



ISSN: 2249-894X
 IMPACT FACTOR : 5.7631 (UIF)
 UGC APPROVED JOURNAL NO. 48514
 VOLUME - 8 | ISSUE - 8 | MAY - 2019



EXPORT PROMOTION FOR ECONOMIC DEVELOPMENT: THE ROLE OF SPECIAL ECONOMIC ZONES (SEZs) IN INDIA FROM 2003 TO 2010

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ABSTRACT:

This paper evaluates the aims, examines the overall performance of Special Economic Zones (SEZs) in India export promotion and economic development of India by using the secondary data from 2003 to 2010. In this era of globalization, most developing countries are witnessing a shift away from an import substitution based development strategy to one based on export promotion policy. The Special Economic Zones are also the product of the same kind of export promoting strategy, which is aimed at giving a big push to investment, exports and employment.

KEYWORDS: Export Promotion, Economic Development, Economic Zones, Import Substitution.

INTRODUCTION

India earlier had Export promoting zones, which were specifically aimed at the increases in exports. In addition, SEZs, which are also export promoting, but provide flexible rules and easier processing and clearing of the approvals. The Special Economic Zones Act, 2005, was passed by Parliament in May, 2005 which received Presidential assent on the 23rd of June 2005 (Sezindia.nic.in, 2012). SEZ rules were notified on 10th February 2006, which aimed at drastic simplification of procedures, single window clearance on matters relating to central as well as state governments. The main objectives of the SEZ Act are (Sezindia.nic.in, 2012):

- a) Generation of additional economic activity
- b) Promotion of exports of goods and services; promotion of investment from domestic and foreign sources; creation of employment opportunities; development of infrastructure facilities.

The role of SEZs towards Export Promotion in India

The rapid increase in exports from SEZs has been accompanied by a drop in exports from non-SEZ areas, a trend that needs a serious investigation. The Economic Survey states following figures about Special Economic zones "as on 31st December 2011 i.e. during the first three quarters of the current financial year, the total physical exports have been to the tune of Rs. 2,60,972.90 crore, registering a growth of

14.5% over the exports of corresponding period of the previous year (Economic Survey, 2012).

The same survey stated that total investment in SEZs till 31st December 2011 is Rs. 2,49,630.80 crore, including Rs. 2,31,160 crore in the newly notified zones. Within five years of operation of SEZs Act, formal approvals have been granted for setting up of 583 SEZs out of which 380 have been notified. Share of exports from SEZs in total exports rose from mere 5% in 2005-06 to 13.93% in first 9 months of 2007-08 and to 29.7% in 2010-11 (April-December). This drastic upsurge in the contribution of share of exports to total exports of India from initial 5% in 2005 to 29.7% in 2010 reflects a clear boost to the exports

(Economic Survey, 2012). But, this increase in exports due to SEZs has to be evaluated from the perspectives of (Economic Survey, 2012).

1. The implications of moving of already existed enterprises from Non SEZ sector to SEZ due to large incentives and the facilities provided by the SEZ.
2. The real impact it had on the “generation of new activity in manufacturing and Agro- based industries, which are labor intensive in nature and include all kinds of labor into the employment generation”.
3. The real impact of the exports on immediate losers i.e. the people, who have been displaced from their means of production and livelihoods due to the establishment of that particular SEZ. Benefit to the State in the form of additional revenue and foreign exchange, which has been generated due to the establishment of SEZs, in comparison to the revenue forgone.

Table 1: Exports from the Functioning SEZs during the last Three Years

Year	Value (Rs. Crore)	Growth Rate (over previous year)
2003-2004	13,854	39%
2004-2005	18,314	32%
2005-2006	22 840	25%
2006-2007	34,615	52%
2007-2008	66,638	93%
2008-2009	99,689	50%
2009-2010	2,20,711.39	121.40%

Source: Ministry of Commerce, Govt. of India

Table-1 shows that the growth rate from 2003 has come down drastically from 39% in 2003 to 25% in 2005, even though it jumped to 93% in 2007. It decelerated to 50% in 2008 but recovered to a maximum of 121.40% in 2009-2010. Thus initially there was not very much sustained growth in the SEZs, may be due to the fact that the states have taken their own time to formulate the respective policies. But after, 2009, most of the states have formulated their respective policies, thus leading to an overall jump to 121.40% in 2009. But we can also observe that this volatility may be due to the process involved in the establishment of that particular SEZ and its real operationalization.

Composition of the Exports from SEZs

From Table-2, the Gems and jewellery industry is contributing around 39.9% to total exports and next major contributors are the Electronic software and hardware industries. This fact reveals an interesting puzzle. The puzzle is that “the Gems, Jewellery and the Software industries are not the labour intensive industries and moreover they are not many labor absorbing industries, but they occupied the major contributor’s position”. There has been a criticism that “the SEZs are developed by the Real estate investors, who wanted to get the huge incentives offered by the government and wanted to develop the real estate business. In fact it clearly appears from the table that, there are not many labour absorbing industries in the special economic zones.

Table 2: Sector wise Composition of Exports from SEZs

Sector	As percentage of total zone exports
Drug	5.6
Electronics Software	16.4
Electronics Hardware	16.1
Engineering goods	4.7
Gems and jewellery	39.9
Leather	1.3
Textiles	8.4
Plastic and rubber	1.2
Food	1.1
Trading	1.5
Others	3.8
Total	100.0

Source: Ministry of Commerce, Govt. of India, (Sezindia.nic.in)

Revenue forgone due to concessions to SEZs

There are a variety of strong incentives that were being given to the companies to set up offices or factories in SEZs, including income tax holidays, duty-free imports, exemption from sales, service and the minimum alternative tax, and 'single-window clearance' for all state and central approvals (Michael Levien, 2011). Due to this basket of concessions to SEZs by the State, it is estimated that there is a huge loss of revenue to the exchequer. The concessions are not just confined to the year of establishment but have been extended to over a period of time ranging from one year to five years. According to the Parliamentary Standing Committee's 83rd report, presented in the Rajya Sabha in June 2007, the Ministry of Finance estimated a revenue loss of Rs 175,487 crore from tax holidays granted to SEZs, for the period 2004-05 to 2009-10 (infochangeindia 2015). This revenue forgone has to be critically evaluated from the point of the real boost that has been given by the SEZs to additional employment generation, exports, foreign exchange etc. Because it has been contested by various civil society that the SEZs have not been really proved beneficial to Indian economy, in contrast, they lead to even increased distress in rural India along with loss of huge revenue to the exchequer.

CONCLUSION

The Special economic zones have been "on the news due to their huge displacement of the farmers". Moreover, we can clearly see that even in the primary objective of promoting the "exports" has been realized through the "shifting of industries from non- SEZ sector to newly created SEZs". After the enactment of SEZs act, there has been rise in the exports of India. But it has to be explained from the point of "the composition of exports, their contribution to the new investment and employment". It is necessary to "compare the revenue forgone and the additional revenue generated due to the policy of SEZs, otherwise it will just be another experiment". The speedy processing and the approval of the SEZs resulted in the proliferation of the industry but at the same time there is occupation of huge tracks of land by the newly created special economic zones thus leading to Human rights violation.

After seven years, the experiences of SEZs clearly reflect that they never substantially benefited the marginalized communities, who have been displaced from their meager resources of livelihood. The alienated vulnerable communities are denied their basic rights in this process, majority of them are mostly the indigenous people, i.e. tribal's, dalits and other marginal farmers. Most of the identified and acquired lands under SEZs are the assessed waste and dry (AWD) lands, which have been distributed/ assigned to the poor and other landless sections. The state is creating the impression that the SEZs are formed primarily for the purpose of public and in name of national interest. However, in practice it

appears to facilitate the interests of the powerful industrial houses/lobbies and multi-national companies (MNCs) for their own advantages at the cost of the poor and other vulnerable communities.

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