



## Performance of Special Economic Zones (SEZs) and export oriented units in India

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### Abstract

'Special Economic Zone' (SEZ) is a specially delineated duty free region within the national boundary of a country. India was one of the first countries in Asia to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting exports, with Asia's first EPZ set up in Kandla in 1965 with a view to attract larger foreign investments in India. The study examines the performance of SEZs and export oriented units in India. Further it examines the issue related to land acquisition. The present study is based on secondary source of data, acquired from various Government institutes. Data related to SEZs and other related information like land allotted to SEZs in India taken from 'Ministry of Commerce and Industry' and Government of India. The study has shown that there has been overall growth of export of 1,930.51% over past ten years (2005-06 to 2014-15). A total of 204 SEZs are exporting at present. Out of this 116 are IT/ITES, 20 Multi product and 68 other sector specific SEZs. The achievements of SEZs in the country are a contribution from a few SEZs operating in a few developed States. Many SEZs in the Country remained at approval/notification stage. There is an urgent need for the government to review the factors hindering the growth of non operational and underperforming zones. At last we say the government of India must make sure that Land Acquisition and SEZs must prove beneficial for the people of the country and not harmful.

**Keywords:** SEZs, Exports oriented unit, land acquisition

### Introduction

India was one of the first in Asia to recognize the effectiveness of the Export Processing Zone (EPZ) model for export promotion, with Asia's first EPZ set up in Kandla in 1965. To overcome the shortcomings on account of multiplicity of controls and clearances, absence of world-class infrastructure and an unstable fiscal regime and with a view to attract larger foreign investments in India, the Special Economic Zones (SEZs) Policy was announced in April 2000. Special Economic Zone means to give special facilities to the entrepreneur. In SEZ special facilities are provided to the industrialist, who starts their business in this sector. A 'Special Economic Zone' (SEZ) is a specially delineated duty free region within the national boundary of a country. In these zones business and trades laws differ from the rest of the country. Broadly, SEZs are located within a country's national borders. The aims of the zones include: increased trade, increased investment, job creation and effective administration. To encourage businesses to set up in the zone, financially libertarian policies are introduced. These policies typically regard investing, taxation, trading, quotas, customs and labor regulations.

### Historical Background

In 1896 in England at Manchester city was started special economy zone as industrial park. After some years at Hong Kong, the free Trade Zone was started. In America there are more than 140 Free Trade Zone doing work. In 1956 first Export Process Zone was started in the Ireland. From the 1970s onward, zones providing labor intensive manufacturing have been established, starting in Latin America and East

Asia. These zones attracted investment from multinational corporations. After 1956, in Asia were started Export Process Zones in Malaysia, Singapore, China, Indonesia etc. In 1986, 176 Export Process Zones were established in 47 countries. Today Export Process Zones are converted into Special Economic Zones. In China from 1980 started Special Economic Zones and today the China is introduced as industrialist in the world. After 1990 for export process zone was implemented all over the countries in the world. Additionally, companies may be offered tax holidays. Free trade zones around the world are called by different names. In the United States, they are called as foreign trade zone while those in developing countries producing specifically for export are typically called export processing zones. They are also called special economic zones in China and India, industrial free zones or export free zones in Ireland, duty free export processing zones in the Republic of Korea.

### India and Special Economic Zones (SEZs)

Development of foreign trade is one of the measures adopted as a part of LPG. This requires export oriented industrial units producing exports quality products. Considering the need to promote export from country as well as to enhance foreign investment and to make Indian manufacture competitive globally, the government of India announced the introduction of special economic zones (SEZs). India was one of the first countries in Asia to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting exports, with Asia's first EPZ set up in Kandla in 1965. A comprehensive draft SEZ Bill was prepared after extensive discussions with the stakeholders. Then after long discussions, the Special

Economic Zones Act was passed by the Government of India in May 2005.

The SEZ Act, 2005, supported by the SEZ Rules, came into effect from 10 February 2006, providing for simplification of procedures and for single window. The main objectives of the SEZ Act/policy are:

- Generation of additional economic activity,
- Promotion of exports of goods and services,
- Promotion of investment from domestic and foreign sources,
- Creation of employment opportunities and
- Development of infrastructure facilities.

**Facilities offered to SEZs**

- Direct Tax Benefits 100per cent income tax exemption for Entrepreneurs on export income of SEZ units under section 10AA of the Income Tax Act for first Five years, 50 per cent for next five years thereafter and 50 per cent of the ploughed back export profit for next five years. Secondly, Income Tax exemption for Developers on income derived from the Business of development of the SEZ in a block of 10 years in 15 years Under Section 80 IAB of the Income Tax Act.
- Indirect Tax Benefits Duty free import/domestic procurement of goods for development, Operation and maintenance of SEZ units, Exemption from Service Tax (Section7, 26 and Second Schedule of the SEZ Act),Exemption from Central Sales Tax etc.
- Other Benefits External commercial borrowing by SEZ units upto US \$ 500 million in a Year without any maturity restriction through recognized banking Channels, Single window clearance for central and state level approvals, and Exemption from state VAT tax and stamp duty.

SEZs can be set up in the public, private, joint sector or the State Governments. Developers of an SEZ are eligible for duty free procurement/import of goods and services for the purpose of development, operation and maintenance of Zone.

**Scope of the study**

The present paper mainly focuses on the Performance of Special Economic Zones (SEZs) and Export Oriented Units in India keeping in view the objectives set for them by the government. The study undertakes an analysis of SEZ scheme in India; examines the origin and growth of SEZs in India; and explores the role of SEZs in employment generation, export promotion. Further it examines the issue of land acquisition under SEZs.

**Objectives of the study**

Following objectives have been set for the study:

- To study the performance of Special Economic Zones (SPZs) in India.
- To examine the performance of Export Oriented Units in

India.

- To impact of land acquisition under Special Economic Zones (SPZs).

**Data used in the study**

The present study is based on secondary source of data, acquired from various Government institutes. Data related to SEZs and other related information like land allotted to SEZs in India taken from ‘Ministry of Commerce and Industry’ and Government of India. The data taken from website route through some statistical techniques such as per average, percentage etc. and furthermore illustrated with some statistical diagram also.

**Export performance of Special Economic Zones (SPZs) in India**

Seven Export Processing Zones set up by the Central Government at Kandla (Gujarat), Santa Cruz (Maharashtra), Cochin (Kerala), Noida (U.P.), Chennai (Tamil Nadu), Falta (West Bengal) and Visakhapatnam (Andhra Pradesh), were converted to SEZs on announcement of the SEZ Policy. The establishment of SEZs was envisaged as an important strategic tool to expedite the growth of international trade which manifests itself in the form of increased exports as units set up in an SEZ have to produce goods and services mostly for exports.

**Table 1**

Year	Value (Rs. Crore)	Increase (% over previous year)
2007-08	66,638	93
2008-09	99,689	50
2009-10	2,20,711	121
2010-11	3,15,868	43
2011-12	3,64,478	15
2012-13	476159	31
2013-14	494077	4
2014-15	463770	-6.13
2015-16	221417 (as on 30.09.2015)	-5.71*

Sources: ministry of commerce and trade

Table 1 has shown the exports in the various years from the SEZs have been increased from Rs. 66,638 to Rs. 4,94,077 crore from 2007-08 to 2013-14. As we see in the year 2013-14 only 4% increased in the growth as compared to the previous year. Because the achievements of SEZs in the country are contributed by a few SEZs located in some developed States, which were mostly established prior to enactment of the SEZ Act. Further it has been shown The exports from SEZs as on 30th September, 2015 i.e. in the first two quarter of the current financial year 2015- 16, has been to the tune of ` 2,21,417 crore approximately and negative growth i.e. -5.71\* as compared to previous year. It has been shown that SEZs not performing well as it shown a negative growth.

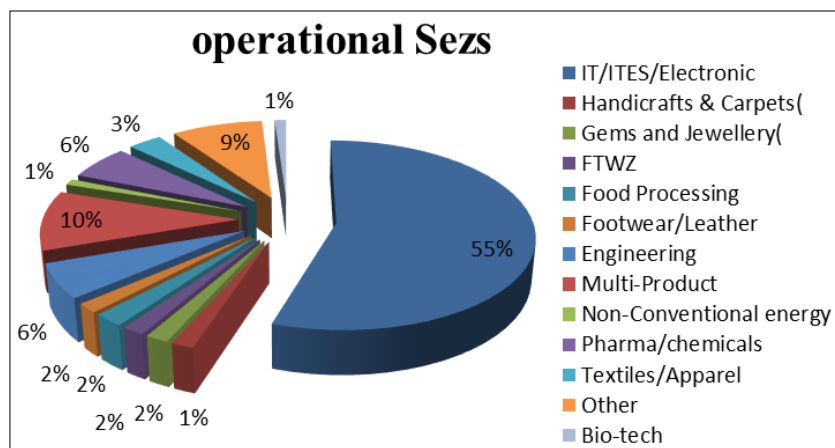


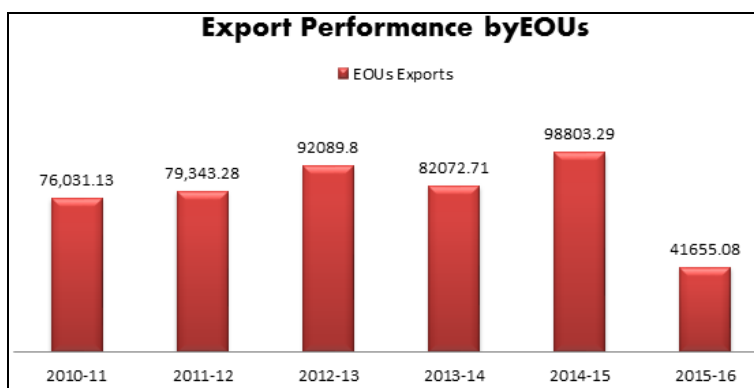
Fig 1: Sector-wise distribution of SEZs in India

The six major sectors of IT/ITES, Hardware etc., Textiles and Apparel (including Wool), Pharma and Chemicals, Biotech, Engineering and Multi-products account for bulk (81%) of the SEZ formal approvals granted so far. IT/ITES/Electronic Hardware/Semiconductor is the single most important segment accounting for about 62% of the total formal approvals followed by Biotech and Engineering SEZs. More than half of the 412 formal approvals issued so far have reached the stage of notified SEZs.

**Performance of export oriented units in India**

The Export Oriented Units (EOUs) scheme was introduced in early 1981, primarily to boost exports by creating additional production capacity. It was introduced as a complementary

scheme to the Free Trade Zones/Export Processing Zone (EPZ) Scheme introduced in the sixties, which had not attracted many units due to locational restrictions. It adopts the same production regime as SEZs (erstwhile EPZs) but offers a wide option in locations. Units undertaking to export their entire production of goods and services, except permissible sales in the DTA, as per the Export-Import Policy are referred to as export oriented units (EOUs). The EOUs function under the administrative control of the concerned Development Commissioner of Export Processing Zones i.e., under the Commerce Ministry, Government of India. As on December 15, 2015, 1977 units are in operation under the EOU Scheme.



Sources: ministry of commerce and trade

Fig 2

It has been shown in diagram that Exports during 2015-16 (upto 30.09.2015) from EOUs are of the order of ` 41655.08 crore as compared to the export of ` 98803.29 crore during 2014-15.

**Employment and Investment in SEZ**

- SEZs in India provide direct employment to over 15,44,526 persons; • The incremental employment generated by the SEZs in the short span of time since the SEZ Act came into force in February 2006.
- The total investment in the SEZ is Rs. 3,63,112.46 crore (53.68 Billion USD) • The incremental investment in the

Special Economic Zones notified under the SEZ Act, 2005 is Rs. 3,59,076.95 crore since the coming into force of the SEZ Act in February, 2006.

**Land acquisition under Special Economic Zones (SPZs)**

Land Acquisition and SEZs have picked up speed in India since the Indian government has encouraged the setting up of SEZs in the country. According to the government of India's policy a SEZ in the country has to be built on at least 1 thousand hectares or more of land. Acquisition on a massive scale is taking place in India so that more and more SEZs can be set up in the country.

- **Impact on Agriculture:** SEZs and Land Acquisition is taking place mainly in agricultural lands and the central and state governments are acquiring the land from the farmers. The acquisition of agricultural land by the SEZs has resulted in fall in food grains output and agricultural employment (Mahanta, 2010) and the fall in agricultural employment is not offset by employment gain in the SEZs. The total amount of land likely to be acquired across India is estimated at 15000 hectare and this land is predominately is agricultural and capable of producing 1 million tons of food grains. If SEZs are seen to be successful in the future and more cultivated land is acquired, they will likely to endanger the food security of the country. Therefore large scale land acquisition is burning issue of the SEZs development in India.
- **Payment of inadequate compensation:** in relation to compensation and Rehabilitation are both inadequate. Land acquisition for SEZs has been continuing in many part of the country with land acquired. In the past land acquired for industrial purpose transfer to SEZs developers and private developers at cheaper rate, living the owner fighting for better compensation in many cases.
- **Displacement of people and loss of livelihood:** There are instances of huge displacement due to Sezs and prime victims of land acquisition are agricultural labourers, small and marignal farmers. Many farmers have lost their livilihood and they are forced to do labour work in cheaper rate to feed their family. The self employed farmers transferred into unemployed due to land acquisition of SEZs. As already mention SEZs displaced many of people. The displaced and affected population has shown resistance against forceful take over their land and resorted to demonstration and protest. In raigarh district of Maharashtra acquisition of 10000 hectares of land in 83 villages forced the government to cancel the SEZs.

#### **Some example of protest due to land acquisition**

- The biggest episode was seen in West Bengal. The WB government had allotted about 997 acres of Singur district land to Tatas for setting up a small car plant. This will pave way for the industrialization of the state. Opposition parties along with local population have waged a furious battle with the state government, preaching that the land for the project was bought forcibly. Social activists Medha Patekar & Arundhati Roy also have joined the protests. The project had to be stopped several times as the protests grew louder. Protests have taken such a turn that 24hour police security is being provided at the development site.
- Nandigram witnessed one of the most violent protests in the history of Indian democracy. The WB government had allotted the site for developing a chemical hub to the Salim Group of Indonesia. Again the same issue cropped up that land was being taken forcibly. As protests grew louder, the government resorted to oppressive moods. The police resorted to lathicharge and tear gas to suppress the movement. But being unable, police resorted to heavy firing which killed at least 18 villagers. This episode shook the entire nation. At once the force was called back

and the site abandoned.

- In 2005 the South Korean steel company posco had set up plant in Orissa producing 12 million tons of steel per annum. In 2010 the government of Orissa announced only Rs 70 crore rehabilitation package for 3,000 displaced person. In march 2007, the land acquisition of 10000 acres of land by foreign investors in the SEZs of the west Bengal caused massacres of farmers. (Bag and Vinayak 2011).
- Recently due to Land Acquisition in Atchutapuram, which is near Visakhapatnam, the farmers have declared war against the setting up of SEZ in their lands. The land compensation money that the state government is giving is very less in comparison to the actual market rate of the land and this has angered the farmers even more.

#### **Conclusion**

In short span of about nine years since SEZs Act and Rules were notified in February, 2006, formal approvals have been granted for setting up of 412 SEZs out of which 329 have been notified. Out of the total employment provided to 15,44,526 persons in SEZs as a whole, Physical exports from the SEZs has declined from ` 4,94,077 crore in 2013-14 to ` 4,63,770 crore in 2014- 15. There has been overall growth of export of 1,930.51% over past ten years (2005-06 to 2014-15). The total physical exports from SEZs as on 30th September, 2015 i.e. in the first two quarter of the current financial year 2015-16, has been to the tune of ` 2,21,417 crore (32.72 Billion USD) approximately. A total of 204 SEZs are exporting at present. Out of this 116 are IT/ITES, 20 Multi product and 68 other sector specific SEZs. There is a total of 4,122 units setup in the SEZs. Many SEZs in the Country remained at approval/notification stage. There is an urgent need for the government to review the factors hindering the growth of non operational and underperforming zones. Further, to implement effectively the government has to make it sure that every section of the society is benefited by it and adequate compensation has been provided to the land dwellers. At last we say the government of India must make sure that Land Acquisition and SEZs must prove beneficial for the people of the country and not harmful. The government, therefore, must go for a country wide survey of status of all the acquired land, before making law for unbridled and easy and cheaper land acquisition for corporate in the name of public purpose.

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