

## **SPECIAL ECONOMIC ZONES IN INDIA: BENEFITED OR NOT?**

Written by *Dr. Jyoti*

*Scholar, IGNOU*

---

### **Abstract**

After independence Indian government has adopted Mix economy system, It is public oriented government where public involvement more than private. Five year plans accepted through the government to achieve development and financial gain for economy of India. In year 1965, first EPZ was established in Kandla and then so on, on the other places. Before 90s, government was much afflicted by red tape, rigid customs, inefficiency, delayed procedures, corruption, bureaucracy, and bribe. Government has needed change for development fast so it inclined towards privatization to overcome on these issues. Government was in dilemma to take step forward for foreign investment in India because it was estimated that foreign companies again try to control power in their hands. After 90's government has been adopted privatization policy for the Indian system and open market system supported by government for investment in economic field. Several public institutions have been privatized or given on the private contractors. This change has provided platform to the investors in India.

After a decade in year 2000, more opportunities have been emerged in Indian economy and this has been led to opening SEZ in India. Special economic zones defines as a region within a country where a country government can attract foreign and domestic business/investors for doing business/investment and government attract them to provide tax free trade, fiscal supports, tariff free trade for some period of time, allowed single window system and other incentives. Success of SEZ in china has motivated to Indian government open SEZ in India. Old EPZ has converted to SEZs through EXIM policy 2000, this scheme was adopted by government for development and fiscal growth of the country these has given immensely profited few years but later on their performances has been coming down. Whatever the reason behind declining rate of income but it is very unpleasant to say that it has

not worked up to mark. Declining continuous performances of these zones in their respective fields is concerned issue. Some fields of SEZ in which India dealing are Software technology IT/IITES, pharmaceutical, multi processing zones, jewels, Gems, handicrafts, leather and bio-parks. Another problem arises with them, Most of the SEZ companies' setup in southern states; it means northern and other areas of the country not touched to these zones. It increases imbalances in the economy as well as infrastructure of these places. These zones kept tax free which is revenue loss for the government, land issues also emerged after SEZ act enacted. IT/IITES sector share is more than other sectors which shows ignorance of sectors.

This paper will be discussing pros and con of SEZ. This paper further analysis of SEZ what was the purpose setting up in India? The main objectives to know Is the Purpose achieved? Or SEZ benefited or not in Indian phenomena?

## **Introduction**

Indian economy was going through a very poor condition before 90s. Government has not much to improve on the name of infrastructure and fiscal growth. Five year plans were run by the government also lagging behind. Incompetent resources and inadequate fiscal growth were the reasons of suffering. India has in debt of World Bank another side political union's peer pressurizing to government for finding a solution of this problem. India chose a model of china for economic growth, first EPZ has established in Kandla then in Santa Cruz, Mumbai, Gujarat so on other places. EPZ was introduced for Indian economic as well as infrastructural growth but lack of proper execution and other resources, EPZs were not successful. Even some of them have to close down because various incompetence's by government and investors as well. EPZs have converted into special economic zones with many effective changes. There are difference between them EPZ and SEZ, EPZ were Export Processing Zones which had setup for effective export in India and it had limited with export enclave. Indian special economic zones journey has been started before one and half decade ago, it is more clear and improved model for foreign investment with lucrative incentives, deals with bureaucratic Hassles, fiscal growth, infrastructural changes, land ,taxation, policies, labour, tariff and investment climate in india. Developing country like India has need initiatives for development fast track so Indian government has come up with establishment SEZ in year 2000.

After 2000 Indian government has enthusiastically started work on the SEZ setup in India. SEZ are the modified EPZ, government has persisting with unhealthy environment of EPZ. When EPZs has been started in India then multiple problems faced by the investors which were stopping them for setting up industries in India, rigid procedures, multiple approval from the different ministries, banking guarantees, delayed files, red tape, infrastructure shortcoming were the main reasons of unsuccessful story of EPZ in india. When Indian government was not successful to achieve success to attract fiscal growth, then SEZ in 21<sup>ST</sup> century under EXIM POLICY has introduced by the government for attract to the investors. There are multiple changes has been done in the new act to attract foreign investment in India. Through previous EPZ policy rigid procedure, multiple approvals from the government has been who made them incompetent were removed, at that place new improved and attractive laws implemented. To achieve a fiscal lead in India it is important to bring new laws to attract FDI in India, government has passed SEZ bill which has become a law in 2005, and enacted in February, 2006. This Law known as a SEZ Act, 2005 since enacted. This act has several implementations and changes have done which were attracted investors for investment in India. According to the act low rent and lease, provide a positive environment, single window system, exemptions from various taxes, various rebates, and help to get land for setup. These features are further discussing with details in paper.

### **Objectives and methodology for the study**

Main objective of study is to analyses of the data to reflect and know where SEZ stands? And whether is it benefiting or not? Data is collected by books, papers, journals, reports, newspapers, articles, online access. After reviewing available research work a critical point has come out that is software industries growth is comparatively higher in percentage and rest were very lower at percentages. This study is new at this point of view that many studies have shown only positive progress of SEZ but this study reflect negative or decline of SEZ. This paper is an effort to find answer of question asked in given title and try to give a justify answer on the bases of data. Methodology will be use for this study is based on analytical, descriptive, empirical, comparative analyses and analytical logic throughout the study.

### **Review of literature**

Many writing have been done previously on SEZ, some have explained well about SEZ, but when do one come across with the different writings on SEZ, it found mostly writings done to explanations, laws details and telling procedure of SEZ, but some writings are immensely academically on heights, Aggrawal. Aradhna, She has explored analytical and critical points related to SEZ even one can be say pioneer works on SEZ; she has scrutinized every concept of SEZ in her studies and Palit. Amitendu, Bhattacharjee. Subhomoy academic writings can be highly appreciated academically.

### **Objectives of SEZ**

SEZ introduced for economic growth and for providing good infrastructure at all over Indian states, all previous practices with EPZs were not successful in India, so new improved policy introduced by government to get faster development in India, EXIM policy in 2000 was result of it. It has been converted also EPZ to SEZ in India. To boosting industries at domestic as well international level SEZ setup had been started in 2000. The objectives of this policy were to improve fiscal growth and bring development faster in India. Indian fiscal growth was very lower before nineties. Liberal structure of economy has provided little help to growth but it was not improved much. Structural and technical problems have been faced by the industrialist. New policy swiped all bureaucratic and technical problems to setting up industries in India. New law is not only provides removal from nasty rules but also provides exemption from various taxes to emerging industries in India. The main objectives of the SEZS are

- Promotion fiscal growth
- Attract foreign investment
- Infrastructural changes
- Generate employment
- Help to investors to develop industries in india
- Help domestic investors
- Decrease imbalance in financial growth
- Faster Development and fiscal growth
- Promote Foreign exchange

## Types of SEZ in India

SEZ has covered many industries in different sectors. These industries distributed sector wise by SEZ. These are the main field or sectors in which India SEZs are working. SEZ types/sector wise distribution in India. Cluster zones also welcomed for growing business at same places, to get same environment, labor for same zones, and raw material for them at one place. These cluster zones get benefits from the environment and facilities provided to them by the government.

- Multiproduct
- Multi services
- Sector specific
- Free trade warehouse zones
- Electronic hardware, software including IITES
- Bio tech, non conventional energy
- Gems and jewelry
- Port and airports

SEZ zones are sector wise divided in above given types for trade in India. These zones are distributed in these sectors or specialized areas of production. Most percentage of number of the zones is based on IIT /IITES. Figure 1 shows only IT /IITES sector working on higher level in this area other sectors neglected. Production and manufacturing of other products is very lower or negligible. Below given figure illustrated sector wise distribution of SEZ or types of SEZ in percent, pharmaceutical, biotech, textile covered only 4 to 5 % in their respective fields and rest 20 % covered by others. This has been showing a big gap amongst these sectors, promotion of the other industries as important as IT/IITES sector. Manufacturing of different products are Missing in Indian SEZs. In the figure-1, 62% sector covered IT/IITES services, covered a large area of providing services through this area which is very good sign for SEZ industries but the question why other industries treated similar to this sector. Textile and pharmaceutical industries covered 4% each production area in their respective fields. Multiproduct and bio-teach 5% area covered in their respective fields



This employment generation of SEZ sheet given in figure-2 has been showing that SEZ has provided pretty good employment in Indian market but this figure is not reach at satisfactory level. Generation of employment has done positively but it is slower than average, it shows uncertainty of employment in India. Fact and figure has given figure 2 and 3 has shown consistently employment has provide generation. Employment in year 2012 in figure 2 has shown 8,44,916 persons, when another figure 4 has been compare with this so employment total march 2018 were 19,77,216 persons which is gradually increase over the last six years.

Indian IT /IITES market has wide scope to provide services at world level. It has observed that Indian IT/IITES is booming all over the world and providing its services at different levels. Most of the IT/IITES based SEZs established in different states especially southern states. Mumbai and Bangalore are hubs of IT companies, it provide an international trade of services to India. Most of the states operating SEZ zones are based on IIT/IITES. In numbers, 274 formal approvals, 219 notified SEZ and exporting SEZ of IT/IITES based zones (Medha Gupte). It is 62% of SEZ zones, IT /IITES are the leading way of SEZ zones. It has lagged behind all other sectors of SEZ, even biotech is the far behind of IT sector. Many SEZ are providing their services in this field are Infosys Technologies Ltd Pune, Serum Bio-Pharma park Pune WIPRO Pune, DLF Akruti IT/IITES, SEEPZ Mumbai, NMSEZ, Reliance, Navi Mumbai, Mindspace Navi Mumbai and Bharat Forge, Pune etc. further extending this argument Aggrawal Aradhana has led her critical view on IT sector and analyses that India only focused in IT sector whether other sectors has been ignored. After Assessment of all sectors it is found that all credentials are given to the IT/IITES industries.

A Question arises here that why India focus only on IT/IITES, other side; manufacturing and other products sector are minimal in India. Some areas occupied by the gems, jewelry and handicraft but these sectors involvement are also very low level. To getting wholesome progress through SEZ, India needs another creative approach and involvement of other sectors with this. Many emerging trades come for improvement of economic growth in India, one of them can be Agro based SEZs. It can be open widely in India; it would be new approach to take Indian economy at another level. Peasant cannot be displaced or unemployed and it will provide employment at rural level. It will help to progress village societies and it also saves land form industrial purpose use.

**SEZ needed or not? Why India need SEZ model for development**

India has adopted SEZ model to see glorious performances of China SEZ model. China emerged the giant manufacturer all over the world. Its economy no doubt inspires other Asian countries like India but we should not forget the conditions and resources availability in the country. SEZ policy as above discussed has been started for getting faster development and fiscal growth but Indian SEZ industry has not been performed like china SEZ. Question arises here why we need SEZ for development. Is India unable to do development without SEZ? Is it really providing progressive fiscal growth to India?

SEZ has provided a good growth for faster development and without doubt we can say that SEZ policy has given a good growth to India market but still long way to get success in this field. startup of the SEZ in year 2000 with full enthusiasm by the EXIM policy which is presently known FDI has given new ways of emergence export at international level and it has provided a good growth to india initially but past couple of years, its growth is lowering down which is concerned issue for Indian intellectuals, economist, government, policy makers. Every country needs faster development especially country like India which is trying to making space at international level. It is important to build itself powerful nation which can only possible through good fiscal growth and development. SEZ negative impact on Indian phenomenon is that it has scraped peasant from rural area. Land acquisition and its misuses have been increased after SEZ came into effect, it generates imbalance in growth, SEZ companies take all benefit to their homes.

Domestic level many micro industries support to Indian economy and it provides multi products to the Indian local markets. These micro level industries give impressive fiscal growth to the government. The generation of employment at ground level is smooth but these industries cannot compete with other international industries. It has some own limitations. PM Modi's Make in India program has been providing a new initiative of generation growth at micro level but other side many factors still a subject of concern.

India had not adopted additional policies apart from EPZ for development. Indian growth planned only by the NITI Ayog (National Institution to Transforming India) which was

previously known as Yogana Ayog. This is not a constitutional body but an agency for planning and best utilization of available resources. It is formed on 15<sup>th</sup> March 1950, cabinet passed resolution to set a machinery or body for planning development growth in the different fields in India, head body of this agency always PM, presently PM Modi is a chairman of NITI Ayog which would plan different policies for development. Apart from this EPZ had been introduced in India for investment and growth. It has been before defined in the paper that EPZs have been converted into SEZs. While this policy introduced SEZ investment has been started at huge level. Many investors attracted to do tariff free trade in India. Especially, government wanted to lucrative foreign investment in India so it has duty free trade has been introduced by the government to attract foreign investors. SEZ policy introduced at central as well as states level so investment have done on both levels. Above given figure 3 has illustrated total amount of investment in US\$36.27 billion (approx 2,176 million rupees) in 2012. If compare this with fact sheet giving figure 3 presently investment is Indian RS.4, 74,917.37 cr.

### **SEZ contribution in fiscal growth of India: a prospective of development**

SEZ came in year 2000 through EXIM policy which is currently known as FDI (foreign direct investment) policy, after introducing that policy all the EPZ converted into SEZ, some of EPZ even converted before it. In 2005, SEZ act has come and after that all EPZ converted into SEZ. EPZ were unsuccessful to get fiscal growth, development and infrastructural changes. There were several reasons behind it and it defined that poor execution of firms, red tape, government rigid rules and poor infrastructure etc. SEZs industries has given boom to the Indian market and even it's immensely overwhelmed in 2010-2012

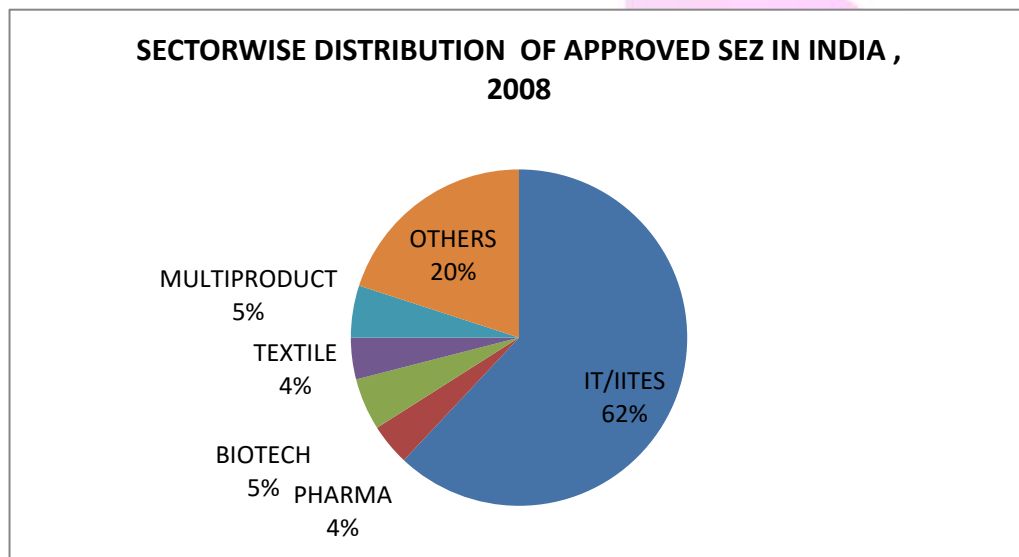
### **Conclusion**

SEZs responses in Asian countries are not satisfactory, exception China. No doubt SEZ is positively contributing in Indian economy to grow faster but we should find some other alternates to reduce unemployment, corruption from India. Indian SEZ policy should be in more Indian ways and it should Indian development can also be possible at village level through agro based Zones should be initialized by Indian government. It would be reduce poverty from



rural areas and also help to stop rehabilitation and resettlement of peasants from the village society; they would remain connected with their culture and families. Make in India is a best try to increase investment at micro level. If Indian market starts up manufacturing things so it will help to prevent import from other countries like China. It helps to fulfill demand in domestic market as well international market. Government should find other alternate for development like fishing, agricultures. It will also give sustainable growth to India.

**Figure 1. Sez distribution in different sector**



*Source:*  
Special  
economic

zones in India, Ministry of commerce and industry, department of commerce

**Figure 2 Employment generation of SEZ**

Employment(as on 31st March 2012)	incremental Employment	Total Employment
SEZs Notified under the Act	5,52,048 persons	5,52,048 persons
State/Pvt. SEZs set up before 2006	66,547 persons	79,015 persons

Central Government SEZs	91,617 persons	2,13,853 persons
Total	7,10,212 persons	8,44,916 persons

Source: Special economic zones in India, Ministry of commerce and industry, department of commerce

**Figure3. Investments in SEZ in India**

Investment (as on 31st March 2012)	Incremental Investment	Total Investment
SEZs Notified under the Act	US\$ 32.79 billion	US\$ 32.79 billion
State/Pvt. SEZs set up before 2006	US\$ 1.06 billion	US\$ 1.37 billion
Central Government SEZs	US\$ 1.65 billion	US\$ 2.06 billion
Total	US\$ 35.54 billion	US\$ 36.27 billion

Source: Special economic zones in India, Ministry of commerce and industry, department of commerce

**Figure 4, Fact Sheet on Special Economic Zones as on 31.07.2018**

Number of Formal approvals (As on 31.07.2018)	420
--	-----

Number of notified SEZs (As on 31.07.2018)	355 + (7 Central Govt. + 11 State/Pvt. SEZs)		
Number of In-Principle Approvals (As on 31.07.2018)	32		
Operational SEZs (As on 31 <sup>st</sup> March, 2018)	223		
Units approved in SEZs (As on 31 <sup>st</sup> March, 2018)	5,146		
INVESTMENT	Investment (As on February, 2006)	Incremental Investment	Total Investment (As on 31 <sup>st</sup> March, 2018)
Central Government SEZs	Rs.2,279.20 cr.	Rs.16,599.12 cr.	Rs.18,878.32 cr.

State/Pvt. SEZs set Up before 2006	Rs.1,756.31 cr.	Rs.11,259 cr.	Rs.13,015.31 cr.
SEZs Notified under the Act	-	Rs.4,43,023.74 cr.	Rs.4,43,023.74 cr.
Total	Rs.4,035.51 cr.	Rs.4,70,881.86 cr.	Rs.4,74,917.37 cr.
EMPLOYMENT	Employment (As on February, 2006)	Incremental Employment	Total Employment (As on 31 <sup>st</sup> March, 2018)
Central Government SEZs	1,22,236 persons	1,14,035 persons	2,36,271 persons
State/Pvt. SEZs set up before 2006	12,468 persons	86,571 persons	99,039 persons

SEZs Notified under the	0 persons	16,41,906 persons	16,41,906 persons
Act			
Total	1,34,704 Persons	18,42,512 persons	19,77,216 persons
Exports in 2015-16	Rs. 4,67,337 Crore		

## REFERENCES

### 1. Books/journals

- a. Aggarwal Aradhna, 'Economic growth, structural change and productive employment linkages in India. Did market transition in India?', South economic journal, VOL.19, NO.1,2018,P-64-85 online, ISSN 0973-077x accessed <http://doi.org/10.1177/1391561418761074> date of access: 21/09/2018
- b. Mini Symposium on Foreign Direct Investment in India. Indian development review, vol.35 no1, 03/2018 p-iii-v
- c. Banerjee. Guha , Swapna, 'space relations of capital and significance of new economic enclaves:SEZ in India', Economic Political Weekly, vol.43, No 47, 2008,p-51-56
- d. Chandrachud .S, and Gajalaxami.N, 'The Current Status SEZ in India', IOSR,journal of business studies and management ,ISSN-2319-7668,ISSUE -5, 2013.P-18-27.



- e. Gupte. Medha, 'The Concept of Special Economic Zones: An indian perspectives'2016, vol-5,issue- 4,ISSN -2320-0073.p-23-30.
- f. Palit Amitendu and Bhattacharjee Subohomoy, (2008) 'Special Economic Zones in India', Antem Press, New Delhi India.
- g. Tantri.L.Malini,'Special Economic Zones in India:Are These Enclaves Efficient?', The institute for social and economis change, Banglore, working paper 274,ISBN-978-81-7791-130-5

## **2. Reports**

- a. 'SEZ in india :Major Leap Forward', (Maharashtra economic development council)
- b. Sez in India, MHRD, GOI, 2008
- c. SEZ in India, MHRD,2018.

## **3. Newspapers**

- a. Indian express
- b. Hindu

