

# ROLE OF SEZ IN INDIAN ECONOMIC DEVELOPMENT

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**Abstract:** *Economy is explicitly identified using instrumental variables and economic development means the sustained, concerted effort of policy makers and community to promote the standard of living and economic health in specific area.*

*SEZs are specifically delineated area within the domestic territory, that is treated as foreign territory in the context of trade and tariff. The idea is to facilitate exports through special tax treatment to the units operating within SEZ on a competitive basis – In brief, SEZs are geographic regions designated for economic development through inward FDI and exports, and supported by special policy incentives by the government. SEZs are known in different names like, free zones and free trade zones, industrial free zones, free trade and industrial zones, tax free factories, bonded zone, ports, etc. This paper is based on secondary data and maps have been prepared with the help of D.T.P. (CoralDRAW).*

*This paper endeavours to discuss the role of SEZ in economic development of our country. It throws light on the facts and figures related to SEZ in various parts of India and how it plays a vital role in upgrading Indian economy.*

**Key Words:** *SEZ, FDI, Employment, Export, EXIM policy.*

## 1. INTRODUCTION:

Special Economic Zones (SEZ) was set up by the Government of India to augment infrastructure facilities for export production. SEZs are specifically delineated duty free enclaves and are deemed to be foreign territories for the purposes of trade operations, duties and tariffs.

It is widely presumed that India has modeled its Special Economic Zones based on Chinese's zones of economic prosperity. In fact, in the EXIM policy 2000, when the concept of Special Economic Zone (SEZ) was introduced in India many believed that the inspiration came from the visit of the then Commerce Minister, Late Murasoli Maran, to Guangdong (China). However the concept of demarcating an area on the basis of export orientation can be traced back to 1965 when first Export Processing Zone was established in Kandla (Gujarat) to provide goods for Russia. Through the 1980's and first half of 1990's saw a slow rise in the number of such zones. The Chinese experiment with SEZ did give a new direction to the idea in India, which finally culminated in the formulation of the SEZ Act (2005).

## 2. OBJECTIVES:

- To review the role of SEZs in Indian Economy.
- To analyse the contribution of SEZs in terms of investment, exports and employment in the country.

## 3. METHODOLOGY:

This paper is based on secondary data. Data have been collected from various publications of Government and NGOs. Information retrieved from internet have been widely used. Similarly, the reports and reviews of SEZs appeared in prominent economic and political journals are a potential sources of information in preparing this paper. Data have been graphically represented and maps have been prepared using D.T.P. (CoralDRAW) software.

**SEZs in India** – India took the lead in setting up the first EPZ in Asia at Kandla in 1965. The second EPZ came up in Mumbai in 1974. Four more zones were set up at Noida, Chennai, Cochin and Falta during the mid-eighties. In the 1990s, there was extended interest in developing more SEZs in the country. The SEZ Act was passed in May, 2005 by the Parliament. It received presidential assent on June 23, 2005 and came into effect on February 10, 2006 supported by SEZ Rules. As on 10<sup>th</sup> May, 2018, there are 130 operational SEZs out of the 377 notified SEZs, which have been formally approved since February, 2006.

The main objectives of the SEZ Act are, (a) Generation of additional economic activity, (b) Attracting investments both domestic investment and foreign direct investments, (c) Creation of employment opportunities, (d) Export promotion, (e) Development of infrastructure facilities. It is expected that this will trigger a large flow of

foreign and domestic investment in SEZs in infrastructure and productive capacity, leading to generation of additional economic activity and creation of employment opportunities.

#### 4. Role of SEZs in Economic Development:

Industrialisation and trade expansion have reinforcing effect in economic progress and generating employment. And many countries in the world have successfully created SEZs as special purpose policy instruments for development and growth. According to the latest ILO figures there are, at present, more than 5174 export processing zones world-wide, employing 42 million people. China accrued the maximum advantage of 30 million employments in SEZs, Asia (China excluded) gives employment to 6 million whereas Central America gives Employment to 2 million. The number of operating zones in different geographical area along with their respective employment generation. Central America & Mexico have 3300, the largest number of export processing zones as against Asia with 749 zones followed by North America with 713 zones. Amongst the individual countries, United States with 366 zones has the largest number of zones. Even though India was pioneer to set up export processing zones, in 1966, in Asia, there were only nineteen zones operating in the country up to 2006-07. The prospects seem brighter as thirtyeight zones became operational during 2007-08 as per SEZ Rules, 2006.

By contrast, the slow development of the existing SEZs led India to introduce a new policy in 2005. The previous policy, while giving considerable tax advantage, had not overcome the administrative barriers to business that typify India nor did it overcome infrastructure barriers, notably for road and electricity. The new policy relies on private developers to create the zone and provide all infrastructure with the objective of generating additional economic activity and creating employment. While an optimal policy might be to remove the restrictions country wide, the current SEZ policy, if successful, could act as a catalyst for change in the whole economy. By the end of 2007, the Government expects that foreign companies will have invested up to US\$ 6 billion and created half a million jobs.

The various aspects related to economic development are discussed in details:-

#### 4.1 Investment in SEZs

In most economics, SEZs plan or try to attract foreign multinational enterprises. This is considered as a catalyst effect or we can say SEZ's increases the rate of growing. Its intention is to attract the foreign companies by the means of using more foreign technology and management skills so that they can have more rate of exportation and increase it's export base. A study says that in Mauritius case, EPZ's played a very important role in the country 's development by appealing new ideas, thoughts and knowledge. In India's case, it is seen that the Indian government's adjustment towards SEZs reform (SEZs act, 2005) as part of it's economic strategy has resulted increased investment in the sector. Total investment in SEZs till 31st December 2018 was approximately ₹195348 crore. The following figure suggest that most of the investment in SEZs was made in the tow succeeding year following the approvemement of the SEZs act in 2005.

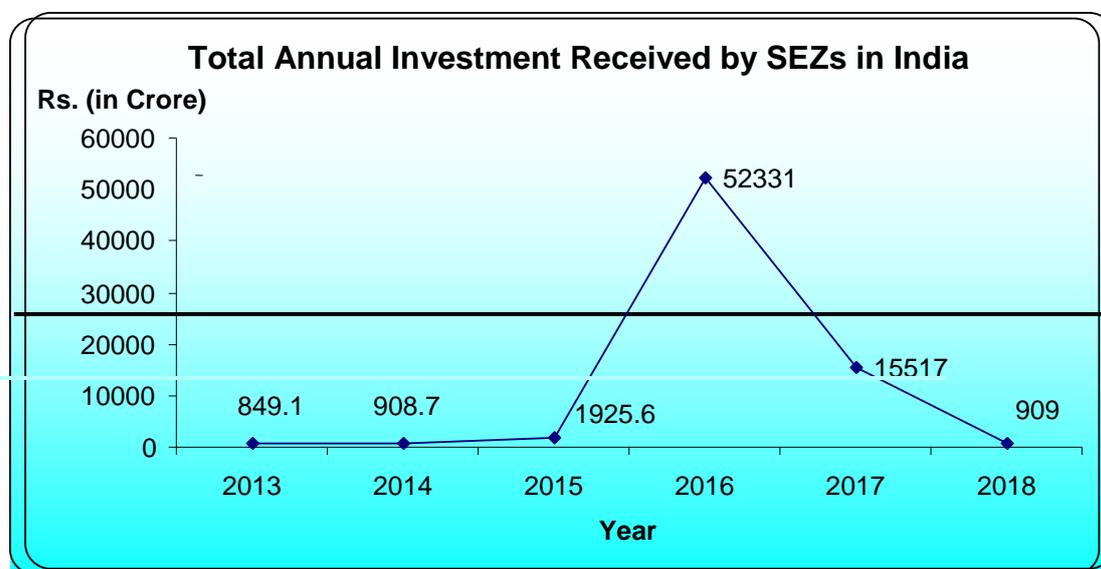


Fig. 1

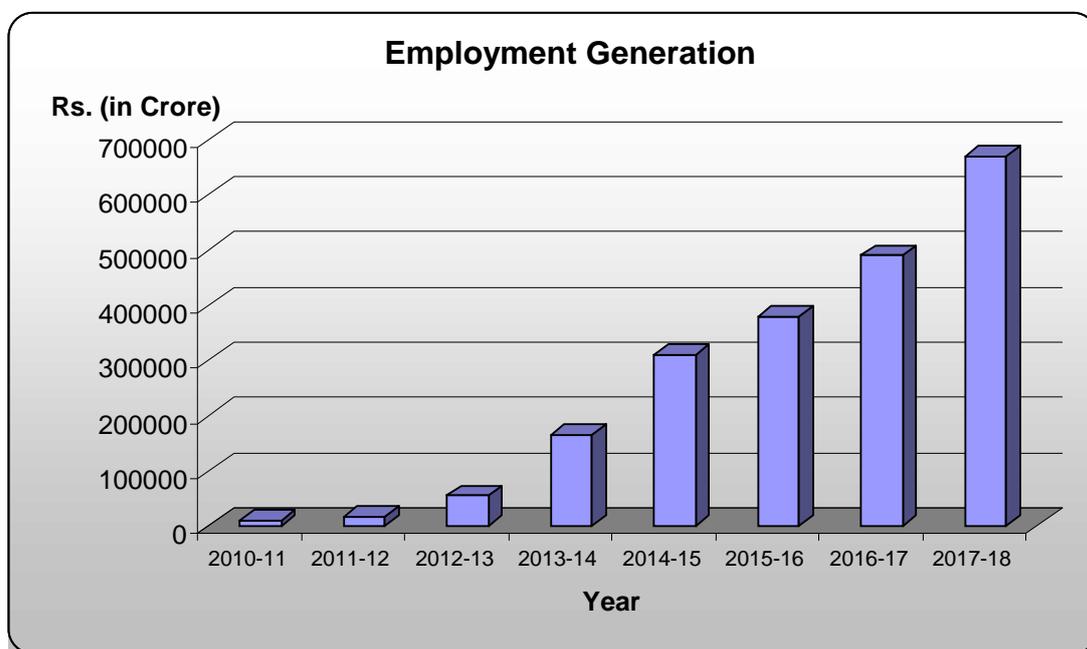
The other important worry is that in spite of the SEZs act recommending investment to promote exports in the manufacturing and service sectors, the main contributor to the development of SEZs in India has been the IT/ITES sector. FDI investment in SEZs is basically in manufactured goods and services for the Indian market (except in the case of IT and IT enabled service) rather than for the export market

#### 4.2 Employment

Generation of job's for the region's population be it direct and indirect employment, it is seen as one of the major spillover effects of setting up of SEZs in the growing and changing economies. Significantly, generation of direct jobs in SEZs in India is on the rise post - SEZs act ,2005 . The structure of employment generation also reveals that a good number of job opportunities in SEZs have been seen for the female population.

According to the economic survey of 2017-18, out of the total employment of 644073 persons in SEZs, a gradual employment of 509369 persons was created after February, 2006 when the SEZ act came into action. The survey further states that (1) at least double of this number obtains indirect employment outside the SEZs as a result of operations of SEZs units and that, (2) this is in addition to the employment created by the developer for framework and infrastructural activities. However, the employment created by the SEZs is not uniform across sectors and regions. Besides, the job's so created by SEZs may have come at the expense of the jobs in the primary sector or agricultural sector. These problems are discussed in the following section.

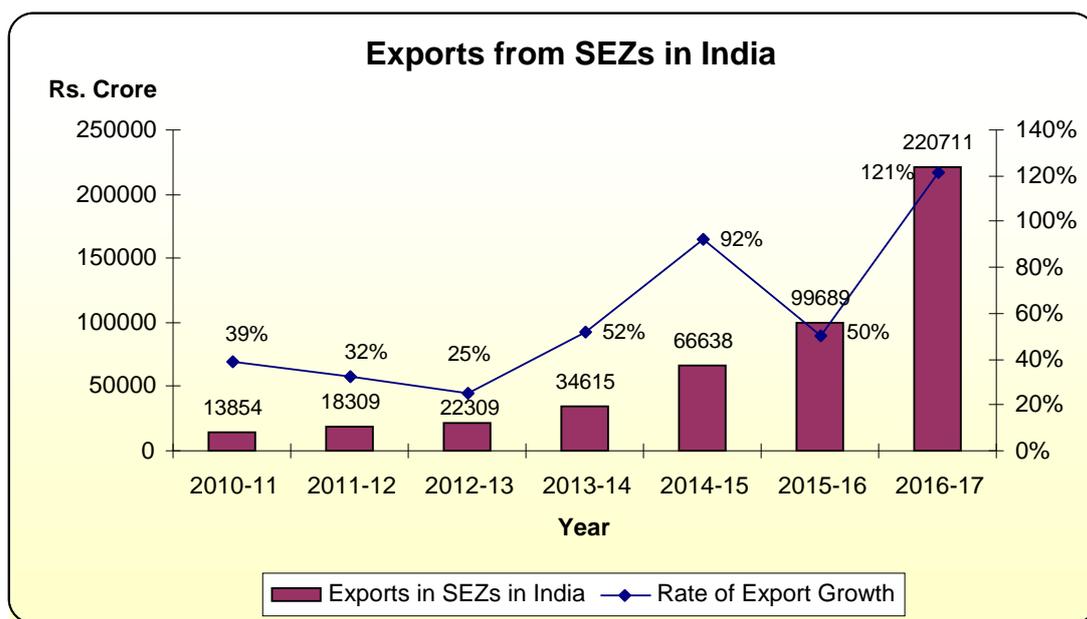
SEZ provides employment opportunities to all, that is to skilled, semi- skilled and unskilled workers. More and more people are provided with jobs at SEZs. Which we can see clearly from fig 2, that throw the light on the fact that more and more people are getting job opportunities by SEZs as per the bar graph. The bar graph shows an increasing trend from 2003 to 2011, which is highest in 2010-11.



**Fig. 2**

#### 4.3 Exports from SEZs

The establishment of SEZs is seen as an important strategic tool to expedite the growth of trade in a region. Trade expansion is mainly measured in the form of increased exports as units set up in an SEZ have to produce goods and services mostly for exports. Hence, the increased level of exports has been critical to the success of SEZs and is directly related to productivity gains. An annual trend analysis of the cumulative exports contribution of all the SEZs in India reveals that they have had a catalytic effect in promoting goods and services in the international market. It is observed that the contribution of exports from SEZs to the overall exports from India has increased from 4.7 percent in 2010-11 to 26 percent in 2016-17. Physical exports from SEZs have increased by 121 percent to Rs. 2,20,711 crore in 2016-17, with a compound annual growth rate (CAGR) of 58.6 percent during the period 2010-11 to 2016-17 compared to the CAGR of 19.3 percent for the total merchandise exports of the country for the same period.



**Fig. 3**

Exports from the new SEZs i.e. SEZs notified under the SEZ Act, 2005, have grown rapidly over the years. Their share at 53.4 percent is the highest in 2009-10 compared to central government SEZs and state government/private SEZs that were established prior to the enactment of the SEZ legislation in 2005.

From Fig. 3 it becomes clear that exports in SEZs in India from 2010 to 2017 has seen an increasing trend whereas rate of export growth shows decline from 2010 to 2012 that increase from 2012 to 2014-15, again a decreasing trend was observed in 2015-16 and from 2015 to 2017 there was rate of increase in growth.



**Fig. 4**

This Fig. 4 shows increasing trend in exports from 4.70% in 2003-04 to 26.10% in 2009-10 in total exports.

#### 4.4 Regional Development

While SEZs are conceptualized to achieve balanced growth across all the regions of the country, ironically, statistics reveal that out of the 377 notified SEZs in India, 211 are in the most developed states of the country. Table 1 provides the details on the state-wise distribution of the SEZs. The numbers are themselves testimony to the persisting imbalance in the locational preferences of SEZs in India.

**Table 1 : State-wise Location of Notified SEZs**

States with Greater No. of SEZs		States with Greater No. of SEZs	
State	No. of SEZs	State	No. of SEZs
Andhra Pradesh	75	Chhattisgarh	1
Maharashtra	63	Jharkhand	1
Tamil Nadu	57	Uttarakhand	1
Gujarat	29	Orissa	6
Karnataka	36	Madhya Pradesh	6
Haryana	35	Rajasthan	9

Source : Special Economic Zones in India, Dept. of Commerce, Ministry of Commerce & Industry, Govt. of India. Available only at <http://www.sezindia.nic.in/writeraddata/pdf/StatewiseDistribution-SEZ.pdf>.

The theory of regionally imbalanced development proposes that lagging regions could obstruct the overall process of economic growth. Given the vast number of SEZs in India, the successful integration of these zones into the regional and urban context will have great positive impact on the overall economic development of the country. The other concern highlighted in a few of the studies (Shah, 2008) is that the SEZ Act, 2005, seeks to accelerate increased economic activity by developing world class infrastructure and supporting the development of linkages infrastructure around the region. Ironically, in the case of India, most of the SEZs are located in close proximity to the major transportation networks and they have strong linkages to the domestic and international economics.

Overall, the contribution of SEZs to economic growth of the country has been modest, as the pattern of exports is skewed towards IT and related services. Also the exports performance of India SEZs appears to be low in comparison to that of SEZs in China. Further, the contribution of SEZs to the Indian economy is not commensurate with their number in terms of the amount of private investment, especially with respect to attracting FDI. In the light of these developments, it can be argued that the expected benefits from SEZs have yet to be realized.

Despite these modest gains, the government is establishing SEZs at a pace that is likely to make India the hub of the largest number of SEZs in the world in the near future. Some might argue that every development has a cost associated with it, and the question really is about the efficiency with which a government is able to balance the losses with the gains. It is vital that we look at this question in the context of the land grab, forceful evacuation, population displacement and resettlement, and unfair land deals that have recently mired Indian SEZs in controversy.

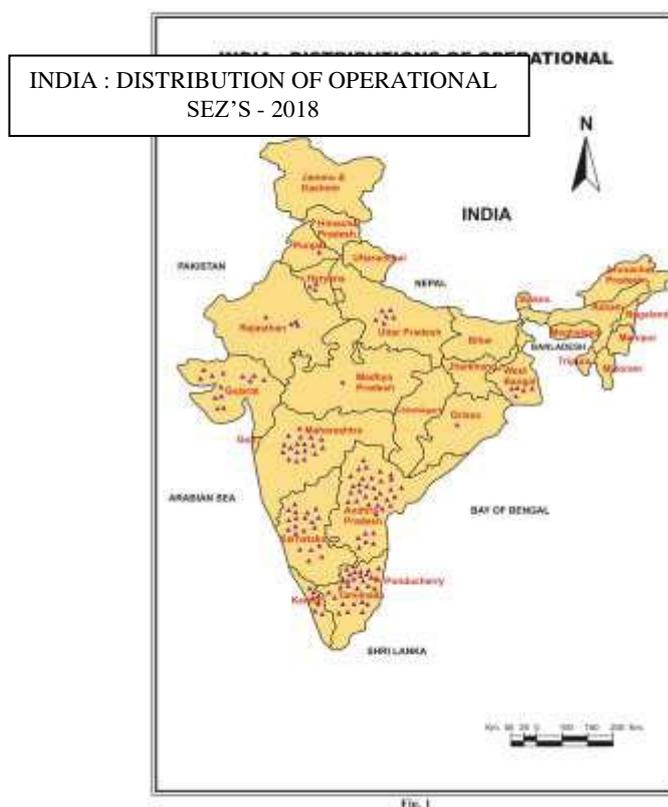


Fig. 1

Map 1 throws light on the operational SEZ in India with maximum operational SEZ in states of Southern India namely Maharashtra, Karnataka, Andhra Pradesh, Kerala & Tamil Nadu. Medium number of operational SEZ are found in Gujarat, West Bengal, Haryana and Uttar Pradesh and minimum concentration of operational SEZ are in states of Rajasthan, Madhya Pradesh, Orissa and Punjab.

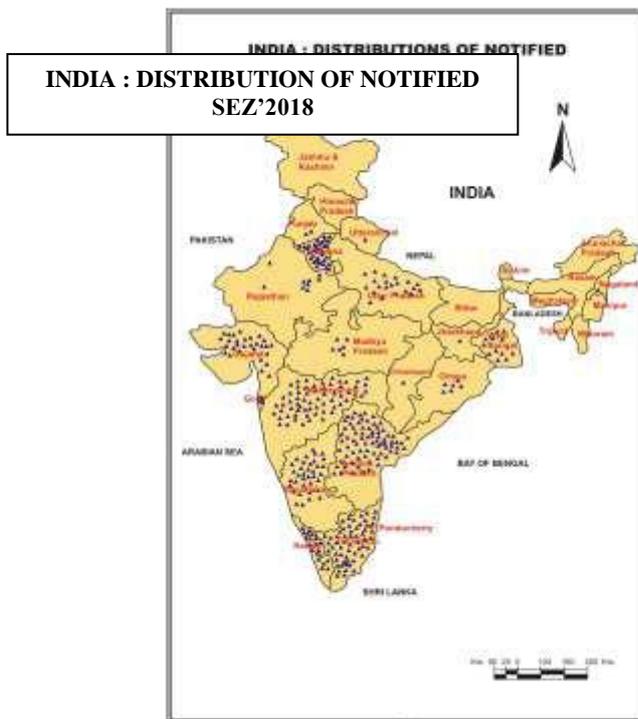


Fig. 2

Map 2 shows the notified SEZs in India 2018. From the map it is clear that notified SEZs in India are concentrated in Southern Rajasthan inclusive of Karnataka, Maharashtra, Andhra Pradesh, Kerala, Tamil Nadu besides Gujarat in West, West Bengal in East, Haryana and Uttar Pradesh in Central India. Medium concentration of notified SEZ is in Rajasthan, Orissa and Madhya Pradesh and minimum notified SEZ are in India of Chattisgarh, Punjab, Uttaranchal and Nagaland. This is also clear from table 1.

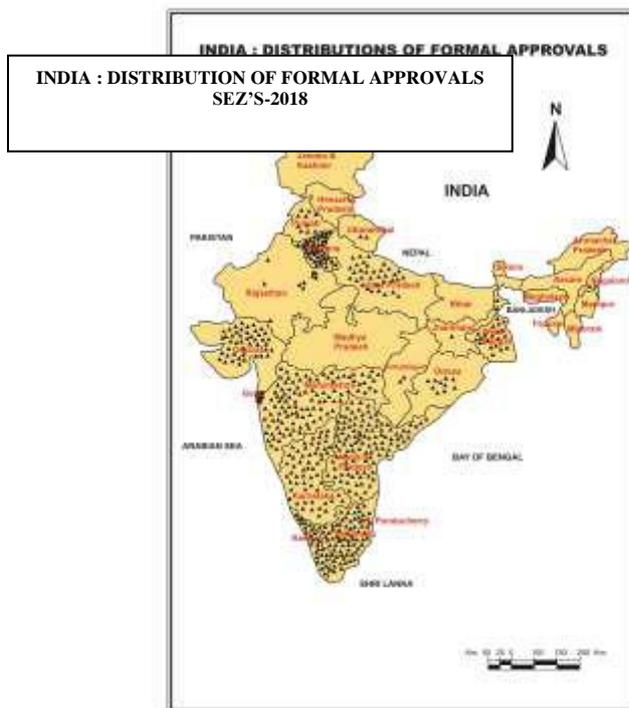


Fig. 3

Where Map 3 shows the location of formally approved SEZ in India 2018. From the map it is clear that SEZ are more concentrated in Southern India inclusive Maharashtra, Andhra Pradesh, Karnataka, Tamil Nadu, Kerala besides Gujarat in West and West Bengal in East, Haryana and Uttar Pradesh in Central India. Orissa, Rajasthan, Punjab state have very few formally approved SEZ and Uttaranchal, Chattisgarh, Jharkhand and Nagaland the minimum.

From the above three maps the picture becomes clear that SEZ is much more functional in states of Southern India whether we deal with operational, notified or formal approval of SEZ and has minimum SEZ concentration in states of Chattisgarh, Nagaland have minimum notified and formal SEZ in India. Whereas minimum operational SEZ are in Rajasthan, Madhya Pradesh, Orissa and Punjab. Therefore specifying the fact that most developed states of our country have maximum operational, notified and formal SEZ in India.

#### **4.5 Migration in SEZ**

With a large scale migration of population from rural to urban areas. As SEZs are growing, (it is 114 now more than 500 SEZs have got approval) there is change of employment in those industries set up in the SEZ area. As unemployment is more in India, SEZs can be helpful in providing jobs. People can be diverted from agriculture and take part in the process and there is chance of technically educating people. In India, there are more than 60% of people working in agricultural sector could not consist of these much people. There needs to be migration from agricultural sector to other sectors. SEZs can give this chance to people. SEZs give impetus to industrial growth. There needs to be a harmonious growth between sectors.

#### **5. CONCLUSION:**

It is seen that SEZs are a part of the new economic reforms ongoing in our country. In China, SEZs have made an impact in terms of reduction in poverty and increase in growth rate. But on the negative side, there has been increase in pollution, crime and inequality even in China. This may repeat in India also. Staggering inequalities and social evils that are existing now will get a tremendous boost. Speculation and real estate lobbies may be stronger. Trade unionism may be weakened resulting in labour inflexibility and denied of labour rights. Hence, enough precautions are needed before strengthening and extending the existing programme of SEZ in India.

#### **6. SUGGESTIONS:**

- SEZ policy has been endeavoured in our economy for FDI (Foreign Direct Investment) and for exports politically. SEZ have been introduced in areas which had already been existing as industrial region providing employment to the people around those regions. Although it is written that agricultural areas come under SEZ, but SEZ provide the people with annual employment instead of seasonal employment thus giving a rise to the standard of living by just bringing a change in land use pattern.
- The location of SEZ was defined in terms of proximity to big cities, to port, airports, railway station and whether in a specific state.
- SEZ should be established in such regions of India which are economically backward and agricultural land under SEZ should be avoided instead barren land or single cropped land should be opted for its location, and should also be located about 50 kms from the urban area.
- The environmental preservation cost of conversion of agricultural zone to industrial enclave should be under consideration.
- Favourable compensation to land owners to be offered to the affected persons which should include, (i) company share to the stakeholders, (ii) job opportunity to the affected families, (iii) surplus labour should be trained so that the unskilled labourers could be deployed in ancillary activities, (iv) for providing alternative means of livelihood to the farmers.
- The investment in SEZ should be of the countrymen only instead of foreign bodies so that the people of our country are benefited by it.

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