



An Analysis of Special Economic Zones in India

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Abstract: *India was one of the first in Asia to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting exports, with Asia's first EPZ set up Kandla in 1965. In order 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 investment in India, the special Economic Zones (SEZs) policy was announced in April 2000. Special Economic Zones (SEZs) can be compared to their producers, Free Trade Zones and Export Processing Zones in that they are aimed at stimulating foreign direct investment (FDI) and rapid export-laid industrial growth. The essential characteristics of such schemes is that they allow the by-passing of particular social legislation or tax provisions which are perceived to be an impediment to progress or the competitiveness of an export oriented activity. SEZs have shown a dramatic rate of growth with total exports of Rs. 12,96,890 million during the financial year 2012-2013, a growth of 50% over the exports for the same period of the previous year. Exports in the first three quarters of the 2013-2014 previous financial year financial years registered a growth rate of about 137% over the corresponding period of the 2013.*

Key Words: *Physical infrastructure, infrastructure external to zone, proximity to port, subsidies, regional development, tax concessions, governance of zones, policy regime..*

I. INTRODUCTION

The category SEZs cover a broad range of more specific zone types, including Free India was one of the first in Asia to recognize the effectiveness of the export processing zones (EPZ) model in promoting exports, with Asia's first EPZ set up in Kandla in 1965. The Special Economic Zones (SEZs) Policy was announced in April 2000. India has specific laws for its SEZs. Special Economic Zones (SEZs) have been recognized as an important mechanism for trade and investment promotion, creation of infrastructure, employment generation, promotion of regional development, increase in foreign exchange earnings, improving export competitiveness and transfer of skills and technology

Trade Zones (FTZ), Export processing zones (EPZ), Free Zones (FZ), Industrial Estates (IE), Free ports, Urban Enterprises Zones and others. Usually the goal of a structure is to increase foreign direct investment by foreign investors, typically an international business or a Multi National Corporation (MNC). The Special Economic Zones Act was passed by the Government of India in May 2015, it received presidential assent on the 23th June 2005. There were about 143 SEZs (as of June 2012) operating throughout India, by June 2013 this had risen to 173.634 SEZs have been approved for implementation by the Government of India. Special Economic Zones (SEZs) is a specially delineated duty free enclave and shall be deemed to be foreign territory for the purposes of trade operations and duties and tariffs. SEZs have been established in several countries, including China, India, Jordan, Poland, Kazakhstan, Philippines and Russia. North Korea has also attempted this to a degree. At present there are eight functional SEZs located at Santa Cruz (Maharashtra), Cochin (Kerala), Kandla and Surat (Gujarat), Chennai (Tamil Nadu), Vishakhapatnam (Andhra Pradesh), Falta (West Bengal) and Noida (Uttar Pradesh) in India. Further an SEZs in Indore (Madhya Pradesh) is now ready for operation.

II. OBJECTIVES

1. To study the rationale of the SEZs in India.
2. To prepare and analyse a descriptive model for the SEZs on the performance of their Growth rate of Export, FDI and Job employment.
3. To identify the operational problems of SEZs in India.
4. To recommend strategies for SEZs to become front-wheel of Indian economy.

III. HYPOTHESIS

1. Export Growth rate of SEZs and other than SEZs is equal to each other.
2. FDI inflow in SEZs and in economy as whole is equal to each other.
3. Growth rates of employment opportunities because of SEZs in particular and in economy in general are equal to each other.



IV. REVIEW OF LITERATURE

Erlend Regstad (2007) deals with Special Economic Zones (SEZs) and explains how result would benefit to Indian economy and suggest that the Indian government should pick neither national champions nor particular industries but rather remove bottlenecks and let the market decide in a well- governed neutral system.

FIAS (Multi – Donor Investment Climate Advisory Service of World Bank Group) has been recently (April 2008) provided very valuable suggestions for SEZs developers nor all concerned person in the research published entitled by “Special Economic Zones Performance, Lessons Learned, and Implications for Zone Development”. This research details that for developing countries, special economic zones (SEZs) traditionally have had both a policy and an infrastructure rationale.

Nikolay Sberegaev has also worked on the same concept related to SEZs in the study “Local Free Economic Zones: New Approach and New Opportunities” published by Kaliningrad State Technical University. This study explains that the problems of creation and functioning of local free economic zones.

H. Ramachandran and Debatosh Biswas (2007) summarize that the idea behind SEZs was to promote and create hassle free territorial production complexes that could be established to secure regional balance in development opportunities, to substantially increase export avenues, reduce production costs and generate employment, both direct as well as through multiplier effects.

Tarun Dhingra (2008) proposes a generic theoretical framework which identifies various variables subsequently leading to superior firm performance. Further related intermediate variables are identified to develop hypothesis for accessing the impact of location strategy on the competitiveness of the firm, established in an SEZs.

John M. Litwack and Yingyi Qian (1998) develop a theory for a transition economy under which an unbalanced strategy that favours special economic zones emerges as a response to two critical problems: (1) political pressure to satisfy certain social expenditure requirements, and (2) the lack if institutions to constrain the state from expropriation.

The study “*SEZs and Indian Economy*” published in *Management trends (2012)* describes that the very idea of building special economic zone is under furious debate. Industries at large believe that SEZs will be able to promote industrialization by improving infrastructure, enhancing investment and reducing transaction cost to attract this critical level of investment in infrastructure creation, government incentive appears to critically important, undoubtedly necessary. *Ramakrishna Nallathiga (2007)* states that Special Economic Zones (SEZs) are insulated export areas that offer benefits such as duty concession to manufacturing exports, and have several advantages like boost to industrial productivity, innovation, technology and management. The economic benefits of SEZs across the world are well documented; their success in China, however, drew much of the attention. India has also embarked on the creation of SEZs as the drivers of industrial production and export trade.

Aradhna Aggarwal (2005) described that export processing zones have been in existence for decades but have attracted renewed attention in recent years. However, their success in promoting trade across countries is mixed. The study explores different aspects such as the quality of governance, incentive packages and infrastructure facilities offered by the zones. It examines the determinants of investment and export performance empirically within the theoretical framework provided by the new growth theories.

Aradhana Agarwal (2012) explains that the number of Special Economic Zones (SEZs) globally continues to expand. SEZs account for an increasing share of international trade flows and employ a growing number of workers worldwide. In the global economy, EPZs are viewed as an important if a second best policy instrument to promote industrialization, generate employment, and for regional development.

Andrew Beath (2006) focuses particularly on identifying the commonalities and differences both within and between countries, with a view to highlighting areas in which the three countries may be able to learn from each other and, in a few cases, from within themselves.

Fatima Shah (2012) illustrates the key factors in designing and implementing the SEZs reforms in different countries.

Prof. Surinder Agarwal (2012) explores the SEZs with comparative analysis of India and China.

Hooshang Amirahmadi and Weiping Wu (1995) demonstrate the extent of SEZs and explore the conceptual pitfalls embedded in these development strategies.

V. RESEARCH METHODOLOGY AND DESIGN

Researcher visited all selected SEZs for getting primary data through structured questionnaire and interview methods for identifying the operational problems of SEZs. As per the second data concerned researcher was very cautious about the authenticity and validity of data that's why he just believed mostly on government organizations and agencies.

Researcher collected data mostly from government sources, by their official websites, on request from SEZs authorities and from other reliable studies.

Total number of units working on 31st March 2012 in 8 selected SEZs is 1284. Researcher randomly selected just 80 units regardless any sector, size or other specific factor. From each selected SEZs of the research 10 numbers of units have been studied. Number of respondents from selected units are 400. From each unit 5 respondents were randomly selected. SEZs performance from 2002-03 to 2012-13 has been analyzed.

VI. FINDINGS

Investment in special economic zones during the study period especially foreign direct investment. The part of FDI as percentage to total investment (Incl. Government Investment) and also depicts FDI as percentage to total private investment. By this perspective Chennai and Kandla SEZs have good rank, they both are sharing FDI as percentage to total investment almost 35%. The overall share of FDI to total SEZ investment IS JUST 17.60% and to total private investment it is just 12.62%.



In 1996, the only operating zone in India was the Kandla SEZ. Total employment in the zone amounted to 70 workers. The number of SEZs increased to 8 by 1998. As a result, the level of employment also increased significantly to around 95,000 by 1999. Thereafter the level of employment declined marginally. But after the introduction of the SEZ bill 2004, SEZ activities showed improvement. A major thrust was given by the government to SEZs in 2006 when the SEZ act was enforced in February. Since then there has been rapid expansion in the SEZ sector. Total employment in the SEZ sector jumped to over 178,000 in November 2011 from 158,000 in March 2011 and finally on 31st March 2013 it reached to 317163.

While it had been above 70% in many developing countries in the initial phases, in India it was less than 50%. It declined continuously to hit 36.9% in 2003. Though the declining trend in female employment is consistent with many other successful countries such as Mexico, Korea and Malaysia, the share of female workers has come down to unusually low levels in the case of India.

We have also calculated per unit Employment Growth Rate from 2005 to 2013 and find that units working in SEZs have also played a significant role in process of employment generation of India.

VII. CONCLUSION

Our government at the moment cannot provide that level of infrastructure which is crucial for growth and ultimately making India an economic power much in the lines of China. So the best way of this situation is to build huge clusters of industrial activities which are well connected via land, sea and air along with their complete set of infrastructural facilities viz, own power generation plant, water supply, etc. This way the whole country may not be propelled into the era of excellence themselves and propel economic growth of the country. SEZs performance in regard of export and employment generation is better than India in general but for attracting FDI it is not as per expectations. Here researcher would like to suggest making SEZ a better hub for attracting more FDI and getting dreams fulfilled, as were envisaged at the time of SEZ policy introduction in country.

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