



## Tamilnadu Special Economic Zone – TSEZ : The Rationale

### KEYWORDS

Special Economic Zone, Tamilnadu, EPZ, SWOT

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### ABSTRACT

*The modus operandi of this research study is to analyse the emerging trends of Special Economic Zone (SEZ) in Tamilnadu State. The policy of Special economic zone was implemented in the last decade and it is the right time to have a review and measure the performances of SEZ. Chapter one provides a brief outlook about the conversion of EPZ to SEZ, chapter two enlist the review of literature, chapter three provides state wise and sector wise approval of SEZ, chapter four expresses the opportunities for new investments and chapter five provides challenges faced by the Tamilnadu Special Economic Zones.*

### Introduction

The Special Economic zones (SEZ) is a geographical regions that has economic laws that are more liberal than a country's domestic economic laws. India has specific laws for its SEZs. Literally, a special economic zone is a geographical area which is designed to export goods, invite foreign direct investment and generate employment opportunities, and these zones are exempt from federal laws regarding taxes, quotas, labour laws and other restrictive laws in order to make the goods manufactured in SEZ at a globally competitive price. The Tamilnadu state has the second place in india for having 33 operating Special Economic Zones including Madras Export Processing Zone – Special Economic Zone, Chennai, established by the Central government, Four SEZ, prior to SEZ Act by State Government and private SEZ. The Evolution of SEZ in India implicate that the seeds of basic concept of Special Economic Zone was sown in the mid sixties. The prior model of current Indian Special Economic Zone was the Export Processing Zone (EPZ). The First EPZ was start at kandla in the year 1965 and many EPZs were set up all over India in the successive period. Unfortunately, these zones failed to provide expected result due to lack of proper planning, inadequate provisions in central economic policy and insufficient management. During March 2015, while answering for the question in the parliament, the ministry of commerce and industry states that, SEZ Act has made provision for the conversion of existing EPZ into SEZ, but it is unfortunate that the Export Processing Zones prior to SEZ act 2005, are not yet converted into SEZ.

### II : Review of Literature

**Padmini Swaminathan** (2002) has analysed in her research article, 'when women take on wage work' in which, challenges faced by the working women community in Tamilnadu export processing zones. **Aradhna Agarwal** (2004), in her working paper, she analysed the export performance of export processing zone in India. **Aradhna Agarwal** (2005), in her working paper, she made a comparitive study on the export performance of export processing zone between India, Srilanka and Bangladesh. **M. Suchitra** (2007), in her review, has expressed the working conditions that are actually being created in Special Economic Zones

**Jona Aravind Dohrmann** (2008), in this article, the salient features of the Indian embodiment of the model Chinese

SEZ, how it evolved and what the various steps are in making an Indian SEZ function. **Ishita Dey** (2009), in this case study, has expressed the emerging scenario of citizenship in Special Economic Zones in India. **Panduranga Reddy and et.al.** (2010), in their research study, analysed the Employment generated by Special Economic Zones in Southern India. **Subbaiah Singala and et.al.** (2011), in their research article, has analysed the policies, performance and problems in Indian Economic Zones. **Shah Deepak** (2012), has reported performance of Indian Special Economic Zones in terms of investment, trade, employment generation and their impact.

### III :Current status of Special Economic Zones in India.

The SEZ approvals are expressed under four stages based on their level of processing such as Formal approvals, in-principle approvals, notified approvals and exporting SEZs. Formal approval is awarded to those SEZs approved in-principle that can show that land has been assembled for the purpose. In-principle approval is the first stage of approval process given to the person or the State Government concerned incorporating additional conditions, if any specified by the Board while approving the proposal. Notified approval is the last stage of process after the Government is satisfied that the developer has legal possession and irrevocable rights over the proposed land to develop SEZ and has received all necessary approvals provided that leasehold right for the period of not less than twenty years and the indentified lands is contiguous vacant land with no public thoroughfare. For the first time in Indian History, with \$ 31 billion of foreign capital inflows, India has surpassed China and the US to take the pole position in attracting largest FDI in the first half of 2015.

The following table extracted from Ministry of Commerce and Industry about the position of various levels of approvals in various States in India.

**Table 1. State-wise Distribution of approved SEZs (As on 09.07.2015)**

State	Formal approvals	In-principle approvals	Notified approvals	Exporting SEZs
Andhra Pradesh	30	4	26	19
Chandigarh	2	0	2	2

State	Formal approvals	In-principle approvals	Notified approvals	Exporting SEZs
Chhattisgarh	2	1	1	1
Delhi	2	0	0	0
Goa	7	0	3	0
Gujarat	32	4	27	18
Haryana	22	3	19	6
Jharkhand	1	0	1	0
Karnataka	60	0	39	26
Kerala	32	0	25	15
Madhya Pradesh	12	1	8	2
Maharashtra	60	9	52	25
Manipur	1	0	1	0
Nagaland	2	0	2	0
Odisha	8	1	4	2
Puducherry	1	1	0	0
Punjab	4	0	2	2
Rajasthan	9	1	8	4
Tamilnadu	47	4	45	36
Telangana	48	1	42	26
Uttar Pradesh	22	1	18	11
West Bengal	12	2	5	7
Grand Total	416	33	330	202

# Exporting SEZs (Central govt. + State govt.+notified SEZs under the SEZ Act 2005)

Source: Ministry of commerce and Industry, SEZ India, GOI

Figure 1 State-wise Distribution of approved SEZs (As on 09.07.2015)

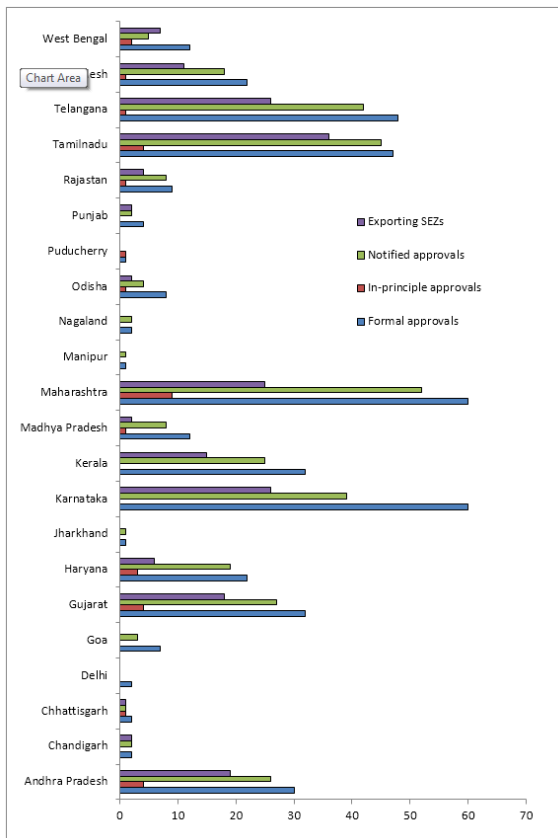


Table 2. Sector-wise Distribution of approved SEZs (As on 09.07.2015)

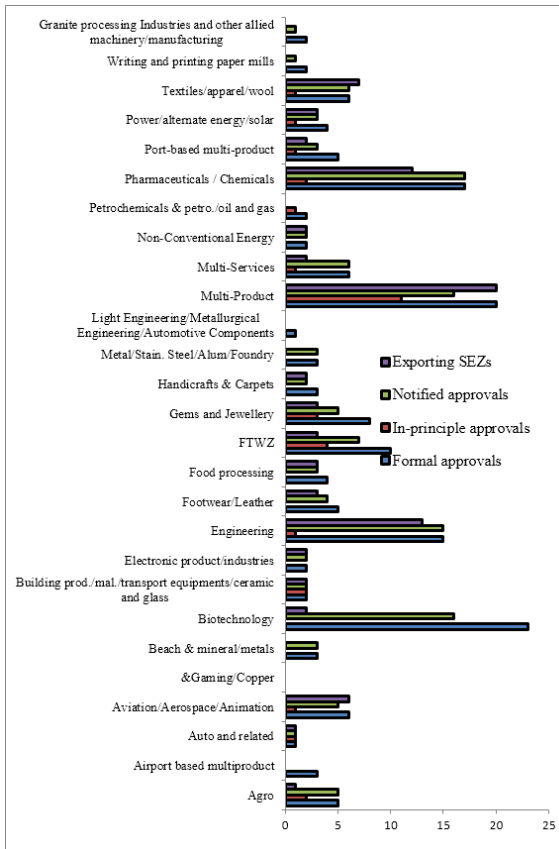
Sector	Formal approvals	In-principle approvals	Notified approvals	Exporting SEZs
Agro	5	2	5	1
Airport based multi-product	3	0	0	0
Auto and related	1	1	1	1
Aviation/Aerospace/Animation	6	1	5	6
&Gaming/Copper				
Beach & mineral/metals	3	0	3	0
Biotechnology	23	0	16	2
Building prod./mal./transport equipments/ceramic and glass	2	2	2	2
Electronic product/industries	2	0	2	2
Engineering	15	1	15	13
Footwear/Leather	5	0	4	3
Food processing	4	0	3	3
FTWZ	10	4	7	3
Gems and Jewellery	8	3	5	3
Handicrafts & Carpets	3	0	2	2
IT/ITES/Electronic Hardware/Semiconductor/Services	256	1	202	114
Metal/Stain. Steel/Alum/Foundry	3	0	3	0
Light Engineering/Metallurgical Engineering/Automotive Components	1	0	0	0
Multi-Product	20	11	16	20
Multi-Services	6	1	6	2
Non-Conventional Energy	2	0	2	2
Petrochemicals & petro./oil and gas	2	1	0	0
Pharmaceuticals / Chemicals	17	2	17	12
Port-based multi-product	5	1	3	2
Power/alternate energy/solar	4	1	3	3
Textiles/apparel/wool	6	1	6	7
Writing and printing paper mills	2	0	1	0
Granite processing Industries and other allied machinery/manufacturing	2	0	1	0
GRAND TOTAL	416	33	660	202

# Exporting SEZs (Central govt. + State govt.+notified SEZs under the SEZ Act 2005)

Source: Ministry of commerce and Industry, SEZ India, GOI

Note : IT/ITES is excluded for the legibility of the diagram

Figure 2 Sector-wise Distribution of approved SEZs (As on 09.07.2015)



III : Opportunities and Challenges of TSEZ

A substantial growth of export performance has proved the grand success of Tamilnadu Special Economic Zones (TSEZ). Tamilnadu Special Economic Zone refers the specified area within the territory of the state of Tamilnadu where the prescribed norms and other regular regulatory practices and restrictions are not applicable. For the purpose of setting up of many Special Economic Zones (SEZs) in Tamilnadu, the state government has encouraged the SEZ Developer by means of exemption from federal laws, taxes, quotas, etc

The State Government of Tamilnadu has encourages the setting up of Tamilnadu Special Economic Zones (TSEZ) for the benefits in the industrial development and economic growth of the state, for the purpose of generating more employment opportunities through dynamic exports with the help of liberalised Foreign Direct Investment (FDI). The Tamilnadu Special Economic Zones (TSEZ) has identified suitable places for setting up Economic Zones like Hosur, Tutucorin, Coimbatore, Vandalur, Ennore and Thirunelveli, Sriperumbatore along with Chennai. The Tamilnadu Special Economic Zones (TSEZ) that are being set up in the state can accommodate companies from various sectors, Information Technology, apparel industry, automobile, pharmaceuticals, Engineering sector and Leather industry etc.

There are various incentives announced by the Tamilnadu State government, more importantly, the labour rules will be simplified for the TSEZ, Facilities like Post office, Police station, Fire Services etc will be available in the SEZ area. Further the State electricity board will ensure continuous supply of power to all the units of TSEZ and sufficient

water supply within the TSEZ through government agencies. Most essentially, the Tamilnadu State government will maintain law and order with the TSEZ.

Being the first state to formulate the SEZ policy in 2003, Tamilnadu state has become number one SEZ destination of the country. The Current status of TSEZ, 67 awaiting approvals, 53 Notified approval and 36 operational SEZ. As on September 2014, the total SEZ area is 7725 hectares. During 2014-15, the Tamilnadu Government has exported Rs.35,847 crores worth of merchandise abroad. Table 3 show the value of export and employment generation during last four years

Table 3. Performance of TSEZ

Economic Indicator	2011-12	2012-13	2013-14	2014-15*
Exports (Rs. Cr.)	50,152	67,618	71,417	35,847
Employment	2,19,989	2,37,950	2,68,405	2,88,160

\*as on September 2014

SWOT analysis for FDI in TSEZ

<p><b>Strength</b></p> <ul style="list-style-type: none"> <li>Sustainable Growth</li> <li>Presence of skilled and cheap labour</li> <li>Own source of Large raw materials base</li> <li>Policy initiatives taken by the Tamilnadu Government</li> <li>Capability to assimilate new technologies and handle large projects</li> <li>Single window clearance</li> <li>Tax exemptions (Turnover tax, sales tax and VAT)</li> <li>Absence of registration charges and stamp duty for land transactions</li> <li>Treated as public utility services</li> <li>Separation of Telangana from Andhrapradesh leads to concentration in Tamilnadu.</li> </ul>	<p><b>Weakness</b></p> <ul style="list-style-type: none"> <li>Economic size of SEZ units</li> <li>Lack of warehousing support from the Government</li> <li>International price fluctuation</li> <li>Huge labour force resulting in higher labour charges</li> <li>Land Acquisition problem</li> <li>Unawareness of International standards by many players</li> <li>Concentration on urban areas</li> <li>Lack of economies of scale</li> <li>Lower labour productivity</li> <li>Central- State relation</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>Growing trade consciousness globally.</li> <li>Use of information technology and decision support software to help eliminate the length of production cycle for different products</li> <li>Use of e-commerce in direct marketing</li> <li>Implementation of new foreign policy.</li> <li>100 % FDI and JV permitted through automatic route</li> <li>Rising potential in the domestic market</li> <li>Suitable Location</li> <li>Hassle free export environment</li> <li>Presence of Major and minor ports</li> <li>Strategic location in the Asian Landmass</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>Difficult to obtain land for SEZ Unit</li> <li>Limited scope for mobilising the funds through private placements and public issues</li> <li>Difficulty in obtaining bank loans resulting in high cost of private borrowing</li> <li>Sticker International standard</li> <li>High competition from China, US and other Asian Countries</li> <li>Lack of communication facilities and skill</li> <li>Labour laws are weak inside the SEZ.</li> <li>Changes DDT and MAT</li> <li>99 years of lease of land to IT companies</li> </ul>

V : Conclusion

Most states are struggling to seek Special Economic Zone in trade ground, but in Tamilnadu, the state government is thriving. Out of 199 operational SEZs in India, 36 are located in the Tamilnadu State, creating themselves, the top SEZ destination in the country. There are three reasons why Tamilnadu State Government is flourishing in SEZ Scenario. Firstly, two major ports 11 and minor port is the backbone for export promotion. Both International airports and domestic airports enhance the proximity of cargo movement. Secondly, Tamilnadu State has become one State for SEZ destination after Andhra Pradesh was divided to two states. Lastly, Tamilnadu State Government along with Industries Promotion Corporation of Tamilnadu and Electronics Corporation of Tamilnadu, played an energetic role in setting up TSEZs in Chennai, Trichy, Madurai, Hosur, Coimbatore Salem and Thirunelveli. The logical steps

of the state government catalyst the IT boom through big software companies like Infosys, Cognizant and Syntel.

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