

# Special Economic Zones in India: An Instrument for Economic Development

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## ABSTRACT

The development of Special Economic Zones (SEZs) in India is one of the major steps for economic growth taken by the government. The reason behind introduction of SEZs was primarily to increase the pace of growth and development of our economy, equip with latest infrastructural facilities and technology along with creation of employment opportunities. It is an economic tool and instrument for the growth of exports, increase the level of forex reserves and dazzle more and more Foreign Direct Investment (FDI) into the Indian economy. It is very important on the behalf of policy makers to frame policies in such a way that all the objectives of SEZs are effectively achieved. The government has provided various incentives to the SEZs developers as well as to businesses to be developed under SEZs in the form of single window clearance mechanism to reduce the bureaucratic delays, various tax concessions, providing land at the best possible cheaper rates, exemption from duty on import of materials, 100% FDI via automatic route except for some items, exemption from Minimum Alternate Tax (MAT), the advantages of external commercial borrowings up to a specified limit etc. The main objective of the paper is to investigate whether the introduction and execution of SEZ policies had any positive impact on the FDI inflows in Indian economy and what India needs to improve to make out maximum from SEZs.

**Keywords—** Economic Growth, Economic Development, Special Economic Zones, Special Economic Zone Policy, Foreign Direct Investment.

## Introduction

Development of our economy is undoubtedly necessary but not at the sake of risking the environment. So, it is necessary to adopt the way of sustainable development. The Government of India established the first Export Processing Zone (EPZ) at Kandla in 1965 because exports promote a major role in the growth of the economy and higher the percentage of exports, higher is the rate of growth in the economy. Then after 1965, a large number of EPZs were established, the main of which are Kandla EPZ, Santacruz EPZ, Noida EPZ, Falta EPZ, Cochin EPZ, Chennai EPZ, Vishakhapatnam EPZ and Surat EPZ. But, the EPZs unfortunately were not that much successful in achieving the expected development due to rigidity of government laws and policies, huge transportation costs, unnecessary delays in obtaining permissions and locational disadvantages. The failure of EPZs and noticeable growth of Special Economic Zones (SEZs) in China ignited the Indian government to develop and promote SEZs in 2000 in order to promote industrialization, develop large scale infrastructure, attract Foreign Direct Investment (FDI), increase forex reserves and trigger exports. The transformation of EPZs to SEZs took place in two phases—1) conversion of existing EPZs into SEZs during 2000-2003 and 2) development of new

SEZs after 2003. The Special Economic Zone is the most debatable topic in India because there are a lot of things to be worked upon under SEZ. To survive in this competitive world after globalization, every country is doing its best by focusing more on how to increase exports and help in economic development and SEZ contributes a major part in it. Special Economic Zone aims at giving customized facilities and various concessions to the entrepreneurs and industrialists who want to start their business in sectors specified under SEZs. The businesses set up under SEZ are provided with concessions in import duty, taxes, various industrial services and many other trading activities. Under SEZ, special cities are developed, having their own airport and port, roads etc.

## Literature Review

B. Goswami in his article cited how China has been successful in implementation of SEZs and how it formulates various policies regarding SEZs and creates a balance in the usage of fiscal and non fiscal revenues and what are the lessons which India can learn from China in order to be more successful and achieve maximum from the development of SEZs.

Swapna Banerjee – Guha in her paper has described the development of SEZs in the light of space relations of

capital. The paper discusses about the need of reorganizing the capital according to the requirements and avoids the problem of over accumulation of funds. The paper has also examined the evolution of SEZs.

Karimi A. et al, in their study have focused on the importance of FDI for development of the economy along with ease of doing business and SEZ. They also mentioned the need of formulating suitable policies and plans to attract investors and improve the business environment for increasing the ease of doing business.

Arpita Mukherjee, et al, in their book Special Economic Zones in India has examined the performance of SEZs in India over the last decade. They have considered SEZs as the clusters which receive various incentives and facilitation benefits from the government. They have also talked about the special SEZ Act passed in 2005 for the smooth working of SEZs in the country. They have also highlighted that SEZ has been a debatable concept due to its both positive and negative sides.

### Objectives of the study

- The paper is designed to study the history, role of Special Economic Zones in India and how it helps in attracting Foreign Direct Investment.
- The paper also discusses about the SEZ policy adopted by China and what we can learn from them to make our SEZs more effective.
- The SEZs and the need of Sustainable Development along with growth of SEZ is also mentioned at the end of this paper.

### Research Methodology

The research has been based on secondary data collected through newspapers, journals and various websites.

### Objectives of SEZ

The objectives related with India given as under-

- To develop infrastructural facilities in the country.
- To increase employment opportunities by developing SEZ.
- To remove imbalance in regional and financial development.
- To increase international trade and generate more foreign exchange reserves with the help of SEZ.
- To develop the country through the medium of industrial and economical growth.
- To attract the foreign direct investment.
- To help the internal trade and business in easy availability of resources and provide more opportunities with the help of development of SEZ.

## SEZs and their Role in Economic Development

During the initial phase, the focus of SEZs was on boosting the development and growth rate of the manufacturing sector only but with the passage of time and due to dynamic nature of business environment the concept of SEZ has also entered in service sector. The main reasons due to which setting up SEZs was initiated are to (1) promote trade activities and encourage fair competition and (2) to attract FDI, latest technology and best global trading practices. Often, SEZs are used for experimentation purposes for the application of the new policies before they are announced and executed at national level. The SEZs can even take advantages of clustering and can reach to economies of scale and attain efficiency. Other domestic industries in the tariff areas can also enjoy a piece of the cake by sharing some benefits of SEZs due to their inter linkage with them. The development of SEZs also benefits the domestic economy by the way of providing various direct and indirect employment opportunities that are created due to multiple business activities which are done in these SEZs. This is much evident from this information that SEZs play a more vital role in developing economies like India and China than any other methods of development. But SEZs have not been successful for all the economies over the globe. According to data available, some countries like China have been successful in extracting the majority of employment opportunities and triggering the exports through the development of SEZs while some other countries like Africa have only seen the other side of the coin, i.e. failure of SEZs as they have failed to extract any significant growth opportunities from the development of SEZs. Where in China SEZs and other free trade zones similar to SEZs have near about 80% share in the total FDI inflows of the country, no other country has been able to reach to those heights of growth and development through SEZs. Hence it can be observed that SEZs are a combination of positive and negative effects depending upon country to country and from experience of countries regarding the SEZs performance it can be said that SEZs do not always mean success, it may also depend upon the kind of benefits received in the country where it has been formed. Along with these benefits it is also necessary that they are provided with the flexible policies, laws and regulations, ease of doing business, transparency in working. The government also needs to take care that necessary amendments should be made in the laws and policies with the changes in the environment and requirements of the businesses. Also there is a need to develop effective linkages between SEZ and rest of the economy to get out the maximum of benefits from the establishment of SEZs.

### Do SEZs Attract FDI?

While some of the countries like Brazil, China and India



have the potential to attract a comparatively higher amount of FDI, other developing countries have not been able to do it so far. India, along with China has been able to make its place among the top 10 countries in the list of FDI recipients since the last 20 years and the amount of FDI inflows received by India has increased many times after the reforms in comparison to previous years. Studies have highlighted that FDI inflows are attracted towards few states of India i.e. Maharashtra, Delhi, Karnataka, Tamil Nadu, Andhra Pradesh and Tamil Nadu and they contribute a major chunk i.e. 70% of total FDI inflows to the country from 2008- 09 to 2011-12. Among these states, Maharashtra and Delhi have together contributed more than half of the total FDI inflows. It has been observed that it is a true fact that well developed infrastructure plays an important role in dazzling FDI and that is the major reason why most of the SEZs in India are located in the big cities or areas where all the necessary infrastructural facilities like good airport connectivity, well connected roads, seaports are easily available. Therefore the countries have shifted their focus towards developing strong infrastructural base by facilitating power supply, providing rebate on payments, tax concessions, easy land availability at cheaper rates so that they can attract FDI. But, it is also not necessary that the states which have high socio-economic index, good human development index or good life expectancy ratio will definitely attract higher FDI so is the case with Kerala as having all these factors high it has not been able to attract much FDI while the states like Odisha in India which have comparatively low HDI, Socio-economic index has been able to attract much more amount of FDI. This is may be due to the reforms and steps taken by some of the states are far better than that some other states and areas and they are able to attract higher FDI as compared to others. As per various studies conducted by different researchers it has been proved that SEZ policy has a direct and fair impact on FDI inflows in an economy. Besides policy formulation structure of SEZs, some other factors also influence FDI inflows such as access to seaport, urbanization, connectivity of roads, infrastructure. It was observed that density of highway had a negative impact on FDI inflows may be due to consideration of a good road which is not even a highway as a part of good infrastructure because it facilitates trade.

### Why INDIA lags behind?

The dissatisfactory performance of SEZs in India has multiple reasons. The main reason has been the decline in the export market of India resulting in downfall in international trade. As a result, the capacity of SEZs remains underutilized due to lack of demand.

Another major problem faced by SEZs developers is the acquisition of land. The landowners deny to give their landholdings to government resulting to which government is not able to provide land to private owners and the dispute for land owning continues leading to

accumulation of heavy amount of debt on private owners due to withdrawal of government's support. Moreover, the size of landholdings available under SEZs for successful processing and working is far less than what is actually required.

The next problem arises with the usage of fiscal revenues. Tax incentives and concessions being provided are burdening state and central governments. Fiscal deficit is being increased due to lack of tax revenue and the tax concessions are being taken advantage of as the industries which are not performing up to the mark and are not contributing significantly to economic growth are enjoying tax concessions resulting in loss to government.

### What INDIA needs to learn from CHINA?

- 1) India needs to recognize the importance of size and distance in SEZs. Indian SEZs suffers from problems of proximity of resources due to distance whereas Chinese SEZs are highly benefitted by availability of resources and processing facilities with strong infrastructural base. To remove the problem of size of SEZs, the problem of acquisition of land holdings has to be taken care off.
- 3) Another thing India needs to learn is how to aptly use the fiscal revenues. China has adopted the policy of using both fiscal and non-fiscal revenues along with productive investments, recruiting skilled labour and retrenching unskilled ones. The investment avenues and working of SEZs needs to be monitored regularly to avoid benefitting the ones which are not contributing in the country's development.
- 3) Thirdly, China's SEZs got a boost by their policies of decentralization and preference and provided them freedom to adopt political and economic reforms whereas India's 'Make in India' campaign has failed to take up SEZs to that level of economic and social welfare.

### SEZs and Sustainable Development

Sustainable Development aims at growth of the economy by optimum utilization of resources and without harming the environment in any way. In the short term, it is possible to achieve the objectives of economic growth through the medium of SEZ policy but to maintain the scale of growth to long term it is necessary to take care of the environment. The business activities should not affect the environment adversely. Government is also very serious towards the environmental policies and no business activity should harm the environment in any way. The resources need to be utilized in such a manner that the objectives of economic growth are achieved without depriving our future generations from the environmental resources. The profitability of a business becomes useless if it destroys the environment.

## Research Findings and Suggestions

All over there are oppositions against SEZs, but for financial development, export promotion, increasing employment opportunities in the country, SEZs are essential. Government has passed special SEZ Act and implementation is being done. It is necessary to view the SEZ from positive view. SEZ projects should be started in backward area for the balanced regional development. SEZs can be formed by acquiring land from the farmers, and government can compensate them by including them as shareholders of the SEZ projects and reserving some job seats for the family members of the farmers. It has also been noted that most important factors that attracts FDI in SEZs are infrastructural facilities and flexibility of laws and policies. So it can be suggested that a business friendly environment should be provided to entrepreneurs under SEZs so that they can function freely and smoothly and they should have easy access to good quality infrastructural facilities. Single window clearance facility should be provided to SEZ developers as well as entrepreneurs and environment should also be taken care off. SEZs should focus sustainable development of the economy and the benefits of development should not be limited to few hands, they should be equally distributed.

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