



SEZs-Engines of Exports promotion of an Economy

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ABSTRACT

“Trade is an Engine of Economic Growth”

Most of the developing countries in the world have recognized the importance of facilitating international trade for the sustained growth of the economy and increased contribution to the GDP of the nation. In this era of globalization most developing countries are witnessing a swift away from an import substitution based development strategy to one based exports promotion policy. As a part of their policy instrument to promote exports many of these countries are vigorously promoting export processing zones (EPZs). A variety of terms such as industrial free zones and free trade zones are used interchangeably through most of the EPZs history. The Special Economic Zone scheme introduced by the Government of India in April 2000 has its genesis in Export Processing Zone scheme which was introduced way back in 1965 when the first zone was set up in Kandla. The Special Economic Zone Act 2005, was passably parliament in May 2005, which received presidential assent on the 23rd June, 2005 and came into effect on 10th February 2006. As per the Ministry of Commerce and Industry they are defined as “Special Economic Zone is a specifically duty free enclave and shall be deemed to be foreign territory for the purpose of trade operations and duties and tariffs.” As SEZ is a trade capacity development tool, with the goal to promote rapid economic growth by using tax and business incentives to attract foreign investment and technology. SEZ to day are not only a tool for the export development but also contains in them the potential of generating economic spin off of enormous proportions leading to regional development. SEZs were meant to be growth engine of exports and creation of employment, inflow of foreign direct investments and development of infrastructure of our country. SEZs are also a vehicle of growth and development for developing Economies. My paper is going to study a brief history of SEZs, Economic rationales of SEZs, economic benefits of SEZs in promotion of exports and the physical exports trends during 2001-2010. And also attempt to study the Regional development with reference to Andhra Pradesh. In this study, the secondary data have been used to analyze the SEZs promotion policies and their effect on exports.

KEY WORDS: Export Processing Zone, Special Economic Zone, Exports, Employment Generation.

INTRODUCTION

In this era of globalization, most developing countries are witnessing a shift away from an important substitution based development strategy to one based on export promotion policy. As part of their policy instrument to promote exports many of these countries are vigorously promoting export processing zones (EPZs). Most developing countries like India across the world have recognized importance of facilitating international trade for the sustained growth of the economy and increased contribution to the GDP of the nation. EPZs are seen as key instrument not only for promoting exports and earning foreign exchange but also for stimulating economic growth through additional investment, technology transfers, and employment generation. Despite the hype over EPZs in developing countries, controversies regarding the beneficial effects of EPZs onto the economy that have been raging for more than 4 decades now, have not subsided. The present study integrates various aspects of Trade development effects into a single framework and examines the Indian experience within that framework. A variety of terms such as industrial free zone and free trade zones are used interchangeably through most of the EPZ history. These enclaves are referred to as “Special Economical Zones” in China, “maquiladoras” in Mexico, Costa Rica and El Salvador, “Industrial free zones” in Russia. In INDIA they are called “special economic zones” (SEZs) The SEZ scheme introduced by the government of India APRIL 2000 has its genesis in Export processing zone scheme, which was introduced way back in 1965 when the first zone was set up in Kandla. By the late 1990s seven more zones had come into existence. Under the new scheme, however all the existing EPZs were converted into SEZs.

A special Economic Zone is defined as “a deemed foreign territory within a country with special rules for facilitating FDI for export – oriented production, and for purposes of trade and customs duties”. These zones are geographical region that have economic laws different from a country’s typical economic laws. Different economic institution and government departments have defined it in different ways. As per Ministry of Commerce and Industry they are defined as; “Special Economic Zones is a specifically duty free enclave and shall be deemed to be foreign territory for the purpose of trade operations and duties and tariffs. A SEZ is a trade capacity development tool, with the goal to promote rapid economic by using tax and business incentives to attract foreign investment and technology. India was one of the first in Asia to recognize the effectiveness of the Export processing Zone model in promoting exports, with Asia’s first EPZs setup in Kandla in 1965 with a view to overcome the shortcomings experienced on account of the multiplicity controls and clearances absence of world-class infrastructures and unstable fiscal regime and with a view to attract longer foreign investment in India, the special economic zones policy was announced in April 2000.

Objectives of the study:

1. To study the Economic rationale of setting up SEZs in India.
2. To study the brief history about SEZs and its evolutionary literature.
3. To study the Economic benefits of SEZs impact of Regional Development with reference to Andhra Pradesh.
4. To analyze the exports from SEZs during the period 2001-2010.

Methodology: The secondary data have been used to analyze the SEZs promotion policies and their effect on export and employment generation for the study.

Economic Rationale offsetting up SEZs in India In the initial phase, SEZs were as industrial clusters of EPZs variety. They were set up in an import substituting regime with the objective of promoting export production and earning foreign exchange. The main attraction of operating in them was the fiscal incentives. Thus India early special economic zones could be seen as embodying the orthodox view.

Industrial and Trade reforms initiated in the mid-1980's and accelerated in the early 1990's marked a shift from inward looking to an outward oriented trade regime in India. In an outward-oriented regime export growth is one of the key determinants of growth. Export growth is necessary not merely to offset the deterioration of balance of payments caused by import surge; its primary role is as a key engine of the process of industrialization, growth and employment generation. An important policy question that faces the Governments of developing countries therefore is how to promote exports. In order to promote exports, the Government of India initiated several new schemes and revamped the existing ones in the post 1991 period. In this regard, in 2000, the SEZ scheme was also upgraded through a revision in the Export-IMPORT POLICY 1997-2002. The Special Economic Zones Act was passed in 2005.

Export processing zones have been a feature of India policy since 1960, they have been much less successful than ASEAN & China, both in themselves as well as an experimental plat form for more general policy change. It is likely that the two are related and that lack of success in pushing EPZ exports is linked to the insufficient appreciation or application of the policy linkage. This has, however begun to change since the EXIM policy 2000 launched the new scheme of special economic zones.

The basic objective of setting up EPZs in India is to promote exports and foreign exchange earnings. Though the objectives of EPZs were not clearly spelt out in India until the late 1980s, in actual practice the predominant condition in selecting EPZs units had been the expected value addition component of exports. The indicator was also used to assess the performance of the units. In 1989, a

report of the “Comptroller and Auditor General of India” clarified that EPZs were meant for earning foreign exchange, develop export oriented industries, stimulate investment and generate employment opportunities beside creating an internationally competitive environment for export production at low cost. Subsequently policy documents have however reiterated that EPZs are meant to provide an internationally competitive environment for export production at low cost. The “Draft SEZ Bill 2004 also considers promotion of foreign trade in goods and services, the most important of objective of SEZs.

In order to import stability to the SEZ policy regime and to generate more economic activity and employment through exports, the SEZ Act was enacted by the parliament of India in 2005 and associated rules and regulations were notified in Feb 2006, since then 234 approvals have been given Export performance of EPZs/SEZs in India shown steady improvement, including acceleration since the year 2000. From a mere 0.027 percent in 1966-70, the share of exports from SEZs in total exports has increased to 5.01 percent in 2005-06. Employment is increasing more than double since. In 2006, private investment in SEZs was about Rs.2235 crs. of which, the foreign component was about Rs.600 cr. As on 31st December, 2010 an investment of Rs.1,95,348 cr. Has been made in SEZs and 6,44,073 persons.

Table-I Exports from SEZs during 2001-2011 in India

Year	Exports Rs. In crores
2000-01	8552.30
2001-02	9189.60 (07)
2002-03	10053.40(18)
2003-04	13853.38 (62)
2004-05	18309.00 (114)
2005-06	22839.53 (187)
2006-07	34787.47 (307)
2007-08	66638.00 (679)
2008-09	90416.00
2009-10	220711.39
2010-11	223132.00*

Source: Dept. of commerce, GOI * Estimations (Items in parenthesis)

Table-I: Shows year-wise progress in exports from SEZs units in India during 2001-2010 the period 10 years. It may be observed that there has been continuous increase in the exports from the SEZs units in India, there has been growth in exports from SEZs units by more than 957 percent over the period of time (from Rs.90,416 Cr to Rs.2,20,711 Crs increased). Actually, it is a just beginning of the experiment of SEZs in India and it has shown a good result. The creation of additional employment and the flow of investment are the evident the positive response. The following are some of them.

1. Nokia SEZ in Tamil Quark City SEZ in Chandigarh.
2. Flextronics SEZ in Tamilnadu
3. Motorola, DELL and Foxcon. Apache SEZ (Adidas group) in Andhra Pradesh.
4. Divvy Laboratories in Andhra Pradesh.
5. ETL infrastructures ITSEZ Chennai
6. Rajiv Gandhi Technology Park in Chandigarh and
7. Hyderabad Germs Limited in Hyderabad, Andhra Pradesh.

Impact of Regional Development: The distribution of medium and large SEZs (50 hectares and above) by major districts shows that nearly three-quarters of all approved SEZs are located in 4 states- A.P., Gujarat, Maharastra & Tamilnadu. These states are relatively well developed states with high industrial capacity. Those are also highly urbanized. Typically SEZs completely separate enclave. The main local benefit is the creation of employment. However, many SEZs may not provided enough housing and basic services to the people employed within the enclave, thereby forcing to stay in surrounding areas. The SEZs contribute to regional and national economy and will result is generation of employment, demand for large industrial machinery, creation and utilization of transport systems and logistical infrastructure. These are long term benefits that the region will receive. As a result of the demand for these activities, additional indirect benefits spill over to other nearby regions. As well as far off regions it is there indirect benefits to the regional economy indirect benefits to the regional economy which might be large and can spill over to several order other sectors through multiplier effect on them.

Employment Generation in A.P.: In Andhra Pradesh 42 units of EPZs converts into SEZs and generated employment to the tune of 4200, accounting for an average employment of each 100. It is significant to state that 44.05 percent of women were employed in the 42 units of SEZs. Another 42 units came into being in A.P. according to Act, 2005. Total employment generated in these SEZs was 23,355 by the end of March 2008. Here again over 34 percent of Women got employment opportunities, vide in Table-2

Table-2 Direct Employment in SEZs, A. P. as on 31-03-2008

SNO	Category of SEZ	Direct Employment as on 31-03-2008			NO. of Units	Average Employment per Unit
		Men	Women	Total		
1	Govt. SEZs (EPZs converted into SEZs)	2342	1858	4200	42	100
2	SEZs notified under SEZ Act, 2005	15392	7963	23355	42	557
Total		17734	9821	27555	84	328

Source: department of Commerce, GOI

Andhra Pradesh Export Earnings through SEZs: In Andhra Pradesh Export earnings through SEZs seem to be encouraging. In fact, A.P. state earned an amount of Rs. 749.74 crores during the year 2006-07, which slightly declined in the year 2007-08. By about 8 crores rupees, this is in the case of EPZs, which got converted into SEZs later on. While in the case of 42 units of SEZs established according to the Act, 2005 recorded an export earnings to the tune of Rs.580.4 crore during the year 2007-08, registering an annual growth rate of 60.48 for the 2007-08, representing Andhra Pradesh 3.13 percent total number SEZs in India, vide table-3.

Table-3 Physical Exports of the SEZs in A.P. in 2005-2006 to 2007-08

SNO	Category of SEZ	Physical Exports (Rs. In Crores)		
		2005-06	2006-07	2007-08
1	Govt. SEZs (EPZs converted into SEZs)	612.71	749.74	741.3
2	SEZs notified under SEZ Act, 2005	---	78.85	588.4
Total Exports		612.71	828.59	1329.7
Total % of Exports of SEZs in India		2.68%	2.39%	3.13%

Source: Dept of Commerce, GOI

There has been a continuous improvement in export performance of SEZs since the SEZ policy was announced. However it was the enactment of the SEZs Act that provided a major push to SEZs

exports performance. The average annual growth rate of physical exports (outside India) to increased in 2007-08. The global economic crisis, which considerably slowed down India's economic growth, had ravaging effects on the exports sector. It was the first time in nearly a decade that merchandise exports recorded a single digit growth of 3.4 percent. Services export growth also crashed to 12.4 percent against 22 percent in 2007-08. In the crisis – ravaged external sector, special economic zones the most controversial industrial clusters in the country, emerged as the only source of solace. Notwithstanding the fact that the SEZs have also been severely impacted by the crisis, their exports recorded an increase of \$16 billion in 2007-08 to \$22 billion in 2008-09. They improved their performance in the first half of the current fiscal year.

As on 31st December 2010 an investment of Rs.1,95,348 cr has been made in SEZs and the total direct employment in SEZs is 6,44,073 personas. The total physical exports of Rs.2,20,711 cr. Approximately have been made from SEZs during the year 2009-10 registering a growth about 121.40 percent over the exports for previous financial year. Exports from SEZs have been 26.10 percent of the total exports from SEZs as on 31st December, 2010.

Exports from Special Economic Zones grew by 23 percent during the first quarter of the fiscal 2011-2012, the export promotion council for EOU said the during the current financial year exports from SEZs as on 30-6-2011, is to the extent of Rs.72,25,549 crs representing of a 23.12 percent over the exports of the corresponding period of FY 2010-2011. Merchandise exports from 143 operational SEZs totaled Rs.72,255 Crs in the April-June period. Total consignments including those from outside SEZs averaged a growth of over 40 percent. During 2010-11, exports from SEZs jumped 43 percent to compared to the previous, fiscal according to the data released by Export promotion council for EOUs and SEZs. GUJARAT tops among the SEZ states by contributing 46 percent to the total exports from India. Data given by the Ministry of Commerce and Industry, Government of India, on sezindia.nic in said the SEZs in India recorded a growth of 43.11 percent in exports in 2010-11 over the 2009-10, of the total SEZ exports of 2010-11, Gujarat registered the highest exports. The contribution from Gujarat has been from 13 SEZs. Gujarat has achieved the lead position in SEZ exports, mainly due to the Reliance Industry Ltd., (RIL) SEZ in Jamnagar which exported products and goods worth Rs.1,03,325 Crs. Almost 70 percent of the total exports from the state. On the other hand, the multi-product SEZ in Surat contributed exports worth Rs.38,156 Crs. Apart from these two SEZs which contributed around 96 percent of the total exports from Gujarat the other 11 SEZs contributed the remaining 4 percent of exports worth.

Of the 585 formally approved SEZs so far, 381 SEZs have been notified as on July 15th 2011 it said. There are 143 operational units as on June 30th council added. The sector provided employment to 7.14 lakh persons and attracted investments worth Rs.2.12 lakh crore, till June end of this year. IT, IT

Hardware, Petroleum, Engineering Leather and Garments are the leading exports from the SEZs. The SEZs, which were counted as major vehicles for investments and export promotion.

CONCLUSION: SEZs were meant to be growth engine of export and creation of employment inflow of foreign direct investment and development of infrastructure of our country. SEZs are also a vehicle of growth and development for developing countries. Considering the need to boost export sector and attract FDI, Government announced this policy but ironically the performance of SEZs in exports highlights the failure. When Government should liberalize overall policy, Government has decided to focus on one or two areas. The real attraction of SEZs is the tax holiday promised and to grow the business in hassle free environment firms are just shifting to these privileged enclaves. To compete with China a package of fiscal and this has been overlooked that tax benefits in China's SEZ were available only to foreign investments, not exports. All exemptions and fiscal incentives should go in the process of overall tax and labor reform. Giving preferential treatment to any particular area in the name of exports can't be justified in the democratic set up. Most important is that need of the hour to get people involved in the each programmed of economic development like SEZs.

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