

Special Economic Zones and Their Contribution in Indian Economy

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“There are concerns that SEZs primarily focus on real estate, that there is a lack of a level playing field between manufacturing units within SEZs and those in domestic tariff area, and that there can be large losses of revenue on account of tax concessions for exports of goods and services that are already being exported without much concessions. These concerns would need to be addressed and where necessary adequate safeguards put in place.”

Planning commission, an approach to the 11th five-year plan (2006).

Abstract

Indian economy is one of the fastest-growing economies of the whole world. To further boost the tempo of its growth, it is leaving no stone unturned to increase the productivity of its resources and their proper utilisation. Establishment of special economic zones (SEZs) is one such endeavour of Indian government which promises to contribute towards its economic development through export promotion and manufacture of products for exports. SEZs have contributed to great measures towards the development of Indian economy. They have created employment for the increasing labour force of India and, at the same time, led to fast-track increase in the export earnings of India. SEZs hold the promise of development of the Indian economy both in the long and the short run. Present paper deals with the introduction of SEZs and their present status and future scope in the development of Indian economy.

Keywords: Special Economic Zones, Indian Economy, Exports, Trade

Introduction

All the nations of the world endeavour to establish themselves as developed countries. All the developed and the underdeveloped nations of the world undertake trade and commerce activities to forward their economies on the path of economic growth. Trade takes place internally and externally in all the nations. Internal trade fulfils the demand of indigenous people and external trade helps in earning valuable foreign exchange. Industries help in producing an output of various goods and services. Industries face many hurdles in the process of production. Governments of different countries help businessmen to establish industries and provide different types of assistance to carry on the process of production on smooth lines. Special economic zones (SEZs) are specifically the geographical areas which are provided special privileges to run business. SEZs are given better facilities in comparison to no special zone areas in all the countries. The Ministry of Trade and Commerce in India has also set up many SEZs to boost exports. SEZs help in attracting investment by national business houses and foreign corporate houses. The export processing zones, which were set up by the Government of India for promotion of exports, have also been converted into SEZs. The Export Processing Zones (EPZs) of Santa Cruz (Mumbai), Kandla Surat (Gujarat), Chennai (Tamil Nadu), Falta (West Bengal), Noida (Uttar Pradesh), and The EPZs Of Vishakhapatnam (Andhra Pradesh) into SEZs.

SEZs help in boosting exports of Indian economy by providing the resources of production at one place and facilitate the process of production. SEZs help in the concentration of all resources used in the process of production at one place and provide for hassle-free facilities and favourable environment for production and help in increasing the exports of India. They also help in increasing the earnings of the Indian economy in terms of net foreign exchange. SEZs comprise of units

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which undertake production of goods and services. It is mandatory that the business unit which is established in SEZ should be a net export earner, but there is no guideline regarding the proportion of output that should be exported.

SEZs can be set up by the government in collaboration with any other corporate house or venture. Units of SEZs may belong to the category of the private sector, public sector, or joint sector but it should mainly aim at exports and should be a net earner.

Types of Special Economic Zones

SEZs can include the following types of trade promotion areas:

- Free-trade zones (FTZ)
- Export processing zones (EPZ)
- Free zones/Free economic zones (FZ/ FEZ)
- Industrial parks/industrial estates (IE)
- Free ports
- Bonded logistics parks (BLP)
- Urban enterprise zones

Following Table 1 of SEZs provided by the World Bank brings out the distinction between different types of SEZs that are existent in most of the nations and contribute towards their development through export promotion and creation of large-scale employment opportunities.

Table 1: Types and Markets of Special Economic Zones

Type ^[6]	Objective	Size	Typical Location	Typical Activities	Markets
EPZ (single Unit/ free enterprise)	Export manufacturing	No minimum	Countrywide	Manufacturing, processing	Mostly export
EPZ (traditional)	Export manufacturing	<100 hectares	None	Manufacturing, processing	Mostly export
Free port/SEZ	Integrated development	>1000 hectares	None	Multi-use	Internal, domestic, export
EPZ (hybrid)	Export manufacturing	<100 hectares	None	Manufacturing, processing	Export, domestic
FTZ	Support trade	<50 hectares	Port of entry	Entrepôts and trade-related	Domestic, re-export
Urban enterprise zone	Urban revitalization	<50 hectares	Urban/rural	Multi-use	Domestic

Source: Report of the World Bank

Current Status of Special Economic Zones in India

It can be witnessed from Table 2 that, as per the rules of SEZs Act and rules issued in February 2006, a grant was

approved for the setting up of 405 SEZs, out of which as many as 329 got notification and 32 of them were given In-Principal Approvals on 31st of December in the year of 2016. Out of this, 206 SEZs are operational, and 4,218 have been approved on the basis of grant passed on 31st December 2016.

Table 2: Status of Special Economic Zones

Particulars	Number
Functional SEZs (Prior to SEZs Act)	19
Formal Approval Granted*	405
of which number of notified SEZs**	329
Number of In- Principal Approvals	32
Operational SEZs	206
Units approved in SEZs	4218

Source: PHD Research Bureau, compiled from www.sezindia.nic.in

Contribution of SEZs in Macroeconomic Development of India

SEZs have contributed tremendously in export promotion and employment creation in the Indian economy. Indian

government has taken momentous steps to push export promotion through SEZs by undertaking several measures of fiscal incentives to promote investment in Indian economy. It has also set up the first EPZ in Kandla to overcome Anti Export Bias. This act was followed by the setting up of six more EPZs in India.

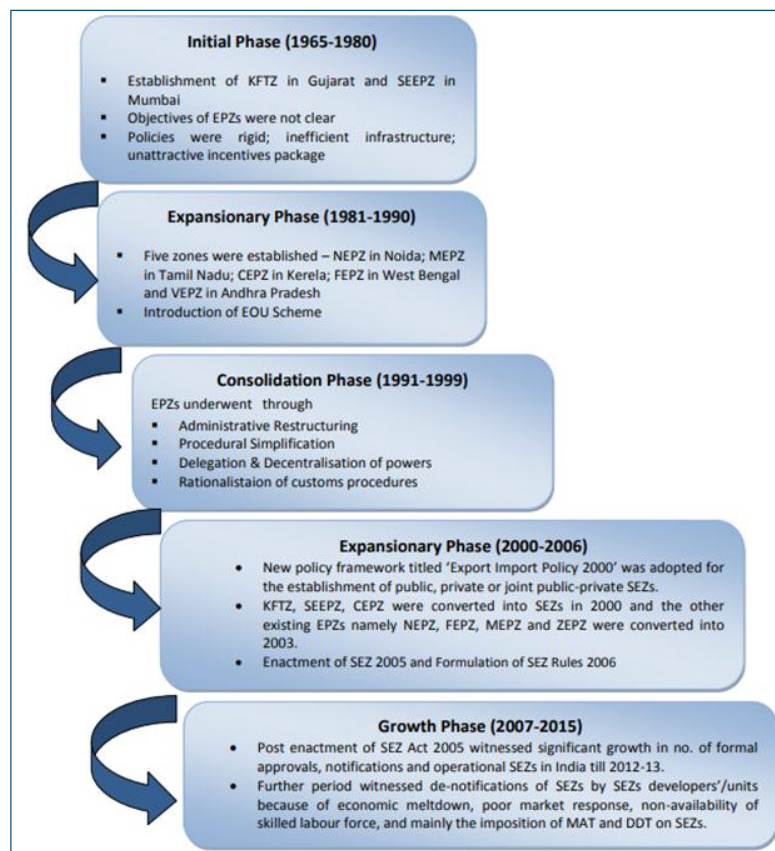
Table 3: Contribution of Sezs in India

India	<p>Government pushed export promotion through:</p> <ul style="list-style-type: none"> • Fiscal incentives • Setup of Asia’s first EPZ in Kandla to overcome anti-export bias followed by six more EPZs • All geographically closed small industrial estates in port areas 	<ul style="list-style-type: none"> • Launch of new SEZ scheme through a comprehensive SEZ Act to provide a significant push to investment in SEZs • Extended scope of SEZs to include services, manufacturing, trading, reengineering and re-conditioning. 	<p>SEZs accounted for:</p> <ul style="list-style-type: none"> • 5% of exports 0.2% of employment in 2000 which grew to 26% and 4.2%, respectively, in 2014
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Source PHD research bureau

It can be seen from Table 3 that SEZs provided for a large-scale increase in exports by 5 percent and 0.2 percent of

employment in the year of 2000. In the year of 2014, the exports increased to become 26% and employment increased to the tune of 4.2 percent.



Source: PHD research bureau

Fig. 1: Different Phases of the Development of SEZs

The development of SEZs has crossed several milestones and SEZs have finally emerged as the true developer of Indian economy. Figure 1 presents the journey of SEZs which can be divided into five phases, namely, initial phase covered during the years of 1965-1980; the expansionary phase covered during the years of 1981-1990, then came the consolidation phase during the years of 1991-1999, again the expansionary phase during 2000-2006, and finally the growth phase during 2007-2015. The growth phase started after the enactment of the SEZs act.

Special Privileges for SEZs

SEZs are a haven for foreign trade and commerce. They not only help in the generation of production for the purpose of exports to earn valuable foreign exchange but also help in increasing the growth rate of employment in the economy.

SEZs in India are the areas which are provided with special facilities by the government to increase qualitative production for the purpose of boosting the export sector of the Indian economy.

The units established within SEZs are given facilities like relaxation in income tax and the taxation on profits. Specifically, the units of the corporations which are established in the area of SEZs are not required to pay income tax for the first 5 years of their operations. Moreover, after completion of that tax-free period, they are required to pay only 50 percent taxes. If the corporations agree to reinvest 50 percent of their profit earnings in their venture, the concession of paying only 50 percent taxation continues for another 3 years.

For the units established in SEZs, the raw material is also exempted from any type of taxes or duty. All the raw materials ranging from cement to steel are provided to these corporations tax free.

The government also takes the responsibility of acquiring land and providing them to the developers and the

corporations, so that they can carry on their businesses on it. When government provides land to these corporations, it lays down only one condition that 25 percent of the land provided by government should be used for the purpose of export promotion activities and the remaining land can be used for economic and social infrastructure of the corporation.

The operations that are approved by the government include housing, apartment, roads, convention centres, air-conditioning, cafeterias, restaurants, and different types of recreational facilities.

SEZs also make provisions for the exemption of the labour laws so that they can attract corporations to establish their ventures in SEZs.

Employment Provided by the SEZs in India

Indian economy took special initiatives to boost the export earnings. In this endeavour, it established many SEZs in different parts of India. These SEZs have contributed tremendously to the generation of employment opportunities for the ever-increasing workforce of India.

Table 4 puts forward the extent of investment undertaken by SEZs in the Indian economy. In the year 2013-14, the SEZs in Indian economy provided employment to as many as 12,83,307 persons with an investment of Rs. 2,96,663 crore.

Table 5 puts forward the details pertaining to the extent of investment undertaken by SEZs in different states of India. This investment was done by SEZs during the time period covered by 2011-12 to 2013-14. As can be seen from Table 5, Maharashtra was the state which undertook the highest amount of investment in SEZs in the year of 2013-14. Similarly, Punjab was the state with the highest compound annual growth rate of 63.17 percent.

Table 4: Employment and Investment Provided by SEZs in India

Years	Employment (in persons)	Investment (in crores)
2006-2007	178763	4958.89
2007-2008	179000	67347
2008-2009	490358	128385.05
2009-2010	620824	176148
2010-2011	676608	212914.36
2011-2012	844916	213605.54
2012-2013	1074904	236716.65
2013-2014	1283309	296663

Source: KCG portal of journals

Table 5: State-Wise Details of Employment by SEZs From 2011-12 to 2013-14

State-wise details of contribution of Employment from SEZs during three years					
Sl. No.	States/UTs	Employment* in persons			CAGR (%)
		2011-12	2012-13	2013-14	
1	Gujarat	42097	51190	75586	21.54
2	Karnataka	85055	141366	193686	31.56
3	Tamil Nadu	219989	237950	268405	6.86
4	Maharashtra	194469	271134	339919	20.46
5	Kerala	23799	25701	32311	10.73
6	Andhra Pradesh (Including Telangana)	117266	144346	157280	10.28
7	Uttar Pradesh	63637	75101	83970	9.68
8	West Bengal	36309	55656	48112	9.84
9	Haryana	29220	38497	50208	19.77
10	Madhya Pradesh	12313	12429	10308	-5.75
11	Rajasthan	11028	13163	14574	9.74
12	Chandigarh	7620	6140	5927	-8.03
13	Chhattisgarh	0	119	119	0
14	Odisha	1787	1715	1577	-4.08
15	Punjab	299	369	1299	63.17
16	Goa	28	28	28	0
	Total	844916	1074904	1283309	14.95

Source: KCG portal of journals

Conclusion

It can be safely asserted that SEZs have contributed tremendously towards the growth of the Indian economy. Similarly, they have been instrumental in providing a

huge number of employment opportunities to the ever-increasing population of India. SEZs have invested in various states and have received a favourable response from all sectors of the economy. The government has taken various decisive measures in making SEZs the

mainstay of export promotion activities and has led to the implementation of various measures to develop them. If proper direction and favourable environment is given, SEZs can truly act as the harbinger of export promotion activities in India. In addition to this, they can also help India make use of its demographic dividend.

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