

---



---

## SPECIAL ECONOMIC ZONE AND REGIONAL DEVELOPMENT

**Dr.Mrs. B.W. Thangamani**

Associate Professor

Department of Economics,

National Defence Academy, Pune

---



---

### **Abstract**

*Indian economy is a developing and an emerging economy by having surplus man power. Demographic dividend will be achieved fruitfully by utilising the surplus manpower with the help of inviting foreign direct investment at a broader level. Moreover developing countries are not able to compete with the developed countries in terms of technological efficiency, skilled manpower and adequate capital. India is facing severe problems of capital deficiency, poverty, unemployment and regional differences. Moreover India's exports in the world trade stands just 1 percent. Despite having a huge population china has achieved higher economic growth rate by introducing the special economic zone in manufacturing sector in late 70s and early 80s, whereas India has initiated the launch of liberalisation and the globalisation policies by following china's footsteps in the early 90 s and the latter years. This paper attempts to analyse impact of special economic zone in generating employment, output, regional development and exports of the country in the reform period.*

**Key words:** *Special Economic Zones (SEZs), growth, investment, regional development, export competitiveness.*

### **Introduction**

Special Economic Zones (SEZs) have been recognised as an important mechanism for trade and investment promotion, creation of infrastructure, employment generation, promotion of regional development, increase in foreign exchange earnings, improving export competitiveness and transfer of skills and technology. These are considered as growth drivers in the developing countries. The SEZs have been in existence for decades, but have attracted renewed attention world-wide in recent years due to globalisation of trade and financial markets. Historically, SEZs were the result of the spurt in economic growth. It is well recognised that the SEZs are instrumental in developing local and regional infrastructure facilities, which in turn are necessary for overall economic development of a country. Therefore it is very necessary to analyse the role of SEZ on India's economic development for the present and the future development aspects.

### **Objectives of the Study**

1. To analyse the structure and growth of SEZ in the Indian economy
2. Adequate infrastructural facilities with skilled manpower would enhance the generation of employment, output and exports of the country
3. To suggest measures for improvement.

### **Methodology**

All the information was gathered by secondary sources such as articles and publications, various government journals and magazines, ministry of commerce sites and other government sites. The collective data was then analyzed and studied to derive meaningful conclusions as per the title and objectives.

### **Performance of SEZs**

The basic objectives of these zones were to promote exports and employment opportunities. Investors' interest in setting up of SEZs in India has increased many folds during the recent

## SPECIAL ECONOMIC ZONE AND REGIONAL DEVELOPMENT

period since the enactment of SEZ Act 2005 and subsequent announcement of SEZ rules, which came into existence in February 2006. In India, SEZs have played an important role in facilitating exports, thereby enabling the country to be a part of globalisation. Manufacturing sector significantly dominates India's SEZ exports, however in the recent past, export oriented units in various subsectors of manufacturing are moving into SEZs – specially light and heavy engineering industries, electronics industries and auto and auto-components industries. Besides these, industries which are being impacted by reducing tax breaks too are now moving towards SEZs. The gems and jewellery sector also has benefited as a lot of such units have relocated to SEZs to avail the tax incentives.

Geographical distribution – South India leads the way South India is ahead of other regions in taking advantage of the tax-free special economic zones scheme as 91 of 143 operational SEZs are located in the four southern states. According to the Department of Commerce, Andhra Pradesh leads with a maximum number of 36 operational SEZs followed by Tamil Nadu (28), Karnataka (20) and Kerala (7), according to latest government data. The sector-wise data shows that out of 143 operational SEZs as of September 2011, a significant majority relate to IT/ITeS and electronic hardware. One of the reasons for the rush of these sectors in SEZs was stated to be the sunset clause on earlier schemes like Software Technology Parks of India (STPI). 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. As evidence over the

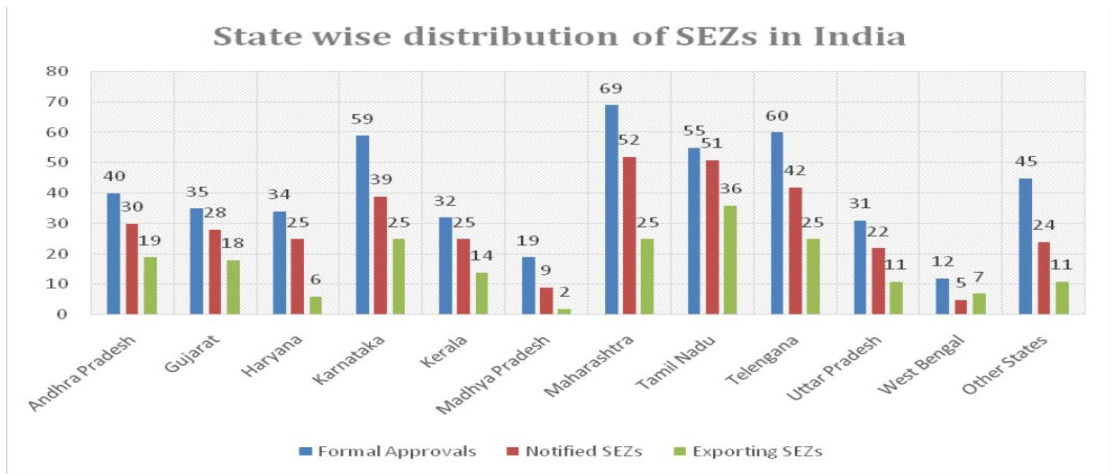
The Reserve Bank of India says that large tax incentives can be justified only if SEZ units establish strong “backward and forward linkages with the domestic economy” which is a doubtful proposition. Even the International Monetary Fund's (IMF) Chief Economist Raghuram Rajan has warned: “Not only will [the SEZs] make the government forgo revenue it can ill afford to lose, they also offer firms an incentive to shift existing production to the new zones at substantial cost to society.”

### Advertisements

Interestingly, Gujarat has also formulated the Gujarat SEZ Authority Rule to provide clarity on the conferred powers to various state government authorities and their responsibilities. The states of Jharkhand, UP, Karnataka, Punjab, Chandigarh, Kerala, West Bengal, Maharashtra, and Madhya Pradesh have also laid down State SEZ Policies. Still, only seven states – Andhra, Telangana, Maharashtra, Gujarat, Tamil Nadu, Kerala and Karnataka – account for about 92% of all established SEZs in India. The new initiatives such as Make in India, Skill India and Digital India were introduced by the present NDA government to facilitate the ease of doing businesses in the country. The Special Economic Zones has made Indian economy compatible with other global economies like China,

## SPECIAL ECONOMIC ZONE AND REGIONAL DEVELOPMENT

Figure 1 State wise Distribution of SEZs in India as on December 2014



The latest figures from The Ministry of Commerce and Industry (MoCI) show that most of the Indian SEZs are concentrated in very few states. As of December 2014 around 85% of formally approved SEZs are located in 9 states alone, The latest figures from The Ministry of Commerce and Industry (MoCI) show that most of the Indian SEZs are concentrated in very few states. As of December 2014 around 85% of formally approved SEZs are located in 9 states alone, The latest figures from The Ministry of Commerce and Industry (MoCI) show that most of the Indian SEZs are concentrated in very few states. As of December 2014 around 85% of formally approved SEZs are located in 9 states alone, that is in the states of Andhra Pradesh, Karnataka, Tamil Nadu, Gujarat, Haryana, Maharashtra, Kerala, Telengana and Uttar Pradesh. A sum of 179 exporting SEZs are lying in these 9 states out of the 199 exporting SEZs. Latest figures show that 5 more SEZs have further, as per the Commerce Ministry there are 225 non-operational SEZs in the country. The focus of SEZs in these specific states limits the scope of the scheme, i.e. employment generation, infrastructural development and balanced regional growth. The states with coastal areas are not fully utilizing the benefits available to them in the form of easy access to ports. According to Commerce and Industry Minister Nirmala Sitharaman, over 90 percentage of the land has been lying vacant of the area notified for setting up of 58 SEZs for the last five years throughout the country. Proper use of idle land can help enhance the productivity of SEZs and generate more employment

**Source:** Annual Report 2014-15, Department of Commerce, Ministry of Commerce and Industry, Government of India.

The latest figures from The Ministry of Commerce and Industry (MoCI) show that most of the Indian SEZs are concentrated in very few states. As of December 2014 around 85% of formally approved SEZs are located in 9 states alone, that is in the states of Andhra Pradesh, Karnataka, Tamil Nadu, Gujarat, Haryana, Maharashtra, Kerala, Telengana and Uttar Pradesh. A sum of 179 exporting SEZs are lying in these 9 states out of the 199 exporting SEZs. Further, as per the Commerce Ministry there are 225 non-operational SEZs in the country. The

## SPECIAL ECONOMIC ZONE AND REGIONAL DEVELOPMENT

focus of SEZs in these specific states limits the scope of the scheme, i.e. employment generation, infrastructural development and balanced regional growth. The states with coastal areas are not fully utilizing the benefits available to them in the form of easy access to ports. 46An Evaluation of Special Economic Zones (SEZs) Performance Post SEZs Act 2005

**Source:** Annual Report 2014-15, Department of Commerce, Ministry of Commerce and Industry, Government of India.

Figure1. State wise distribution of SEZs in India as on December 2014 The latest figures from The Ministry of Commerce and Industry (MoCI) show that most of the Indian SEZs are concentrated in very few states. As of December 2014 around 85% of formally approved SEZs are located in 9 states alone, that is in the states of Andhra Pradesh, Karnataka, Tamil Nadu, Gujarat, Haryana, Maharashtra, Kerala, Telengana and Uttar Pradesh. A sum of 179 exporting SEZs are lying in these 9 states out of the 199 exporting SEZs. Latest figures show that 5 more SEZs have 2015. Further, as per the Commerce Ministry there are 225 non-operational SEZs in the country. The focus of SEZs in these specific states limits the scope of the scheme, i.e. employment generation, infrastructural development and balanced regional growth. The states with coastal areas are not fully utilizing the benefits available to them in the form of easy access to ports. According to Commerce and Industry Minister Nirmala Sitharaman, over 90 percentage of the land has been lying vacant of the area notified for setting up of 58 SEZs for the last five years throughout the country. Proper use of idle land can help enhance the productivity of SEZs and generate more employment.

### Sector Wise Distribution of SEZs in India

The major sectors involved in the scheme are IT/ ITESs, hardware and electronics, engineering, pharmaceuticals/chemicals, multi-product, biotech, etc. These sectors alone account for more than 80% of the total formal approval granted so far. The fact is that about 71% formally approved SEZs are notified and more than 56% of them have started exporting. Major share of IT/ITES and Engineering shows the dominance of services sector in the scheme and it provides employment opportunities to skilled people than to unskilled. There are around 4000 units in different SEZs across the different sectors. The Comptroller and Auditor General of India (CAG) says that there is an imbalance in the growth of IT/ITES and manufacturing sectors in Indian SEZs. It also argued that manufacturing sector is discouraged by not offering much benefit. Since the employment generation and balanced growth are the major objectives of the SEZ scheme it cannot be achieved by focusing only on IT/ITES sectors. Due consideration on the manufacturing sector can generate more employment opportunities especially to semi-skilled and unskilled laborers and thereby improve the standard of living of the people around the SEZs. Manufacturing sectors are less encouraged by the government, so most of the SEZs developers are focused on service sectors. The 'Make in India' program initiated by the government recently is a best opportunity to establish more manufacturing SEZs in the country. The following diagram shows the sector wise distribution of exporting SEZs in the country.

### SPECIAL ECONOMIC ZONE AND REGIONAL DEVELOPMENT

Figure 2 Sector wise Exporting SEZs as on December 2014

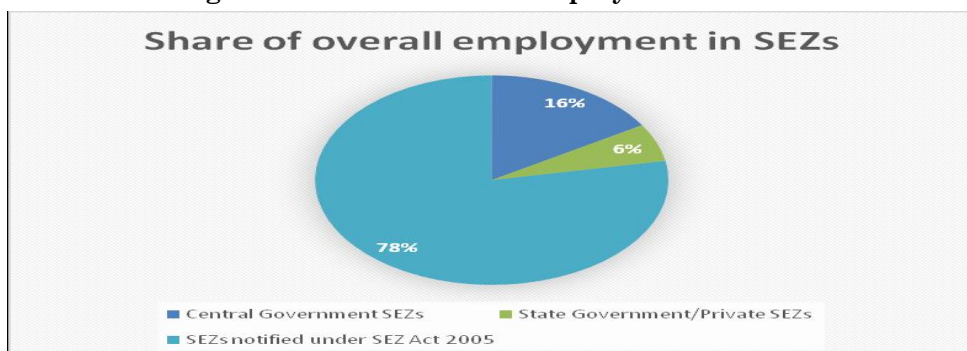


**Source:** Annual Report 2014-15, Department of Commerce, Ministry of Commerce and Industry, Government of India.

### Investment and Employment in Special Economic Zones

The main feature of SEZs in India is 100% FDI through automatic route in almost all sectors. SEZs in India are largely attracted by the domestic as well as foreign and NRI investors. Since the inception of SEZ Act 2005 there has been a constant increase in the overall investment across the sectors. Overall investment has rose from Rs. 108903 crores in the year 2008-09 to Rs. 318446 crores in the year 2014, reporting an increase by 192 percent during that period. With regard to employment generation newly notified SEZs contributed around 78% of total employment generated till June 2014, which indicates that these SEZs have made a substantial contribution in overall investment and employment generation compared to SEZs established prior to SEZ Act 2005. The data analysis about employment generation revealed that there is problem of employment generation throughout the country. The data analysis regarding employment generation shows that the size and category of employment generated in the IT-ITES sector in Tamil Nadu, Karnataka, Andhra Pradesh, and Punjab. In Maharashtra and Gujarat, it has been predominantly multi-products and services The eastern region has been lagging in this respect. It is also found that the scope for the displaced farmers being given jobs by the SEZs themselves is limited because they do not possess the required skills. Also more than two thirds of the notified SEZs are located in five States — Andhra Pradesh, Tamil Nadu, Maharashtra, Karnataka, and Gujarat — which account for more than 90 per cent of the investment made and 83 per cent of the employment generated. So the employment generated in certain areas certain sector of the country

Figure 3 Share of overall employment in SEZ



**Source:** Source: Business Standard, December 4, 2014.

**SPECIAL ECONOMIC ZONE AND REGIONAL DEVELOPMENT****Problems of SEZ**

World Bank Enterprise Survey 2016 reveals that it is not just India but even stakeholders of export units operating out of SEZs in other Asian countries like Bangladesh and Malaysia point out that unfriendly tax regulations, non-availability of skilled labourers, lack of access to electricity and finance, etc., are key obstacles to exports growth. Rajeev Puri and Hashima Kakkar quotes figures to show that the value of exports from the SEZs increased from Rs.8,552 crore in 2000-01 to Rs.1.25 lakh crore in 2008-09, with their share in overall exports rising from 4.16 per cent to 16.30 per cent. They argue that, though the SEZs have contributed to the increase in India's exports, their "success is not so significant." Despite offering over 300 incentives and schemes for promotion of manufacturing at the Centre and state levels, manufacturing growth has not risen substantially. Therefore, incentives need to be carefully evaluated and studied. Incentives should not be the only reason for units to be located in SEZs. Success depends on the business facilitation measures adopted. Location, infrastructure, logistics and professional zone management are four key factors determining success of SEZs." A major reason for the success of SEZs in China was the creation of complementary infrastructure, power, roads and ports; these are lacking in India. According to Rao, "To get SEZs and manufacturing going in India, the focus should be on creating the necessary infrastructure which will require a more holistic approach." Uncertainty in tax laws and poor administration of SEZ laws will only drive away foreign investors too,

**Conclusion**

The SEZ's could drastically improve the economic activity in the country, make the country's export competitive and globally noticeable, be net foreign exchange earner and provide immense employment opportunity. But at the same time SEZ is not successfully implemented all over India due to lack of resources uncertainty in tax laws, and the infrastructural facilities As compared to china where majority of the SEZ's were setup by the government, similar should be adopted in India, if not fully it should be a public-private partnership and regulatory bodies should be properly managed to weed out fallacies.. Relaxed Tax norms, Labour laws and DTA regulations will surely attract foreign investment and major industries to setup industries in the SEZ's making it profitable and meeting its desired results!

**References**

1. Deepak Shah, Special Economic Zones in India: A review of Investment, Trade, Employment generation and impact assessment, Indian Journal of Agricultural Economics, Vol.64, No.3, 2009.
2. The Economic Times, Tamil Nadu has maximum number of operational SEZs, 30th November 2015
3. Aradhna Aggarwal, Impact of Special Economic Zones on Employment, Poverty and Human Development, Indian Council for Research on International Economic Relations: working paper 194, 2007.
4. Business Standard, Withdrawal of SEZ tax sops to hit exports, jobs: Trade Policy, 8th December 2015.
5. Deepashikha Sikarwar, "Modi govet's fresh approach: SEZs set to lose tax incentives in rationalization, The Economic Times, 10th October 2015.
6. The Hindu, Government firming up measures to revitalize SEZs, 11th December 2015
7. Annual Reports: Department of Commerce, Ministry of Commerce and Industry, Government of India.
8. Ministry of Finance, Govt. of India. 2011. Economic Survey, 2010–11. New Delhi: Ministry of Finance, Govt. of India.