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Export Performance of Special Economic Zones in India

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Abstract

India was the first Asian country to recognize the importance of Export Processing Zone (EPZ). The SEZ (Special Economic Zone) Act passed in May 2005 came into force from February 10, 2006. One of the important contributions of SEZ is export promotion. Tamil Nadu has the highest exporting SEZs which are 40, whereas Chhattisgarh has only one exporting SEZ.This study showed that exports from SEZs have increased over fifty times from about Rs. 9,190 crores in 2001-02 to about Rs. 4,76,159 crores in 2012-13. Thus SEZs have high export promotion potential.

Keywords: EPZ, SEZ, Export Promotion, Operational SEZ etc.

Introduction:

It has been argued that since development of infrastructure requires huge capital investment and as implementation of structural reforms is time-consuming process, the establishment of SEZs would be the only realistic strategy governing the process of industrialization. Special Economic Zones (SEZs) have been recognized as an importantmechanism for trade and investment promotion, creation of infrastructure,employment generation, promotion of regional development, increase in foreignexchange earnings, improving export competitiveness and transfer of skillsand technology. These are considered as growth drivers in the developingcountries.[1]The SEZs in India are not only expected to bring large flow of foreign direct investment but also domestic investment.

Objectives of the Study:

Thisstudy has following objectives:

1) To understand the concept and historical background of SEZ.
2) To know the status of state-wise and sector-wise exporting SEZs.
3) To analyze investment and employment generated in SEZs.
4) To study the export performance of SEZs.

Methodology of the Study:

The study is based on secondary data which is collected from handbook of Reserve Bank of India, website of SEZ and reports of working committees on SEZ. The performance of the SEZs is analyzed in terms of state-wise and sector-wise SEZs, investment and employment generated by SEZs in India and their export performance.

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Meaning of SEZ:

A geographical region encompassing more liberal economic laws than a country's typicaleconomic laws can be referred to as a Special Economic Zone (SEZ).[2]SEZs are specifically delineated duty-free enclaves treated as a foreign territory for the purpose of industrial, service and trade operations, with exemptions from custom duties and a more liberal regime in respect of other levies, foreign investment and other transactions. Domestic regulations, restrictions and infrastructure inadequacies are sought to be eliminated in the SEZs for creating a hassle-free environment.[3]

The term SEZ is a comprehensive one, which represents Strategic Economic Zone, EPZ, Foreign Trade Zone, Free Trade Zone, Free Trade Area, Open Coastal Zoneetc. These zones are marked by minimum bureaucracy, best infrastructure, generous tax holidays, unlimited duty free imports of raw material, other inputs as well as capital goods. Economic activities which take place in the zone are subject to similar conditions that manufacturing firms would face in a developed country, whereas activities located outside the zone operate in an underdeveloped institutional environment. Evidently, a SEZ is almost a self contained area with high class infrastructure for commercial operations as well as residential inhabitation.[4]

Historical Background of SEZ:

In 1896, the first industrial Park called Free Trade Zonewas set up in Manchester to promote free trade. In 1929, the first Special Economic Zone was introduced in Spain with the intention of improving the exports by value addition to the raw materials available in that country.[5]Later the other countries also establishedSpecial Economic Zones to promote their export.At present, there are more than 3,000 SEZs operating in 120 countries and accounting for over $ 600 billion in exports and about 50 million jobs.[6]

India was the first Asian country to recognize the importance and effectiveness of Export Processing Zone (EPZ) and the first EPZ came into being in 1965 in Kandla, Gujarat. But, since then there has not been done much to the strengthening of EPZs in India. In 2000, therefore, the government replaced the earlier regime of EPZ by a new scheme of SEZs, which encompassed a number of potential benefits that were missing in the earlier scheme. In May 2005, the SEZ Act was passed by the Parliament and SEZ Rules came into force from February 10, 2006.[7]

State-Wise Distribution Exporting SEZs:

There are 231 exporting SEZs in India (As on 22nd January 2019). The state-wise distribution of exporting SEZs in India is as shown in Table 1. Tamil Nadu has the highest exporting SEZs which are 40, whereas Chhattisgarhhas only one exportingSEZ.

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Table 1: State-Wise Distribution of Exporting SEZs

(As on 22nd January 2019)

Sr. No.	States/UTs	Exporting SEZs (CentralGovt., State Govt./Pvt. SEZs&notified SEZsunder the SEZ Act, 2005)
1	Andhra Pradesh	19
2	Chandigarh	2
3	Chhattisgarh	1
4	Gujarat	20
5	Haryana	6
6	Karnataka	31
7	Kerala	19
8	Madhya Pradesh	5
9	Maharashtra	30
10	Odisha	5
11	Punjab	3
12	Rajasthan	2
13	Tamil Nadu	40
14	Telangana	29
15	Uttar Pradesh	12
16	West Bengal	7
Grand Total		**231**

Sector-Wise Distribution Exporting SEZs:

The sector-wise distribution of exporting SEZs in India is as shown in Table 2.IT/ITES/Electronic Hardware/ Telecom Equipments sector has the highest exporting SEZs which are 136 followed by Multi product sector 25, Engineering and Pharmaceuticals/Chemicals sectors are having 12 exporting SEZs each, whereas Agro- processing, Aluminium, Automobile Ancillary, Beach & Mineral/Metals and Handicrafts & Carpets are having only one exporting SEZ.

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Table 2: Sector-Wise Distribution of Exporting SEZs

(As on 22nd January 2019)

Sr. No.	Sectors	Exporting SEZs
1	Agro-processing	1
2	Alumina/Aluminium	1
3	Auto/Automobile Ancillary	1
4	Aviation/Aerospace/Animation& Gaming/Copper	4
5	Beach & Mineral/Metals	1
6	Biotechnology	4
7	Building Prod./Transport Equipments/Ceramic and Glass	2
8	Electronic Product/Industries	2
9	Engineering	12
10	Footwear/Leather	4
11	Food Processing	2
12	FTWZ	4
13	Gems and Jewellery	3
14	Handicrafts & Carpets	1
15	IT/ITES/Electronic Hardware/ Telecom Equipments	136
16	Multi-Product	25
17	Multi-Services	2
18	Non-Conventional Energy	2
19	Pharmaceuticals/Chemicals	12
20	Port-based Multi-Product	2
21	Power/Alternate Energy/Solar	3
22	Textiles/Apparel/Wool	7
Grand Total		**231**

Investment and Employment in SEZs:

Investments in the SEZs increased more than six times from Rs. 77210 crores in 2007-08 to Rs. 492312crores as on 30th September 2018. Investments in SEZs have shown a positive growth rate over a period of time registering a compounded annual growth rate (CAGR) of 3.89% over a period of 10 years. On the other hand, SEZs have witnessed four-fold generation of employment from 336235 persons in 2007-08 to 1996610persons as on 30th September 2018. Total employment generation has shown a positive growth rate over a period of time registering a compounded annual growth rate (CAGR) of 4.8% over a period of 10 years.

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Table 3: Investment and Employment in SEZ

Year	Investment (in crores)	Employment (in numbers)
2007-08	77210	336235
2009-10	148489	503611
2011-12	201875	844916
2013-14	288477	1239845
2015-16	406690	1688337
As on 30th September 2018	492312	1996610

Export Performance of SEZs:

As on 30th September 2018 the number of operational Special Economic Zones in India and the number of units approved in SEZs are 231 and 5024 respectively. Exports from SEZs have increased over twenty five times from about Rs. 22840 crores in 2005-06 to about Rs. 581033 crores in 2017-18. The year 2009-10 showed a highest annual growth of 121.40% as compared to the year 2008-09, whereas total SEZ export in 2014-15 is decreased by 6.13% as compared to the year 2013-14. Table 4 showed that the percentage share of SEZ exports in the total exports of the country is continuously increasing since 2005-06 except the year 2011-12, 2013-14 and 2014-15. The percentage share of SEZ exports in the total exports of the country in the year 2017-18 stood at 29.71%. This shows the impact of SEZs on the exports of India.

Table 4: Export Performance of SEZs in India

Financial Year	Total SEZ Exports (Rs. in Crores)	Growth Rate (over previous year)	Total exports of the Country (Rs. in Crores)	% share of SEZ exports in the total exports
2005-2006	22840	-	456418	5%
2006-2007	34615	52%	571779	6.05%
2007-2008	66638	93%	655864	10.16%
2008-2009	99689	50%	840755	11.86%
2009-2010	220711	121.40%	845534	26.10%
2010-2011	315868	43.11%	1142922	27.64%
2011-2012	364478	15.39%	1465959	24.86%
2012-2013	476159	30.64%	1634318	29.14%
2013-2014	494077	4%	1905011	25.94%
2014-2015	463770	-6.13%	1896445	24.45%
2015-2016	467337	0.77%	1716384	27.23%
2016-2017	523637	12.05%	1849434	28.31%
2017-2018	581033	10.96%	1955541	29.71%

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Operational Challenges faced by SEZs in India:

According to the survey conducted by PHD Research Bureau in April 2017, almost 79% of the respondents' found slowdown in global demand and lack of incentives to operate in the SEZs as major challenges faced by developers, 73% of the developers pointed to instability in the policy environment and unfavorable regulatory environment as major hurdles, around 68% of the developers found slowdown in global demand and unfavorable regulatory environment and 62% of the respondents termed lack of incentives to operate in the SEZs as the significant challenge.

Conclusion:

Thus, SEZs have high export promotion, investment and employment potentials. In India, the SEZs are a necessary channel to promote industry, infrastructure, employment generation and growth. Therefore, at this juncture, the SEZs should continue to stay in India, but a balancing strategy needs to be adopted to safeguard the interest of all constituents.At the same time, it is also desirable that creation of large number of SEZs would not result in agricultural land grabbing on account of huge landrequirement for such ventures, revenue loss to the Government due to excessivefiscal concessions and tax holidays and massive gains to few private businessenterprises.

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