Research Paper Commerce

Special Economic Zones (Sezs) and its Future Prospects in India

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ABSTRACT

During the past five decades, free trade zones have become an increasingly important element of world trade. As a result, a somewhat standard zone model has developed, based loosely on the much- lauded 1970's Chinese zones. Used properly, this model can be effective at generating change within a handful of basic economic parameters (the opening and development of new markets, exports-generation, attraction of FDI, experimentation with liberalization, etc.

Taking a distinctly developmental perspective on zones' use- fulness, this paper analyzes the extent to and mechanisms by which India's Export-Oriented Unit (EOU) scheme (a policy platform supporting geographically-dispersed, opt-in, domestically- linked export enclaves) has contributed to structural transfor-mation in recent decades. The paper will assess state-wide EOU distributions based on three characteristics urbanization, geographical dispersion, and sectoral identity in order to draw relationships between the geography of international trade and economic development.

KEYWORDS | Special Economic Zone with EOU, Facts, Roles, Future Opportunity to invest in India.

1. Introduction

International context

As a policy tool, the modern Special Economic Zone has attracted considerable influence during the decades since its first appearances. Enacted in Ireland in 1959 and to much critical acclaim in China in 1979, zone policies have now been set up in more than 130 countries world- wide (most of which are in the developing world). In 2008, it was estimated that the nearly 3,000 zones in operation generate on the order of 70 million jobs and contribute $500 billion annually in direct trade-related value added. Special economic zones have transformed worldwide shipping practices, and have facilitated the global expansion of developed-world capital.

The speediness of zones' proliferation worldwide would seem to imply their broad applicability to common developing world problems and/or adherence to a stand- ardized model of zone implementation: a platform which effects specific policy or economic objectives as a response to economic, social, political, or developmental circumstances.

The SEZ as a Development Tool

The prototypical Chinese zone – implemented in Shenz- hen and 5 other areas in 1979 has been cast as a ba- sic paradigm of the bounded export-generated develop- mental (zone) model. Soon after foundation, the Chinese model's success earned a positive reputation worldwide due to the strength of its economic performance, but its popularity among developing-world policymakers and one of the foundations for the abstract attractiveness of the zone as a developmental tool can be attributed to role in China's rapid development during the 1980's and 1990's.

Theoretical study of the developmental effects of SEZs (and FDI more generally) show that a policy platform of this nature should be poised to make a positive contribution to economic structural change. Via the linkages it could create with the domestic economy and the disaggregated spread of advanced skills and technology, it would be expected that the EOU scheme would have aided processes of industrialization. These theoretical discussions also suggest that India's EOUs could have made a large impact on structural change than its SEZs.

Study objectives

This study aims to explore the connections between India's SEZs and EOUs and structural transformation, making a comparative judgment as to the effectiveness of each. In order to understand the developmental effects of India's EOUs, this analysis has related the condition of states' EOU distributions in geographical and sectoral terms – to the processes of structural transformation which those states have undergone. Building on the NEG- and Hirschman-informed under- standing of "healthy" EOU distribution laid out above, this analysis has tested whether a well-structured EOU distribution is more likely to have influenced the process of structural transformation via zone catalytic effects.

2.SEZs: History, Performance, and Structure

International context

The concept of a free trade zone a geographically distinct area governed by a differentiated economic policy designed to attract foreign manufacturing and trade is not a new one. The first zones were established some centuries ago: among the many historical zone-like policies are the free trade zones established in 1704 in Gibraltar and in 1819 in .

Basic zone structure

SEZs can be concisely defined as "geographically delimited areas administered by a single body, offering certain incentives... to businesses which physically locate within the zone,". While there exists great diversity in the specific policy platforms implemented in various countries and to various ends over the past 50 years, most zones adhere to a basic set of policy guidelines reminiscent of the Chinese implementation. The following section discusses basic zone administrative structure and aims.

Zone aims are

a) Attraction of foreign direct investment;
b) Increased foreign exchange earnings;
c) Employment generation;
d) Stimulation of the domestic economy via spillover and linkage effects, technological and human capital upgrading and cultivation of non-traditional exports;
e) Experimentation with (or gradual embrace of) liberal economic policies.

2.1 Government-run SEZs in India. Source: Tantri, 2011.

SEZ	State	Sector	Est. in
Kandla (KSEZ)	Gujarat	Multi-product	1965
Santacruz (SEEPZ)	Maharashtra	Electronics, Gems	1975
Noida (NSEZ)	Delhi	Multi-product	1986
Falta (FSEZ)	West Bengal	Multi-product	1986
Chennai (MEPZ)	Tamil Nadu	Multi-product	1986
Cochin (CSEZ)	Kerala	Multi-product	1986
Vizag (VSEZ) Andhra Pradesh		Multi-product 1994	

EOU and SEZ Policy Platforms.
Table 2.1 illustrates selected elements of the Indian SEZ and EOU policy platforms as of 2010; these policies have change subtly over the years, but the most important distinctions have been in place since creation of the EOU scheme.

The key differentiators between the SEZ and EOU schemes are:
- EOUs can be located anywhere in the nation, while SEZs are allowed to be set up only in areas carefully selected at the national level.
- EOUs are able to export up to 25% of output to the domestic economy upon payment of applicable duties, and are not accepted from imports duties.
- Geographically, SEZs have been placed with regard to urban centers, trade infrastructure, and developmental goals; this is not true of EOUs, whose placement reflects the ad hoc nature of EOU enterprise approvals: existing businesses must apply for EOU status.

EOUs, SEZs, and the Indian Economy
Export performance:
India's SEZs have tended to perform poorly as a driver of foreign exchange earnings (Aggarwal, 2010). This is largely due to the general strictness of Indian economic regulation and zones' initial focus on low-skill manufacturing in SEZs (Aggarwal, 2004; Gokarn & Gulati, 2008). The former have only been lightened in recent years, but increased sectoral diversity in SEZs has followed (Aggarwal, 2010). SEZs' share of national exports hovered between 3% and 5% during the 1990's and 2000's, while EOUs' share of exports rose modestly but steadily during this period. Poor performance was also signaled by SEZs' lackluster gains in foreign exchange. A notable exception is the Santacruz SEZ/EPZ in Maharashtra, which has been consistently more successful than its peers in terms of exports earnings, employment, and investment, likely due to its strict focus on electronics and software

Figure:2.1 EOU/SEZ Share of National Exports, 1992-2008. Source: EPCES, GOI data.

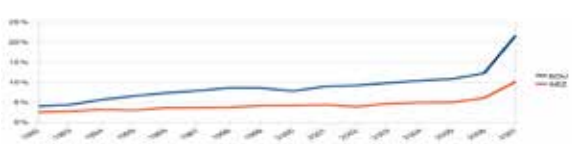
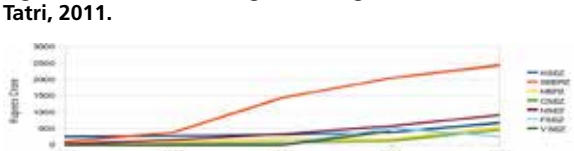


Figure :2.2 SEZ Net Foreign Exchange, 1986-2004. Source: Tatri, 2011.



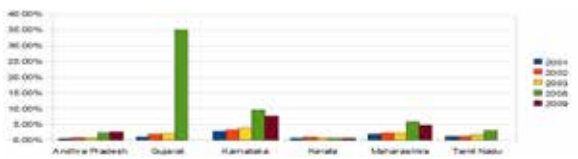
At the state level, the EOU and SEZ schemes have developed quite differently. In the state of Gujarat, for example, EOU exports comprise one third of total state output, while in Karnataka they generate less than 1%. This difference can in part be attributed to differing levels of development in these states at the time of the EOU and SEZ schemes' implementation: Gujarat was largely un-industrialized at the time of the EOU scheme's establishment, while the domestic economies of Karnataka and Tamil Nadu were more diversified (GOI Economic Census data). Figure 2.4 shows change in EOU contributions to domestic activity over time.

Table 2.2 EOU Share of State Output, 2008. Source: GOI, EPCES data.

State	Total Output	EOU Output	EOU as % of Total
Andhra Pradesh	335658.26	7893.09	2.35%
Gujarat	294709.36	98582.38	33.45%
Karnataka	200694.77	1216.6	0.61%
Kerala	139053.22	16480.6	11.85%
Maharashtra	503603.68	13340.53	2.65%
Tamil Nadu	259665.73	14915.73	5.74%

EOU Output as Share of State Output. Source: RBI, EPCES data.

Figure :2.3 EOU Share of State Output, 2008.



Interaction with the Domestic Economy.
The data in Figure suggest shifting relationships between SEZs and EOUs and the domestic economy.

Table 2.3.Employment in EOUs. Source: DOC, RBI data.

State	EOUs (#)	Empl. (#)	EOU % of Total	Empl/EOU
Andhra Pradesh	458	71961	0.58%	157.12
Gujarat	509	64948	1.18%	127.6
Karnataka	473	84493	1.33%	178.63
Kerala	82	10129	0.18%	123.52
Maharashtra	607	92815	0.97%	152.91
Tamil Nadu	676	109253	0.92%	161.62
Selected States	2805	433599	0.85%	154.58
India	4261	671177	1.64%	157.52

3. Analytical Framework
Figure illustrates this study's framework for analysis; the following sections explain a set of Indexes which have been compiled as proxies for EOU distributional health, SEZ distributional health, and structural transformation.

Indexes
EOU Geo Index. Informed by Hirschman's un-balanced and linkage-dependent theory of development as well as the new economic geography's forces of clus- tering and dispersion, this index will measure the "health" of EOU distributions. Each of the four following variables have been aggregated as 1/4 of a normalized index in order to present a composite value. (Table 2.3)

Correlation Analysis
The final step of my research has been a correlation anal- ysis, in which I perform a basic regression for EOU Geo and ST, and for SEZ Geo and ST. The method of indexed analysis employed here is intended to give a sense for how the processes of structural transformation have related to the conditions of EOU and SEZ distributions across the states involved. Analysis of the distribution of states against these metrics will judge states' performance in terms of structural transformation against the "health" of their EOU and SEZ schemes. Though certainly lacking in statistical significance and open to criticism based on the lack of available historical data, by relying on secondary research it should be possible to reliably extend conclusions drawn in this report

4. Conclusion

The founding concept of this paper was that EOUs spatially disaggregated export enclaves with strong linkages to the domestic economy could play an important role in structural transformation. In the Indian context this has been shown to be partially true: some states are likely to have experienced a positive structural boost from their EOU schemes, while others have experienced lesser influences. All in all, however, it did not find substantially different developmental possibilities for EOUs or SEZs: instead, this report's findings show that traditional SEZs and EOUs have been used in tandem to facilitate structural transformation in the Indian context.

This paper has also sought to tease out some of the key factors which govern states' EOU experiences. Most notably, it has shown that EOU distributions have the highest potential to contribute to structural transformation when they resemble the sectoral output of the domestic economy. High levels of urbanization and dispersion have also been shown to have a positive effect on EOU placement, but by the nature of this paper the exact (statistical) nature of this relationship is yet to be identified.

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