), whose proposal has been approved by the Board and who, or which, has been
granted letter of approval by the Central Government, shall be considered as a Co-Developer of the Special Economic Zone.

14) Subject to the provisions of this section and the letter of approval granted to a Developer, the Developer may allocate space or built up area or provide infrastructure services to the approved units in accordance with the agreement entered into by him with the entrepreneurs of such Units.

1.6.2. Establishment of Special Economic Zone and approval for authorization to operate through a developer

1. The Developer shall, after the grant of letter of approval under sub-section (10) of section 3, submit the exact particulars of the identified area referred to in sub-section (2) to (4) of that section, to the Central Government and thereupon that Government may, after satisfying that the requirements, under sub-section (8) of section 3 and other requirements, as may be prescribed, are fulfilled, notify the specifically identified area in the State as a Special.

2. Economic Zone - Provided that an existing Special Economic Zone shall be deemed to have been notified and established in accordance with the provisions of this Act and the provisions of this Act shall, as far as may be, apply to such Zone accordingly. Provided, further the Central Government may, after notifying the Special Economic Zone, if it considers appropriate, notify subsequently any additional area to be included as a part of that Special Economic Zone.

3. After the appointed day, the Board may, authorized the Developer to undertake in a Special Economic Zone, such operations which the Central Government may authorize.

1.6.3. Processing and Non-Processing areas

The areas falling within the Special Economic Zones may be demarcated by the Central Government or any authority specified by it as:

a) The processing area for setting up Units for activities, being manufacture of goods, or rendering services;
b) The area exclusively for trading or warehousing purposes; or (c) The non-processing areas for activities other than those specified under clause (a) or clause (b)

1.6.4. Exemption from taxes, duties or Cess

Any goods or services exported out of, or imported into, or procured from the Domestic Tariff Area by-

(i) A Unit in a Special Economic Zone; or

(ii) A Developer, subject to such terms, conditions and limitations, as may be prescribed, is exempted from the payment of Taxes, Duties or Cess under all enactments specified in the First Schedule.

1.7. SEZs AND LAND ACQUISITION

SEZs and Land Acquisition are interconnected for in the setting up of SEZs for which huge area of land is required. Land Acquisition and SEZs have picked up speed in India since the Indian government has encouraged the setting up of SEZs in the country. Assessing its role in the growth of Indian economy, country has needed at least 1 thousand hectares or more of land for SEZs; and so Land Acquisition on a massive scale is taking place in India so as to set up more and more SEZs in the country.

SEZs and Land Acquisition is taking place mainly in agricultural lands and the Central and State governments are acquiring the land from the farmers. Across India, the total amount of land, which will be acquired, is around 150,000 hectares and this amount of land is capable of producing around 1 million tons of agricultural produce. The various advantages of SEZs and Land Acquisition in India are that it has helped to bring in huge amounts of foreign currency into the country, increased the number of jobs for the people of the country, and is also expected to bring in highly technologically advanced machines into the country.

However, there are many disadvantages attached to SEZs and Land Acquisition in India. It is estimated that more than 10 lakh people who are
dependent upon agricultural lands will be evicted from their farm lands; due to which as estimated those farming families will have to face loss of around Rs.212 crores each year in total income; and it will also lead to putting the food security of India at risk. Owing to such scenario surrounded by resentment by general public the SEZs and Land Acquisition in India has now resulted in dissent, uproar, and opposition from the farmers, for their livelihood has been put at stake.

SEZs and Land Acquisition has been taking place in India in a very fast pace over the last few years. The government of India must make sure that Land Acquisition and SEZs must prove beneficial for the people of the country and not harmful.

1.7.1. ACQUISITION OF LAND

In the wake of controversies on land acquisition, the Ministry of Commerce and Industry has advised all the State Governments that in case of land acquisition for setting up of Special Economic Zones, first priority should be the acquisition of waste and barren land and, if necessary, single crop agricultural land could be acquired for the SEZs. If a portion of double cropped agricultural land has to be acquired to meet the minimum area requirements, especially for multi-product Special Economic Zones, the same should not exceed 10% of the total land required for the SEZ.

In pursuance of the decision taken by the Empowered Group of Ministers, the Commerce Secretary vide D.O. letter No. H.7/1/2007 dated 15 the June 2007, issued guidelines to the State Governments that the Board of Approval will consider only those cases where the land has been allotted by the State Government or its undertakings out of the land acquired by them for industrial purposes before 5th April, 2007 or where the land was acquired by the State Government/ its undertakings pursuant to SEZ in-principle approval and the land acquisition proceedings are over on or before 5th April, 2007 and there are no disputes relating to such land; or where no land acquisition is involved and the applicant is in possession of the land. The State Governments
were informed that the Board of Approval will not approve any SEZs where the State Governments have carried out or propose to carry out compulsory acquisition of land for such SEZs after 5th April, 2007. The Board of Approval only approves those proposals which are duly recommended by the State Governments.

However, cases in which all persons interested in the land either have not submitted any objection or have withdrawn the objections submitted and have thus acquiesced in the proposed acquisition of land can be considered. In other cases, where there are objections, the Collector/Acquiring Authority may not proceed with the acquisition for the purpose of SEZ and such cases, if any, brought before the Board of Approval may not be considered.

1.7.2. Who can set up an SEZ? And what are the prior requirements for setting up of a SEZ?

An SEZ can be set up jointly or individually either the Central Government, a State government or any other body, including a foreign company, for the purpose of (1) manufacturing goods, (2) rendering services, (3) for both of these reasons or (4) as a Free Trade and Warehousing Zone (FTWZ). The SEZ Rules specify the minimum land area that is required for setting up an SEZ in general. This requirement depends on the type of SEZ to be established. The requirements concerning the minimum size of an SEZ are relaxed with regard to certain small states.

1.7.3. Minimum Land Requirement

The State Government shall forward the proposal within forty five days to the Board of Approvals (Deputy Secretary, Ministry of Commerce & industry, Department of Commerce, Udyog Bhawan, New Delhi-110011) after ensuring that the minimum land requirement as per Rule 5 of the SEZ Rules, 2006 has been complied with. Rule 5(2) of SEZ Rules, 2006 lays down the minimum area requirement for development of SEZ. According to Indian constitutional law (see table 1 and 2). Table 2 illustrates some sector specific
SEZs restrictions on foreign-owned equity and other requirement. The minimum area requirements stipulated for various categories of SEZ are:

**Table No. 1.1**

**Minimum Contiguous Area Requirements for Certain Types of SEZs**

<table>
<thead>
<tr>
<th>Type</th>
<th>Area</th>
<th>Area for Special Sates/ UTs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multi-product</td>
<td>1000 hectares*</td>
<td>200 hectares</td>
</tr>
<tr>
<td>Multi-services</td>
<td>100 hectares</td>
<td>100 hectares</td>
</tr>
<tr>
<td>Sector specific</td>
<td>100 hectares</td>
<td>50 hectares</td>
</tr>
<tr>
<td>Electronic Hardware &amp; Software</td>
<td>10 hectares (and min.</td>
<td>10 Hectares</td>
</tr>
<tr>
<td>&amp; Software Including ITES</td>
<td>Built up area of 1 lakh Sq. Mtr. for IT)</td>
<td></td>
</tr>
<tr>
<td>FTWZ</td>
<td>40 hectares (min. Built up area of 1 Lakh sq. mtr.)</td>
<td>40 hectares (min.built up area of 1 lakh sq. mtr.)</td>
</tr>
<tr>
<td>Handicraft</td>
<td>10 hectares (min. Built up area of 1 Lakh sq. mtr.)</td>
<td>40 hectares (min.built up area of 1 lakh sq. mtr.)</td>
</tr>
<tr>
<td>Bio Technology &amp; Non Conventional Energy</td>
<td>10 hectares (min. Built up area of 40 Thousand sq. mtr.)</td>
<td>10 hectares (min.built up area of 40 thousand. Sq.mtr.)</td>
</tr>
<tr>
<td>Gems &amp; Jewellery</td>
<td>10 hectares (min. 10 hectares (min. Thousand sq. mtr.)</td>
<td>10 hectares (min.built up area of 50 thousand Sq.mtr.)</td>
</tr>
</tbody>
</table>

* Not exceeding 5000 hectares

(Source: INCE-2009 & sezindia.nic.in)

As per proviso to sub Rule 2(a) Rule 5 of SEZ Rules, 2006 at least fifty per cent of the area shall be earmarked for developing the processing area. Development Commissioner of the SEZ shall be authority for demarcating the processing, non-processing area etc. in the SEZ. Provided also that the Central Government may consider on merit the clubbing of contiguous existing notified Special Economic Zones notwithstanding that the total area of resultant Special Economic Zone exceeds 500 hectares.

As per proviso to sub Rule 2 (c) Rule 5 of SEZ Rules, 2006, a Free Trade and Warehousing Zone may also be set up as part of a Special Economic
Zone for multi-product. In a Special Economic Zone having area less than one thousand hectares, Free Trade and Warehousing Zone may be permitted with no minimum area requirement but subject to the condition that the maximum area of such Free Trade and Warehousing Zone shall not exceed twenty per cent of the processing area.

**Table No. 1.2**

**Sector Specific SEZs and Foreign Equity Allowed**

<table>
<thead>
<tr>
<th>Industry/Sector</th>
<th>Foreign Allowed</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advertising and Film</td>
<td>100%</td>
<td>Certain conditions apply in the film Industry</td>
</tr>
<tr>
<td>Alcoholic beverages</td>
<td>100%</td>
<td>Prior Government Approval is need</td>
</tr>
<tr>
<td>Automobiles</td>
<td>100%</td>
<td>Automatic approval route available</td>
</tr>
<tr>
<td>Cigars/cigarettes of tobacco</td>
<td>100%</td>
<td>There are no automatic approvals and a license From the Defense Ministry is required</td>
</tr>
<tr>
<td>Defence and strategic industries</td>
<td>FDI cap of 26%</td>
<td>Automatic approval route is available subject to some conditions</td>
</tr>
<tr>
<td>Drugs and pharmaceuticals</td>
<td>100%</td>
<td>Automatic approval route is available except for aerospace and defense sectors.</td>
</tr>
<tr>
<td>Information technology</td>
<td>100%</td>
<td>Automatic approval route is available except for certain products.</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>100%</td>
<td>FDI limits and incentives vary in subsectors and an approval from the FIPB is required except for Private sector oil refining.</td>
</tr>
<tr>
<td>Petrochemicals and Petroleum</td>
<td>Varies: 100%</td>
<td>Automatic approvals route available for Manufacturing and construction.</td>
</tr>
<tr>
<td></td>
<td>And automatic approvals are available in some sectors</td>
<td></td>
</tr>
<tr>
<td>Ports and harbors</td>
<td>100%</td>
<td>Automatic approval route available for Construction and maintenance.</td>
</tr>
<tr>
<td>Road, highways and mass rapid transit system</td>
<td>100%</td>
<td>Limited to 49% for the operation and Maintenance of satellites.</td>
</tr>
<tr>
<td>Satellites</td>
<td>49%</td>
<td>Licenses well be required in some cases, however 100% FDI is allowed for the manufacturing of telecommunications equipment</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>Varies according to sub-sectors</td>
<td></td>
</tr>
</tbody>
</table>

(Source: INCE-2009)
1.8. PROCEDURE FOR SETTING UP SPECIAL ECONOMIC ZONE

Special Economic Zones are specially demarcated geographical regions that have more liberal economic laws as compared to the centralized laws of the country. The very purpose of a SEZ is to develop the area covered under the special economic zone by the following special economic policies.

1.8.1. Procedure of Setting up SEZ Unit in India

SEZ is governed by a three tier administrative set up. The Board of Approval is the apex body in the Department; The Unit Approval Committee at the zonal level dealing with approval of units in the SEZs and other related issues, and Each Zone is headed by a Development Commissioner, who also heads the Unit Approval Committee.

1.8.2. Indian Special Economic Zones - Organizational Set-up

SEZs are controlled by a three tier Organizational Set-up described as under:

Supreme controlling body in the Department is known as The Board of Approval At district level, The Unit Approval Committee tackles with SEZs development and other associated issues every district is led by a Development Commissioner, who also controls the Unit Approval Committee.

1.8.3 Features of SEZ

An SEZ is a geographically demarcated region that has economic laws that are more liberal than the country’s typical economic laws and where all the units therein have specific privileges. SEZs are specifically delineated duty-free enclaves and are deemed to be foreign territory for the purposes of trade operations, duties and tariffs. The principal goal is to increase foreign investment. Through the introduction of SEZs, India also wants to enhance its somewhat dismal infrastructural requirements, which, once they have been improved, will invite even more foreign direct investment.

As far as trade and commerce are concerned, SEZs are regarded as international territory wherein local raw materials bought by producers within SEZs are regarded as exports whereas those goods that are produced in SEZs and sold in the DTA (Domestic Tariff Area) are regarded as imports.
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 green field 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.

The salient features of the Indian SEZ initiative further include the following points:

1) Unlike most of the international instances where zones are primarily developed by governments, the Indian SEZ policy provides for development of these zones in the government, private or joint sector.

2) 100 per cent FDI is permitted for all investments in SEZs, except for activities included in the negative list.

3) SEZ units are required to be positive Net foreign-exchange earners and which is not subject to any minimum value addition norms or export obligations.

4) Goods flowing into the SEZ area from a domestic tariff area (DTA) are treated as exports, while goods coming from the SEZ into a DTA are treated as imports. In addition to the duty exemptions, the units in the Indian SEZs do not have to pay any income tax for the first five years and only pay half their tax liability for the next two. SEZ developers also enjoy
a 10-year “tax holiday”. The size of an SEZ varies depending on the nature of the SEZ. At least 50 per cent of the area of multi-product or sector-specific SEZs must be used for export purposes. The rest can include malls, hotels, educational institutions, etc. Besides providing state-of-the-art infrastructure and access to a large, well-trained and skilled workforce, the SEZ policy also provides enterprises and developers with a favorable and attractive range of incentives.

5) Facilities in the SEZ may retain 100 per cent foreign-exchange receipts in Exchange Earners’ Foreign Currency Accounts.

6) 100 per cent FDI is permitted for SEZ franchisees in providing basic telephone services in SEZs.

7) No cap on foreign investment for small-scale-sector reserved items which are otherwise restricted.

8) Exemption from industrial licensing requirements for items reserved for the small-scale-industries sector.

9) No import license requirements.

10) Exemption from customs duties on the import of capital goods, raw materials, consumables, spares, etc.

11) Exemption from Central Excise duties on procurement of capital goods, raw materials, and consumable spares, etc. from the domestic market.

12) No routine examinations by Customs for export and import cargo.

13) Facility to realize and repatriate export proceeds within 12 months.

14) Profits allowed to be repatriated without any dividend-balancing requirement.

15) Exemption from Central Sales Tax and Service Tax

1.8.4. Advantages of Special Economic Zones (SEZs)

India has over 1022 prospective SEZs units to be established. It has more than 09 fully functional SEZs and over 7 Export Processing Zones (EPZs) which have been transformed into SEZs. Each entirely functional SEZs has a standard dimension of 200 acres and are spread in different parts of India.
The need for a Special Economic Zone was realized by India in April 2000 in order to augment the foreign direct investment in the nation, to trigger its exports revenues and to provide a global platform to local firms and manufacturers. Indian government has always been upbeat about the expansion of SEZs and to supplement their plans it has also introduced policies which are assessed on quarterly basis. This ensures the supply of enough facilities to the SEZ developers along with the firms establishing their business units in it.

1.8.5. Indian Special Economic Zones – Benefits

Besides offering high end infrastructure and availability to a large skilled workforce, SEZ also offers attractive incentives and advantages to firms and developers. Mentioned below are some of the benefits of Indian Special Economic Zones:

- Full Income tax exemption for a period of 5 years and an extra 50% tax relief for additional two years.
- Manufacturing industry is allowed an FDI influx of 100% via automatic channels excluding few industries.
- Services to establish off-shore banking divisions in SEZs Service Tax and Central Sales Tax exemption External commercial lending of up to US$500 million is allowed for SEZ divisions In a year sans any maturity limitations via certified banking networks.
- No import authorization obligations.
- Services to sustain foreign exchange proof of payments of up to 100% in Exchange Earners' Foreign Currency Account.
- SEZ franchisees are allowed 100% FDI in offering customary telephone facilities in the areas.
- No limitation of foreign endowments for small scale industry reticent products.
- Tax relief from sectoral authorization obligations for goods reticent for SSI industry
- Tax relief from custom tariff on import of merchandize, raw products, spare parts etc.
• Tax relief from Central Excise tariff on acquisition of merchandise, raw products, spare parts etc. from the local market.
• No regular assessments by Customs for export and import freight.
• Capacity to comprehend and repatriate export advances within a year.
• Revenues permitted to be repatriated sans any dividend assessment needs.
• Authorization for Employment prospects on behalf of local exporters for direct export.
• Authorization for off-shoring of local and global players. This service is accessible to jewelry sector also.

1.8.7. The objectives of SEZ

The prime objective behind an SEZ is to enhance foreign investment, increase exports, create jobs and promote regional development. To put in the government’s own words, the Central Government, while notifying any area as a Special Economic Zone or an additional area to be included in the Special Economic Zone and discharging its functions under this Act, United Nations publication of 1985 listed the most common objectives underlying the establishment of zones. Following are the main objectives of the SEZs are:

Objectives:

a) To generate the additional economic activity

b) To promote the exports of goods and services;

c) To promote the investment from domestic and foreign sources;

d) To generate employment opportunities;

e) To development infrastructure facilities; and

f) To maintain sovereignty and integrity of India, the security of the State and friendly relations with foreign States.

g) To introduce new technology.

In a broader perspective SEZ would play important dynamic function, and very different, dynamic crucial initiating role in the development of national industrial capacity by-

• Offering a platform for internationally competitive productive units;
• Creating an environment conducive to concentrated development of technology and skill in domestic sector with foreign participation;
• Initiating a shift in the orientation of the domestic sector towards export activities; and
• Providing as example for the government to adopt a administrative efficiency that encourages domestic and foreign investment.
• In addition, the zones allow countries to focus resources in particular sectors or areas, to soften the economic shocks of opening n economy and adjusting to more competitive and global world. In some cases they even provide islands of stability and relative transparency even in the most extreme conditions in today’s world of uncertainties.

The modern zones focus on providing an internationally competitive business environment with improved infrastructure, sophisticated communication, reliable power, dependable transport, well educated workers and efficient customs operation.

1.9. Objective of the Study

Following are the broad objectives of the present study are as follows:

1) To study the Special Economic Zones (SEZs) and its impact on Socio-economic Development of Rural peoples in Konkan and Marathwada region.

2) To know the policy of Govt. behind the Special Economic Zones (SEZs) and its effective implementation.

3) To analyses the Performance of Special Economic Zones (SEZ) in general and Konkan and Marathwada region in particular.

4) To study the SEZs and Its impact on rural development. i.e. employment, entrepreneurship, Social, Economic, and overall industrial development.

5) To know the Problems and prospects of Special economic zones (SEZs) and its impact on Konkan and Marathwada region Industrial area.
1.10. Hypothesis

1. Special Economic Zones (SEZs) has been especially beneficial to the Konkan region as compare to Marathwada region.

2. Special Economic Zone (SEZs) is accepted by the rural peoples for the overall development in both the regions.

3. Due to lack of proper and healthy Special Economic Zone (SEZs) Policy. Government of India is unable to get success in both the regions.

1.11. Scope and Limitations of the study

This study is limited to Konkan and Marathwada region. The overall 13 Districts are covered under Special Economic Zones on which its impact would be assessed on socio-economic development of rural people in Maharashtra. The Konkan region of Maharashtra accounts for the largest number of SEZ units: Konkan includes 69, the Western Maharashtra 50, Marathwada 15 and Vidarbha 10. Overall unites shall be studied and analyzed keeping view the acquisition; proposed total area wise investment and employment generation capabilities in all Maharashtra state. The study is primarily undertakes to assess the impact of SEZs between the year 2006 to 2013 on rural people viz. land owners, farmers, small and micro industrialists and unemployed youth residing in Konkan and Marathwada region of Maharashtra state.

1.12. Research Methodology

Collection of Data: To complete this study primary as well as secondary source of information is used.

Primary Data:

Primary data is collected from selected 200 respondents who are directly or indirectly affected due to implementation of SEZ policy by Central and State Government. For the purpose a scheduled questionnaire was framed highlighting issues, plights and privileges in compliance with SEZs Act. Which
bears direct impact on people living in industrial area as well as land owners, in particular in the districts covered in Konkan and Marathwada region. With the help of two different questionnaires distributed among entrepreneurs, workers, land owners and other factors the primary data was collected by interviewing the respondents.

**Secondary Data**

The Secondary data is gathered from books, journals, magazines, different published thesis, Govt. Committee reports, Govt. annual reports and related web sites.

**1.13. Selection of Samples**

Present study highlighted effects of SEZ on Konkan and Marathwada Region. In Konkan and Marathwada region, there are total 13 districts for administrative purpose. Konkan Region includes Mumbai, Thane, Ratnagiri, Raigad and Sindhudurg districts and Marathwada region includes seven districts viz. Latur, Nanded, Parbhani, Osmanabad, Beed, Jalna, and Aurangabad. Adopting Simple Random Sampling method in all 200 respondents from selected 07 districts were considered as samples where SEZ projects are in full swing. Keeping in view the relative importance of districts, in terms of socio-economic activities the researcher selected 30 respondents from Raigad, 30 Thane, 30 Mumbai and 10 Ratnagiri and likes wise 50 respondents from Aurangabad, 25 from Latur and 25 Nanded district in Konkan and Marathwada region, respectively. Data is collected by using scheduled questionnaire and by directly interacting with, especially, farmer family, who have been issued orders by the Govt. for land acquisition under Special Economic Zone (SEZ). The observed data has been discussed, analyzed, and major inferences have been drawn thereof.
Selection of Samples

Table No:-1.3

Approval and started SEZs in Selected Regions

<table>
<thead>
<tr>
<th>Sr. No</th>
<th>Status SEZs</th>
<th>SEZs in Konkan Region</th>
<th>SEZs in Marathwada region</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Employment (lack)</td>
<td>43.58</td>
<td>1.53</td>
</tr>
<tr>
<td>2</td>
<td>Notified</td>
<td>25</td>
<td>7</td>
</tr>
<tr>
<td>3</td>
<td>Formal Approval</td>
<td>50</td>
<td>9</td>
</tr>
<tr>
<td>4</td>
<td>In-Principal Approval</td>
<td>22</td>
<td>5</td>
</tr>
<tr>
<td>5</td>
<td>Total</td>
<td>67</td>
<td>21</td>
</tr>
</tbody>
</table>

1.14. Tools and Techniques to be used

The data, so collected, is scrutinized, tabulated, and analyzed compiled finally used for the study purpose. For analysis and tabulation process simple tools and techniques such as Percentile, Average, and co-relation is used.

1.15. Presentation of the Study:

Chapter-I: Introduction:

Chapter first has dealt with the overall conceptual development of Special Economic Zones (SEZs) in India on the backdrop of International trade and business growth. The chapter in particular has assessed the peripheral phenomena at the level of Central and State government that implies deceives changes in the socio-economic life of general public. It has attempted to trace SEZ policy implementations and its impact on Indian polity and industrial factors. The chapter has elaborated the statement of the problem, rational behind the study, objectives of the study, research methodology, and future scope of further research and overall relevance of the study.

Chapter 2: Review of Literature:

Chapter second has dealt with the review of literature on the subject including studies related to SEZs projects in the country. An attempt has been made to co-relate the developments undergoing in India to the international trade organization.
For this around 60 articles and 70 books have been thoroughly read and referred to make an action plan and plot/design of the present study.

**Chapter 3 : Special Economic Zones (SEZs) and Government Policy**

*Chapter third* has thoroughly explored and evaluated the Policies of the state and central Government regarding the SEZ and its implementation. It has dealt with SEZs Policies, Rules Regulation, and Guidelines for development of SEZs units, Special assistance and overall implementation of the policy.

**Chapter 4 : Special Economic Zones (SEZs) and Rural Development**

*Chapter fourth* has dealt with very important aspect of Special Economic Zones (SEZs) and Rural Development. The government of India introduced a special economic Zones (SEZ) Policy. The aim of the Policy is to promote export oriented industrial and economic development for the proponents of rapid development of India. SEZs are engines of high economic growth. India has largest sector of Agriculture & Allied economy providing employment to nearby 60 per cent of the total population. Chapter fourth has thoroughly explored the SEZs status and prospectus in India and Its impact on Rural Development in respect of employment, entrepreneurship, socio-economic lives and overall industrial and infrastructure development with the help of Special Economic Zones.

**Chapter 5 : Special Economic Zones and Socio-Economic Development in Selected Regions (Konkan and Marathwada Regions)**

*Chapter fifth* has explored the Socio-Economic development caused by SEZs in Marathwada and Konkan regions. The socio-economic benefits and harmonious construction of rural development and policies designed to remove poverty, unemployment and backwardness of the rural people are some of the positive impact of SEZs. SEZs are aimed to foster economic growth by development of infrastructure and foreign direct investment (FDI). This study has evaluated the problems occurred during the development of SEZs in respect of land acquisition process, compensation process and so on. It has also suggested suitable antidotes and panaceas to improve the performance of SEZs in India for the overall welfare of rural people in India un to this last. The fifth chapters has
analyzed Special Economic Zones (SEZs) and socio-economic development in Konkan and Marathwada for overall social, cultural, political, economic, and regional development, infrastructure development, technological development, overall development of stakeholders in project affected areas in Konkan and Marathwada regions in the state of Maharashtra through implementation of SEZs. This chapter has examined whether the main objectives of the Socio-economic development of selected regions are fulfilled: to prepare demographic and growth profiles of all the villages under the focused areas; to assess socio-economic characteristics of the people; to assess the nature of existing resources and means of livelihood; to examine possible impact of the project on local population due to their displacement, loss of land, and other means of livelihood etc.; and an last but not the least, to evolve preliminary suggestion and guidelines for an effective R&R of the ‘project affected persons (PASs).

The present chapter has focused on the SEZs and Socio-Economic development in selected regions of Maharashtra within the framework of rural development and addressed social justice to the marginalized sections of the society. This study has recorded an account of the people's struggle for their livelihood rights especially land, water, and forest and employment rights. It has also described the opposition of the affected people to the concept of Special Economic Zones, which is, from the point of view of general public anti-poor, anti-labor, anti-farmers, and anti-people in general, and various issues. This chapter also examined the situation which has compelled the common people to challenge the establishment of SEZs in Maharashtra and across the country.

Chapter 6 : Data Collection and Analysis:

Chapter Six has presented Data required and its critical Analysis precisely for the propose of “Critical Analysis of Special Economic Zones (SEZs) and Rural Development in Maharashtra State” With Special Reference to Konkan and Marathwada Region”. It has dealt with available data for SEZs and Rural development in Maharashtra state by the help of respondents of selected samples in Konkan and Marathwada regions by prepared questionnaire, Interview schedules for affected farmers and land owners who loss their land and
entrepreneurs views, Social leaders’ opinions, and general opinions of the affected people. Secondary sources of SEZs data and government published report and information also used for the said study. These facts and figures are analysed and interpreted in this chapter for calculating or testing hypothesis.

The analysis and interpretation is based on field survey undertaken in SEZs units in the study area. For the purpose, over 200 respondents, 100 from each of the regions, including male and female workers, farmers, landowners, were selected who are directly and indirectly affected in SEZ units operational in the regions. It has been observed that majority of the farmers and general public in Navi Mumbai, Raigad, Ratnagiri of Konkan region and Nanded, Latur, and Aurangabad in Marathwada region staged protest against SEZs projects in the respective regions. This chapter has brought forth factual reasons behind discontent among public who have been alleging irregularities in implementation of Labor Laws, Industrial Acts to promote SEZ policy. Thus, an honest attempt has been made to highlight socio-economic aspects such as displacement issues, rehabilitation and resettlement of project affected people, rural development, industrial and infrastructural development, and urbanization in Konkan and Marathwada regions, in particular, as proposed to be addressed through SEZ policy.

Chapter 7 : Conclusions and Recommendations:

This concluding chapter highlights some major conclusions, findings, and important suggestions, and recommendations of special economic Zones (SEZs) and rural development in Maharashtra state with special reference to Konkan and Marathwada regions being faced by the SEZ policy. It argues that SEZs need to be viewed as testing laboratory of the problems that any socio-economic, and rural development, and employment generation, land acquisition and project affected peoples/farmers and in general’s opinion of peoples and respondents of project affected areas in selected regions and industrialization programme might face in the country. It has also highlighted the policy recommendations for better performance of SEZs and their future prospects in India.
Concluding Remarks

This chapter has discussed all the basic contexts and history of Special Economic Zones (SEZs) with required and suitable research methodology which is useful for the study purpose for the “Critical Analysis of Special Economic Zones (SEZs) and Rural development in Maharashtra state –with special reference to Konkan and Marathwada regions.” It has also stated the overall development of SEZs in India in respect of silent features of SEZs, Tax benefits, procedure of setting up SEZs Units, Land requirement for the SEZs project, SEZs policy, advantages and disadvantages of SEZs, SEZs projects and the Rural development in Indian particularly affected areas in Konkan and Marathwada regions in Maharashtra state from the perspectives of SEZs policy. This chapter has focused on study objectives, hypotheses, research methodology and future scope and limitations of the study to find out the social economical and rural development and varied aspects of SEZs.

*****
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