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Special Economic Zones and its Economic Contribution in India

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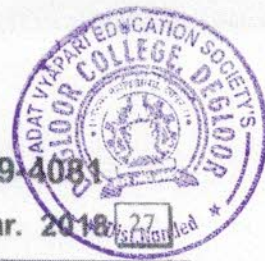
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RESEARCH PAPER - ECONOMICS

Introduction:-

The Special Economic Zones Act 2005 was passed by Parliament in May 2005, which received Presidential assent on the 23rd June 2005. SEZs in India functioned from 1st November 2000 to 9th February 2006 under the provisions of Foreign Trade Policy. The EXIM Policy Statement of 2004-2009 had stated that SEZs could be established under private sector, joint sector or public sector at the initiative of state governments to provide an internationally competitive and hassle free climate for export promotion. 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 source (d) creation of employment opportunities (e) Development of infrastructure facilities.

The concept of Special Economic Zone (SEZs) is the gift of the People's Republic of China to the world Community which setup SEZs as early in 1970 as a measure to attract capital, technology and managerial expertise. SEZs can be defined as specially delineated duty free enclaves deemed to be foreign territories for the purpose of trade



operations duties and tariffs. SEZs include the development of roads, airports, transport system, telecom, hospitals, hotels, generation and distribution of power and construction of industrial and commercial complexes.

In India, the concept of free zones was emerged during the sixties. India was the first country in Asia which set up an Export Processing Zones (EPZs) in 1965 at Kandla in Gujarat called the Kandla Free Trade Zone. After this six more EPZs were set up in Maharashtra, West Bengal, Tamil Nadu, Uttar Pradesh, Kerala and Andhra Pradesh. The SEZs Act passed by the parliament in May 2005. This Act came in to force in February 2006, providing for single window clearance system. Some important features of the SEZs are given below –

- 1] A designated duty free enclave to be treated as foreign territory only for trade operations and duties and tariffs.
- 2] No license required for imports.
- 3] Manufacturing, Trading and Service activities allowed.
- 4] Full Freedom for sub-contracting.
- 5] No routine examination by customs authorities of export/import cargo.
- 6] SEZs units to be positive net foreign exchange earners within three years.
- 7] Domestic sales subject to full customs duty and import policy in force.

Under the SEZ scheme, the functioning of the zone is governed by a three tier administrative set up as given under:- 1) The Board of Approval is the apex body & is headed by Secretary, Department of Commerce. 2) The unit the Approval committee at the zonal level dealing with approval of units in the SEZs and other related issues. 3) Each zone is headed by a Development commissioner, who also heads the Unit Approval Committee.

The Developer submits the proposal for establishment of SEZ to the concerned State Government. The State Government has to forward the proposal with its recommendation within 45 days from the date of receipt of such proposal to the Board of Approval. There is also a provision that the applicant can submit the proposal directly to the Board of Approval. The Board of Approval has 19 members and it has been constituted by Central Government in exercise of the powers conferred under the SEZ



Act. All the decisions in the Board of Approval are taken by consensus. Secretary, Department of Commerce is the Chairman of this Board. There are three stages in approval for settings up SEZs, i.e. Principle Approval, Formal Approval, and Notification.

Principle Approval - when the land is not in the possession of the developer and the proposal for setting up of an SEZ is considered as a grant of principle approval.

Formal Approval - When the land is in the possession of the developer and other necessary procedures are complete all proposals for setting up SEZs are considered for formal approval by a board & finally by the empowered group of ministers.

Notification - The final approval of the SEZ is called notification. It allows the developers to start operation for development of the SEZ and subsequent setting up of units.

Who can setup SEZs- any private/ public/joint sector/ state government or its agencies and foreign companies can setup SEZs.

Special Economic Zones in India: An Overview:-

Particulars	Relevant Information
• SEZs Policy announced	April 2000
• SEZs Act passed by the parliament	May 2005
• SEZs Act become operational	February 2006
• No. of SEZs Operational/Exporting	222
• No. of IT based SEZs	120
• No. of Multi product SEZs	23
• No. of other specific SEZs	79
• No. of units in the SEZs	3818

Source:- Compiled from sources.

The total number of SEZs operation / exporting at present is 222, out of which 120 SEZs are IT based, 23 are Multi products and 79 other Sector Specific SEZs. The total numbers of units working in the SEZs are 3818.



State wise Distribution of SEZs:-

States/UTs	Formal Approvals	In principle Approvals	Notified SEZs	As on 07-09-2017 Exporting SEZs (Central Govt. + State Govt./Pvt. SEZs + Notified SEZs under the SEZ Act., 2005)
Andhra Pradesh	30	4	26	20
Chandigarh	2	0	2	2
Chhattisgarh	2	1	1	1
Delhi	2	0	0	0
Goa	7	0	3	0
Gujarat	28	4	24	19
Haryana	24	3	20	7
Jharkhand	1	0	1	0
Karnataka	62	0	51	26
Kerala	29	0	25	19
Madhya Pradesh	10	0	5	4
Maharashtra	57	11	49	28
Manipur	1	0	1	0
Nagaland	2	0	2	0
Odisha	7	0	5	4
Pondicherry	1	1	0	0
Punjab	5	0	3	3
Rajasthan	9	1	8	4
Tamil Nadu	50	3	47	36
Telangana	64	0	53	30
Uttar Pradesh	24	1	19	12
West Bengal	7	2	5	7
Grand Total	424	31	350	222

Source:- Calculation are based on the data obtained from Ministry of Commerce and Industry, Department of Commerce, Government of India.

Due to wide range of incentives, facilities and many other relaxations amended in SEZs, majority of the states in the country are motivated to set up SEZs to enjoy the advantages generated through these zones. Presently, there are 424 formal approvals of SEZ across 22 states in the country, Out of these 350 SEZs are notified. Among Various



states Telangana ranks first in the country. The Other States like Karnataka, Maharashtra, Tamil Nadu, Andhra Pradesh and Gujarat are likely to have significant area under SEZ. It is to be noted that Out of total 424 approvals the selected states such as Telangana, Karnataka, Maharashtra, Tamil Nadu, Andhra Pradesh, Gujarat, Uttar Pradesh, Kerala, Haryana and have contributed 368 approvals and the rest of the states contributed for remaining 56 approvals.

Export Performance of SEZ in India:-

Export from the operational SEZs during the last eleven years is as under-

Year	Value of India's Total Exports (Rs. in Crores)	Growth Rate over previous year	Value of SEZ exports (Rs. in Crores)	Growth Rate over previous year	SEZ export as % share of total exports
2005-06	456418	-	22840	-	5.0
2006-07	571779	25.3	34615	52	6.1
2007-08	655864	14.7	66638	93	10.2
2008-09	840755	28.2	99689	50	11.9
2009-10	845534	0.6	220711	121	26.0
2010-11	1142922	35.2	315868	43.11	27.6
2011-12	1465959	28.3	364478	15.39	24.9
2012-13	1634318	11.5	476159	31	29.0
2013-14	1905011	16.6	494077	4	25.9
2014-15	1896348	-0.45	463770	-6.13	24.44
2015-16	1716378	-9.48	467337	0.76	27.19

Source: Calculation are based on the data obtained from Ministry of Commerce and Industry, Department of Commerce, Government of India. Export from the functioning SEZs during the last eleven years has increased to Rs 4,67,337Cr in 2015-16 from Rs. 22,840 Cr in 2005-06.

State wise export from SEZs (2008-2015):-



S. No.	State /UTs	Total Export from SEZs (2008 to 2015) (Values in crores)	SEZs Total Share %
1	Gujarat	1199775.33	46.54
2	Karnataka	241254.96	9.36
3	Tamil Nadu	367886.46	14.27
4	Maharashtra	230340.52	8.39
5	Kerala	145489.98	5.64
6	Andhra Pradesh & Telangana	140340.72	5.44
7	Uttar Pradesh	82683.09	3.21
8	West Bengal	110341.95	4.28
9	Haryana	30295.92	1.18
10	Madhya Pradesh	11929.6	0.46
11	Rajasthan	9076.38	0.35
12	Chandigarh	6934.48	0.27
13	Orissa	1364.09	0.05
14	Chhattisgarh	17.09	0.02
15	Goa	0	0
	All India Total Exports in SEZs	2577730.57	100

Source: - sezindia2016

From the above table it is noted that Gujarat which is contributing nearly half (46.54%) of the export value followed by Tamil Nadu and Karnataka whose export value contribution in percentage are 14.27 and 9.36 respectively. It can be noted that SEZ in various states is not functioning effectively. The export contribution value is an evident that only Gujarat, Tamil Nadu, Karnataka and Maharashtra is contributing significant value to total export.

Economic Contribution:-

The significance of any variable with respect to the economy can be measured by its impact on country's GDP. Hence forth export contribution to Indian GDP and export contribution through SEZ to Indian GDP is measured whose table is depicted below-

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Year	Total Export**	Total Export From SEZ*	GDP**	GDP Contribution by Export	GDP Contribution by Export From SEZ
2006	456418	22840	3390503	13.46	0.67
2007	571779	34615	3953276	14.46	0.88
2008	655864	66638	4582086	14.31	1.45
2009	840755	99689	5303567	15.85	1.88
2010	845534	220711	6108903	13.84	3.61
2011	1136964	315868	7248860	15.68	4.36
2012	1465959	364478	8391691	17.47	4.34
2013	1634318	476159	9388876	17.41	5.07
2014	1905011	494077	10472807	18.19	4.72
2015	1716378	463770	12541208	13.69	3.70
2016	2351270	467337	12552556	18.73	3.72

Source:-(sezindia.2016),**(RBI 2016)

It is important to note that overall export and export through SEZ is making significant contribution to GDP.

Employment Generation of SEZs:-

Employment	Employment (As on Feb, 2006)	Incremental Employment	Total Employment (As on 30th June 2017)
Central Government SEZs	1,22,236 persons	1,12,625 persons	2,34,861 persons
State /Pvt. SEZs set up before 2006	12,468 persons	83,502 persons	95,970 persons
SEZs Notified under the Act	0 persons	14,48,020 persons	14,48,020 persons
Total	1,34,704 persons	16,44,147 persons	17,78,851 persons

(Source:- sezindia.in fact sheet 2017)

As on 30-06-2017, out of total employment 17,78,851 Persons in SEZs, an incremental employment of 16,44,147 Persons was generated after February 2006 when the SEZ Act came into force.



Investment in SEZs:-

Investment	Investment (AS on Feb 2006)	Incremental Investment	Total Investment (As on 30th June, 2017)
Central Govt. SEZs	Rs. 2,279.20 Cr	Rs. 13,694.80 Cr	Rs. 15,974 Cr
State / Pvt. SEZs Set up before 2006	Rs. 1,756.31 Cr	Rs. 9,721.69 Cr	Rs. 11,478 Cr
SEZs Notified under the SEZ Act	-----	Rs. 4,05,690 Cr	Rs.4,05,690 Cr
Total	Rs. 4,035.51 Cr	Rs.4,29,106.49 Cr	Rs.4,33,142 Cr

Source:-sezindia.in fact sheet 2017

Indian Government's flexibility towards SEZ reform (SEZ Act 2005) as a part of its economic strategy has resulted in increased investment in the sector. Total investment in SEZs till 30-6-2017 is Rs. 4,33,142Cr.

Land for SEZs:-

7 Central Govt. + 11 State/ Pvt. SEZs Notified before SEZ Act 2005	Notified SEZs under the SEZ Act 2005	Total Notified SEZs Area (1+2)	Formally Approved SEZs	Total Area (3+4)
(1)	(2)	(3)	(4)	(5)
2827.11 Ha	44414.72 Ha	47241.83 Ha	14382.14 Ha	61624 Ha

Present Problems of SEZs:-

The SEZ in India despite the success in areas of exports are not free from the problems. The major problems include controversy on the issues related farmers, lack of world class infrastructure services, complicated labour laws, loss of fertile agricultural land, loss of revenue to the government and adverse effects of uneven growth, SEZs are small in size, restrictive policies, lengthy procedures, locational disadvantages, opposition from public etc.

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. The SEZs



have high investment and employment potentials. The country has been an important investment destination for the foreign investors apart from the domestic private corporate bodies.

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