
A STUDY OF PERFORMANCE OF SPECIAL ECONOMIC ZONES (SEZS) IN INDIA

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Abstract:

Special Economic Zones are considered as growth catalyst of our fastest growing economy. In India, the SEZ policy was formulated by the Central Government in a 2000. The SEZ Act, 2005 came in February, 2006 with the objective of making the Special Economic Zones an engine for economic growth, supported by quality infrastructure and an attractive fiscal package both at the Central and State level with a single window clearance. SEZ is governed and run through the government to promote international trade for improving the economy of the nation. SEZs provide necessary infrastructure and other such accommodations to assist and promote companies within the SEZ to do international trade. The potential of SEZs could not be explored fully in India. Due to this achievement of SEZs could be limited in attracting investment and promoting exports. The government needs to play a more proactive role for effective rationalisation of the full range of benefits from SEZs.

This paper attempts to analyse the performance of special economic zones in respect with an investment, employment and exports in an Indian Scenario.

Keywords: *Special Economic Zone, SEZ Policy, International Trade, Investment, Employment etc.*

Introduction:

The policy of Liberalization, Privatization and Globalization adopted by Government of India has made tremendous change from traditional market to a global free market. These reforms were launched in 1991. Thereafter the Government also introduced reforms in respect of Rainbow revolution, financial reforms and promotion of special economic zones. In the past few years, India has been gradually liberalizing its various policies. One such significant development is the setting up of Special Economic Zones (SEZs). A defining characteristic feature of these SEZs is that they are mostly related to IT and ITES promotion. The recent successes of the BPO companies and the IT boom have guided the objective of setting up of these independent units.

Special Economic Zones Policy was announced in April 2000 with the objectives of making the Special Economic Zones an engine for economic growth, supported by quality infrastructure and an attractive fiscal package both at the Central and State level with a single window clearance. The SEZ concept recognizes the issues

related to holistic economic development and provides for development of self-sustaining industrial townships so that the increased economic activity does not create pressure on the existing infrastructure.

Literature Review:

- 1) **Dr. M. Ayisha Millath and S. Thowseaf (2016)** have mentioned in their research article titled “*Export Performance of Special Economic Zones in India and its Economic Contribution*” about the export performance of SEZs. Authors analyse that SEZs is contributing a significant amount to total export value and the total export contribution is progressing every year linearly. Authors made comparative analysis of SEZs performance with respect to employability and export performance from 2006 to 2016. It was found that employability and exportability level were very less in 2016. Their study also stated that either the government has made surplus investment in SEZs or SEZs in the various states were not effectively utilizing the SEZs facilities so both situations have led to underperformance of SEZs in recent times.
- 2) **Kanwar Singh (2013)** examines in his research paper “*Overview of Special Economic Zones (SEZs) with a Special Reference to Haryana*” about the position of SEZs in Haryana state. The 124 notified SEZs in Haryana. It has listed out the various operational SEZs and projects involved with it. The state has 67 approved SEZs which will become operational in near future. The author concluded that SEZs helped to improve the international trade and attracted foreign investment which contributed towards the growth of Indian economy.
- 3) **Madhumita Dutta (2009)** study in her research paper titled “*Nokia SEZ: Public price of Success*” about the government claims that the special economic zones will bring in investment, increase exports, economic activity and create employment. The Nokia SEZ is one of most successful SEZs of India which has increasing exports and generating employment. The researcher find out the reality that the figures indicates that investment in Nokia SEZ is entirely paid by public subsidy, employment generation is below projections and most of their production is sold in domestic market.
- 4) **Aradhna Aggrawal (2006)** examines in her research paper about the pros and cons of the SEZ policy in the article entitled, “*Special Economic Zones: Revisiting the Policy Debate a discussion of the pros and cons of the controversial SEZ policy*”. Researcher discusses Indian experience with SEZ policy. Author analyses the contribution of SEZ in attracting Foreign Direct Investment, promotion of exports etc. Author makes comparative analysis of various arguments for against SEZ viz. relocation, revenue loss, land acquisition, loss of agricultural land, misuse of land for real estate, etc.

Objectives of the Research Paper:

The study was conducted to fulfill the following objectives:

1. To study the concepts of Special Economic Zones.
2. To analyse the performance of SEZs in respect with an investment, employment and exports in an Indian Scenario.

What is a SEZ?

Special Economic Zones are the versions of previous export processing zones. A Special Economic Zone (SEZ) is defined as a specially delineated duty free enclave for trade operations. SEZs are the areas within the domestic territory of India that is treated as foreign territory in the context of Trade and Tariff. It facilitates exports through special tax treatment to the units operating within the SEZ.

SEZs are the geographic regions designated for the economic development of the country with the intention of increasing FDI and exports with the support of special incentive policy of the government.

1. "SEZ is a specially designed tax free section, which is assumed to be the foreign land according to trade and import export charges."
2. Chapter 7 of 'Foreign Trade Policy (2004-09)' announced on 31.04.2004 defines SEZ as "SEZ is a specifically delineated duty free enclave and shall be deemed to be foreign territory for the purposes of trade operation, duties and tariffs".
3. Maharashtra Govt. Resolution No. 2001/152/2 dated 12/10/2001 Paragraph 12 says "The State Govt. shall take appropriate steps to declare the SEZ as industrial townships to enable the SEZ to function as self governing autonomous Municipal Bodies."
4. "The objectives of SEZ are making available goods and services free of Taxes and Duties supported by integrated infrastructure for exports production, quick approval mechanisms and packages of incentives to attract foreign investments for promoting exports."

Objectives of SEZ:

The objectives behind an SEZ are to enhance foreign investment, increase exports, create jobs and promote regional development. The main objectives of setting up SEZs by Government are:

- (a) Generation of additional economic activity;
- (b) Promotion of exports of goods and services;
- (c) Promotion of investment from domestic and foreign sources;
- (d) Creation of employment opportunities;
- (e) Development of infrastructural facilities.

Research Methodology used in present research:

For the purpose of the present research, secondary data has been used. For secondary data, books, research journals, news papers related to SEZs etc. are used.

Statistical Tools:

For the purpose of analysis, percentile method was used as a statistical method.

SEZs in India:

Special Economic Zones (SEZs) are specifically delineated duty-free enclaves treated as a foreign territory for the purpose of industrial, service and trade operations, with

exemption from customs duties and a more liberal regime in respect of other levies, foreign investment and other transactions

India was the first country to establish EPZ, at Kandla, in the Asia Pacific region in 1966. The proposal for setting up the Kandla Free Trade Zone (KAFTZ) was mooted in 1961, with the objective of facilitating the development of the Kutch region, to ensure greater utilization of Kandla Port and to create employment opportunities in the Kandla-Gandhidham area.

In the late 1990s, when the then Commerce Minister of India, late Murasoli Maran, visited the Special Economic Zones (SEZs) in China, he was inspired by what he saw. Accordingly, The Government of India (GoI) first introduced the concept of SEZ in the Export -Import Policy 2000 with a view to provide an internationally competitive and hassle free environment for exports. Since the performance of EPZs fell far short of expectations due to various reasons, the SEZs were conceived as a much larger and more efficient form. The policy provides for setting up of SEZs in the public, private, joint sector or by State Governments. All existing FTZ/ EPZ have been converted into SEZ.

SEZs are governed by SEZ Act, 2005. The Act consists of 8 chapters, 58 sections and 3 schedules. The policy relating to SEZ is contained in Special Economic Rules, 2006 notified in the Gazette of India, Extraordinary No. GSR 54 (E), dated 10.2.2006.

State-wise distribution of approved SEZs (as on 01.12.2017)

States/UTs	Formal Approvals	In-principle approvals	Notified SEZs	Exporting SEZs (Central Govt. + State Govt./Pvt. SEZs + notified SEZs under the SEZ Act, 2005)
Andhra Pradesh	29	4	25	20
Chandigarh	2	0	2	2
Chhattisgarh	2	1	1	1
Delhi	2	0	0	0
Goa	7	0	3	0
Gujarat	28	4	24	19
Haryana	24	3	20	6
Jharkhand	1	0	1	0
Karnataka	62	0	51	26

Kerala	29	0	25	19
Madhya Pradesh	10	0	5	4
Maharashtra	57	11	50	28
Manipur	1	0	1	0
Nagaland	2	0	2	0
Odisha	7	0	5	4
Puducherry	1	1	0	0
Punjab	5	0	3	3
Rajasthan	9	1	8	4
Tamil Nadu	50	3	47	37
Telangana	64	0	57	30
Uttar Pradesh	24	1	21	12
West Bengal	7	2	5	7
GRAND TOTAL	423	31	356	222

Source: www.sezindia.nic.in

The State-wise distribution of approved SEZs of all the states in India is mentioned by the Ministry of Commerce and Industry (Department of Commerce), Telangana topped with 64 formal approvals of SEZs, closely followed by Karnataka with 62 and Maharashtra stood at third with 57. 86.76% formally approved SEZs are located within 9 states only. Out of 222 Exporting SEZs, 197 (i.e. 88.74%) are located within these 9 states. The objectives of the SEZ, i.e. balanced employment generation, infrastructural development and balanced regional growth are not achieved in a way it was projected. There is still a substantial scope for other states to take proactive steps in order to be inclusive in the development process.

Sector-wise Distribution of approved SEZs (as on 01.12.2017)

Sectors	Formal approvals	In-principle approvals	Notified SEZs	Exporting SEZs (7 Central Govt. + 11 State Govt./Pvt. SEZs + notified SEZs under the SEZ Act, 2005)
Agro-processing	5	2	5	1
Airport based multiproduct	2	0	0	0
Auto and related	1	1	1	1
Aviation/Aerospace/ Animation & Gaming/ Copper	6	1	5	4
Beach & mineral/ metals	2	0	2	1
Biotechnology	23	1	16	3
Building prod./mal./ transport equipments / ceramic and glass	2	2	2	2
Electronic product/Industries	2	0	2	2
Engineering	13	1	13	13
Footwear/Leather	5	0	5	3
Food Processing	3	0	2	2
FTWZ	9	4	5	4
Gems and Jewellery	6	3	3	3
Handicrafts & Carpets	3	0	2	2
IT/ITES/Electronic Hardware/ Telecom equipments	274	0	234	129
Alumina/Aluminium	2	0	2	1
Light Engineering/Metallurgical Engineering /Automotive Components	1	0	0	0
Multi-Product	20	9	17	23
Multi-Services	7	1	7	2

Non-Conventional Energy	2	0	2	2
Petrochemicals & petro./oil and gas	2	1	0	0
Pharmaceuticals/chemicals	16	2	16	12
Port-based multi-product	4	1	3	2
Power/alternate energy/ solar	3	1	3	3
Textiles/Apparel/Wool	7	1	7	7
Writing and printing paper mills	1	0	1	0
Granite processing Industries and other allied machinery/ manufacturing	2	0	1	0
GRAND TOTAL	423	31	356	222

Source: www.sezindia.nic.in

The Sector-wise distribution of approved SEZs shows that 64.76% shares are in formally approved SEZs from IT/ITES/Electronic Hardware/Telecom equipments sector. Other major sectors are biotechnology, Multi-product, Pharmaceuticals /chemicals and Engineering are having 17.02% shares in formally approved SEZs. Out of 222 Exporting SEZs, 129 (i.e. 58.22%) are within IT/ITES Sector. It indicates that India is growing in IT/ITES/ Electronic Hardware/Telecom equipments sector. This can be attributed to the increase in IT/ITES related activities in India.

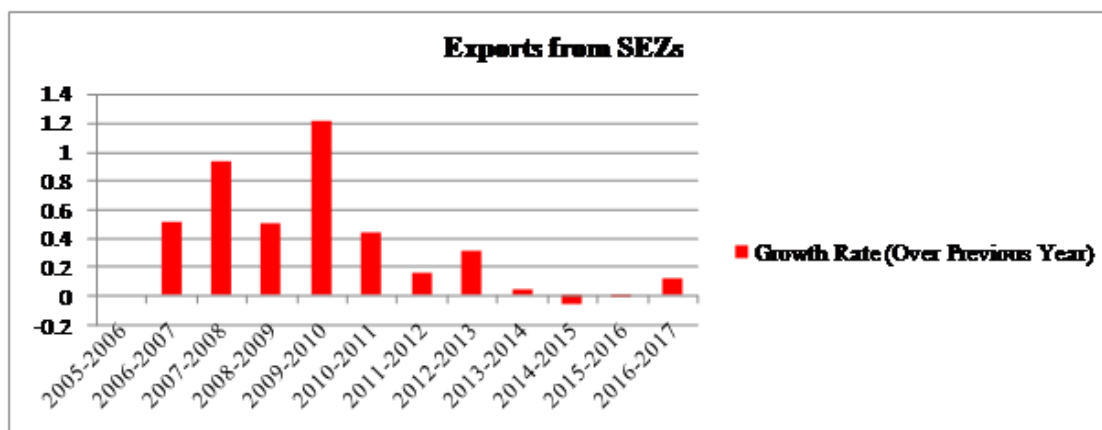
SEZs: ANALYSIS OF PERFORMANCE

1) Exports:

Years	Value (Rs. Crore)	Growth Rate (Over Previous Year)
2005-2006	22,840	-
2006-2007	34,615	51.55%
2007-2008	66,638	92.51%
2008-2009	99,689	49.60%
2009-2010	2,20,711	121.40%
2010-2011	3,15,868	43.11%
2011-2012	3,64,478	15.39%
2012-2013	4,76,159	30.64%
2013-2014	4,94,077	3.76%

2014-2015	4,63,770	-6.13%
2015-2016	4,67,337	0.70%
2016-2017	5,23,637	12.05%

(Source: www.sezindia.com and Factsheet of SEZs)



The above analysis shows that exports growth remained volatile from 51.55% in 2006-2007 to 121.40% in 2009-2010. From 2010-2011, exports show declining growth rate up to 2014-2015, but it has increased upto 12.05% in the year 2016-2017. However, the exports from SEZs increased rapidly during the period 2005-2006 to 2017-2018 i.e Rs. 22,840 Cr. to Rs. 5, 23,637 Cr. It indicates that the positive improvement and substantial growth in the export performance from SEZs since 2006, thereby it is facilitating the economic growth of the country.

2) Employment:

Years	Incremental Employment	Growth Over Previous Year (%)	Total Employment	Growth Over Previous Year (%)
2006 (as on February, 2006)	1,34,704	-	1,34,704	-
2007-2008	2,01,531	49.61	3,36,235	149.61
2008-2009	2,52,735	25.41	3,87,439	15.23
2009-2010	3,68,907	45.97	5,03,611	29.98
2010-2011	5,41,904	46.89	6,76,608	34.35
2011-2012	7,10,212	31.06	8,44,916	24.88
2012-2013	9,40,200	32.38	10,74,904	27.22
2013-2014*	11,05,141	17.54	12,39,845	15.34
2014-2015**	12,15,367	9.97	13,50,071	8.89
2015-2016	13,07,612	7.59	14,42,316	6.83
2016-2017	14,56,677	11.40	15,91,381	10.33
2017-2018 (as on 30 th September 2017)	16,88,747	15.93	18,23,451	14.58

Source: Report of the Comptroller and Auditor General of India (2012-2013), www.sezindia.nic.in and Factsheet of SEZs * as on 31st December 2014, ** as on 30th September 2014

Incremental employment has shown growth rate of 49.61% in 2007-2008. It has shown an increasing trend from 25.41% in 2008-2009 to around 46.89% in 2010-2011. However, incremental growth rate registered a decline from 2013 to 2016 on account of continuous de-notification of number of SEZs as a result of several adverse market conditions. SEZs have generated employment from 1, 34,704 employees in 2006 to 18, 23,451 employees in 2017-2018 (i.e. more than 13 folds). However, SEZs has created an employment but there is a shortfall between the projected and actual employment.

3) Investments:

(Rs. in Crore)

Years	Incremental Investment	Total Investments
2006 (As on February, 2006)		4,035.51
2007-2008	73,173.99	77,209.50
2008-2009	1,04,867.48	1,08,903.00
2009-2010	1,44,453.11	1,48,488.62
2010-2011	1,98,774.03	2,02,809.54
2011-2012	1,97,839.25	2,01,874.76
2012-2013	2,32,681.64	2,36,716.65
2013-2014	2,84,441.47	2,88,476.48
2014-2015 (as on 30 th September 2014)	3,76,248.49	3,80,284.00

Source: Report of the Comptroller and Auditor General of India (2012-2013) and Factsheet of SEZs

Incremental and Total Investments in Year 2017-2018 as on 30th September, 2017 (Rs. in Crore)

INVESTMENT	Investment (As on February, 2006)	Incremental Investment	Total Investment (As on 30 th September, 2017)
Central Government SEZs	2,279.20	15,662.35	17,941.55
State/Pvt. SEZs set up before 2006	1,756.31	11,019.52	12,775.83
SEZs Notified under the Act	0	4,18,115.05	4,18,115.05
Total	4,035.51	4,44,796.92	4,48,832.43

Source: www.sezindia.nic.in and Factsheet of SEZs

The above table shows that total investment in the SEZs is Rs.4, 48,832.43 crore. Incremental investment in the SEZs is Rs.4, 44,796.92 crore since SEZ Act coming into force in February, 2006. Investments in the SEZs increased from Rs. 4,035.51 crore in February 2006 to Rs. 4, 48,832.43 cr. in 2017-2018 i.e. 11 times. Investments have shown a positive growth rate over a period of time. However, its growth rate did not remain consistent owing to several unfavorable changes in the domestic and global market.

Conclusion:

SEZs are generating a significant amount through the export. SEZs have resulted in positive outcomes in the country in terms of employment, exports and investments, yet the objectives of the SEZ is employment generation, investment, exports and economic growth, however, are not achieved in a way it was projected. There is still a substantial scope to take proactive steps in order to be inclusive in the development process. The achievements of SEZs in the country are a contribution from a few SEZs operating in a few developed States. Considering the significant shortfalls in achievement of the intended socio economic objectives by all the sectors of SEZs, there is an urgent need for the Government to review the factors hindering the growth of non-operational and underperforming SEZs. There is a need to retrospect the policy framework and its implementation for better outcome of the SEZs.

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