



Foreign Direct Investment (Fdi), Special Economic Zones (Sezs) And Economic Developments In India: An Empirical Study

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ABSTRACT

Foreign direct investment (FDI) plays a multidimensional role in the overall development of the host economies. It may generate benefits through bringing in non-debt-creating foreign capital resources, technological upgrading, skill enhancement, new employment opportunities, infra structural development facilities spill-over and allocate efficiency effects. While FDI is expected to create positive outcomes in exports, it may also generate negative effects on the host economy. The costs to the host economy can arise from the market power of large firms and their associated ability to generate high profits. Much of the existing empirical evidence suggests that the positive effects offset negatives, thus providing net economic benefits for the host economies.

Keywords : Employment, Export generation Foreign Direct Investment (FDI), Special Economic Zones (SEZ)

INTRODUCTION:

When the India's ex- commerce Minister Mr. Murasoli Maran returned from a trip to China in late 90's, he had witnessed something which would lead to revolutionary changes in the India's EXIM (Export-Import) policy and then the SEZ's were born.

What is an SEZ? It is a geographical region that has economic laws that are more liberal than a country's typical economic laws. An SEZ is a trade capacity development tool, with the goal to promote rapid economic growth by using tax and business incentives to attract foreign investment and technology. Today, there are approximately 3,000 SEZs operating in 120 countries, which account for over US\$ 600 billion in exports and about 50 million jobs. By offering privileged terms, SEZs attract investment and foreign exchange, spur employment and boost the development of improved technologies and infrastructure.

Where SEZ's have really flourished? The concept of SEZ's was largely pioneered by China, wherein the SEZ's contribute to 20 percent of the total FDI. Then the SEZ model was also successfully implemented in Poland and Philippines. In the former the SEZ's contribute to almost 35 percent of the FDI inflows. Shenzhen in China has been at the helm of rapid economic development, after growing by a staggering 28 percent for the last 25 years.

Moreover SEZ's improve the country's foreign export. Because of the increased FDI and Private Equity presence, the local manufacturers get to tie up with these big names and export their products which now carry a better brand value, therefore helping in creating a greater demand for the goods of local manufacturers. Moreover the massive capital required for expansion is brought in form of FDI resulting in increased economic activity.

THE INDIAN SEZ POLICY HAS THE FOLLOWING DISTINGUISHING FEATURES:

- The zones would be set up by the private sector or by the state government in association with the private sector. The private sector is also invited to develop infrastructure facilities in the existing SEZs.
- The state governments would play a lead role in setting up

the SEZs.

- Creating special windows under the existing rules and regulations of the central and the respective state governments for the SEZs being set up.

OBJECTIVES OF THE STUDY:

- To analyse the employment opportunities available in SEZ in India.
- To analyse the export generation of SEZ in India.
- To analyse the inflow of FDI coming through SEZ in India.
- To offer recommendation to overcome the problems of Special Economic Zones and improve the Performances.

SCOPE OF THE STUDY:

The paper has undertaken Indian Special Economic Zones as a study area to assess the performance of zones and their development in export, employment, infractural development. It also covers the role of Foreign Direct Investment in SEZs, and development of exports. The study covers the period from 2003-2010.

METHODOLOGY USED:

As the study is exploratory and empirical in nature, secondary data have been employed. The basic data are derived from the records of Ministry of Commerce, articles in journals, books and websites. To make the study more meaningful and appropriate percentage growth rate analysis is attempted in this study.

LIMITATIONS OF THE STUDY:

- The paper is limited to the Special Economic Zones in India.
- The boundaries have drawn in order to keep the study within permissible limit.
- The paper is limited to 8 functional central Government SEZ.

PERFORMANCE OF SEZs: EXPORTS

TABLE 1.1

Value of Physical Exports from SEZs (Rs. crore)

Year	Value of Physical Exports from SEZs (Rs. crore)	Growth Rate (over previous year) (per cent)
2003-2004	13854	39

2004-2005	18314	32
2005-2006	22840	25
2006-2007	34615	52
2007-2008	66638	92
2008-2009	99,689	50
2009-2010	2,20,711	121
2010-2011	3,15,868	43.11

Source: www.sezindia.nic.in

The table 1.1 depicts that exports from Special Economic Zones have been showing a steady increase. Compared to exports of Rs. 34,615 crore made by SEZs in 2006-07, exports to the tune of Rs. 66,638 crore have been effected in the year 2007-08, registering a growth of 92 per cent. 99,689 crore in 2008-09, registering a growth of 50%. Physical exports from the SEZs have increased from Rs. 2,20,711 crore approximately in 2009-10 to Rs. 3,15,868 crore approximately in 2010-11, registering a growth of 43.11%. The total physical exports from SEZs as on 30th September, 2011 i.e. in the first half of the current financial year, has been to the tune of Rs. 1,76,479.69 crore approximately registering a growth of 26.20% over the exports of corresponding period of the previous financial year. Moreover, the growth rate of exports from SEZs has been continuously increasing during the past five years.

TABLE 1.2
EXPORT PERFORMANCE OF THE 8 FUNCTIONAL SEZs
(Rs. Crore)

Zones/ Years	2004-05	2006-07	2007-08	2008-09	2009-10
Kandla SEZ	710.8	1482.7	1882.0	2420.38	1589.26
SEEPZ SEZ	6589.8	12047.7	11264.7	10078.81	7515.48
Cochin SEZ	290.0	802.7	4471.0	11332.24	12688.34
Noida SEZ	2479.0	6893.0	16843.4	16295.65	13109.67
Madras SEZ	979.2	2383.9	3046.5	3985.41	3963.56
Visakhapatnam SEZ	288.0	749.7	741.3	747.86	649.92
Falta SEZ	573.7	998.7	1026.3	961.28	728.18
Total	11911.0	25358.3	39275.2	45821.6	40244.4

Source: www.sezindia.nic.in

EMPLOYMENT IN SEZs:

The number of jobs created often determines the success of SEZs. In a labour-surplus developing economy such as India, employment is among the top priorities. The number of people employed in functional seven government SEZs in India from 2007-08 to 2008-09 is shown below in Table 1.3

TABLE : 1.3
(Rs. Crore)

Functional SEZ/Years	2007-08	2008-09
Kandla SEZ	19002	24514
SEEPS	85103	41858
Noida SEZ	33000	43714
Madras SEZ	29195	54204
Cochin SEZ	11374	86333
Falta SEZ	11600	9945
Visahapatnam SEZ	4200	19731
Total	193474	284105

Source :www.sezindia.nic.in

There is substantial increase in employment from the year 2007-08 to 2008-09 in all the functional SEZs in India except SEEPS SEZ. During the year 2007-08 employment opportunities it was 85103 but in 2008-09 it had been decreased to 41858. Almost more than half of employment reduced in the 2008-09.

FOREIGN DIRECT INVESTMENT IN SEZ

SEZs provide a world class business environment and therefore attract global companies to set base in the country. In China over per cent of foreign direct Investment (FDI) flows into SEZs.

The government has realized importance of attracting FDI, to expand the economy and to generate the jobs and unless they do away with red-tapism they will never be able to match China's dominance in FDI. Over the last 10 years aggregate in flows of FDI to India averaged roughly to \$45 billion against, over \$150 billion to China. SEZs are now being encourage attract FDIs.

TABLE : 1.4
(Rupees in crores)

Functional SEZ/Years	2008-09	2009-10
Kandla SEZ	2420.38	1589.26
SEEPS	10078.81	7515.48
Noida SEZ	16295.65	13109.67
Madras SEZ	3985.41	3963.56
Cochin SEZ	11332.24	12688.34
Falta SEZ	961.28	728.18
Visahapatnam SEZ	747.86	649.92
Total		

Source : SIA newsletters (various issues)

The above table explains that the government functional SEZs has been showing very poor performances. Except Cochin SEZ and Madras SEZ remaining all the five SEZs FDI has been declining. Especially SEEPS SEZ inflow of FDI is too low compare to 2008-09 and 2009-10.

TABLE : 1.5
SHARE OF TOP INVESTING COUNTRIES FDI EQUITY INFLOWS IN INDIA (Financial year)
Amount rupees in crores

Amount rupees in crores in Rank	Country	2008-2009 April- March	2009-2010 April- March	2010-2011 April- March
1	MAURITIUS	50,899	49,633	31,855
2	SINGAPORE	15,727	11,295	7,730
3	USA	8,002	9,230	5,353
4	UK	3,840	3,094	3,434
5	NETHERLAND	3,922	4,283	5,501
6	JAPAN	1,889	5,670	7,063
7	CYPRUS	5,983	7,728	4,171
8	GERMANY	2,750	2,980	908
9	FRANCE	2,098	1,437	3,349
10	UAE	1,133	3,017	1,569
TOTAL FDI INFLOWS		123,025	123,120	88,520

Source: RBI bulletin.

The above table explains that Mauritius is first ranking in investing FDI equity in India.

It also explains that total inflow of FDI equity has been reduced from 2008-09 to 2010- 11. This is because of the poor infrastructure facilities given by Government of India and wrong monetary and fiscal policy of the Government. In order to increase the inflow of FDI Government must create more number SEZs with world class infrastructure facilities. Government should concentrate not only more number of SEZs but also large size of SEZs to produce economics of scale. It shows

RECOMENDATIONS:

1. To ensure that SEZs in India are successful, the Government may need to consider granting greater importance to State Government to develop their rules and regulation in respect of SEZs and providing financial aid to each state Government, for setting up adequate infrastructure in SEZs.

2. The Government should concentrate on establishing the large size quality SEZs instead of concentrating on large numbers, so that the economics of scale can be achieved.
3. Government should increase minimum size of new SEZs from existing 5000 hectares to 1 million hectares.
4. Government has the responsibility on creating awareness among the villagers about the importance of the SEZs for rural development as well as economic development.
5. Government should give more incentives to foreign investors to invest more on India's government SEZs.
6. Government must find out new market to export our SEZs manufacturing goods.
7. Government should develop infrastructure facilities such as power, road, telecom policy should be favourable to start new SEZs.
8. Generation of additional economic activities.
9. Promotion of investment from domestic sources.

CONCLUSION:

The establishment of the SEZs has undoubtedly helped to increase the volume of international trade. Further, a large amount of FDI has found its way not only into the export trade, but also into infrastructure construction and commerce. Advanced foreign technology has been brought in with the inflow of FDI. All these factors have contributed to the growth of Indian Economy through SEZs exports. In India employment opportunities has been increased through SEZs with FDI. But in the study period shows that it has been declining in FDI as well as employment opportunities. Even the FDI inflow equity in India also has been decline drastically because of poor infrastructural facility such as transport, power, poor government policy and high cost of production and labour cost. So Government must take effective steps to bring FDI in India. The challenges now is whether India through its SEZs can leverage its cost advantage and huge knowledge base and break the hold of China in manufacturing and export by making India the preferred destination for doing business.

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