



ASSESSMENT OF SPECIAL ECONOMIC ZONES IN INDIA

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Abstract

In the current scenario the Indian Capital markets are touching the newer and newer heights like never before and the India story continues to capture the imagination of the world. Very recently a long time borrower, our country is today a lender to various international organizations. One of the major keys to this great achievement is relaxation in foreign trade policy which helped in motivating the foreign investors (FII, FDI) to pour huge amount of money in India. Special Economic Zone (SEZ) is one of such successful policies who are driving India's growth. India was one of the first countries in Asia to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting export. The SEZ Act was passed by Parliament in May, 2005. After extensive discussions, the SEZ Act, 2005, supported by SEZ Rules, came into effect on 10 February 2006, providing for drastic simplification of procedures and for single window clearance on matters relating to central as well as state governments. After functioning of the Special Economic Zone Policy, economic movement gained some speed in terms of mass employment generation, quality infrastructure development, increase in foreign exchange, growth in export, etc. It also works as a magnetic field to gather both domestic and international investments in some specified underdeveloped zones. This paper analyzes the impact of SEZs on export growth, employment generation and investment opportunities in India in post enactment period and also attempts identify the relationship among them.

Keywords: SEZs, Export, Employment, Investment

INTRODUCTION:

In the current scenario the Indian markets are touching the newer and newer heights like never before and the India story continues to capture the imagination of the world. One of the major keys to this great achievement is relaxation in foreign trade policy which helped in motivating the foreign investors (FII, FDI) to pour huge amount of money in India. Special Economic Zone (SEZ) is one of such successful policies. India was one of the first countries in Asia to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting export with the establishment of its first EPZ in Kandla (Gujarat) in 1965. Thereafter some EPZs were established but they remained in the shadow of Government's statutory constraints. Then the SEZ Act was passed in Parliament in May, 2005. After extensive discussions, the SEZ Act, 2005, supported by SEZ Rules, came into effect on 10 February 2006, providing for drastic simplification of procedures and for single window clearance on matters relating to central as well as state governments. After functioning of the SEZ Policy, economic movement gained some speed in terms of mass employment generation, quality infrastructure development, increase in foreign exchange, growth in export, etc. It also worked as a magnetic field and attracted both domestic and international investments in some specified underdeveloped zones. Now India's export is reaching new skies with a major contribution from the Special Economic Zones (SEZs).

OBJECTIVE OF THE STUDY:

The primary objective of this paper is to analysis the growth of special economic zones in India after enactment of SEZ Act 2005. However, the paper specifically designed to study:

- a. To study the growth pattern of investment, employment and exports of SEZs in India
- b. To study the relationship between these three important indicators
- c. To provide suggestions for improving the current positions.

RESEARCH METHODOLOGY:

This study is purely a descriptive analysis and based on secondary sources of data. All the information has been collected from published reports of different authorities like Ministry of Commerce, Economic Survey of India and SEZ India, etc. The paper covers a period from 2005-06 to 2014-15 i.e. 10 years and suitable statistical tools are used for analysis and interpretation like average, percentage, z-test, etc.

CONCEPTUAL FRAMEWORK OF SEZ:

Conceptually, Special Economic Zone (SEZ) is a geographical region having different economic laws from a country's other regions, with the underlying objective of increasing economic growth through increased foreign investment. As per the Ministry of Commerce and Industry, "*Special Economic Zone (SEZ) is a specifically delineated duty free enclave and is a deemed foreign territory for the purpose of trade operations, duties and tariffs.*" According to the Exim Policy (2004-09), SEZ is a geographically distributed area or zone where the economic laws are more liberal as compared to other parts of the country. They are self-contained and integrated, having their own infrastructure and support services. When goods and services flow from Domestic Tariff Area (DTA) to SEZ, it is treated as exports and goods coming from SEZ into DTA are to be treated as imports.

FACILITIES TO SEZ:

The facilities available for Special Economic Zones in India include benefits to the SEZ Developer and benefits for the SEZ units. The benefits enjoyed by SEZ Developers include 100% FDI is allowed for Township with residential, educational and recreational facilities on a case basis & Franchise for basic telephone service in SEZ, Income Tax benefit under (80IA) to developers for any block of 10 years in 15 years, Duty free import/domestic procurement of goods for development, operation and maintenance of SEZs, Exemption from Service Tax/Central Sales Tax, Investment made by individuals, etc. in a SEZ co. are also eligible for claiming exemption u/s 88 of IT Act, 1961, Generation, transmission and distribution of power in SEZs are allowed, Full freedom in allocation of space and built up area to approved SEZ units on commercial basis, Authorized to provide and maintain services like water, electricity, security, restaurants and recreation centers on commercial lines, and No import license is required.

The benefits enjoyed by SEZ units are Exemption from MAT (Minimum Alternate Tax) u/s 115JB of IT Act, 1961, Exemption from dividend distribution tax u/s 115O of the IT Act, 1961, Duty free import/domestic procurement of goods for development, operation and maintenance of SEZ units, 100% income tax exemption on export income for SEZ units u/s 10AA of IT Act, 1961 for first 5 years, 50% for next 5 years thereafter and 50% of the ploughed back export profit for next 5 years, External commercial borrowing by SEZ units' up to US \$500 million in a year without any maturity restriction through recognized banking channels, Single window clearance for Central and State level approvals, Exemption from State sales tax and other levies as extended by the respective State Governments, No cap for foreign investments for Small Scale Sector (S S I) reserved items, Settings up Off-shore Banking Units are allowed in SEZ, Freedom to bring export proceeds without any time limit, Exemption from interest rate surcharge on import finance, allowed to write-off unrealized export bills, Commodity hedging permitted, Exempted from public hearing under Environment Impact Assessment Notification, Enhancement of limit of Rs.2.4 Crores per annum allowed for managerial remuneration under Company Act, 1956, Exemption from port restriction under Drugs and Cosmetics Rules.

ANALYSIS & INTERPRETATION:**GROWTH OF SEZ:**

From table-1 is clear that about 50% of the approved SEZs are in operation which comprise of 329 units. As on 31 December 2015, 329 numbers of SEZs have been notified by the Government of India. Number of operational SEZs have witnessed 10 times increase since the enactment of SEZ Act, 2005. In aggregate India has 4,122 approved SEZ units.

Table No. 1 Current Status of SEZs in India: (Ason 31.12.2015)

Particulars	Number
Functional SEZs (Prior to SEZs Act)	19
Number of Formal approvals	412
Number of notified SEZs	329
Operational SEZs	204
Units approved in SEZs	4,122

Source: www.sezindia.nic.in

Table 2: State-wise distribution of approved SEZs (As on 31.12.2015)

States/UTs	Formal Approvals	In-principle approvals	Notified SEZs	Exporting SEZs
Andhra Pradesh	31	4	26	19
Gujarat	31	4	27	18
Haryana	22	3	19	7
Karnataka	59	0	38	26
Kerala	29	0	25	16
Maharashtra	59	9	51	25
TamilNadu	48	4	45	36
Telangana	49	1	43	26
Uttar Pradesh	22	1	19	11
Odisha	8	1	4	2
Others	54	6	32	18
GRAND TOTAL	412	33	329	204

Source: www.sezindia.nic.in

The state-wise distribution of SEZs in table no 2 reveals that most of the SEZs are established in south Indian states. Only 8 SEZs are located in Odisha which is about 2% of total India out of which two units are exporting units. Maximum exporting units are in TamilNadu (36 numbers) followed by Karnataka and Telengana (both 26 each). Maharastra has maximum number of notified SEZs i.e. 51 numbers.

Table 3 shows the sector wise distribution of SEZs in India. It is clear that most of the Indian SEZs are technology intensive as the IT Sector has the highest and more than 50% of the total SEZs in India.

Table No. 3 Sector-wise SEZs

Sectors	Formal Approvals	In-principle Approvals	Notified SEZs	Exporting SEZs
IT/ITES/Electronic Hardware/Semiconductor/Services	256	1	202	114
Biotechnology	23	0	16	2
Engineering	15	1	15	13
Multi-Product	20	11	16	20
Pharmaceuticals/chemicals	17	2	17	12
Others	85	18	64	41
Grand Total	413	33	330	202

Source: www.sezindia.nic.in

GROWTH OF INVESTMENT:

One of the major objectives of the SEZ scheme is promotion of investments both for domestic as well as foreign sources because exports and employment in SEZs largely depend on investment. The total investment in SEZs is given in the following table (Table no 4).

Table No. 4 Trends of Investment in SEZs

Year	Investment (Rs. in Crores)	Increase in Investment	% of Increase	Growth Index
2005-06	2,793	-	-	100
2006-07	24,722	21,929	785.14	885
2007-08	78,028	53,306	215.62	2794
2008-09	1,18,207	40,179	51.49	4232
2009-10	1,48,489	30,282	25.62	5316
2010-11	2,02,810	54,321	36.58	7261
2011-12	2,01,875	-935	-0.46	7228
2012-13	2,36,717	34,842	17.26	8475
2013-14	2,96,663	59,946	25.32	10622
2014-15	3,38,794	42,131	14.20	12130

Source: www.epces.in

After the enactment of SEZ Act investment in SEZs witnessed a drastic growth of 785.14% i.e. from Rs. 2,793 crores in 2005-06 to 24,722 crores in 2006-07. There after the growth has seen a downfall till 2011-12 in which the growth was negative. But it is evident from the table that after 2011-12 there is a very good progress in investments as after 2011-12 investments are rising and it is highest in 2014-15 with an investment of 3,38,794 crores. From enactment of Act the investment in assets has witnessed 120 times growth.

GROWTH OF EXPORT:**Table No. 5 Exports from the operational SEZs (Rupees in Crores)**

Year	India's Total Export	Increase in export of India	Annual Growth Rate (%)	Export from SEZs	% of India's total Export	Increase in export from SEZs	Annual Growth Rate (%)
2005-06	456418			22839.5	5.00		
2006-07	571779	115361	25.28	34787.5	6.08	11948	52.31
2007-08	655863	84084	14.71	66,638	10.16	31850.5	91.56
2008-09	840755	184892	28.19	99,689	11.86	33051	49.60
2009-10	845533	4778	0.57	220711	26.10	121022	121.40
2010-11	1118823	273290	32.32	315868	28.23	95157	43.11
2011-12	1454066	335243	29.96	364478	25.07	48610	15.39
2012-13	1634318	180252	12.40	476159	29.14	111681	30.64
2013-14	1905011	270693	16.56	494077	25.94	17918	3.76
2014-15	1896348	-8663	-0.45	463770	24.46	-30307	-6.13

Source: www.sezindia.nic.in

Table 5 highlights the exports from operating SEZs during the last ten years along with a comparative study with all India export. India's export increased from Rs. 456418 crores to Rs. 1896348 crores in the year ending 2015. Similarly export from SEZs has increased from Rs. 22839.5 crores to Rs. 463770 crores. Almost a quarter of India's total exports are contributed by SEZs over the years. It was only 5% in the year 2005-06 and rose to 29.14% in the year 2012-13. Annual growth rate shows a positive growth in all years except last financial year 2014-15, the reason may economy slow down and policy changes.

GROWTH OF EMPLOYMENT:

The Multi-Product and Other Categories of SEZs are generating more direct employment in their respective categories total employment. These SEZs are highly labour-intensive, such as food processing, footwear, gems and jewellery. The existing literature on the employment generation by SEZs reveals that they have contributed significantly to employment generation at the regional level whereas their contribution to national employment is limited. The indirect effect is manifested as ancillary employment opportunities generated in sectors of the

economy affected by the operations of the SEZ. These include, transport, communication, automobile, civil aviation, shipping, tourism, hospitality, packaging, banking, and insurance. Employment opportunities are, thus generated for both unskilled and skilled labour.

The performance of SEZs in generating and providing employment is given in table 6. The table conveys that during the last ten years SEZs have been successful in generating direct employments but the increase in employment is fluctuating year after year. The highest number of direct employment was generated in 2014-15 i.e. 14,42,316 which has the lowest growth rate. The year 2007-08 has the highest growth rate of 70.49%. Direct employment has increased more than 10 times during the last decade.

Table No. 6 Employment in SEZs

Year	Direct Employment (Number)	Increase in Employment	% of Increase	Growth Index
2005-06	134704	-	-	100
2006-07	197220	62516	46.41	146
2007-08	336235	139015	70.49	250
2008-09	384957	48722	14.49	286
2009-10	503611	118654	30.82	374
2010-11	676608	172997	34.35	502
2011-12	844916	168308	24.88	627
2012-13	1074904	229988	27.22	798
2013-14	1283309	208405	19.39	953
2014-15	1442316	159007	12.39	1071

Source: www.epces.in

TESTING OF HYPOTHESIS:

Null Hypothesis: **There is no significant different in growth rate of export of India and SEZ during the last decade.**

Alternative Hypothesis: There is significant different in growth rate of export of India and SEZ during the last decade.

To test this two sample paired t test has been used and the results are as follows using Minitab-17 software:

Paired T for C1(Export of India) - C2 (Export from SEZ)

	N	Mean	StDev	SE Mean
C1	9	17.7	12.2	4.1
C2	9	44.6	41.0	13.7
Difference	9	-26.9	44.8	14.9

95% CI for mean difference: (-61.3, 7.5) T-Test of mean difference = 0 (vs \neq 0):

T-Value = -1.80 P-Value = 0.109 Tabulated Value is 2.306

As the calculated value is less than tabulated value, we can conclude that export growth rate of India and SEZ does not differ significantly.

Null Hypothesis: **There is positive relationship between investment, employment and export of SEZs in India.**

Alternative Hypothesis: There is no positive relationship between investment, employment and export of SEZs in India.

	Export	Investment	Employment
Export	1.000		
Investment	0.955	1.000	
Employment	0.961	0.977	1.000

The above results shows that these three factors are highly positively correlated as the value is more than 0.955

CONCLUSION & SUGGESTION:

Export promotion and employment creation is considered one of the primary goals of any SEZ in an economy, in a large country like India, unemployment issue can be resolved by the SEZs. SEZs do absorb labour but the size of labour force dwarfs any effort of unemployment alleviation through SEZs. Therefore, our objective while analysing employment trends is to examine the expansion in the size of the zones. It is also viewed that exports from these zones have occupied a considerable potential in total India's export. Efforts are required to continue the same trend of increase in the export from these zones. From enactment of Act the investment in assets has witnessed 120 times growth. Annual growth rate of export from SEZs shows a positive growth in all years except last financial year 2014-15, the reason may economy slow down and policy changes. Direct employment has increased more than 10 times during the last decade. In a nut shall we may say that SEZs having its some drawback have definitely works as push to the economic growth of our country. The following are some suggestion that can improve the current status of investment, employment and export in SEZ:

The governments should encourage the establishment of labour-intensive Multiproduct and Other Categories of SEZs rather than high technology based SEZs. In order to generate direct employment to large number of farmers and artisans, the Farmers Cooperative Organizations (FCOs) and specific Artisans Cooperative Organizations (ACOs) may be given permission to set up 'Kisan SEZs' and 'Artisans SEZs', to provide state of art infrastructure facilities to a range of industries with primary focus on food processing, agri-based and semi-skilled works.

The governments must lay down detailed guidelines for developers to develop social infrastructure such as schools, hospitals, shopping areas, recreational and sports facilities, air ports, banks etc. in the areas earmarked for SEZs and these developments generate an indirect employment in the vicinity of SEZ.

The national employment can be increased if fresh investment is attracted to SEZs, particularly Foreign Direct Investment. Many SEZs have opened up opportunities for women, thereby increasing their position in domestic life. This is an important contribution of SEZs. But necessary measures must be taken by the governments to see that women employed in SEZs are not exploited.

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