

An Overview on India's Sezs

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Abstract

This paper attempts to study the policy of Special Economic Zones and its role in the development process as these zones are responsible for increasing export and employment generation through industrial development along with other objectives of reviving ancillary industries, resolving housing problems, accelerate economic growth, infrastructural development, etc. Systems dynamics approach is employed to understand the nexus between the system and the zone. Finally, tools for delineation of SEZ are discussed to have balanced development in the system by considering the Special Economic Zone as a 'catalyst' for integrated development.

Keywords: SEZ, NSEZ, FTZ.

INTRODUCTION

India over the past decade has progressively opened up its economy to effectively face new challenges and opportunities of the 21st Century. To compete in the global market, Government of India has liberalized export policies and licensing of technology, and implemented tax reforms providing various incentives. Special Economic Zone (SEZ) policy is also one of the steps India has taken to boost economic growth through outward looking approach. Although the main objective of various economic schemes remained the same, viz. industrial development of the nation, it also touched other issues like entrepreneurship development, regional dispersal of industries, export promotion, employment generation, and economic development. According to spatio-economic analysts' view, cities are considered to be engines of economic growth. Agglomeration of economic activities is desired for the economies of scale, technological development, employment generation and growth centers. Therefore, the concept of Special Economic Zone through its impact on the development in the region is a boon. Whereas the idea envisaged by SEZ policy was to achieve rapid economic growth in the country, the concept has achieved very little due to a narrow approach being adopted. The approved SEZs have been developed near the already developed cities, instead of utilizing their spread effects in backward

regions of India. As a result, old problems have been compounded in terms of higher levels of interregional disparities.

k. Neelam, k. Mukesh (2017) Export performance and efficiency of special economic zone in Haryana. This study tries to explain roles of SEZs in export promotion in India and Haryana. The author also tries to calculate efficiency of SEZs. The author analysed the efficiency the efficiency of SEZs with in this parameter one can observe that these SEZs are highly inefficient at aggregate level as well as individual level. The scenario changes significantly a downward trend in reference period which indicate gloomy picture of SEZs scheme. In fact, all the policy incentive in favour of SEZs turned out to be inefficient segment of economic system.

Robert D. Sinclair, (2001): Export Processing Zones: An Ingredient for Successful Liberalization. This study tries to examine the impact of foreign direct investment in EPZs on the economy before and after opening the economy to liberalization (transformation process). Using the neoclassical growth model, the study measures the impact of EPZs on the growth rates of pre-capita income by including unemployment and intermediate goods in the model. The study found that EPZs contribute around 0.50 percent to the per capita growth of the economy. The study concludes that an expansion of establishing EPZs in the country will lead to an increase in national income.

Nguyen Ngoc Ninh, (2001): An Evaluation of Export Processing Zones in Vietnam's Industrialization Process. This study analyzes the roles of the export processing zones (EPZs) in Vietnam during the development process of its economy by using a descriptive, analytical framework. It then compares EPZ development in Taiwan, Korea, Malaysia and china to draw lessons for the Vietnam economy. In the end, the study shows that there are direct and indirect benefits for the country from establishing EPZs in Vietnam.

It is therefore considered appropriate to evaluate the performance of Indian SEZs. The objective is to understand the progress made by the zones and the extent of fulfillment of their objectives. The variables of performance chosen for evaluation are exports values. The present paper has to attempt some of related issue to SEZs.

Objectives

On these aspects, the performance evaluation is carried out under the following heads:

1. To evaluate export and Employment performance of SEZs during 2007-2013
2. To analyses the Key difference if Chinese and Indian SEZs.

Special Economic Zones are playing a vital role in increment of India’s export. It is evident from table 4.1 that value of India’s export an SEZ export is continuously rising. Figure of SEZs export during last five year and current financial year.

Table 4.1

Figure of SEZs and India’s export during last five year (As on July 2013)

Financial year	India’s total export	Total SEZs export (value in Rs crore)	Percentage growth of sez export	Percentage share of sez in India’s export	Percentage growth of India’s export
2008-2009	8,49,755	99,689	50percent	11.16percent	28.2
2009-2010	8,45,534	2,20,711	121percent	26.10percent	0.56
2010-2011	11,42,922	3,15,868	43percent	27.64percent	35.17
2011-2012	14,54,066	3,64,478	23percent	24.86percent	27.71
2012-2013	16,35,261	4,76,159	30.64percent	29.12percent	12.46
Average	1185508	295,381	53.52percent	24percent	20.82percent

Source: Ministry of Commerce and Industry, Government of India,

Table 4.1 illustrates that the value of India’s export increased from Rs 849755 crore to Rs 1635261 crore during the period 2008-2013. During the same period, SEZs export increased from Rs 99689 crore to Rs 476159 crore. The SEZs export increased at a rapid speed in comparison of India’s export. During the financial year (2008-09) export of Rs 99686 crore has been made from SEZs, registering the growth 50percent over the export of the year 2007-08. Export during second quarter of the financial year 2009-10 have been made to Rs 220711 crore a growth rate about 121percent over the corresponding period of previous year. Export during the financial year 2010-11 export to the tune of Rs 315868 crore have been made from SEZs, having growth rate about 43.11percent over the export of the year 2009-10. During the financial year 2011-12 to 2012-13 export to the tune of Rs 364478 crore, Rs 476159 crore respectively. From 2008-09 to 2012-13 India’s export increased as an average of 20.82 percent per annum; while

SEZs export increased as an average of 53.12 percent per annum. The growth rate of SEZs export over previous year (2001-2008) is also observed to be higher than country export rate. We can calculate share of SEZs export in country total export. Share of SEZs export in country export is an index of their role in export promotion. Some scholars argue that even among those countries where SEZs have experience discusses in terms of generating employment, there are nations (such as Philippines and Indonesia) where the socially explosive unemployment issue has not necessarily been resolved because the annual increase in the size of the labour force in these nations dwarfs such employment as the SEZ may generate (Madani 1999). But others suggest that the share of EPZs in national employment is an unsatisfactory indicator of the zones' effects on employment and poverty alleviation. The objective is to understand the progress made by the zones and the extent of fulfillment of their objectives. The variables of performance chosen for evaluation are employment values.

It is possible that the establishment of EPZs benefits disproportionately. The empirical evaluation on the employment effect of SEZs is analyzed through the following two channels.

1. Direct and Indirect Employment Generation.
2. Women Employment Generation

All we know that India is developing country, the availability of workers at low wages have attracted industries to investment in labour intensive field. There is also enlarged demand for unskilled labour. The establishment of SEZs to generate employment for unskilled labour for creating infrastructure like roads, building, hospital, parks etc. As the SEZs grow, there is a shift towards higher value added services, it might increase demand for skilled workers. We are analyzing the employment impact of SEZs in India. Sometimes, it is argued that employment opportunities created within SEZs are not the net addition in worth employment. A lot of research work has been available on this topic which report that the net addition to employment opportunities by SEZs have been positive and SEZ firms contributed significantly to raise in labour participation rates. Now it is important to verify that they had played an important role to generate employment opportunities in India. Employment impact of SEZs in India can be explained with the help of table 4.5.

Table-4.5

Employment in SEZs in India (As on April 2013)

Sr No	Financial year	Employment in SEZs in India	Percentage growth rate of Employment
1	2008-09	3,36,235	19.72percent
2	2009-10	5,03,611	49.77percent
3	2010-11	6,76,608	34.35percent
4	2011-12	8,44,916	24.87percent
5	2012-13	10,19,146	20.62percent

Source: Official website of Ministry of Commerce and Industry, Government of India.

Table-4.5 demonstrates that total employment in the SEZs sector jumped to over 5, 03,611 persons in 2009-10 from 3, 36,235 persons in 2008-09. It has been rapid increment of 49.77 percent in SEZ sector. The number of employed person have been increased to 6,76,608 persons in next financial year 2010-11 with registering increment 34.35 percent over last financial year 2009-10. Further, it has been increased to 8, 44,916 persons in 2011-12 from 6, 76,608 persons in 2010-11. SEZs have generated reasonably satisfactory level of employment which have gone from 3, 36,235 persons in 2008 to 10, 19,146 in 2013. Though the share of SEZ in employment is increasing with average growth rate of employment is 29.86 percent per annum during 2008-09 to 2012-13. Many SEZs have been spectacularly successful and have transformed the economies of their host countries. But many others have failed to set themselves apart from the rest of the economy, to create sufficiently attractive business environments, or to compete internationally. These diverse experiences should not obscure the fact that SEZs are a key platform for export-oriented industries, contributing significantly to global trade, attracting vast flows of FDI, and employing millions of people. International experience shows that the “demonstration effect” of successful SEZs facilitates wider economic reform. This has certainly been the case in China, where Deng Xiaoping’s initiatives

in the 1980s and 1990s to attract FDI and expand exports through SEZs led to accelerated nationwide economic reform. We are going to compare Chinese SEZs and Indian SEZs. India has more or less adopted the same China model of SEZ development and expecting the similar results. However, the government is missing out on few vital differences:

(i) Free zones in countries like China, UAE were mostly public funded in which economic gains prospects assumed far more significance than financial viability considerations. Thus the responsibility of market to promote zones & to attract tenant industries was primarily shouldered by governments. The Indian model, on the contrary, envisages ‘private sector led’ development of such zones. Thus, the responsibility or risk of financing, marketing & promotion has been vested with private players, who have very little or no experience in these areas.

(ii) India is not a command economy i.e. foreign investors are not confined to SEZs only, which make these zones little special than were China’s where SEZs used to be the only route through which foreign investors could enter the country. Besides, Indian has no equivalent to Hong Kong or Taiwan where industries had a pressing need to relocate and China served as a ready relocation base.

(iii) China continues to score because it has bundled an attractive tax environment with world-class infrastructure and a liberal labour environment. In India, on the other hand, buckling under the pressure from Left parties, the government has axed the Section 50(b) from the central SEZ bill, which would have empowered states to ease labour laws in SEZs. Democratic India has strong labour unions organically linked to political parties. Authoritarian China, conversely, has very pliant unions. Here India has lost a crucial edge in the global environment marketplace.

(iv) India has also some advantages over countries like China. It has significantly larger English-speaking workforce than does China. India also has an edge in a number of key knowledge based industries like software, IT-enabled services, medical services, drugs & pharmaceuticals & agro-based industries. Hence India’s SEZs are therefore likely to develop along quite different lines from China’s. Indian zones will more likely attract investments in high-end human skill based industries & services sector.

(v) Also in the light of the increasing economic engagement of India with the ASEAN & China, it is more likely that a greater proportion of investment into Indian zones could come from these countries than from US or Europe.

Conclusion

Many experts have expressed concerns over the philosophy of sops boost exports. By now however government seems to be realizing the need for formulating a new Indian model of SEZ. India has in fact, the right mix of factors such as availability of large & skilled workforce, intrinsic comparative advantage in several industries, a strong policy framework, availability of complementing & supporting ancillary industry, an already buoyant export sector & vast local markets. SEZs can combine these factors into a powerful alchemy to power investment creation. Unless remedies can be found out to loosen prevalent rigid labour laws, the SEZs cannot be looked at as a panacea for all economic diseases. Opinions are divided on the benefits of SEZs. We would have to wait & watch. Time will definitely have the answer.

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