GROWTH AND CONTRIBUTION OF SPECIAL ECONOMIC ZONES IN INDIA’S EXPORT

RINA DAVE*

*Faculty,
Department of Commerce and Management,
S.G.M. English Medium College of Commerce and Management (SEMCOM),
Sardar Patel University, Vallabh Vidyanagar.

ABSTRACT

Falling in line with the evolving global phenomenon, the Government of India also introduced Special Economic Zones under the EXIM Policy in April 2000. The SEZs were created with clear objectives of providing internationally competitive and hassle free environment for earning foreign exchange, inviting foreign direct investment (FDI), facilitating transfer of technology and generation of employment. Further impetus was given by bringing SEZ Act 2005. SEZs offer a wide variety of benefits to the exporters. Using the secondary data from various publications of the Reserve Bank of India, Ministry of Industry and Commerce and CMIE we have studied the growth of SEZs for a period of five years. The SEZs are exporting a wide range of products and services like electronic, engineering items, chemicals and allied products, gem and jewelry, textiles, garments, plastics and rubber products. The findings of the study reveal that there has been a growth in the exports from SEZs. In last five years the volume of the export has increased many folds. However the SEZs are not free from the criticisms either.

INTRODUCTION

Today India is emerging as one of the highly developing markets for the international trade. India offers a large base of the export as well as import centric industries. The middle class population of India, with large purchasing power exceeds the total population of many European countries put together. With the increasing international competition, there was a need to provide level playing field to the domestic enterprises and manufacturers to be competitive globally. Till 1999-2000 India’s total share in the international trade is less than 1 per cent. Government of India in its efforts to increase the export took a unique step by starting Export processing Zones five decades back. In the year 2000 government of India took the bold step of converting EPZs into SEZs. Special economic Zones are created to encourage to exporters by providing them world class facilities. In other countries such zones are primarily developed by Governments but the Indian SEZ policy provides for development of these zones in the government, private or joint sector. This offers equal opportunity to both Indian and international private developers. SEZs are operational in India for last 5 years.

The annual EXIM policy for the year 1999-2000 announced on March 31, 1999 proposed the setting up of FTZs (Free Trade Zones) in the country. The FTZ scheme was to be operational from July 1999. The idea was to insulate the zones from bureaucratic interference of exports restrictions. However, this scheme could not be implemented. The annual EXIM policy for the
year 2000-01 announced on March 31, 2000 proposed the creation of special Economic Zones commonly known as SEZs modeled on the lines of highly successful Chinese experiment. It is deemed to be foreign territory for the purposes of trade operations, duties and tariffs. Special Economic Zones are commonly known as SEZs. The units operating in these zones will have full flexibility of operation. They can import capital goods and raw materials duty free and would also be able to access the same from Domestic Tariff Area (DTA) without payment of Terminal Excise Duty. The only Conditions would be that the units in the zones would have to export the entire production and that DTA sales would be allowed only on payment of full applicable customs duties and additional duties. The first two SEZs in the country were based at Pipavav in Gujarat and Tuticorin in Tamil Nadu.  

In 2000 there was no proposal for the Central Government to set up any new SEZ in the country. The policy, however, provides for setting up of SEZs in the public, private, joint sector or by State Governments. It was also envisaged that the existing Export Processing Zones may also be converted into Special Economic Zones. Government has since converted all the eight existing Export Processing Zones located at Kandla and Surat (Gujarat), Santa Cruz (Maharashtra), Cochin (Kerala), Chennai (Tamil Nadu), Noida (U.P), Falta (West Bengal) and Visakhapatnam (Andhra Pradesh) into Special Economic Zones. Approvals have also been given for setting up of 24 Special Economic Zones at Positra, Dahej and Mundra (Gujarat), Navi Mumbai and Khopla (Maha Mumbai) (Maharashtra), Nanguni (Tamil Nadu), Kulp and Salt Lake (West Bengal), Paradeep and Gopalpur (Orissa), Bhadohi, Kanpur, Greater Noida and Moradabad (U.P.), Kakinada and Visakhapatnam (Andhra Pradesh), Indore (Madhya Pradesh), Vallarpadam/Puthuvypeen (Kerala), Hassan and Bilkampadi (Karnataka), Jaipur and Jodhpur (Rajasthan), Ranchi (Jharkhand) and Greater Noida by Export Promotion Council for Handicrafts (EPCH) on the basis of proposals received from the State Governments/private promoters. These SEZ are at various stages of development.

SEZs are expected to offer high quality infrastructure facilities and support services, besides allowing for the duty free import of capital goods and raw materials. Additionally, attractive fiscal incentives and simpler customs, banking and other procedures are offered in such zones. Setting up of SEZs is also treated as an infrastructure development activity and offered same incentives.

SEZs provide state-of-the-art infrastructure and access to a large well-trained and skilled work force, the SEZ policy also provides enterprises and developers with a favourable and attractive framework of incentives. They are -

- 100% income tax exemption for a block of five years and an additional 50% tax exemption for two years thereafter

- 100% FDI in the manufacturing sector permitted through automatic route, barring a few sectors.

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• External commercial borrowings by SEZ units up to US$500 million in a year without any maturity restrictions through recognized banking channels.

• Facility to retain 100% foreign exchange receipts in Exchange Earners’ Foreign Currency Account.

• 100% FDI permitted to SEZ franchisee in providing basic telephone services in SEZs.

• No cap on foreign investment for small scale sector reserved items.

• Exemption from industrial licensing requirements for items reserved for the SSI sector.

• No import license requirements

• Exemption from customs duties on import of capital goods, raw materials, consumables, spares etc

• Exemption from Central Excise duties on procurement of capital goods, raw materials, consumable spares etc., from the domestic market.

• No routine examinations by Customs for export and import cargo.

• Facility to realize and repatriate export proceeds within 12 months.

• Profits allowed to be repatriated without any dividend-balancing requirement.

• Job work on behalf of domestic exporters for direct export allowed.

• Subcontracting both domestic and international is permitted; this facility is available to jewelry units as well.

• Exemption from Central Sales Tax and Service Tax

• Facilities to set up off-shore banking units in SEZs.

Further the Incentives to Developers are as follows:

• Exemption from duties on import /procurement of goods for the development, operation and maintenance of SEZ.

• Income tax exemption for a block of 10 years in 15 years.

• Exemption from Service Tax
• FDI to develop townships within SEZs with residential, educational, health care and recreational facilities permitted on a case-to-case basis.

This policy intended to make SEZs an engine for economic growth supported by quality infrastructure complemented by an attractive fiscal package, both at the Centre and the State level, with the minimum possible regulations. SEZs in India functioned from 1.11.2000 to 09.02.2006 under the provisions of the Foreign Trade Policy and fiscal incentives were made effective through the provisions of relevant statutes.

To instill confidence in investors and signal the Government’s commitment to a stable SEZ policy regime and with a view to impart stability to the SEZ regime thereby generating greater economic activity and employment through the establishment of SEZs, The Special Economic Zones Act, 2005, was passed by Parliament in May, 2005 which received Presidential assent on the 23rd of June, 2005. The SEZ Act, 2005, supported by SEZ Rules, came into effect on 10th February, 2006, providing for drastic simplification of procedures and for single window clearance on matters relating to central as well as state governments.

The main objectives of the SEZ Act are:

(a) generation of additional economic activity

(b) promotion of exports of goods and services;

(c) promotion of investment from domestic and foreign sources;

(d) creation of employment opportunities;

(e) development of infrastructure facilities;

It is expected that this will trigger a large flow of foreign and domestic investment in SEZs, in infrastructure and productive capacity, leading to generation of additional economic activity and creation of employment opportunities.

The SEZ Act 2005 envisages key role for the State Governments in Export Promotion and creation of related infrastructure. A Single Window SEZ approval mechanism has been provided through a 19 member inter-ministerial SEZ Board of Approval (BoA). The applications duly recommended by the respective State Governments/UT Administration are considered by this BoA periodically. All decisions of the Board of approvals are with consensus.

The SEZ Rules provide for different minimum land requirement for different class of SEZs. Every SEZ is divided into a processing area where alone the SEZ units would come up and the non-processing area where the supporting infrastructure is to be created.
PRODUCT COVERAGE AND INFRASTRUCTURE

While the SEZ operating units broadly fall under the product groups of electronic, engineering items, chemicals and allied products, gem and jewelry, textiles, garments, plastics and rubber products, EOUs are mainly concentrated in textiles and yarn, food processing, electronics, chemicals, plastics, granites and minerals/ores. Majority of units are located in Tamil Nadu, Andhra Pradesh, Karnataka, Maharashtra and Gujarat.

Each of the Zones provides basic infrastructure such as developed land for construction of factory sheds, standard design factory buildings providing ready-built sheds, roads, power, water supply and drainage. In addition, Customs clearance is arranged within the Zones at no extra charge. Provision is made for locating banking/post office facilities and officers of clearing agents in the Service Centre located in each of the Zones. EOUs have on the other hand, to put up their own infrastructure.

RESEARCH METHODOLOGY AND DESIGN

Present study focuses on the growth and contribution of Special Economic zones in Indian exports. The data for a period of 5 years from 2001 to 2006 is analysed. The study is based on the secondary data collected from publications of Reserve Bank of India, Ministry of Trade and Commerce and Centre for monitoring Indian Economy.

PERFORMANCE OF SEZs

EXPORTS

The exports from SEZs are picking up slowly. As shown in Figure 1 from Rs 9189.55 Crores the exports increased to Rs 22840 crores. There is an increasing trend.
However the SEZs are still in infancy stage. The total share of SEZs in exports has increased from 4.2 per cent in 2001-02 to 4.8 per cent in 2005-06.

Figure 1 - Exports from SEZs

Figure 2 - Percentage Growth of Exports from SEZs
Figure 2 depicts the percentage growth of the export from SEZs. The growth is very encouraging. The largest growth of exports is seen from 2005-06 to 2006-07 of 52.3 per cent.

INVESTMENT AND EMPLOYMENT IN THE SEZS SET UP PRIOR TO THE SEZ ACT, 2005:

At present, 1087 units are in operation in the SEZs established prior to the Act coming into force, providing direct employment to over 1.85 lakh persons; about 40% of whom are women. Private investment by entrepreneurs in these SEZs established prior to the SEZ Act is of the order of over Rs. 5661 crore.²

There is an increasing flow of investment and creation of additional employment in the country.

TABLE 1 : INVESTMENT AND EMPLOYMENT IN THE SEZS NOTIFIED UNDER THE SEZ ACT 2005

<table>
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<tr>
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<th>Investment</th>
<th>Employment</th>
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<tbody>
<tr>
<td>Current investment and employment</td>
<td>Rs. 43123 crores</td>
<td>35053 persons</td>
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<tr>
<td>Expected investment and employment (by December 2009)</td>
<td>Rs. 2,59,159 crores</td>
<td>17,43,530 additional jobs</td>
</tr>
<tr>
<td>Expected investment and employment if 341 formal approvals becomes operational</td>
<td>Rs. 3,00,000 crores</td>
<td>4 million additional jobs</td>
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Source: Ministry of commerce and industry, Department of commerce, Government of India.

The SEZ have received tremendous response amongst the investors, both in India and abroad, which is evident from the list of Developers who have set up SEZs:

- Nokia SEZ in Tamil Nadu
- Quark City SEZ in Chandigarh
- Flextronics SEZ in Tamil Nadu
- Mahindra World City in Tamil Nadu

² Ministry of commerce and industry, Department of commerce, Government of India.
Motorola, DELL and Foxconn

Apache SEZ (Adidas Group) in Andhra Pradesh

Divvy’s Laboratories, Andhra Pradesh

Rajiv Gandhi Technology Park, Chandigarh

ETL Infrastructure IT SEZ, Chennai

Hyderabad Gems Limited, Hyderabad

SEZS- LEADING TO THE GROWTH OF LABOUR INTENSIVE MANUFACTURING INDUSTRY

Out of the 341 formal approvals given till date, over 120 approvals are for sector specific and multi product SEZs for manufacture of Textiles & Apparels, Leather Footwear, Automobile components, Engineering etc., which would involve labour intensive manufacturing. The employment projected in the 130 SEZs notified so far is over 17,43,530 additional jobs. SEZs are thus going to lead to creation of employment for large number of unemployed rural youth. Nokia and Flextronics electronics hardware SEZs in Sriperumbudur are already providing employment to 3800 and 2069 persons, majority of which are women. Hyderabad Gems SEZ for Jewellery manufacturing in Hyderabad has already employed 1200 girls majority of whom are from landless families, after providing training to them. They have a projected direct employment for about 30,000 persons. Apache SEZ being set up in Andhra Pradesh will employ 20,000 persons to manufacture 10,00,000 pairs of shoes every month. Current employment in Apache SEZ is 2500 persons. Brandix Apparels, a Sri Lankan FDI project would provide employment to 60,000 workers over a period of 3 years. Even in the services sector, 12.5 million sq meters space is expected in the IT/ITES SEZs which as per the NASSCOM standards translates into 12.5 lakh jobs. It is, therefore, expected that establishment of SEZs would lead to fast growth of labour intensive manufacturing and services in the country.

CONCLUSION

In short span of five years 2000-01 to 2006-07 there has been an increase of exports to the tune of 57899 Crores. Though the present share of export from SEZs out of total exports is only 5 per cent but it offers tremendous growth in future. SEZs offer Simplified procedures for development, operation, and maintenance of the Special Economic Zones and for setting up units and conducting business in SEZs; Single window clearance for setting up of an SEZ; Single window clearance for setting up a unit in a Special Economic Zone; Single Window clearance on matters relating to Central as well as State Governments; Simplified compliance procedures and documentation with an emphasis on self certification. Thus the scheme is receiving tremendous response from both the national an international investors. However, it is too early to judge the performance of the SEZs still the growth shown in these years is indicative of a brighter future. Benefit derived from SEZs is evident from the investment, employment, exports and infrastructural developments additionally generated. Investment of
the order of Rs.100,000 crores including FDI of US $ 5 – 6 billion is expected by the end of December 2007. 500,000 direct jobs are expected to be created by December 2007. The benefits derived from multiplier effect of the investments and additional economic activity in the SEZs and the employment generated thus will far outweigh the tax exemptions and the losses on account of land acquisition. Stability in fiscal concession is absolutely essential to ensure credibility of Government intentions. The development of more than 350 SEZs in various parts of the country will create the pockets of development where there will be a concentration of skill manpower, better technology, and higher purchasing power. These pockets of development will definitely have the spillover effect in rest of the economy. Hence along with the increased exports the SEZs will offer opportunities for the internal development in the economy.

REFERENCES


http://india.gov.in/sectors/commerce/sezs.php