

Impact of Special Economic Zone on Indian Economy

Bhaskar,

UGC NET Qualified,
Assistant Professor,
Department of Commerce,
St. Xavier College, Maharo,
S.K.M. University, Dumka, India.

ABSTRACT

Special Economic Zones (SEZ's) is the most discussed and disputed topic in India. It is one of the export promotion schemes of the Government of India. The Special Economic Zone is a geographical region which has more liberal economic laws from those that prevail in the national territory. SEZ projects should be started in backward area for development of regional equilibrium. In Asia, India was one of the first countries to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting exports. First EPZ was set up in Kandla in 1965. SEZ units are self-contained and integrated having their own infrastructure and support services. Usually the main goal of SEZ is to increase foreign investment and enhanced economic development. Any private, public, joint sector or state government can set up SEZ.

In this paper an attempt is made to study the impact of SEZ's on Indian economy. The paper is based on secondary data. The impact of SEZ's on different sectors is examined in the paper.

Keywords: Investment, Zone, Financial Development.

INTRODUCTION:

The Special Economic Zone Act was passed by the Indian Parliament in 2005 and it became an act on June, 2005. The main aim of the SEZ Act is to accelerate the economic growth of the country through increasing export. To attract foreign investment, SEZ provide an extensive range of incentives and tax exemptions for all those who invest in these zones. SEZ's are promoted as eco-friendly zones that will generate huge employment for the newly urbanized India. A Special Economic Zone can be set up by any private or public, joint or exclusively state-owned or even foreign-owned company anywhere in India.

A multi-product SEZ is required to have 1000 hectares while the single product SEZ can be set up in as little 100 hectares. SEZs may thus encompass a single manufacturing plant, or a small cluster of industrial units. While 35% of these areas have to be earmarked for the industrial or processing purposes, the other land can be used for residential purpose, services, institutions, parks and so on. SEZs have hit at the sovereignty of local bodies, as they function as self governing autonomous bodies. The Special Economic Zones (SEZ's) policy was announced in April, 2000 with a view to overcome the shortcomings experienced on account of the multiplicity of controls and clearances, absence of world class infrastructure and on unstable fiscal regime with a view to attract longer foreign investment in India with the minimum possible regulations, this policy make SEZs an engine for economic growth.

In India from 1st November 2000 to 9th February 2006 SEZ's functioned under the provisions of the foreign policy. A comprehensive draft of SEZ Bill prepared in 2005. On 10th February 2006 the SEZ Act 2005 came into effect and providing for radical simplification of procedures and for single window clearance on matters relating to central as well as state government. They operate under more liberal laws.

REVIEW OF LITERATURE:

Aradhna Aggrawal (2005) examines the performance of Export Processing Zones (EPZs) of South Asian countries in her working paper entitled "Performance of Export Processing Zones: A Comparative Analysis of India, Sri Lanka and Bangladesh". This study aims at analyzing the factors that are crucial for the success of the zones. The study explores different aspects such as the quality of governance, incentive packages and infrastructure facilities offered by the zones. Neutralization of disincentives infrastructure and good governance, along with the overall investment climate in a country are found to contribute to the success of its zones. This paper makes recommendations that call for the removal of red tape and bureaucracy better.

Ram Krishna Ranjan (2006): Special Economic Zones: Are they good for the country?

The research paper analyses SEZ policy in terms of export performance, FDI inflow, employment generation and overall physical and financial infrastructure building. The research paper notes that after the failure of EPZs a significant change has been made in the rules. The government has to forego about Rs. 90000 crores in direct and indirect taxes over the next four years on account of SEZs. Despite so many incentives performance of these privileged enclaves over the last five years indicates failure of this schemes.

E.A. Sharma (2007) highlights the fact that the central and state governments benefit the rich at the expenses of the poor. (In this article "Help the rich, Hurt the Poor: Case of Special Economic Zones).

He points out that the recent twists and turns in the special economic zones policies have merely exposed the ruling elite's utter ignorance of ground realities of our country and the strong influence that the industrial houses and real estate continue to exercise over government policies. The rehabilitation packages announced by the state lack credibility, as there are thousands of families displaced by previous projects still awaiting compensations payment.

The World Bank Group (2008) studies performance of SEZ worldwide in the research paper. This paper examines 30 years of experience in zones, reviewing development patterns and economic impacts of zones worldwide. The experience shows that while zones have been effective in addressing economic growth and development objectives they have not been uniformly successful.

The experience of the zone suggests that maximizing the benefits the zones depends on the degree to which they integrated with their host economies and the overall track and investment reform agenda.

An Assessment of Potential Costs and Benefits of SEZs in India: A study for the Department of Commerce, Govt. of India, 2009.

The main conclusion of this study are that there is a broad consensus amongst all stakeholders including political parties that the SEZ policy is to stay. The study found that the expected benefits of SEZs outweigh expected costs.

Siddhartha Mitra (2010): Special Economic Zones in India: White Elephants or Race Horses.

On the basis of economic theory and history the paper concludes that absorption of agricultural labour is necessary for sustained economic development of a developing country. The onus of land acquisition would be entirely on negotiations between prospective SEZ entrepreneurs and owners of agricultural land.

Abdul Raheem (2011): Impact of Special Economic Zone on Human Development and Poverty Reduction: An Indian Experience.

This paper examines impact of special economic zones on human development and poverty reduction in India. The paper concludes that the employment generation both direct and indirect, has thus far been the most important channel through which SEZ have impacted on human development and poverty reduction in India.

OBJECTIVE AND METHODOLOGY OF THE STUDY:

The objective of the study are to overview the effect of Special Economy Zone on India Economy and suggest options to solve the problems. The whole paper is based on descriptive research comparative study and analytical logic developed through the understanding from various research papers, reports, books, journals, newspapers and online data bases.

The study has following objectives:

1. To know the objectives of the SEZ's
2. To know the government incentives for SEZ's
3. To know how SEZ's attract the foreign investment.
4. To examine the impact of SEZ's on various sector of the economy.
5. How to attract the foreign investment through SEZ's
6. To know the problems of SEZ's and making suitable suggestions.

THE MAIN AIMS OF SEZ’S ACT:

The main objectives of the SEZ Act are:

1. Generation of additional economic activity.
2. Promotion of exports of goods and services.
3. Promotion of investment from domestic and foreign sources.
4. Creation of employment opportunities.
5. Development of infrastructure facilities.
6. Reduce disparities in socio-economic development through industrialisation and urbanization.

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. In view of above mentioned objectives government give hundred percent income tax exemptions on export income for SEZ of first 5 years, fifty percent for next 5 years. External commercial borrowing by SEZ units upto \$500 million in a year without any motarity restriction through recognized banking channels. Exemption from Central Sales Tax, Exemption from Service Tax, single window clearance for central and state level approvals. It is expected that this will activate 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. An appointed committee of state government representative or a Development Commissioner is responsible to monitor the performance of SEZ on annual basis. Anybody who wishes to develop a SEZ submits a proposal to the Board of approval mechanism has been provided through a 19 member inter ministerial Board of Approval (BOA), headed by the Secretary, Department of Commerce. The BOA then grants an ‘in-principle’ or a ‘formal’ approval. There is no process of talking to the people first and then taking a decision. There is no process of independent evaluation of environmental concerns as all of the board members are government voices. The process of land acquisition is not only partisan in nature but dictatorial. (Government of India 2005)

SEZs IN INDIA:

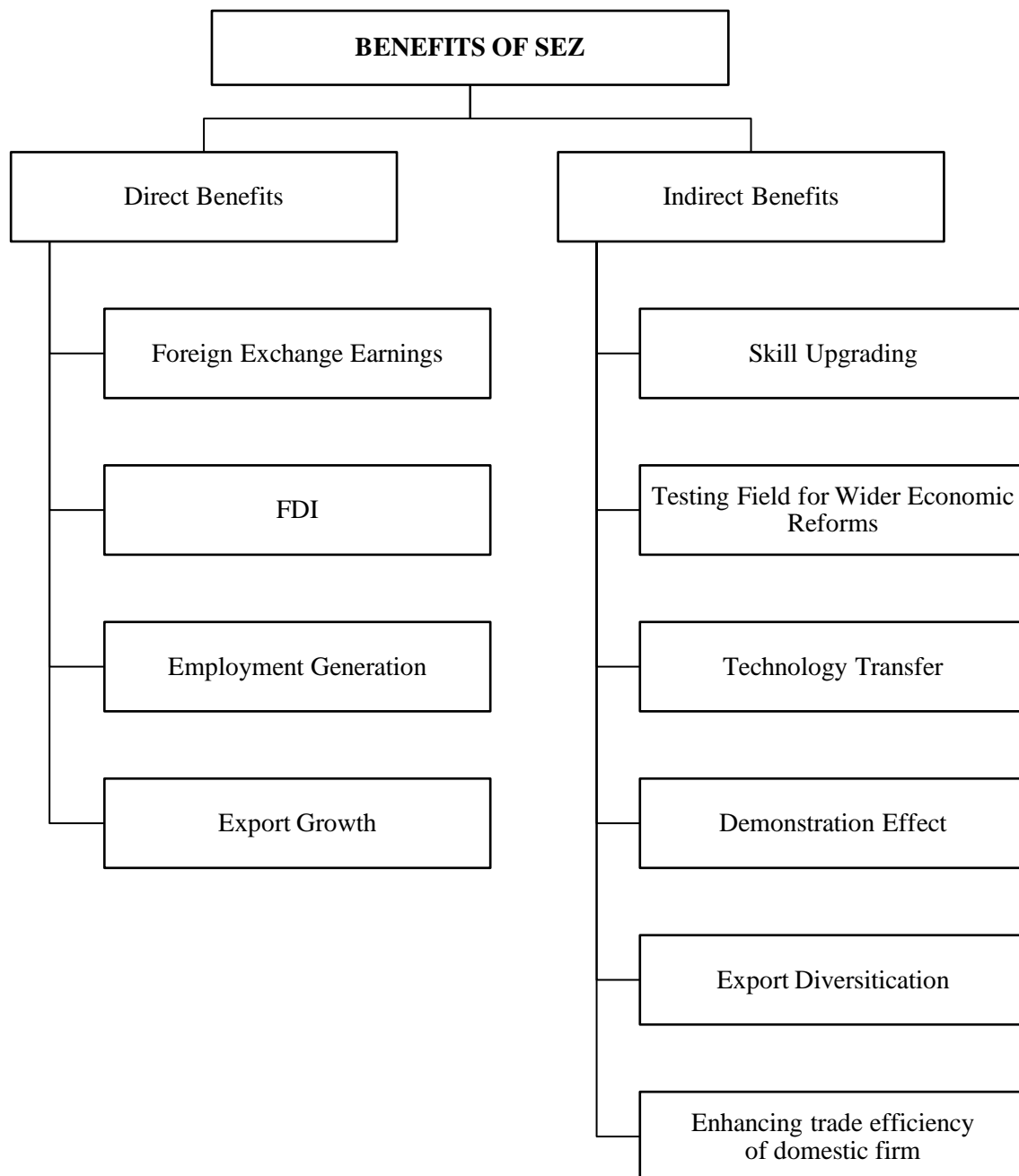
At present there are 196 SEZs operating throughout India. The number of SEZ operating in different state is given in the following Table No.-1.

State/Country	Total Approved (Formal+In Principle)	Total Notified	Total Operational
All India	523	352	196
Maharashtra	78	52	25
Telangana	60	42	24
Karnataka	59	39	25
Tamil Nadu	59	51	36
Andhra Pradesh	44	30	18
Gujrat	39	28	18
Haryana	37	25	6
Kerala	32	25	14
Uttar Pradesh	32	22	10
Madhya Pradhesh	20	9	2
West Bengal	14	5	7
Rajasthan	10	8	4
Orissa	9	4	2
Panjab	8	2	2
Goa	7	3	0
Chhattisgarh	3	1	1
Delhi	3	0	0
Chandigarh	2	2	2
Nagaland	2	2	0
Puducheri	2	0	0
Jharkhand	1	1	0
Manipur	1	1	0

Data Source: www.sezindia.nic.in

FINDING AND DISCUSSION:

Creation of special economic zones leads to a number of benefits, which can be described by dividing them into two categories including direct economic benefits and indirect economic benefits. Direct economic benefits include the creation of job opportunities and foreign exchanges whereas indirect benefits are more about transfer of new technology and skills. More detailed information about direct and indirect benefits can be found from following chart.



Source: Zeng (2018)

Export Performance of SEZ:

The special economic zones in India were established with a view to bring expertise for the country’s exports sector. In this regard government provides fiscal incentives, financial assistance, infrastructural support and environment free of bureaucratic interference. These incentives and assistance schemes increase foreign exchange and thus help the economic development of the country.

Exports from the functioning SEZ’s during the last 10 years has increased to Rs. 22,840 crores to Rs. 467337 and its contribution in total export is also increased from 5.0% to 19.88%.

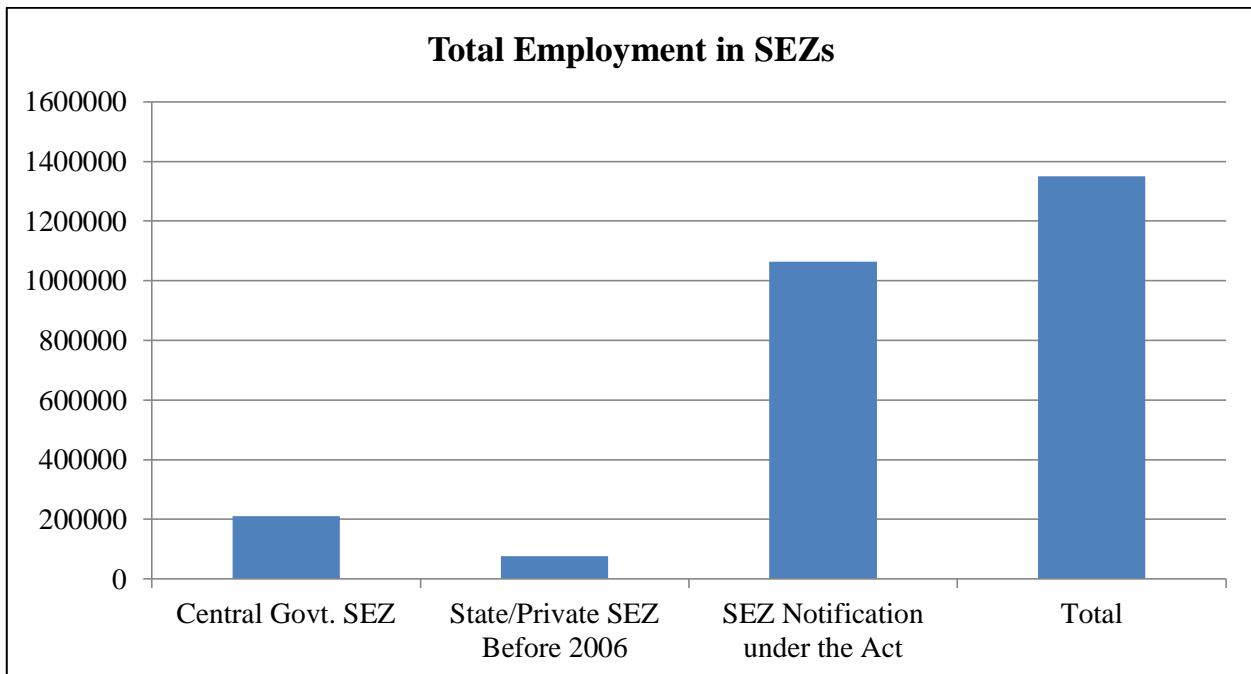
SEZ Export Performance 2006-2016

Years	SEZ Exports (in Crores)	Export Contribution (in %)	G.G.P. Contribution by Export from SEZ
2005-06	22840	5.00	0.67
2006-07	34615	6.05	0.88
2006-08	66638	10.16	1.45
2006-09	99689	11.86	1.88
2006-10	220711	26.10	3.61
2006-11	315868	27.78	4.36
2006-12	364478	24.86	4.34
2006-13	476159	29.14	5.07
2006-14	494077	25.94	4.72
2006-15	463770	27.02	3.70
2006-16	467337	19.08	3.72

Source: (RBI 2016) (SEZ India 2016)

Industrial Development and SEZ's

SEZ's have direct implications for the industrial development of the economy. The industrial units in the SEZ's have easy access to the vitally needed inputs – both to indigenous and imported. With assured infrastructure in the areas of power, transport, communication, finance and trained man power industrial units in the SEZs have great potential of grown transmission not only within the zone but also in the economy at large. The SEZs have provided employment to 1.97 lakh persons of which 37% are women. The current investment and employment created by the SEZs is Rs. 88450 crore and 143426 persons respectively.



Source: SEZ India 2012

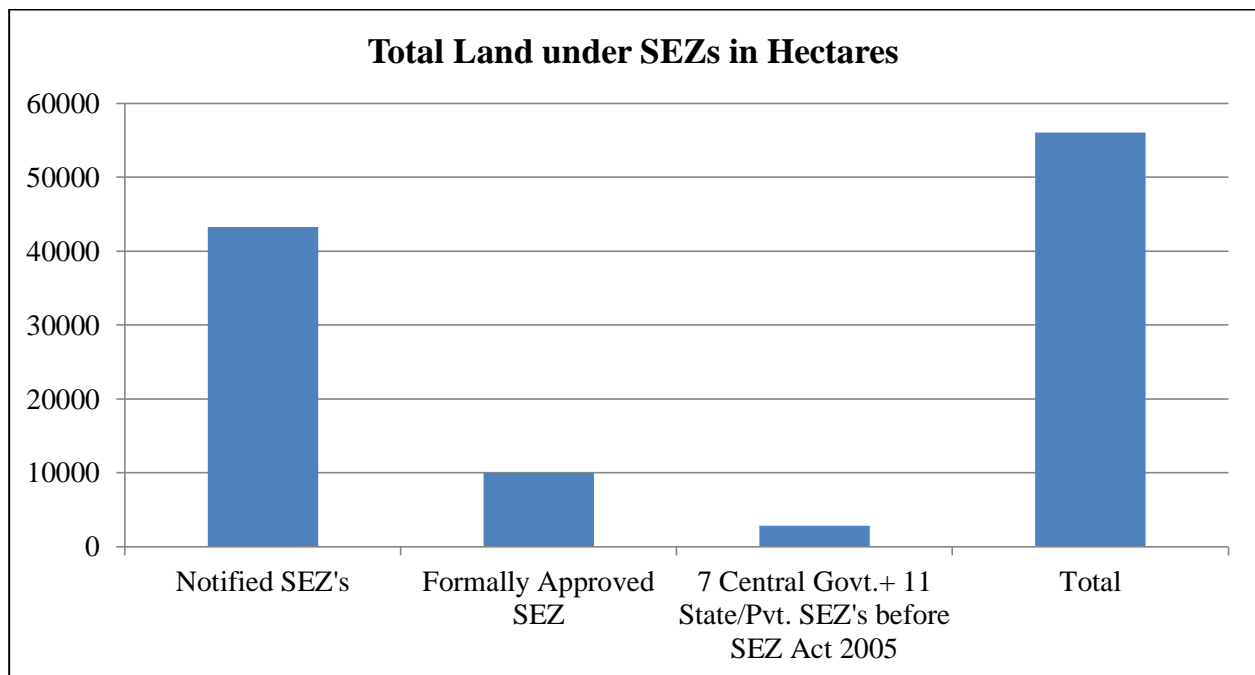
SEZS and Technological Impact:

The units in the SEZ's try to assimilate the latest technology in their production process and marketing management. Technology upgradation in the production and marketing areas not only helpful in SEZ's but also among the units outside these zones. Thus the technological advancement achieved by the SEZs has an indirect implication in the economic development of the economy.

Impact of SEZS on the Agricultural Economy:

One of the often cited drawbacks of the SEZ's is that, the development of these SEZs results in the reduction of

rich cultivable land. This has an impact on the country's food production capacity. However, for the large country like ours this tunity cost of foregone agricultural production could easily be compensated through enhanced industrial output, increased manpower employment in the industrial sector, contribution to growing export sector and raising the technological level of the various sector of the economy.



Source: www.factly.in

EFFECT OF SEZ:

Due to SEZ industrial sector, export, infrastructural facilities are increasing. But following problems will created by SEZ:

1. **Formers will be landless:** In India near about 70% of the population depend on farming. Many traders in SEZ acquire lands from farmers at cheap roles and create a land bank for themselves, due to this some formers are committing suicide because they have no any source of income.
2. **Revenue Loss:** The government and Reserve Bank will be giving for free facilities to the entrepreneurs. It would create a burden on the finance ministry as tax collected would be less.
3. **Starting of Capitalism:** The industrialist of the SEZ is providing various facilities; some of the industrialist will be take benefit. They will sales their product in fewer prices and creating monopoly.
4. **Confusion in rules about the construction:** In SEZ there is no rules explained about construction. Roads open space, construction area etc. are not declared in details.
5. **To increase financial gap:** In industrial area the government is transferring their responsibility to the SEZ holders. Due to this the gap of rich and poor will be increasing. For this reason, social dissatisfaction will occur.
6. **Problem related to environment:** In SEZ area industries will mix unusable chemicals in the water and air and water and air pollution will be increased. The sound of heavy machinery in SEZ is creating sound pollution and environment will be imbalance.
7. **No protection of the workers:** In SEZ worker law will not be considered. Due to this industrialist will be increase working hours, close the work, lock-out, decrease the workers etc. and workers has not protection for their work.
8. **To neglect agricultural sector:** Due to SEZ agriculture sector is neglected by the government. The industries in the SEZ was held maximum land are not given clear in the special Economy Zone Act.

REMEDIES OR OPTIONS OR SUGGESTIONS:

SEZ is very important factor for economic development. For equal development of the state, all-round development of the country, SEZ is play a important role. To solve the problems of the SEZ, some charges are necessary. For solve the problems of SEZ, following options should be considered:

1. For SEZ only non-agricultural land should be given.
2. Give priority to local workers in employment.
3. Maximum land limitation should be mentioned in Act.
4. Workers Law should be applied in the SEZ Act.
5. Land holders should be given shares and employment in SEZ project.
6. The government should be taken care about the farmers whose land acquires.
7. Due to SEZ small scale industries will be closed, unemployment will increase. So on that situation government must give some assistance to small scale industries.
8. In SEZ many types of industries should be created pollution in water, air and sound. For protect pollution the projects of SEZ will established 10 to 15 K.M. away from the cities and villages.

CONCLUSION:

All over the opposition to SEZ, but for financial development, export, growth, increase employment of the country, SEZ is essential. It is necessary to see the SEZ in positive view. SEZ projects should be started in backward area for development of regional equilibrium and overall economic development of country. The SEZ's have high investment and employment potentials, specially in the area of software engineers and skilled workers. Hence there is need for social and political awareness among the people to support such schemes for the all-round economic & sustainable development of the country.

REFERENCES:

- Aggarwal Aradhna (2005). *Performance of Export Processing Zones: A comparative Analysis of India, Sri Lanka and Bangladesh*, Working Paper No.-155, Indian Council for Research on International Economic Relation, New Delhi.
- Bhattacharyajee Subhomoy, Amitendu Patil (2015). *Special Economic Zones in India's Myths and Realities*, Anthem Press Publisher, New Delhi, P-23.
- Das R.R. (2015). Special Economic Zones (SEZs) and Sustainable Development, Lakshya, *Journal of Science and Management (LZSM)*, Vol.-I, Issue-Jan-June, Ranchi, P.P.-27-28
- Goswami B. (2017). *Special Economic Zones: Lessons from China*, Retrieved May 30, 2017 from http://www.inmotionmagazine.com/pin/bg_segchina.html
- Mitra Siddhartra (2010). Special Economic Zones in India: White Elephants or Race Horses, *Retrieval Electronic Copy from Journal of Social Sciences*.
- Raheem Abdul A. (2011). Impact of Special Economic Zones on Human Development and Poverty Reduction: An Indian Experience, *International Journal of Multidisciplinary Research*, Vol.-I, Issu-7, November, P.P. 117-188.
- Ranjan Ram Krishna (2006). *Special Economic Zones: Are They Good for the Country?* C.C.S. Working Paper No.-156, Summer Research Internship Programme Center for Civil Society.
- Sharma E.A. (2007). Help the Rich, Hurth the Poor – Case of Special Economic Zones, *Economic and Political Weekly*, P.P. 1900-1902, 26 May.
