Conclusion and suggestions

In this chapter logical conclusions will be drawn from the present study on role of Special Economic Zones in export promotion and constructive suggestions will be provided to improve the prospects of special economic zones.

Conclusions

• Special Economic Zones comprises of delineated duty free enclaves and are deemed foreign territories for the purpose of trade operations, duties and tariffs. These are like a separate island within country and treated as if these are outside India for customs purposes. Goods can be brought in special Economic zones without payment of customs duty or excise duty. Supplies to these zones from other parts of India are treated as ‘exports’ and are entitled to all export benefits. However, supplies from SEZ unit to any person outside SEZ is treated as ‘import’ by that person and normal custom duty is payable.

• Any private/ public/ joint sector or state government undertaking can setup an SEZ. Normally the government participates in the Special Purpose Vehicle (SPV) by contributing land as equity/ lease and promoter/ strategic investor takes over the land, develops it and gives them to individual investors for setting up their business/ activity at a fee to be determined by the promoter/ strategic investor alone.
• SEZ can run in any line of activity except for arms, ammunition, atomic substances, psychotropic substances and tobacco products. Activity is not customs supervised and operations are not the basis of self-declaration and self-certification by units. SEZs are also allowed to procure their requirements from Indian domestic tariff area free of all duties and taxes.

• A virtual SEZ is one where export oriented units (EOUs) can avail of benefits under a SEZ Act, without being bound within a geographical area. The virtual SEZ concept can give a huge fillip to exports in the sector and accelerate the rate of growth. It will enable eligible industry to declare an existing domestic tariff area (DTA) as a virtual SEZ.

• Special Economic Region (SER) is a large notified area in which the government hopes to concentrate a lot of economic activity in one or two sectors (manufacturing mostly). The government also facilitates the provision of world leading infrastructure for the SER. These regions are loosely modeled on Shenzhen and other Chinese examples, which have become world leaders in manufacturing.

• Broadly, two types of zones are being setup in India. The first is the model China has honed over decades. They are large, world’s class SEZs that are being planned by industrial houses and states. These projects want to leverage economies of scale and provide world’s class infrastructure, along with a business-friendly environment. The other type comprises industries seeking SEZ status after fulfilling the basic criteria of land, 2,500 acres for multi product SEZs, 250 acres for product-specific ones, and 25
acres for those concentrating on the infotech or gems and jewellery businesses.

- The SEZs can bridge the gap between the desirable and feasible by providing facilities that can help support production units which can measure up to competition in the global markets.

- SEZs are not just industrial estates but comprise of a township. The zones are cater the to the holistic needs of the people working there and are built around employment and domestic needs, as world class SEZs developed on a public-private partnership. This concept is definitely catching up and today we have a plethora of approvals for the establishment of SEZs in India. In addition to the generation of employment and their contribution in creating a healthy BOP account, SEZ could play key role in our moving towards an equal distribution of resources through mushrooming zones which reduce regional disparity within the country. Thus migration of capital, labour and technology across geographical boundaries would reduce disparity at all levels of growth. SEZs will be the launch pad for future economic growth and have come to stay.

- Developing economies have to continuously position themselves to maximize their share in the global trade and FDI. The use of SEZ as a fiscal incentive to increase their share in exports and FDI is being increasingly witnessed. A tax incentive serves dual purpose behind any investment decision. Besides the actual financial advantages, they have
great perception value and visibility and hence are an important factor for investment decisions.

- The simplified procedures and the tax breaks provided by the government would enable SEZs to attract investments in the tune of Rs.1,00,000 crore in the next three years. This would create five lakh new jobs in the next three years. Investors from several countries including Japan and Singapore are looking at this new window, which is expected to take off new. Foreign investment could flow into specialized SEZs covering services like hospitals and entertainment. International finance centres are also expected to come up in a big way to boost SEZs exports. As global competition for markets and foreign investment intensifies, SEZs are proliferating worldwide, growing from just 176 across 47 countries in 1986 to over 3,000 by 2004 across 116 countries. Huge incentives, including duty free access on all their exports, tax holidays, flexibility in labour laws, etc, are offered to SEZ firms.

- Development strategists see SEZ investment as a quick way for developing countries to attract export-oriented FDI and acquire the industrial skills and resources necessary to compete in the global economy. In addition, it is believed that SEZs promote economic activity through backward and forward linkages with domestic economies and generate technological and learning spillovers that provide an important boost up the development ladder.
• The government of India is planning to let foreign insurers setup wholly owned shops in the special economic zones. The insurance regulator is examining the issue. This will benefit the non-life sector more than life since insurers will be able to offer services only in SEZ, they are operating in. In any case, most of the risk in non-life sector is passed on to the re-insurers.

• Offshore banking as a concept is globally successful. Banks, both foreign and domestic, will jump at this opportunity, given the changing regulatory environment. With the move towards a free float of the rupee, new foreign banks will now come calling. This window can be exploited by exporters who would benefit from finer margins on loans, better foreign exchange rates and access to capital that will be available in an offshore banking unit. Multi-currency operations can minimize currency fluctuation risk, in these units. Offshore banking units provide a host of banking services including project financing, syndicated loans, issue of short and medium term instruments, merchant banking activities in foreign currency denominated bonds and equity shares for those units located in the SEZs.

• In any other land, a comparison between SEZs and railway compartments might induce few jaws to drop. Now so in benighted India, where both space in trains and quotas of any sort elicit a mad scramble and then utter resistance to and new entrants sharing the same. This time the script goes like this: since the government plans to halt the number of SEZs, and with the quota virtually filled up, corporate bigwigs are now struggling hard to
get in. Expectedly players already having found a place on the SEZ wagon are resisting fresh entries tooth and nail. The resultant pressure being exerted by these ‘haves and have nots’ has set off yet another round of lobbying to modality the SEZ policy. Result: the commerce & industry is planning to approach the empowered group of ministers on SEZs to seek to raise the bar on the numbers.

- Special Economic Zones, the current darling of India Inc, are getting another cap on their feather: Duty-free Shopping. The government has agreed to allow duty-free outlets in SEZs and a dozen applications filed to run duty-free outlets across the country's major international airports. Since SEZs are still going through troubles, setting up duty-free outlets in these zones was a grey area till now and there was no clarity on allowing foreign investment in such outlets. Therefore, the issue was discussed by the Foreign Investment Promotion Board recently and it has been decided that such outlets can be allowed with prior permission form the department of commerce.

- Close to two thirds of Special Economic Zones approved so far are spread over just four states. Ninety-two of the 150 SEZs, formally approved by the board of approval, are located in Andhra Pradesh, Maharashtra, Tamil Nadu and Karnataka.

- A Special Economic Zone may be established under the SEZ Act for manufacturing of goods, rendering services, manufacturing of goods and rendering services, as a free trade zone or as a warehousing zone.
As global competition for markets and foreign investment intensifies, SEZs are proliferating worldwide, growing from just 176 across 47 countries in 1986 to over 3,000 by 2004 across 116 countries. Huge incentives, including duty free access on all their exports, tax holidays, flexibility in labour laws, etc, is offered to SEZ firms.

States, which have lagged behind in getting SEZs, include Delhi, Jharkhand, Northeastern states and Orissa, and Union territories of Chandigarh, Goa and Pondicherry. These have one or less SEZs approved. In a bid to encourage SEZ investments in these states, the centre has decided to give priority to SEZ applications originating from states which have received no or negligible SEZ investment.

The commerce Ministry came into criticism for the disproportionately high number of IT SEZs approved so far (94 against a total of 150). The ministry officials admitted that the SEZ policy has been criticised by many for resulting in a proliferation of IT SEZs as compared to manufacturing SEZs. Many contend that lenient norms like land requirement of just 10 hectares for IT SEZs were essentially responsible for the high interest in IT SEZs. The ministry has no objection to putting a cap on IT SEZs. But at the same time, there should be some alternative for IT units by extending tax benefits to STPs beyond the stipulated date.

Any goods or services exported out of, or imported into, or procured from the Domestic Tariff Area by a unit in a special economic zone, or a developer, shall, subject to such term, conditions and limitations, as may
be prescribed, be exempt from the payment of taxes, duties or cess under all enactments specified in the first schedule.

- Every developer and the entrepreneur shall be entitled to exemption from any duty of customs, under the customs act, 1962, any duty of excise, under the central excise act, 1944, drawback or such other benefits, exemption from service tax under chapter v of the finance act, securities transaction tax leviable under section 98 of the finance (no.2) act, 2004 (23 of 2004), exemption from the levy of taxes on the sale or purchase of goods other than newspapers under the central sales tax act, 1956.

- The empowered committee has said value added tax on supplies to SEZs and EOUs will stay and asked tax payers to claim credit on VAT instead of demanding over right withdrawal of the levy. Exporter had earlier demanded that VAT on these supplies be withdrawn as their money is blocked even though credit is paid on the tax.

- If a large number of industries migrate to SEZs, the range of tax exemptions would hit the growth in excise duty even more. Instead of encouraging of new units, the tax exemption regime for SEZs is promoting even existing companies to switch operations. The expending number of SEZs could also distort land, capital and labour costs. It would also encourage industries located in Domestic Tariff Areas to migrate to SEZs. The finance ministry may therefore have to do a rethink on its plans to reduce the level of excise duties from the median level of 16% for alleging it with the GST rate. The earlier assumption was to make up the loss
through higher direct tax receipts, which would mean removing exemptions and tax incentives.

- The government of India has decided to allow 75% of total area to special economic zones to be used for non-export activities such as schools, hospitals, banks, housing and entertainment. The board of approvals, which clears SEZ applications, has been authorized to allow this concession in case of multi product SEZs. The IT sector has also been provided a major relief by scrapping the minimum employment criteria stipulated earlier by the prime minister office. Minimum generation of 10,000 jobs was recommended by PMO in the case of IT SEZs coming up in mega cities. While reduction of 'processing area' or export production facilities to 25% of multi product SEZs will benefits big players like Reliance, scrapping of the employment criteria for IT SEZs will provide relief to leading companies like Infosys and Wipro. The board of approval has been informed that it could clear minimum processing area of 25% for multi product SEZs. The lower processing area threshold, however, is to be allowed only case-to-case basis. The board has been told that the reasons for allowing lower processing area are too recorded in writing. The flexibility will allow SEZ developers like Reliance, DLF and unitech to go in for large scale plans for developing airports, cargo handling facilities and other support infrastructure for export activities. All the same time, they would get more land area for developing schools, entertainment facilities, hotels and housing facilities for SEZ employees.
• The Rural Development Ministry has come up with a draft National Policy for Resettlement & Rehabilitation (NPRR) of project affected families, 2006, to replace the NPRR, 2003. It is mandatory to make it effective, unlike the existing policy, which is not binding. Any developer planning to undertake a project which involves physical displacement of 400 or more families in plain areas or 200 or more families in tribal or hilly areas will have to prepare a Social Impact Assessment (SIA) report in the proforma to be prescribed simultaneously with the Environmental Impact Assessment (EIA) report and submit it to the agency prescribed.

• In a significant policy intervention that could settle the ongoing dispute over IT sector SEZs, prime minister has said that employment generation would be key eligibility criteria for approving new IT SEZs. The move provides a new twist to the tussle between the commerce and industry and the finance ministries over the minimum area requirement for IT sector SEZs. The combination of employment generation and minimum built area was recommended by planning commission and endorsed by PMO. It includes creation of at least 10,000 jobs and minimum built up area of 1 million sq. ft. for setting IT SEZs in mega cities, generation of 5,000 jobs and built up area 5,00,000 sq. ft. in medium cities and 2,500 jobs plus minimum built up area of 2,50,000 sq. ft. in smaller towns. Essentially, all new IT SEZs would have to create their minimum quota of jobs before they start enjoying tax benefits available under the SEZ package. According to study commissioned by the department of
information technology, It is also beneficial for existing Software Technology Parks and Electronic Hardware Technology Parks. The other recommendations for IT SEZs include uninterrupted power supply for user units, reliable connectivity for uninterrupted and secure data transmission, premium quality construction and ready to use plug and pay facilities for end users. As of now, IT sector SEZs need to have at least 10 hectares of land. The finance ministry has been demanding that this minimum area criterion should be increased to 25 hectares along with one-lakh sq. meters of built up area.

• It is proposed to deal with notified criminal offences in SEZ by a single enforcement officer or agency u/s 21 of SEZ Act 2005. Special Courts are proposed to be set up to try all suits of civil nature in SEZ and to try notified offences in SEZ. (Section 23 of SEZ Act 2005). These sections have not brought into force. However, Section 42(1) of SEZ Act 2005 provides that any dispute of civil nature arising between entrepreneurs of units or developer and entrepreneur of SEZ shall be compulsorily referred to arbitration. Arbitrator will be appointed by Central Government. [Section 42(3) of SEZ Act, 2005] These provisions will not apply if a dispute is referred to designated court proposed to be set up u/s 23 of the SEZ Act, 2005.

• Special Economic Zones will have to comply with labour laws. However, State Government can declare units with the SEZ as public utility. It can also delegate powers of Labour Commissioner to another officer
exclusively for SEZ or even to Development Commissioner of SEZ, so that resolution of disputes can be expedited. Five States-Rajasthan, Gujrat, MP, West Bengal and UP have enacted SEZ legislations and legislations of Karnataka and Maharashtra are pending for approval of President. The government has argued that economic reforms, particularly of industrial and trade policies have accentuated a demand for amending the Industrial dispute act to reorient towards securing greater industrial harmony and enhancing production and productivity, creating an environment to stimulate growth, attracting both foreign and domestic investment, while ensuring the dignity of labour and a fair deal to the workmen as the common minimum programme of the government.

- The government has slammed the brakes on trading units seeking to enter the numerous special economic zones coming up across the country. While the development commissioners of SEZs have been asked not to clear applications from trading units, senior officials of the finance ministry are in consultation with their counterparts in the commerce and industry to debar trading units from availing income tax exemption available under section 10A of the income tax act. Each SEZ has a development commissioner who is responsible for all clearances.

- The commerce ministry has introduced amendments in the SEZ Rules to check diversion of exports and production activity to SEZs. The amendment seeks to introduce conditions to qualify for the tax benefits. As per the amended rules, companies operating in SEZs will have to make
fresh investments on plant and machinery. Those that plant to install used plant or machinery will run the risk of being disqualified. The other amendment relates to the definition of trading activities. Only those companies that import goods to re-export can claim an income tax rebate on trading activities. Trading by companies that source products from domestic tariff areas (any local market outside the SEZ) for export will not qualify for the tax benefits.

- Insurance regulator IrDA ruled out any special provisions, including increased FDI limits, for Special Economic Zones. SEZs are very small clusters and there is no need to treat them separately. The country had good service providers and the world’s major players were also already present. We have already recommended 49% FDI. We cannot have a separate insurance company.

- In a bid to rule out SEZ applications from financial unsound entities, the board of approval (BOA) for SEZ has fixed minimum investment and net worth criteria for promoter companies. The BOA also drew up lists of authorized operations for SEZs, which would qualify for exemptions and concessions.

- If the rate of growth of new approvals continue in future, there is likely to be a deluge of applications, leading probably, to virtual de-industrialization of non-SEZ regions, with consequent repercussion to tax revenues. A proposition being advanced perspectives as a counter to the revenue loss argument is that employment generation/transfer of
technology/ FDI inflow to result from the setting up of SEZ, tax heavens would set in motion such as virtuous cycle of higher investment- higher income- higher expenditure- higher savings and the economy would be lifted to such heights that revenue loss resulting from tax exemptions under the SEZ regime would be offset by revenues and savings in the chain effect of higher levels of economic activity. However, the flaw in this thesis is that it ignores the legitimacy of the government’s need for revenue. After all, the right environment for evenly spread growth requires much more extensive and efficient infrastructure and social security, without which it will never be possible to relax our labour laws or give sufficient impetus to overall growth.

- The SEZ scheme raises some basic policy issues:
  Concentrated vs. dispersed development;
  Centralization vs. decentralization;
  Moving people to work-sites vs. taking work to where people are;
  Optimizing the rare resource (land) vs. its profligate use.
  It is necessary that we quickly make decisions about the SEZ rules; more important, though, is that we also debate more thoroughly the basic model of development.

- Size of land sanctioned to new SEZs suggests so. If this trend continues, SEZs would soon be the country’s biggest land holding entities. With the SEZs becoming the flavour of season and as its numbers keep rising by the day, dissenting voices are gaining momentum in government quarters
about the land being approved for these projects. A section of the
government has also started expressing suspicion about the whole SEZ
concept and its utility. "There is very reason to suspect the real motive of
some of the SEZ promoters. Their prime interest appears to be real
estate. There are enough examples around the industrialists making more
money by selling their real estate interests, which they acquire at throw
away price, than running the industry." Some of the SEZ proposals near
Mumbai are really gigantic.

- Large special economic zone developers in the country may have a
problem in hand. With huge number of people expect to live in the
proposed SEZs, developers are required to have municipalities to govern
them While the constitution makes it mandatory to have a municipality, the
law is unclear on who has the onus of setting up these bodies in the
proposed SEZs. SEZ act specifies a development commissioner that will
be appointed by the government for each SEZ it is silent on the mandatory
setting up of a municipality in the area. Though the 74th constitutional
amendment makes it mandatory for state governments to setup
municipalities depending on the size of the area, SEZs come under the
purview of central government. The issue gets more complex as different
states have different laws governing industrial units.

- A good model is Shenzhen, China's premier SEZ, which covers almost
20,000 hectares, exports more than the whole of India, and attracts more
FDI than the whole of India. Giant SEZs are in effect composite cities with
their own ports, power stations, water supply and Airports. However, India's SEZs law does not emphasize either size or infrastructure. Sector-specific SEZs need be no more than 100 hectares in size, and no more than 50 hectares in special category states. SEZs for information technology, biotechnology and jewellery can as small as 10 hectares, smaller even than some schools. Clearly these mini SEZs are not going to be enclaves of world-class infrastructure. They are simply going to be tax havens. The tax holiday for software and BPO exporters is coming to an end in 2009. Moving into mini SEZs will enable them to extend their tax holiday for another decade. Far from becoming world-class enclaves of infrastructure, the mini SEZs will burdens on existing infrastructure. Small SEZs in or near existing cities will add to road congestion, power and water shortages.

- It has been estimated that the new SEZ Act would attract investment of the order of Rs.1,00,000 crore over the next three years, with an employment potential to over five lakh apart from indirect employment during the construction period of SEZs. The amended SEZ Act also has allowed transferred industrial units to be treated on a par with green field investments. This would lead to large-scale deindustrialization and transfer of units from DTAs to SEZs. This would bring about an imbalance both in terms of industrial development in the country and the labour movement. Given the lack of clarity between a 10-hectare plot to 1,000
hectare. "It is difficult to build world class infrastructure without a standard scale.

- Finance ministry's estimates recently, the government may end up losing indirect and direct tax revenue of Rs.93,900 crore over the next four years on account of existing and new export oriented units shifting to SEZs. So, the ministry which is trying its best to reduce the government's fiscal deficit, is not at all happy with the potential loses that would accrue for more SEZs coming up. The size and number of SEZs is another major drawback that some experts are worried about. Although SEZs appear to be the right fix for the country's manufacturing exports, the government's current approach may not be the best way to boost Indian manufacturing particularly in the small and medium entrepreneur sector. The new law is attracting SEZ applications from investors primarily seeking to capture the tax benefit. Most applications for new SEZs are too small to attract the major push needed for small and medium scale manufacturing. However, the centre should push for five-six large SEZs of about 40 to 50 squire miles, in coordination with the State governments. The government should take the lead in conceptualizing these SEZs, arrange private sector participation and if needed provide capital subsidy. Globally, SEZs have been successful because of their large size and fewer numbers.

- RBI has voiced concern that the growth of SEZs across the country could aggravate uneven development by pulling out resources from less developed areas. Moreover, the central bank has said that revenue loss
suffered by States on account of tax breaks can be justified " only if the units in the SEZ established backward and forward linkages with the domestic economy. The planning commission has come out to support of RBI by saying that it is not in favour of concessional finance for SEZ projects but to treat lending to SEZs at par with real estate.

- The simplification of procedures and tax breaks as envisaged by the SEZ Act are expected to attract investments of about Rs.1,00,000 crore and help create 5,00,000 jobs. Developers are allowed to set up sector-specific and multi-product SEZs. However, the tax breaks have worried the finance minister as he expressed concern that there would be a revenue loss estimated at over Rs.1,00,000 crore. The government plans to go ahead with SEZs, without fixing any cap on the number of zones that can be set up in the country. The expectation is that the new economic activity would more than make up for the loss on account of foregone tax revenue.

- There is a lot of attention recently on setting up SEZs and OBUs. This does not make sense. Firstly, these units can do business only in the respective SEZs in which they are located. Such banking units will have some relevance until full capital account convertibility happens or till the time further liberalization takes place. It is to be noted that in the near future uniform regulation in the form of fuller capital account convertibility, in case the Tarapore Committee report is accepted, will render OBUs completely irrelevant. OBUs as vehicle for extending dollar loans at
international rates have no use as long as they are restricted to doing business only in the zones in which are they located. They create an unnecessary regulatory arbitrage. Having several OBUs is not necessary. What will happen is that they will unnecessarily encourage practices such as booking business because there is some arbitrage advantage on offer. In such a scenario, they will most certainly find some loopholes in the regulatory environment which will then get exploited. In turn, the interest of borrowers might get severely eroded. Additionally, the emphasis then may not be on increasing business and augmenting value. Unlike in other developing countries, OBUs in India have a limited mandate. The instruction point out that since the SEZ Act has been enacted by the parliament, all activities related to SEZs shall be guided by the provisions contained in the SEZ Act, the provisions of the SEZ Act and rules will have overriding effect over the provisions contained in any other act. The provisions of sections 20, 21 and 22 of the SEZ Act relating to single agency, single enforcement officer and inspection, search and seizure have yet been operationalised. Hence, so long as these sections are not operationalised, different agencies and officers, as empowered under the relevant acts before enactment of the SEZ Act, will continue to operate till such time these provisions of the SEZ Act take effect.

- Land acquired by SEZ displaced the farmers and other villagers. Displacement usually shatters social-economic, cultural and physical linkage of the people. These upheavals and disintegrations of firmly
settled communities will indeed create problems of resettlement and readjustment. It wants all the concerned to recognize and acknowledge the right of information of local population as majority of the villagers, including the panchayat members, are unaware about the nature and character of the proposed project.

- The fixed base index shows that the physical exports from SEZ are now approx. eight times of its level in 2000-01. A detailed analysis reveals that the growth rate of physical exports year on year has consistently been equal to/more than 25% after 2003, with an average annual growth rate of 37% for eight years beginning 2000-01.

- The share of SEZ Exports in total exports of the country has been continuously increasing except in the year 2002-03. It increased to around 5% in the year 2003-04 and then rose up to approx. 7% in year 2006-07. At the present levels, the share is more than 10% in total exports of the country.

- The projection of exports from SEZs by using three different methods i.e. regression method, CAGR method and by estimating SEZ exports by calculating share of SEZ exports in total exports and drawn again on the basis of weighted average of all the three methods provide an estimate of the likely SEZ exports for the next five years i.e. 2008-13 in $ billion 18.13, 24.16, 31.97, 41.77 and 62.41 respectively.
Suggestions

- Value added tax on supplies to SEZs and EOU will stay and asked taxpayers to claim credit on VAT instead of demanding over right withdrawal of the levy. If exemption is given directly, it would not be known whether a product is consumed within the country or exported. However, taxing the product and then reimbursing it does not lead to such confusion. As exports or first taxed and then reimbursed, supplies to SEZs and EOU are also taxed first and then credit is given.

- Companies seeking to extend tax holidays available by migrating from an existing export processing zone to a new special economic zone may be in for some rude shock. The government may insert a new clause in the Income tax act 1961 which would effectively state that tax holiday cannot be extended by company or a unit by migrating itself. The Income tax department is concerned about the possibility of the misuse of the SEZ Act by units, simply changing their names to obtain tax concessions for fresh term of 10 years. The incentive to misuse the SEZ Act has risen after the government put incentive sections like 80HHC on the last track for closure. In other cases, a company may setup an unit in a SEZ and gradually shift out operations from an existing tax free zone to the new zone.

- The government should consider extending tax benefits to software technology park (STP) units at par with special economic zones. A proposal to this extent has been routed to the finance ministry through the
group of empowered ministers on special economic zones. If the plan is accepted, STP units would get full income tax holiday for five years, 50% exemption for the next five years; and tax exemption of ploughed back profits for another five years. Instead of phasing out income tax sops available to STP units by 2009-10, the proposal would make these concessions available to new units for 15 years. If this suggestion is implemented, would benefits nearly 4200 units under STP scheme. These STP units account for export of nearly Rs.1,00,000 crore and their share in the country’s export is estimated at 41%. Extension of income tax benefits to STP units beyond 2009-10 would require amendment to section 10A and 10B. Since STP units have already enjoyed benefits of income tax exemption, there was a view that SEZ benefits should not flow to them they might otherwise migrate to SEZs.

- The government may insert a new clause in the Income tax act 1961 which would effectively state that tax holiday can not be extended by company or a unit by migrating it self. The Income tax department is concerned about the possibility of the misuse of the SEZ Act by units, simply changing their names to obtain tax concessions for fresh term of 10 years. The incentive to misuse the SEZ Act has risen after the government put incentive sections like 80HHC on the last track for closure. In other cases, a company may setup an unit in a SEZ and gradually shift out operations from an existing tax free zone to the new zone.
• Displacement of landowners and villagers by acquisition of their land for SEZ is not restricted only to the inhabitants with their own agricultural land in the villages but extends equally to the dependents on the system. All these equally affected and get deprived directly or indirectly of their means livelihood. The relief and rehabilitation plan should include these groups of people. Since many of project-affected people may not have dealt with big cash amount, the villagers should be given appropriate 'Money Management Training and their money should be invested to give permanent and reliable return'.

• The Special Economic Zone Act 2005 and The Special Economic Zone Rules 2006 should be executed by bureaucrats/government officials honestly and with full enthusiasm.