



Indian Special Economic Zones - Developmental or Detrimental?

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ABSTRACT

Not knowing the reasons and the consequences, many policies are implemented on trial and error method. One such policy is Indian Special Economic Zone policy. This research study made an attempt to list out pros and cons of Indian Special Economic Zone. Further the current analysis try to narrate whether the reasons for the implementing Special Economic Zones in India are really genuine or only an adjustment policy as alternative solution for Export Processing Zone's poor performance? The first chapter briefs about the need and methodology of the study. Chapter two lists the review of literature. Chapter three analyses the export performance of SEZ. Chapter four compares the EPZ and SEZ. Chapter five exposes the current status of Special Economic Zone and the last chapter concludes the research criteria

KEYWORDS

Introduction:

Not knowing the reasons and the consequences, many policies are implemented on trial and error method. One such policy is Indian Special Economic Zone policy. Being the first Asian country in implementing the Export Processing Zones (EPZ), India has proved that she made some genuine policies to achieve and augment the global demand from 1960's. The Government of India decided to aid the EPZ in India with financial incentives in the initial period to attract remarkable Foreign Direct Investment (FDI) inflows. EPZ and FDI in India seem to be inconsistent at some areas. For example, the Santacruz export processing zone which is supposed to be one of the largest zones in India experiences very less of FDI whereas to our surprise, Vizag being the lowest growing EPZ in India has higher proportion of FDI inflows. Thereby, the FDI flows in EPZ in India are never constant but changes accordingly. EPZs are meant to overcome both the infrastructural deficiencies and the procedural complexities which offer a more conducive investment climate and are therefore expected to be instrumental for boosting export performance in general for developing countries like India. The trade related infrastructure and institutional framework are generally deficient in developing countries. Further, too many windows in the administrative set up, barriers raised by monetary, fiscal, taxation, tariff and labour policies also increase the production and transaction costs of exports. The lack of success in EPZ export performance is related with two criteria's, either insufficient appreciation or implementation of policy linkages. After seeing the successful SEZ story from China, India has replaced the EPZ into SEZ.

Review of Literature

Aradhna Agarwal¹ in her book, Social and economic Impact of SEZs in India, narrated the historical and comparative perspective of Special Economic Zone in India. This book provides a comprehensive review of the evolution and performance of SEZs. Ajit Ranjan Mishra² in his study, states that one of the most common refrains against the SEZs has been that they failed to achieve their intended objective of encouraging manufacturing exports from India and instead became attractive centers for information technology firms to avail of tax incentives by shifting to the zones from domestic tariff areas. Ishan Bhaski³ in his article has pointed out the reasons for failure of Indian Special Economic Zone. According to him, withdrawal of MAT and DDT exemptions, absence of complementary infrastructure and problems with land acquisition are the major reasons for the failure of SEZ.

1. ARADHNA AGARWAL (2012), 'Social and Economic Impact of SEZs in India', Oxford University Press, ISBN :

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2. AJIT RANJAN MISHRA (2013), 'Study lists why India's special economic zones policy didn't work' - live mint, business news, Thu, Oct 03 2013. 11 42 PM IST
3. ISHAN BHASKI, (2014), 'Why SEZs in India have failed?' Business Standard, December 4th 2014.

Export performance of SEZ

According to Economic Survey 2010-11 and official announcement of SEZ, a total of 130 SEZs are already exporting. Out of this 75 is Information Technology (IT) / IT enabled services (ITES), 16 multi-product and 39 other sector specific SEZs. The total number of units in these SEZs is 3139. The physical exports from the SEZs have increased by 121 percent to Rs. 2,20,711 crore in 2009-10 with a CAGR of 58.6 percent during 2003-4 to 2009-10 compared to CAGR of 9.3 percent for total merchandise exports of the country for the same period. When the whole world including India was reeling under the effects of the global recession, growth in exports from Indian SEZs was 121 percent in 2009-10 compared to a paltry 0.6 percent growth in total exports from India. Exports during the first three quarters of the current year have been to the tune of Rs. 2,23,132 crore. The share of SEZs in India's total exports has increased consistently from 4.7 percent in 2003-04 to 26.1 percent in 2009-10 and 29.7 percent in the first three quarters of 2010-11.

COMPARISON OF SEZ EXPORT AND INDIA'S EXPORT

Years	Export from SEZ		Export from India		Share of SEZ Exports in Total Exports
	(Rs. Crore)	Growth (%)	(Rs. Crore)	Growth(%)	
2003-04	13,854	39.0	2,93,367		4.7
2004-05	18,314	32.2	3,75,340	27.9	4.9
2005-06	22,840	24.7	4,56,418	21.6	5.0
2006-07	34,615	51.6	5,71,779	25.3	6.1
2007-08	66,638	92.5	6,55,863	14.7	10.2
2008-09	99,689	49.6	8,40,755	28.2	11.9
2009-10	2,20,711	121.4	8,45,534	0.6	26.1
2010-11	3,15,868	43.1	11,36,964	34.5	27.8
2011-12	3,64,478	15.4	14,65,959	28.9	24.9

2012-13	4,76,159	30.6	16,34,319	11.48	29.1
2013-14	4,94,077	3.76	19,05,011	16.6	25.9

Source: Export Import Data Bank, Department of Commerce, 2014

FIG. 1 COMPARISON OF SEZ EXPORTS AND INDIA'S EXPORT.
(VALUE IN RS. CRORES)

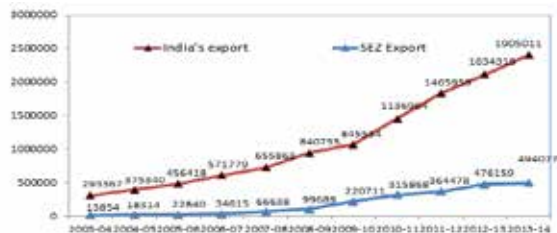
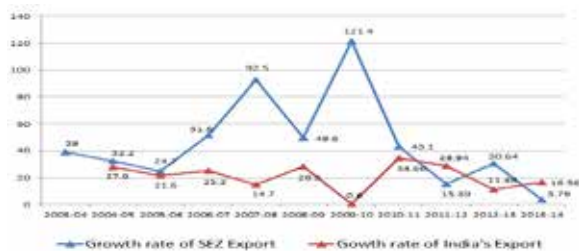


FIG. 2 COMPARISON OF GROWTH RATE BETWEEN SEZ EXPORTS AND INDIA'S EXPORT



Comparison of EPZ and SEZ

The difference between the SEZs and EPZs are compared with list of factors which are tabulated for easy understanding.

S.No	Factor	Special Economic Zone	Export Processing Zone
1	Geographical Area	Larger Coverage	Limited Coverage
2	Scope	Comparatively high	Less
3	Presence	Established in all the countries	Established in developed or developing countries
4	Infrastructure	Consist of manufacturing units, trading complex, service units, townships, roads, Hospitals, Schools and other services	Confined only to the manufacturing unit
5	Purpose	Export Promotion, generation of more employment opportunities, world class infrastructure, production of Competitive products etc	Developing the Export business
6	Business field	Manufacturing, trading and Service	Only manufacturing
7	Tax benefits	Comparatively more benefits such as 100 percent Income Tax for SEZ units under section 10AA of the Income Tax Act for the first 5 years, 50 percent for the next 5 years thereafter and 50 percent of the ploughed back export profit for next 5 years. Single window clearance for Central and State level approvals, exemption from minimum alternate tax under section 115JB of the Income Tax Act and External Commercial Borrowing by SEZ units upto US \$ 500 million in a year without any maturity restrictions through recognised banking channels.	Mainly Tax holidays

8	Accountability	Limited Accountability of export performance	Penalty and duty recovery in case of shortfall
9	Import duty	Import duty for the consumption of raw material free for 5 years	Free for 1 year
10	Inspection	Less interference in the inspection of the premises by customs department	Routine customs inspection of cargo
11	Foreign Direct Investment	The manufacturing unit does not require sanction from the board	It is compulsory to get sanction from the board
12	Procedure	Single window clearance	More formalities.

Current Status of SEZ in India

The Ministry of Commerce and Industry has given the fact sheet about the current position of SEZ in India as on 31st December 2015. The investment has increased from Rs.4,035.51 cr. in 2006, to Rs.3,73,445.83 cr. till date. This huge investment in the last decade definitely makes the economy into a remarkable change. The values of export show the positive symptoms of development in the economy. However the employment opportunities created during these years through this investment is paltry. So it is difficult to express in single word that whether the Indian Special Economic Zones are developmental or detrimental.

Current position of Key factors of SEZ

Number of Formal approvals	415		
Number of notified SEZs	329		
Operational SEZs	205		
Units approved in SEZs	4127		
INVESTMENT			
	Investment (as on February 2006)	Incremental investment	Total investment
Central Govt. SEZs	Rs. 2,279.20 cr.	Rs. 12,581.76 cr.	Rs. 14,860.96 cr.
State/Pvt. SEZs	Rs. 1,756.31 cr.	Rs. 9,205.20 cr.	Rs. 10,961.51 cr.
SEZs notified	-	Rs. 3,47,623.36 cr.	Rs. 3,47,623.36 cr.
Total	Rs. 4,035.51 cr.	Rs 3,69,410.32 cr.	Rs. 3,73,445.83 cr.
EMPLOYMENT			
	Employment (as on February 2006)	Incremental employment	Total employment
Central Govt. SEZs	1,22,236 persons	1,18,816 persons	2,41,052 persons
State/Pvt. SEZs	12,458 persons	63,816 persons	76,284 persons
SEZs notified	0 persons	12,39,201 persons	12,39,201 persons
Total	1,34,704 persons	14,21,833 persons	15,56,537 persons
EXPORTS			
Export in 2013-14	Rs. 4,94,077 cr.		
Export in 2014-15	Rs. 4,63,770 cr.		
Export in 2015-16 (as on 31 st Dec. 2015)	Rs. 3,41,685 cr.		

Source: sezindia, MOCI.

Conclusion

One of the main objectives of SEZ is to create more employment opportunities. However, the investment employment ratio of SEZ shows that there is a failure in implementing the SEZ policy as the amount invested for SEZ, in order to create employment opportunities. Suppose the investment of Rs. 3, 73,445.83 cr. are spent on other way, we may create more employment opportunities in India. As of now, the total employment created through SEZ is 15, 56,537 persons which means that per employment cost in SEZ is 24 lakhs. If these amounts spent on MSME, we may create billions of employment opportunities with high turnover in production. Therefore it is concluded that, compared to enjoyment of developmental activity through SEZ, there are more detrimental factors like land acquisition, wrong investment, weak fiscal policy, loss of revenue and declining export performance.

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