



SPECIAL ECONOMIC ZONES AND ITS INVESTMENT GENERATION IN INDIA

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ABSTRACT :

The concept of special economic zones (SEZs) is the gift of the People's Republic of China to the world community which set up SEZs as early in 1970 as a measure to attract capital, technology and managerial expertise. SEZ means an area that has been specified as an enclave that is duty free and is treated as a foreign territory for various purposes such as tariffs, trade operations and duties. A Special Economic Zone has economic law's that are more liberal than the country's typical economic laws. The category SEZ covers a broad range of specific Zone; SEZ includes Free Trade Zones (FTZ), Export Processing Zones (EPZ), Free Zones (FZ), and Industrial Estates (IE), Free Ports, Urban Enterprise Zones and others. SEZs include the development of Roads, Airports, Transport system, Telecom, Hospitals, Hotels, Generation and Distribution of Power and Construction of Industrial and Commercial Complexes.



KEYWORDS : special economic zones , to attract capital, technology and managerial expertise.

INTRODUCTION

In India, the concept of free zones emerged during the sixties'. After this, six more Export Processing Zones were set-up in Maharashtra, West Bengal, Tamil Nadu, Uttar Pradesh, Kerala and Andhra Pradesh.

Special economic zones are the reformed version of export processing zones. The Government of India in its EXIM Policy of 2000, announced a scheme for setting up Special Economic Zones. The SEZ scheme launched by the Union Ministry, Government of India in April 2000 was intended mainly to meet the challenges of enhancing export trade and pushing industrialization. The SEZ Bill was passed in the Parliament in 2005 and the SEZ Rules came into force from February 10, 2006.

The SEZs are fast emerging as major contributors to country's export turnover. The Union Commerce Ministry launched SEZ online on October 15, 2010 to expedite sports of clearance required for setting up as well as operation of Units in SEZ.

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 and 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 the Development commissioner, who also heads the Unit Approval Committee.

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.

(i) 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.

(ii) 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 and finally by the empowered group of ministers.

(iii) 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. 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.

Investment is essential for promoting any economic activity. The investment requirements are based on the size of business unit, length of business and the nature of the business. The volume of investments can accelerate the size and process of business by way promoting the exports, creating employment opportunities and developing the infrastructure facilities, so, the mobilization of investments is another main area while evaluating the performance of Special Economic Zone in India.

REVIEW OF LITERATURE:-

The study by Nishith Desai Associates (2006) in their study entitled “Special Economic Zones-An Indian Perspective” concluded that the establishment of the SEZs has, undoubtedly, helped to increase the volume of international trade. Further, a large amount of foreign investment has found its way not only into the export trade, but also into infrastructure construction and commerce. Foreign companies have been encouraged to establish their presence in the territories and the export industry has grown. Advanced foreign technology has been brought in with the inflow of foreign investment. All these factors have contributed to the growth of the Indian economy. The enactment of the SEZ Act and its implementation would enable the GOI to fulfill its agenda of economic reforms as the multiplier effect on the economic activities triggered by SEZ materializes.

Bloodgood (2007) in his study entitled “Comparative Conditions for Foreign Direct Investment in India” analyzed the role of government in attracting foreign investment. The author examined that like many other countries, Government of India has offered certain incentives to attract foreign investment, many of which are concentrated in Special Economic Zones. Due to this, net foreign direct investment (FDI) flows into India reached at \$ 15.7 billion in 2006-07.

Govilkar (2008) his study entitled “Special Economic Zones: Does the Act ensure what the policy intends” analyzed SEZ Act, 2005 and SEZ Rules, 2006. The study found that policy of SEZ has been adopted and implemented with the objective that it will develop sufficient and high quality infrastructure by private sector, will attract considerable foreign investment, will increase employment opportunities, will boost the export, and thereby will expand economic activities in the country. The industrial islands could become engine of growth. India, to get better share in world trade, must undertake special efforts, when the global export opportunities are increasing. SEZ could be a prominent policy for the same.

Reddy (2009) in his study entitled “SEZs- Engines For Growth” made a detailed analysis on the need and evolution of SEZs in India and the performance of Indian SEZs. The study highlighted that the overwhelming response to the SEZ scheme is evident from the flow of investment, creation of additional employment, export performance and attracted FDI in the country. The study concluded that the SEZs are real growth engines for the economic development of the country.

Wong (1987) in his study entitled "Chinas Special Economic Zones Experiment : An Appraised" attempted to provide a review of the latest development of China's SEZs, assessing their achievements in terms of the attraction of foreign capital, export growth and foreign exchange earnings and technology transfer. Reforms and innovative measures initiated in the zones that have implications for other parts of China are also discussed. Problems encountered in the course of SEZ development are examined, nothing in particular the heavy capital expenditure on infrastructure provisions, the development of trade-based economy, the over-ambitions objectives which would be difficult to achieve in a short period of time as well as other economic and social issues. It is observed that the development of the SEZs has been proceeding without careful and coordinated planning and that the designation of economic development zones in the open coastal cities stands to undercut the allures of the SEZs and has made the latter much less "special" than they used to be

OBJECTIVES OF THE STUDY:-

The main objectives of the study are –

To Examine the Present Investment Status of SEZs in India

METHODOLOGY:- The secondary data have been used to analyze the SEZs investment generation from 2006 for the study.

Limitations of the Study:- The study is limited to period from 2006 to 2019.

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.

Investment Generation:-

Since 1990, Indian Export Processing Zones started to attract investment that could address to the perceived slowdown in production in the late nineties. During the year 1988, total investments mobilized by the Indian Zones amounted to Rs. 897.10 crores and the Government of India permitted 100% foreign equity in Export processing zones from 1992. The Government of India's decision regarding 100% foreign equity in Export processing zones had impacted so much that the amount of investments in Indian Export processing zones had reached Rs. 1,363.90 crores in the year 1998.

The Government of India formulated Special Economic Zones policy in the year 2000 and in the year 2003, the total investment mobilized by the Indian Special Economic Zone was only Rs. 2,043.10 crores, so the Special Economic Zone policy had a little impact on the mobilization of investments in India. The Special Economic Zone Act came into operation in India during the year 2005 and the total investments of Special

Economic Zones was Rs. 4,957.10 crores in the year 2006. So the total investments mobilized by the Indian Zones in the year 2006, have more than doubled when compared to the investment mobilized during the year 2003. The Finance Ministry on 8th July 2009, reviewed its policy on External commercial Borrowings, allowing developers of Special Economic Zones to access for cheaper funds from abroad for infrastructure development in these zones. As on 31st March 2011, the total investment mobilized by the Special Economic Zones amounted to Rs.2, 02,808.70 crores.

The investments mobilized by Indian Special Economic Zones have been increasing year after year and the increasing trend had been more after the enactment of Special Economic Zone Act 2005. So, the enactment of Special Economic Zone Act 2005 had impacted in the mobilization of investment in Special Economic Zones. The investments mobilized have increased from Rs. 1,783.50 crores in the year 2000-2001 and it reached to Rs. 2,02,809.52 crores in the year 2010-11. On an average, it was Rs. 55,379 crores per annum.

During the year 2006, among Central Government owned Special Economic Zones, the Noida Zone mobilized the highest amount of investment Rs. 728 crores, followed by Santa Cruz Special Economic Zone Rs. 538.7 crores, Madras Special Economic Zone Rs. 521.8 crores, Cochin Special Economic Zone Rs.489 crores and Kandla Special Economic Zone mobilized the lowest amount of investments. As on 31st March 2011, Reliance Jamnagar Infrastructure Limited contributed on the highest amount of investments to the Indian Special Economic Zones (18.4%) followed by Madras port and SEZ Ltd (11.6%), Infosys Technologies Ltd (4.5%) and among the Central Government owned SEZs, the Noida Special Economic Zone generated the highest amount of investments (1.8%). During the inception stage of zones, the investments were mainly mobilized by the Government of India- owned Export processing zones. But recently in India private party sponsored zones were mobilizing the highest amount of investment mainly through technology related business activities.

During the period before Special Economic Zone Act 2005 was passed, the total investments generated from the Indian Special Economic Zones was amounted to Rs. 4,334.81 crores, and out of that Rs. 2,491.02 crores were generated by the Special Economic Zone, which was located in the state of Andhra Pradesh, Gujarat, Maharashtra, Tamil Nadu and Karnataka. As on 31st March 2011, total investments contributed by the Indian Special Economic Zones was Rs. 2,02,809.52 crores and out of that the above-mentioned five states contribution has amounted to Rs. 1,67,046.70 crores (82.4%). The Indian Special Economic Zones investments contributions were dominated by the state of Gujarat (41%) followed by Karnataka (12.9%), Tamil Nadu (11.9%), Andhra Pradesh (8.3%) and Maharashtra (8.2%). It shows that in India, Special Economic Zone investments were mainly mobilized from few states like the states of Gujarat and followed by Karnataka and Tamil Nadu.

The performance of SEZs can also be judged by the amount of foreign capital inflows that they are able to attract. SEZs can also play an important role in attracting domestic investments as well as FDI. The SEZs with highly improved infrastructure, fiscal concessions, simplified and quick procedures, can act as catalysts for attracting FDI. In fact, there are numerous instances of free zones pushing up flow of investment both foreign and domestic.

Incremental Investment have shown a positive growth rate over a period of time barring few years. On an average, incremental investments were increased by 40% from FY 2009 to FY 2011. However, FY 2012 posted a negative growth rate of -0.47% (Table 1)

Table No 1
Investments (Rs. Crores)

Year	Incremental Investment	Growth (%)	Cumulative Investment	Growth (%)
FY 2008	73174	-	77210	-
FY 2009	104867	43.31	108903	41.05
FY 2010	144453	37.75	148489	36.35
FY 2011	198774	37.60	202810	36.58
FY 2012	197839	-0.47	201875	-0.46
FY 2013	232681	17.61	236717	17.26
FY 2014	284441	22.25	288477	21.87
FY 2015	369410	29.86	373445	29.44
FY 2016	372458	0.82	376494	0.81
FY2017	429106	15.20	433142	15.04

Source :- PHD Research Bureau, compiled from CAG, India Data as on 31 Dec, 2017.

Figure No 1
Growth of SEZs Investment in India:-



Source: Computations based on Table No 1

This step fall was attributed to several legal and market dynamics in the domestic as well as international economy including rising cost of operations, global slowdown fall in market demand, imposition of MAT and DDT in 2011, lack of skilled man power etc. These factors eroded the viability of setting up industrial projects within the SEZs and thus negatively impacted the investors sentiments.

Though incremental investments growth rate turned positive at 29.86% in FY 2015 and 15.20% in FY 2017, yet could not achieve the earlier levels of around 43.31% achieved during FY 2009 and 37.60% in FY 2011.. Corresponding to the incremental investments growth rate, cumulative investments growth rate also depicted the same trends.

In nutshell, though investment in the SEZs increased from three fold from Rs. 77210 crore in FY 2008 to Rs. 433142 crore in FY 2017, however, its growth rate did not remain consistent owing to several unfavorable changes in the domestic and global market.

The investment opportunities of SEZ are done through the following sources.

Table 2
Investment Strategies in SEZs

Scope & Types	Types of Investments	Mode of Payments
Type – A	Investment with 100% Foreign Ownership	Foreign Currency
Type – B	Joint ventures between Indian and foreign investors	India and Foreign currency according to equity proportion.
Type – C	100% India ownership	Indian Currency

Source: www.epces.com.

The table 2 explains the investment attraction of special economic zones through different sources. The investment of central, state and private sectors shows a continuous increase from 2006 on words, Central from Rs. 2279.20 crores to Rs. 15974 as on 30th June 2017, with 3.68 percent in total investment inflow. The notified SEZs attracts more investments after the enactment of SEZ act 2006, bringing more importance for special economic zones and its promotion with Rs. 4,05,690 crore which takes the major investment of 93.63% in the total in

Table 3
Investment in SEZs (Rs. in crores)

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.

Present Problems of SEZs:- The SEZ in India despite the success in areas of investment and 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 .

SUGGESTIONS:-

In order to overcome these problems and make the SEZs programme more effective, the following steps might be considered 1) The sufficient provision of infrastructure services like water, power, transport and communication should be made in the SEZs campus. 2) A well balanced and conducive policy environment should be made available to make SEZs programme successful proportion. 3) The developed irrigated and fertile agricultural land should be excluded while selecting the location for the SEZs. 4) While

passing the approval the strategic importance of the product and development needs of the region should be taken in to account. 5) The developers of the SEZs should be encouraged to set up SEZs in backward areas of the country by providing necessary and basic infrastructure. 6) Efforts should be made to attract foreign investment in the SEZs for the development of roads, telecommunication, power and housing. 7) Thrust should be on establishing linkage and co-ordination among the SEZs and National Investment and Manufacturing Zones (NIMZS).

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. Hence there is need for social and political awareness among the people to support such schemes for the all round economic development of the county.

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