



# REVIEW OF RESEARCH

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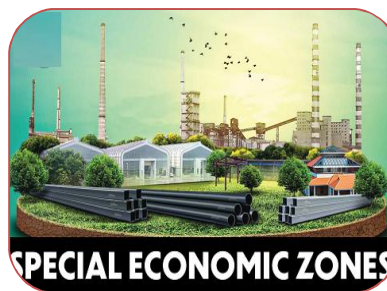
## SPECIAL ECONOMIC ZONES IN INDIA: A CRITICAL APPRAISAL

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### ABSTRACT

*Special Economic Zones (SEZs) have been promoted globally as catalysts for trade, investment, and industrial growth. In India, the SEZ policy was introduced to attract foreign direct investment (FDI), boost exports, create employment, and drive infrastructure development. However, nearly two decades after the SEZ Act of 2005, the success of SEZs remains contested. This study critically appraises the performance of SEZs in India, examining whether they have achieved their intended objectives or fallen short due to structural, policy, and implementation challenges. Drawing from government reports, economic surveys, and case studies of major SEZs, the research explores issues such as land acquisition controversies, underutilization of SEZ spaces, and the impact of changing tax policies. Findings suggest that while SEZs have contributed to export growth in select sectors like IT and pharmaceuticals, many zones have struggled to meet employment and investment targets. The study concludes by recommending policy reforms, greater transparency, and improved governance to maximize the potential of SEZs as engines of economic growth.*



**KEYWORDS:** *Special Economic Zones (SEZs), India, Export Promotion, Foreign Direct Investment, Industrial Policy, Employment Generation, SEZ Act 2005, Economic Development, Policy Evaluation, Critical Appraisal.*

### INTRODUCTION

Special Economic Zones (SEZs) have emerged as a prominent policy tool for fostering trade, investment, and industrialization across the globe. Conceptually, SEZs are designated geographical regions that enjoy relaxed economic regulations, tax incentives, and infrastructural support to attract foreign direct investment (FDI) and boost exports. Successful examples in countries like China, South Korea, and the UAE have demonstrated the potential of SEZs to act as engines of economic transformation, fueling employment generation and technological advancement. In India, the concept of SEZs evolved from earlier initiatives such as Export Processing Zones (EPZs) established in the 1960s and 1970s. Recognizing the need for a more robust framework, the Government of India introduced the Special Economic Zones Act in 2005, offering a comprehensive legal and policy structure for SEZ development. The stated objectives were clear: promote exports, attract large-scale investment, create jobs, and enhance infrastructure. By 2025, India had approved hundreds of SEZs, with sectors spanning information technology, pharmaceuticals, textiles, engineering goods, and petrochemicals. Despite

these ambitions, the performance of Indian SEZs has been mixed and contentious. While IT-focused SEZs in cities like Bengaluru and Hyderabad have seen considerable success, many manufacturing-oriented SEZs remain underutilized. Concerns over land acquisition disputes, inadequate infrastructure, and policy instability—including changes in tax benefits—have further complicated their trajectory. Studies (Mukherjee, 2019; Government of India SEZ Reports) indicate that while SEZs have contributed to exports, their impact on employment generation and balanced regional development has been limited. This critical appraisal seeks to evaluate whether SEZs in India have met their intended objectives or whether structural challenges and governance issues have constrained their effectiveness.

### **Aim**

To critically evaluate the development, performance, and challenges of Special Economic Zones (SEZs) in India, and to assess whether they have fulfilled their intended role as drivers of exports, investment, and employment.

### **Objectives**

1. To trace the historical evolution of Special Economic Zones in India, from Export Processing Zones (EPZs) to the implementation of the SEZ Act of 2005.
2. To analyze the policy framework and objectives underpinning SEZs, including fiscal incentives, regulatory relaxations, and infrastructure provisions.
3. To evaluate the economic contributions of SEZs in terms of exports, foreign direct investment (FDI), and sectoral growth (IT, manufacturing, pharmaceuticals, etc.).
4. To assess the social and developmental impacts of SEZs, including employment generation, regional development, and issues such as land acquisition and displacement.
5. To identify key challenges faced by SEZs, including policy inconsistencies, underutilization of approved zones, and changes in tax and duty structures.

## **REVIEW OF LITERATURE**

### **1. Global Perspectives on Special Economic Zones**

Special Economic Zones (SEZs) have been a significant policy tool for accelerating industrial growth and trade worldwide. Countries like China have demonstrated the transformative potential of SEZs, with regions such as Shenzhen evolving from fishing villages into global economic hubs (Farole & Akinci, 2011). Similarly, South Korea, the UAE, and Singapore have leveraged SEZs to attract foreign direct investment (FDI), enhance export performance, and stimulate regional development.

### **2. Evolution of SEZ Policy in India**

India's engagement with export-oriented enclaves began with the establishment of Export Processing Zones (EPZs) in the 1960s. However, the EPZ model yielded modest results due to bureaucratic hurdles and lack of infrastructure (Aggarwal, 2006). Recognizing the need for reform, the Special Economic Zones Act, 2005 created a legal and policy framework aimed at making SEZs more attractive to investors by offering tax incentives, simplified regulations, and infrastructure support.

### **3. Economic Impact of SEZs in India**

Several studies assess the contribution of SEZs to India's economic objectives. Mukherjee (2019) notes that SEZs have significantly boosted IT and service exports, with cities like Bengaluru and Hyderabad emerging as major beneficiaries. Government data show that SEZ exports have grown steadily, contributing a sizeable share to India's overall trade. However, scholars such as Palit (2010) and Aggarwal (2012) highlight that SEZ performance in manufacturing sectors has been uneven, with many zones failing to attract the expected level of FDI or generate sustainable employment.

#### 4. Social and Developmental Implications

The SEZ policy has sparked debate regarding its social impact, particularly in the areas of land acquisition, displacement, and equity. Case studies like Posco in Odisha and Nandigram in West Bengal underscore the resistance from local communities, where land acquisition led to protests and political backlash (Levien, 2012). Critics argue that SEZs often displace rural populations and prioritize investor interests over inclusive development (Jenkins, 2014).

#### 5. Policy and Implementation Challenges

The literature also points to structural and policy-related hurdles affecting SEZ performance. Frequent policy changes, such as the withdrawal of certain tax incentives under the Minimum Alternate Tax (MAT) and Dividend Distribution Tax (DDT), have undermined investor confidence (Sahoo, 2014). Infrastructure bottlenecks, complex approval processes, and uneven regional distribution of SEZs further dilute their effectiveness. Comparative studies with China's SEZs (Zeng, 2015) highlight that India's zones have lacked the same level of autonomy, scale, and infrastructural investment, limiting their global competitiveness.

### RESEARCH METHODOLOGY

#### 1. Research Design

This study adopts a descriptive and analytical research design, focusing on a critical appraisal of India's Special Economic Zones (SEZs). It integrates qualitative analysis of policy frameworks and socio-economic impacts with quantitative assessment of export performance, investment flows, and employment data.

#### 2. Data Sources

Interviews and discussions (if feasible) with SEZ stakeholders, including policymakers, SEZ developers, and industry representatives. Field-based observations of selected SEZs to understand operational realities (optional if the study is desk-based). Government reports (e.g., Ministry of Commerce & Industry, SEZ Authority, and RBI publications). SEZ performance statistics from the Export-Import Bank of India, Economic Surveys, and SEZ Annual Reports.

#### 3. Analytical Framework and Tools

Examination of the SEZ Act (2005), subsequent amendments, and reports like the Baba Kalyani Committee (2018). Comparing India's SEZ model with international benchmarks (China, UAE) to identify gaps and best practices. Analysis of export growth trends from SEZs since 2005. Evaluation of employment creation and FDI inflows into SEZs. Reviewing case studies to understand land acquisition disputes, displacement issues, and regional imbalances.

#### 4. Research Steps

Comprehensive Literature Review – Survey academic studies, reports, and policy papers on SEZ performance in India and abroad. Data Compilation – Collect export, employment, and investment data from government and institutional sources for a longitudinal analysis. Case Study Selection – Analyze a few representative SEZs (e.g., IT-focused SEZs in Bengaluru vs. manufacturing SEZs in Odisha or Gujarat) to understand sectoral variations. Data Analysis – Use descriptive statistics and trend analysis to evaluate SEZ contributions to exports, employment, and GDP.

#### 5. Ethical Considerations

The research is based largely on secondary data and publicly available reports, ensuring transparency and reproducibility. If interviews or fieldwork are included, informed consent will be obtained, and confidentiality will be maintained. An objective assessment of how SEZs have performed against their intended goals of exports, employment, and investment growth. Insights into policy weaknesses (e.g., land acquisition, tax policy changes) that have hindered SEZ effectiveness.

Recommendations for policy reforms to enhance the long-term sustainability and impact of SEZs in India's economic development strategy.

### STATEMENT OF THE PROBLEM

Special Economic Zones (SEZs) were introduced in India with the SEZ Act of 2005 as a key policy instrument to boost exports, attract foreign direct investment (FDI), generate employment, and stimulate regional development. Inspired by the success of SEZs in countries like China, the Indian government envisioned SEZs as engines of economic transformation and global competitiveness. However, nearly two decades later, the effectiveness of SEZs in India remains deeply contested. While certain IT and service-oriented SEZs have recorded substantial export growth, many manufacturing and multi-product SEZs are underutilized and have failed to achieve their intended objectives. Several critical challenges have emerged: Frequent changes in tax incentives, such as the imposition of Minimum Alternate Tax (MAT) and Dividend Distribution Tax (DDT), have dampened investor confidence. SEZ development has often triggered land disputes, displacement, and protests, raising questions about the social costs of these enclaves. Many SEZs suffer from poor infrastructure, regulatory hurdles, and bureaucratic delays, limiting their global competitiveness. SEZ growth has been concentrated in a few states and sectors (notably IT), leading to regional imbalances and limited diversification of benefits. Given these mixed outcomes, there is a pressing need to critically appraise India's SEZ policy framework, performance metrics, and implementation challenges. Are SEZs in India truly fulfilling their promise of driving export-led growth and employment, or have they become policy experiments with limited success? This study addresses this crucial question by evaluating what SEZs have achieved, where they have fallen short, and how they can be reimagined for the future.

### FURTHER SUGGESTIONS FOR RESEARCH

#### 1. Comparative International Studies

Future research should explore comparative analyses between India's SEZs and highly successful models in China, Vietnam, and the UAE to identify scalable best practices and understand why India's outcomes have been mixed.

#### 2. Sector-Specific Performance Evaluations

Detailed sectoral studies—e.g., IT, pharmaceuticals, textiles, and manufacturing—could shed light on why certain industries thrive in SEZs while others stagnate.

#### 3. Socio-Economic Impact Assessments

More in-depth research is needed on the social costs of SEZs, particularly issues around land acquisition, displacement, and livelihood disruption, to balance economic benefits with social justice.

#### 4. Regional Disparity Studies

Further work could analyze why SEZ development is concentrated in a few states (like Gujarat, Karnataka, and Tamil Nadu) and investigate strategies to ensure more equitable regional distribution.

#### 5. Policy Stability and Investment Climate

Research could examine the impact of frequent tax policy changes (e.g., MAT, DDT removal) on SEZ investor confidence and propose models for long-term policy stability.

### SCOPE OF THE STUDY

- **Policy Focus:** The study critically examines the Special Economic Zones Act (2005) and subsequent amendments, assessing their effectiveness in promoting exports, foreign investment, and employment.
- **Timeframe:** It primarily focuses on the period from the enactment of the SEZ Act in 2005 up to 2025, allowing for a two-decade assessment of SEZ performance.
- **Geographical Coverage:** The analysis covers SEZs across India but places emphasis on major hubs (e.g., Gujarat, Tamil Nadu, Karnataka, Maharashtra) and includes comparisons with global SEZ models like those in China and the UAE.

- **Economic and Social Dimensions:** The study evaluates both the economic outcomes (exports, FDI, sectoral growth) and social implications (land acquisition issues, employment patterns, and regional disparities).
- **Sources of Data:** Research is based largely on secondary data—government reports, policy documents, economic surveys, think-tank publications, and academic literature—along with case study analysis.

### LIMITATIONS OF THE STUDY

- **Dependence on Secondary Data:** The study relies heavily on published reports and government data, which may include biases or inconsistencies.
- **Limited Primary Research:** Due to scope constraints, extensive fieldwork or interviews across all SEZs were not conducted, limiting firsthand insights from stakeholders.
- **Sectoral and Regional Bias:** The performance of IT and service-sector SEZs is well-documented, but manufacturing and agro-based SEZs may be underrepresented in available data.
- **Policy Fluidity:** Frequent policy changes (e.g., tax reforms, SEZ status revisions) mean findings might quickly become outdated as new measures are introduced.
- **Global Comparisons:** While comparisons with other countries provide useful insights, differences in political systems, governance models, and socio-economic conditions limit the direct applicability of foreign SEZ strategies to India.

### DISCUSSION

The introduction of Special Economic Zones (SEZs) through the SEZ Act of 2005 was envisioned as a transformative step for India's economic landscape, modeled after global success stories such as China's Shenzhen. Nearly two decades later, however, India's SEZ journey reveals a mixed picture of achievements and challenges that call for nuanced evaluation. SEZs have undoubtedly made significant contributions to India's export performance, particularly in the IT and IT-enabled services sector. Cities like Bengaluru, Hyderabad, and Pune have emerged as thriving SEZ hubs, attracting foreign investment and creating thousands of high-skilled jobs. SEZs have also contributed to the growth of pharmaceuticals, gems and jewelry, and some manufacturing sectors. Government data shows steady export growth from SEZs since 2005, suggesting that the model has delivered measurable economic value. Despite these successes, the broader picture is less optimistic. Many manufacturing and multi-product SEZs remain underutilized, failing to attract the level of investment envisioned. Several factors contribute to this underperformance:

The establishment of SEZs has not been without controversy. Land acquisition has been one of the most contentious issues, with cases like Nandigram (West Bengal) and Posco (Odisha) highlighting widespread protests and displacement concerns. Critics argue that SEZs often prioritize industrial and investor interests over local communities and equitable development, creating a tension between economic growth and social justice. Comparisons with global models reveal that India's SEZs lack the scale, autonomy, and integrated infrastructure seen in China or Dubai. While India offers fiscal incentives, inconsistent policies and regulatory complexity have created uncertainty. Reports like the Baba Kalyani Committee (2018) emphasize the need for reform, suggesting a shift from a tax incentive-centric model toward zones that act as employment and economic enclaves with deeper integration into the global value chain. This critical appraisal underscores that while SEZs have not been a failure, they have fallen short of their transformative promise. The path forward involves policy stabilization, transparent land acquisition mechanisms, sectoral diversification, and infrastructure upgrades. With global supply chains shifting and India seeking a larger role in manufacturing, SEZs could still be vital—but only if reforms address their structural flaws and align them with the country's long-term economic vision.



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## CONCLUSION

Special Economic Zones (SEZs) were envisioned as powerful instruments to accelerate India's integration with the global economy, attract foreign direct investment (FDI), boost exports, and generate employment opportunities. Nearly two decades after the enactment of the SEZ Act of 2005, the experience offers a mixed verdict. On one hand, SEZs have undeniably contributed to export growth—especially in sectors like IT, pharmaceuticals, and services—and created enclaves of industrial efficiency in states such as Karnataka, Tamil Nadu, and Gujarat. These successes illustrate that, under the right conditions, SEZs can act as hubs of innovation, competitiveness, and economic dynamism. On the other hand, the broader promise of SEZs remains only partially fulfilled. Many manufacturing-oriented SEZs continue to struggle with underutilization, infrastructural bottlenecks, and limited investment flows. Frequent policy shifts, particularly concerning tax incentives, have eroded investor confidence, while land acquisition disputes and community resistance have raised questions about the social and ethical dimensions of SEZ development. The findings of this study suggest that India's SEZ framework requires substantial reforms to fully realize its potential. Future efforts should focus on policy stability, better infrastructure, sectoral diversification, and transparent, fair land acquisition mechanisms. Moreover, the transformation of SEZs into broader Employment and Economic Enclaves (3Es), as suggested by recent committees, may offer a path toward making SEZs more inclusive and development-oriented. In conclusion, SEZs in India have been neither an outright success nor a failure—they represent a work in progress. With thoughtful reforms, stronger governance, and a shift from a tax incentive-centric approach to one emphasizing sustainability, employment, and integration into global value chains, SEZs can still emerge as vital drivers of India's long-term economic strategy.

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