



REVIEW OF RESEARCH

ISSN: 2249-894X

IMPACT FACTOR : 5.7631 (UIF)

UGC APPROVED JOURNAL NO. 48514

VOLUME - 8 | ISSUE - 9 | JUNE - 2019



SPECIAL ECONOMIC ZONES: REASON FOR REGIONAL DISPARITIES?

Mrs. Nazeefa Begum Makandar¹ and Dr. P.M. Honakeri²

¹Research Scholar, Department of Economics, Karnatak University, Dharwad.

²Rtd Professor, Dept of Economics, Karnatak University, Dharwad.

ABSTRACT:

Special economic zones (SEZs) are considered as an effective tool to stimulate industrialization and structural transformation, but only when implemented properly in the right context. The aim of the paper is to review the existing practices of establishment of Special Economic Zones using the case successful countries including China, Korea, Singapore and the UAE and explain how they contribute for the development of regional economy. Special economic zones (SEZs) are booming around the globe. The zones can be effective tools to endorse economic development if applied properly in the right context. Regional imbalances or disparities means wide differences in per capita income, literacy rates, health and education services, levels of industrialization, etc. between different regions. Regions may be either States or regions within a State. In India there are enormous imbalances on various accounts. The exploitative nature of British colonial rule either created or accentuated regional disparities. The planning in independent India has also not been able to remove these disparities. Balanced regional development has always been an essential component of the Indian development strategy. Since all parts of the country are not equally well endowed with physical and human resources to take advantage of growth opportunities, and since historical inequalities have not been eliminated, planned intervention is required to ensure that large regional imbalances do not occur. Spectacular growth attained by some regions and in some sectors in India, after independence, is in contrast to low levels of development still prevailing in many parts.



Regional imbalances or disparities means wide differences in per capita income, literacy rates, health and education services, levels of industrialization, etc. between different regions. Regions may be either States or regions within a State. In India there are enormous imbalances on various accounts. The exploitative nature of British colonial rule either created or accentuated regional disparities. The planning in independent India has also not been able to remove these disparities. Balanced regional development has always been an essential component of the Indian development strategy. Since all parts of the country are not equally well endowed with physical and human resources to take advantage of growth opportunities, and since historical inequalities have not been eliminated, planned intervention is required to ensure that large regional imbalances do not occur. Spectacular growth attained by some regions and in some sectors in India, after independence, is in contrast to low levels of development still prevailing in many parts.

KEYWORDS: SEZ, Economic development, Regional development, Regional disparities, Regional imbalances.

INTRODUCTION :

In simple terminology, the word 'special' refers to something different than the usual. In other words it refers to thing or event that is designed for a particular purpose. Then, a 'Special Economic Zone' (SEZ) is a specially delineated duty free region within the national

boundary of a country. It is in a way a foreign territory for the purpose of trade operations and duties and tariffs (Gupta, 2008:1). Within SEZ a group of economic units may operate in well-defined 'special' areas to carry out special activities supported by a set of policies that are not applicable in all areas of the country (Maitra, 2008). It is

one of the steps that India has taken to boost economic growth through outward looking approach (Devadas & Gupta, 2011). In other words, a Special Economic Zone is a geographical region that has more liberal economic laws than the typical economic laws in a country. This does not mean that a SEZ is outside the purview of country's

law, rather producers and developers operating within the SEZs are granted certain legal concessions (Mitra, 2007). The concept is associated with formation of a handful of enclaves, set apart from the rest of the country by providing specific facilities such as quality infrastructure and attractive fiscal package with minimum possible regulations. According to the Commerce Minister of India, SEZs are purported mainly to provide 'One-Stop-Shop' for doing away with numerous controls and clearances along with the fiscal concessions and simplified procedures (Mehta and Pahahria, 2009). The goods and services going into SEZs area from Domestic Tariff Area (DTA) shall be treated as exports and goods and services coming from SEZ area into DTA shall be treated as import. The SEZ may have area-demarcated as both processing areas for setting up of units for production of goods and rendering of services as well as non processing areas, if any (Gupta, 2008:1). Hence SEZs are spaces acquired for private capital to set up industrial enclave at low cost, they offer sites at which surpluses can be invested in the appropriation of valuable land and for the creation of enterprises that in turn will generate profit (Oza, 2010). These specific zones are known by different names in different countries. These may be described as Free Trade Zones, Industrial Parks, Electronic Hardware Technological Park (EHTP), and Foreign Trade Zones and so on.

Special Economic Zones are also called popularly as Export Promotion Zones. These are the geographical areas located by the government of the country to be given to the multinational companies in order to provide them land and other basic facilities and encourage them to take up large scale production of various consumer goods so that the exports of the country can grow and further help in the economic growth. This policy was implemented after the improper implementation and unsatisfactory results and outcomes of the 1991 policy which urged the government to take up steps for rapid economic growth in this competitive modern world.

The production of quality product and its efficient export has become inevitable in era of globalization. The production of international standard quality products are required high modern technology, efficient highly skilled labour, huge investment and modernization of plant. Therefore, there is need of liberal economic laws in terms of duties and tariffs are necessary for promotion of export activity. The promotion of secondary and tertiary activities needs government support, favorable policies and ample space for establishment. These needs emphasized the development of special zone to promote industrial economic development for export oriented unit. It will boost regional development through economic development. These thoughts sow the seed of idea about special zones for economic activities.

Regional imbalances or disparities means wide differences in per capita income, literacy rates, health and education services, levels of industrialization, etc. between different regions. Regions may be either States or regions within a State. In India there are enormous imbalances on various accounts. The exploitative nature of British colonial rule either created or accentuated regional disparities. The planning in independent India has also not been able to remove these disparities. Balanced regional development has always been an essential component of the Indian development strategy. Since all parts of the country are not equally well endowed with physical and human resources to take advantage of growth opportunities, and since historical inequalities have not been eliminated, planned intervention is required to ensure that large regional imbalances do not occur. Spectacular growth attained by some regions and in some sectors in India, after independence, is in contrast to low levels of development still prevailing in many parts. Therefore, it was felt that the State had a major role to play in removing disparities. This commitment was reflected in the Constitution and in planning objectives. Two major institutions, which were expected to work towards reducing the regional imbalances after independence, were the Finance Commission and the NITI Aayog (Planning Commission) . The Finance Commission has only limited role to play. Hence, more responsibility is vested on the NITI Aayog (Planning Commission). India's successive Five Year Plans have stressed the need to develop backward regions of the country. In promoting regional balanced development, public sector enterprises were located in backward areas of the country during the early phase of economic planning. In spite of pro-backward areas policies and programmes, considerable economic and social inequalities exist among different States of India, as reflected in differences in per capita State Domestic Product. While income

growth performance has diverged, there is welcome evidence of some convergence in education and health indicators across the states.

Types of Disparities/Imbalances:

They are:

1. Global Disparity
2. Interstate Disparity (Disparity between States)
3. Intrastate Disparity (Disparity within States)
4. Rural-Urban Disparity

1. Global Disparity: The term global disparity describes the disparities that exist between the nations. Each country is at a different level of development, which causes disparity between countries. Some countries have been endowed with resources in abundance, while there are countries that are extremely poor in resources.

2. Inter - State Disparity: Like global disparities, there are also exist disparities between the states in India. Inter -state disparities or regional disparities or regional imbalances refers to a situation where a per capita income, standard of living, consumption situation, industrial and agriculture development are not uniform in different parts of a given region. Backwardness of state could be the result of either the regional diversity or disparity.

3. Intra-State Disparity: Intrastate disparity refers to disparity within the state. Intra-regional disparities in development can be identified through macro indicators of development like allocation of resources, quality of governance, agrarian structure, income, consumption patterns and estimates of poverty.

4. Rural-Urban disparity: Rural-urban disparity has been prevalent in India for ages. Rural areas are considered backward areas in terms of availability of basic infrastructure - roads, electricity, water and sanitation facilities, schools and hospitals etc. In contrast, these facilities are mostly available in urban areas. It is because of the absence of such facilities that rural areas lag behind urban areas in terms of the basic indicators of development - poverty, illiteracy, unemployment etc.

Indicators of Regional Imbalances in India:

1. State Per - Capita Income: The most important indicator of regional imbalances is difference in per capita income of States. In most of the years States like Punjab, Haryana, Maharashtra, Gujarat, Karnataka, Tamil Nadu and Kerala have achieved higher per capita income when compared with Orissa, Bihar, M.P, UP, Assam and Rajasthan. **In 2016, Delhi's per capita income stood at Rs. 2,01,083 as compared to Bihar's Rs. 22,890. PCI for 6 Indian states is not available, including Gujarat, Kerala, Mizoram, Chandigarh, Rajasthan and Goa. In 2012, Goa had the highest Per Capita Income followed by Delhi.**

2. Inter - State Disparities in Agricultural and Industrial Development: Punjab, Haryana and part of U. P. has recorded high rate of productivity due to its high proportion of irrigated area and higher level of fertilizer use. On the other hand, states like Assam, Bihar, Orissa and Uttar Pradesh have been lagging behind in respect of the pace of industrialization.

3. Intra - State imbalance: There is a growing tendency among most of the advanced states concentrate its development activities towards relatively more developed urban, and metropolitan of the states while allocating its industrial and infrastructural projects by neglecting the backward areas.

4. Spatial Distribution of Industries: Another Important Indicator of regional imbalance is the uneven distribution of industries. Though, the country as a whole has achieved industrial development at a fair rate since independence, but the spatial distribution of such industrial development between different states remained almost uneven. For example, States like Punjab, Haryana, Maharashtra, Gujarat, Kerala,

and Karnataka have achieved considerable development in its industrial sector. But West Bengal could not keep pace in its industrial growth as much as other industrially developed states.

5. Population below poverty line: Percentage of population living below the poverty line in different states is an important indicator of regional Imbalance or disparities.

6. Degree of Urbanization: In respect of urbanization the percentage of urban population to total population is an important indicator. The all India percentage share of urban population stands at 27.81% in 2001 and 31.6 in 2011.

7. PER CAPITA CONSUMPTION OF ELECTRICITY:

Per capita consumption of electricity is also another important indicator of regional disparities. States like Punjab, Gujarat, Haryana, Maharashtra etc., having higher degree of industrialization and mechanization of agriculture, have recorded a higher per capita consumption of electricity than the economically backward states like Assam, Bihar, Orissa, Madhya Pradesh and Uttar Pradesh.

8. EMPLOYMENT PATTERN:

States attaining higher degree of industrialization are maintaining higher proportion of industrial workers to total population. It is found that industrially developed states like Maharashtra, Gujarat, Haryana, Punjab, Tamil Nadu and West Bengal are maintaining a higher average daily employment of factory workers per lakh of population as compared to that of lower average maintained in industrially backward states like Assam, Orissa, Uttar Pradesh, Rajasthan etc. Even the industrially developed states like Gujarat, Maharashtra, Tamil Nadu and West Bengal are still maintaining a higher proportion of agricultural labourers to total workers as the industrial sector of these states has failed to enlarge the scope of employment sufficiently to engage more and more rural workers.

9. FOREIGN DIRECT INVESTMENT:

FDI is yet another important indicator of regional disparities. Most of the states think that if they attract FDI it is useful for economic growth. Discounts in bank rates, discount in taxes etc. are the benefits of FDI investment. The projects like IT Park, Industrial park, Agricultural processing such projects are reserved for FDI. There are various facilities for attracting FDI so that it shows various inequalities in foreign investment.

10. HUMAN DEVELOPMENT INDEX:

It is a composite statistic of life expectancy, education, and income per capita indicators. It is also an important indicator of regional disparities. By studying HDI ranks of different countries, we can analyze the regional imbalance among the globe so also inter-states and intra states of a country.

CHINESE PRACTICE

In the last 30 years, economic growth of China has reached phenomenal rates and it was considered as "miracle" in the history (Hu, 2009). It might be interesting for many of us to know how China has achieved such a growth rate and what were the main drivers of Chinese economy. The last not least, many scientists and experts are interested in knowing can China sustain the current growth rate in the long term as well (Xiaoyang, 2011). Although many experts and scientists are providing number of arguments and even though there is a hot debate in this topic, presence of special economic zones and industrial clusters which were established after the new reforms in China, can be regarded as Chinese main drivers of economic growth. In other words, the establishment of special economic zones and industrial clusters positively contributed for the economic development of the China (Farole, 2011). Precisely, it is worth to mention that first established economic zones were tested inly in limited number of Chinese cities and the role model of the those which were successful were followed by other countries. Alongside with industrial clusters, special economic zones have made positive contribution for the increase in gross domestic product, employment rate increase and development of international trade which can be explained by increase in exports and attraction of foreign direct investment

(Carmody, 2009). Another important contribution of establishing free economic zones can be explained with the attraction of new technologies to China and adoption of new technologies in the daily practices (Chiao, 2010).

The practice of China shows that market forces play an important role in the creation of industrial clusters (WTO, 2008). It is worth to mention that government also play an active role in the supporting and facilitating the process of industrial cluster creation. The initial step in formulating the industrial clusters start with the establishment of the industrial parks. After the long years of development, some clusters emerge from the existing SEZ (Zhao, 2005). In the example of China, we can provide the example of information and communication technology clusters in Beijing and electronics cluster in Shanghai, software cluster in Dalian and opto-electronics cluster in Wuhan. These clusters became successful as a result of being established as SEZ (Hu, 2009). Moreover, recently in China some cities began to establish cluster type of industrial parks also known as specialized industrial parks including liquid crystal display high tech park in Jiangsu Province (Ganne, 2009). In the case of China, SEZ operates in more technological and capital intensive sectors and there is a tremendous government support, foreign direct investment and it has a strong link to global market (Xiaoyang, 2011). When it comes to clusters, they operate in less labor intensive and capital intensive sectors and they receive less government support.

DYNAMICS OF SEZ IN REGIONAL DEVELOPMENT

Special Economic Zone is an economic concept having goals of economic growth in a country by enhancing exports, creating favorable environment for foreign direct investment, and by generating large scale employment. These goals cannot be fulfilled without having its physical realization. This means that the locational aspects for an SEZ development is essential and the economic concept should have a physical significance. Location of an SEZ should be feasible for the industrialization with enough demand, need and resources. The physical factors of the SEZ in terms of size and type also matter as there is a direct correspondence of the zone with the region conceived as a system. Once the Zone is physically realized, the dynamic functions of an urban system will take place. The Systems Dynamics will initiate the development process within the system which also results in investment function. Various subsystems of the urban system such as physical, social, economic, infrastructural, institutional, environmental and ecological will work in concordance only if the delineation of the Special Economic Zone is correctly made involving urban and regional planners along with other professional experts. There is thus a necessity to identify locational characteristics for implementation of Special Economic Zone policy. In the absence of a scientific, methodological and rational approach, there will be instances such as the Nandigram, Singur, Jhajar, Raigarh, etc. where local people have opposed the setting up of SEZs. Land to be allotted for SEZs shall not have pre use economic value such as agricultural productivity or reserved forest area. In all these cases where the SEZ is being implemented, the context becomes important due to its socio- economic factors such as literate population, economic or political importance, population density and demography, etc. Depending on the above mentioned socioeconomic factors and spatio-economic factors such as connectivity, type of land, location, existing industrial character, existing landuse pattern, etc., the location of an SEZ, type and size could be decided. The economic concept of Special Economic Zone needs to be physically realized in the study area. The SEZ has a physical significance because its feasibility depends on connectivity, scale and distance from the factors of production. Determination of these factors is carried out by using spatial as well as non-spatial data with a focus to identify potential land sites and their extent in terms of area. This determination leads to the delineation of the most suitable land for proposing Special Economic Zone. This is done by considering socio- economic and physical factors in the study area. Soft MCA (multi criteria analysis) and land suitability matrix analysis can be performed to achieve this.

CONCLUSION

A development plan is needed for the region with reference to the regional settlement system where the higher order settlements would be allowed to grow within sustainable limits. But there

should be also a focus on small and medium towns in the region because such centers can play a role in supporting social and economic development in the rural areas by providing rural population with access to education and health facilities, agricultural extension services, service industries and agro-industries linked to local products. Development of small and medium towns will also lead to urban expansion within a region. In this case, the developmental role of small and medium towns cannot be considered in isolation from those of the large urban centers or that of the rural economy. This step initiated by the state government would ensure that infrastructure development outside the zone corresponds to the development taking place within the zone. As a result of this, an SEZ can locate itself away from the developed metropolitan cities near to smaller towns. As a whole, it essentially counteracts existing regional problems, such as control of growth of the metropolitan areas, creation of a settlement system capable of sustaining transition to 'green revolution' and industrialization, coordination of resource development and physical planning, development of backward areas and revival of industries in most parts the region. Thus Special Economic Zones could be planned for desired integrated development in a region rather than benefiting only developed cities, so that this economic policy can ultimately achieve economic growth of the country expected by the government.

Regional imbalance is a threat to the goal of inclusive growth and reduction of poverty. The growing regional disparities have dampened the speed of further economic reforms, and hence may pose a barrier to India's future economic growth. Regional disparities will result in regional tensions, which in turn may lead to popular agitations and at some times militant activities also. Regional disparities in economic and social development which exist within some of the States due to the neglect of certain backward regions have created and creating demand for separate States like in the past for separate Telangana and now and then for Vidhrbha and for Bodo land. As such, there is a strong need for strengthening of good governance in the backward areas. Towards this end, it is necessary that the local bodies in the backward areas are empowered and strengthened to reduce the regional imbalances in the country.

REFERENCES:

- Ahluwalia, M. S. (2000), 'Economic Performance of States in Post Reform Era', Economic and Political Weekly, Vol. 35, No. 19, May 2000.
- Bhattacharya, B.B. and S. Sakthivel (2004): 'Regional Growth and Disparity in India: Comparison of Pre- and Post-Reform Decades', Economic and Political Weekly, Vol 39, No. 10, March 2004.
- Bajpai, N and J.D. Sachs (1996), "Trends in Inter-State Inequalities of Income in India".
- Barro, R.J. and X. Sala-i-Martin, 1991, Convergence Across States and Regions.
- Census 2001 and Census2011 Data (Retrieved from www.vijaysvision.blogspot.com)
- Das, S K and Alokesh Barua (1996): 'Regional Inequalities, Economic Growth and Liberalisation: A Study of the Indian Economy', The Journal of Development Studies. Vol 32.
- Das, T.K(2002), "Convergence Across Indian States: Cross-Sectional and Panel Estimations", South Asia Economic Journal, Volume 3, No 2.
- Dholakia, R (1994). "Spatial Dimension of Acceleration of Economic Growth in India", Economic and Political Weekly, Vol. XXIX, No. 35, August 21.
- Government of India (2014) "Consolidate FDI Policy", Department of Industrial Policy and Promotion, Ministry of Commerce and Industry.
- Ghosh, B, S Marjit and C Neogi (1998): 'Economic Growth and Regional Divergence in India, 1960 to 1995', Economic and Political Weekly, June 27 - July 3, Vol XXXIII, No 26.
- Human Development Report 2007, Andhra Pradesh - Prepared for Government of Andhra Pradesh by Centre for Economic and Social Studies
- Hirschman, A. O.(1961): *The Strategy of Economic Development*, New Haven. Yale University Press.
- Kundu, A. (2006), 'Globalization and the Emerging Urban Structure: Regional Inequality and Population Mobility', India: Social Development Report, Oxford, New Delhi.

Kurian, N.J., (2000). "Widening Regional Disparities in India – Some Indicators", Economic and Political Weekly, Vol. XXXV, No. 7, February 12-18.

Poverty Estimates based on NITI, 2011-12.

Planning Commission (2008), Eleventh Five Year Plan 2007-2012, Vol. I, Government of India, New Delhi.

Planning Commission (2013): Twelfth Five Year Plan, Government of India, New Delhi. Singh et al. 2002. "Regional Inequality in India: A Fresh Look", Economic and Political Weekly, Vol. 38, No. 11.

Wikipedia: List of Indian States and Territories by Human Development Index.