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THE NEED FOR ECONOMIC ZONES AN ASSESSMENT

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Introduction

Special Economic Zones are existing in a particular geographical location in which economic laws are more liberal than a country's general economic laws. It is specifically delineated duty free centre and treated as a foreign country for the purpose of industrial, service and trade activities, with exemption from custom duties and more liberal regime in respect of levies, foreign investment and other transaction. In fact, the economic Zones is a development tool, with the goal of promoting rapid economic growth by using tax and business incentives to attract foreign investment and technology (<http://en.wikipedia.org/wiki/sez>).

The Special Economic Zones covers a broad range of specific zones including Free Trade Zones (FTZs), Export Processing Zones (EPZs), Free Zones (FZs), Industrial Estates (IEs), Free Ports (FPs), Urban Enterprise Zones (UEZs) and other. These different Zones have been used overtime reflecting the variety of economic activities performed in these special zones. The most used terms are Free Trade Zones and Industrial Free Zones. They all have some basic features in common (<http://en.wikipedia.org/wiki/sez>).

Objectives of the Study

- To examine the emergence of the Economic Zones.
- To highlight the need for the Special Economic Zones.
- To evaluate the progress of these economic zones

Emergence of the Special Economic Zones in India

The first export processing zone in India in the name and style of Kandla Free Trade Zone at the port town Kandla in Gujarat became operational is 1966-1967. Keeping in view the rapid growth of demand for

electronics products Santa Cruz electronics EPZ (SEEPZ) was planned as a single product zone for processing electronic goods for export. The second zone, SEEPZ was built at Mumbai in Maharashtra in September 1972 in order to cater to the proximity market and growing popularity of Indian gold and jewellery ornaments, SEEPZ was made a two product Zone in 1988, Standard Design Factory Building exclusively for Gem and Jewellery complex was constructed.

In 1983 it was decided to set-up four more EPZ's in the state of Tamil Nadu, West Bengal, Kerala and Uttar Pradesh, at Madras (MEPZ), Falta (FEPZ), Cochin (CEPZ) and small Noida (NEPZ) respectively. While MEPZ and FEPZ were operational during 1985-86, CEPZ and NEPZ commenced exports in 1986-87. The seventh zone was decided to be set up in Vishakhapatnam (Andhra Pradesh) in 1989. EPZ at Vishakhapatnam (VEPZ) became operational from 1994-95.

Special Economic Zone (SEZ) scheme was introduced by the Government of India on 1st April, 2000 with the objectives to provide an internationally competitive and hassle-free environment for export, attracting Foreign Direct Investment (FDI), generation of employment and to facilitate transfer of technology. This policy was intended to make SEZs an engine of economic growth supported by quality infrastructure complemented by an attractive fiscal package, both at the Centre and the state level, with the minimum possible regulations.

SEZ Act, 2005 was passed by the Parliament in May, 2005 to boost exports and to bring stability in the policy, which received Presidential assent on 23rd of June, 2005. The SEZ Act, 2005, supported by SEZ Rules, came into effect on 10th February, 2006, providing for drastic simplification of procedures and for single window clearance on matters relating to central as well

as state governments. Thus, as on date, SEZs are governed by the provisions of the SEZ Act, 2005 and the SEZ Rules, 2006.

Need for the Special Economic Zones

The concept of SEZ is based on the framework of the cluster approach. SEZs are considered as industrial clusters where industrial and business units realize economies of scale and other advantages which help in reducing the cost of production of the operating units. Due to the large incentives provided by the centre and the state governments, removal of bureaucratic controls, availability of infrastructural facilities and non-application of labour laws, many firms (both Indian and foreigner) would find it economical to locate their units in SEZs. The competitive advantage within these zones would attract massive investment and make them an engine of growth and industrialization. The massive investment in these zones would generate a lot of employment and would help in shifting the workforce from agriculture to industry and tertiary sectors (Gill, 2007).

The number of SEZs globally continues to expand. SEZs account for an increasing share of international trade flows and employ a growing number of workers world-wide. According to Seth Associates, in 2007, there were more than 3000 SEZs operating in 120 countries, which account for over US\$ 600 billion in export and about 50 million jobs. In the global economy, SEZs are viewed as an instrument to promote industrialization, generate employment and for regional development. SEZs have played a crucial role in the economic development of many developing countries, for example, China. The policy of SEZs was first adopted in China in 1978 as part of its economic reforms.

Considering the need to enhance foreign investment and promote exports from the country and realizing the need that level playing field must be made available to the domestic enterprises and manufactures to be competitive globally. An outline framework has been drafted (in the SEZs) by the central government in a manner in which to develop both manufacturing as well

as to improve the export performance. This policy intended to make SEZs an engine for economic growth supported by infrastructure complemented by and attractive fiscal package both at the central and state with the minimum possible regulations.

Special Economic Zones Act 2005

Under the new legislation, SEZ would be treated as deemed foreign territory for trade operations, duties and tariffs, and supplies from domestic industry would be treated as exports. Goods and services going into the SEZ area from domestic tariff area (DTA) shall be treated as exports and goods coming from the SEZ area into DTA shall be treated as if these are being imported. The basic objective for setting up of SEZ has been spelt out:

- Generation of additional economic activity.
- Promotion of export of goods and services.
- Promotion of investment from domestic and foreign sources.
- Creation of employment opportunity, and
- Development of infrastructure.

In addition, there would be many associated advantages accrued in the process and some of these are:

- Acquiring and upgrading labour and management skills.
- Attracting advanced technology.
- Development of the region with feeder industry and
- Establishing linkage with rest of the economy

Progress of the Special Economic Zones

Table 1 SEZs Developed by Central Government

Zones	Location	Area (acres)	Status	Operational w.e.f
KASEZ	Kandla, Gujarat	625	Multi-product	1966-67
SEEPZ-SEZ	Santa Cruz, Mumbai	93	Computers and jewellery	1972-73
MSEZ	Chennai, Tamil Nadu	262	Multi-product	1985-86
FSEZ	Falta, Kolkata	280	Multi-product	1985-86

NSEZ	Noida, U.P	310	Multi-product	1986-87
CSEZ	Cochin, Kerala	103	Multi-product	1986-87
VSEZ	Vishakhapatnam, AP	360	Multi-product	1994-95

Source: Department of Commerce, GOI

During 2007-08, there were fifty-seven zones in operation of which seven have been developed by the central government. These zones are listed in table-1. These zones are small in size; their area ranges between 93 to 625 acres. Government of India has invested about INR 500 crore on the infrastructure development of the seven SEZs. The twelve zone in operation set up before 2006 have been developed by State/private sector initiative. The investments of the private developers for development of SEZs as on September 30, 2008 have been of the order of INR 5,626.24 crore these SEZs are

- Surat special Economic Zone (Gujarat) developed by the Diamond and Gem Development Corporation over an area of 123 acres (499000 sq.m) with an initial investment of INR 32.46 crore in the year 1997. It commenced production from 2000-2001.
- Manikanchan Special Economic Zone developed by West Bengal Industrial Development Corporation Ltd at Salt Lake, Kolkata (West Bengal) over an area of 5 acres exclusively for gem and jewellery exports. The zone has become operational during 2004-2005. Its export turnover during the first year has been INR 95.94 crore.
- Indore Special Economic Zone (Madhya Pradesh) developed by Madhya Pradesh State Industrial Development Corporation Ltd in 132 hectares which is operational from 2004-2005. Its export turnover during the first year has been INR 95.94 crore.
- Jaipur Special Special Economic Zone was set up by Rajasthan State Industrial Development Corporation Ltd in (Rajasthan) in 110 acres exclusively for gem and jewellery which

operational from 2004-2005. Its export turnover was INR 5.27 crore in its first year of export.

- Jodhpur Special Economic Zone was set up by Rajasthan State Industrial Development Corporation Ltd (Rajasthan) in 180-94 acres for manufacture and export of handicraft commenced exports in 2005-06.
- WIPRO Special Economic Zone set up a zone at Salt Lake, Kolkata (West Bengal) for software export and ITES has started export in 2005-06. Its export reached INR 95.5 crore in 16 acres and the investment in infrastructure amounted to INR 125 crore.
- Mahindra Industrial Park Special Economic Zone (Tamil Nadu) set up export of IT, hardware commenced export during 2005-06. The size of the SEZ is 665.68 acres with an investment in infrastructure amounted to INR 100 crore.
- Mahindra Industrial Part Special Economic Zone in Chennai (Tamil Nadu) set up export of apparel and fashion accessories also started export during 2005-06.
- Mahindra Industrial Park Special Economic Zone set up export for automobile ancillary.
- Surat Apparel Park Special Economic Zone (Gujarat) commenced export in 2006-07. It is an SEZ exclusively for apparels and had export turnover of INR 1.6 crore in the first year itself.

Performance of First SEZs

KAFTZ (set up in 1965), is the first EPZ in India. It commenced export during 1966-67 with a humble beginning of less than INR 0.1 crore. By 2007-08, 57 zones in the country have been in operation, seven developed by the Central Government and twelve developed by private and state government initiative and third eight notified as per SEZ Act, 2005. The export from these zones during 2007-08 was INR 66,638 crore with an impressive growth of 92% over the previous year export of INR 34,615 crore. And the export during 2008-09 is of the order of INR 125,950 crore. The year wise

export performance of the zones developed by Central Government since inception till March 31, 2008.

It is evident that the growth of export from SEZs was moderate in the initial phases, but has been substantial during the past two decades. The data of India's total export and export from SEZs since 2000-03 is presented at table-2

Table – 2 SEZs Share in India's Export, 1986-87 to 2007-08 (Rs.in crores)

Year	Exports	
	India's Total	SEZ's
2000-01	2,03,571	8,584
2001-02	2,09,018	16,067
2002-03	2,55,137	10,066
2003-04	2,93,367	13,162
2004-05	3,75,340	18,309
2005-06	4,56,418	22,839
2006-07	5,71,779	34,786
2007-08	6,24,185	67,088

Source: Department of Commerce, GOI

Table 3 State-wise Employment Generation from SEZs

(As on 30 Sept.2011)

SL. No.	State	No. of Workers Employed	% to Total
1	Maharashtra	194013	26.66
2	Tamil Nadu	191257	26.28
3	Andhra Pradesh	105386	14.48
4	Uttar Pradesh	50535	6.94
5	Gujarat	46879	6.44
6	Karnataka	30070	4.13
7	West Bengal	30118	4.14

Source: Govt. of India, Ministry of Commerce

It is very clear that state wise exports from SEZs for the period from 2008-09 to 2010-11 reveals that Gujarat in the first position having 42.84 percent of Exports from SEZs followed by this Tamilnadu and Karnataka performed well SEZs Exports. Apart, the other states namely Kerala, Maharastra and West Bengal also shown a moderate performance of SEZs Exports. Not

only special Economic Zones perform a pivotal role by producing and export abundant quantity of goods but also ensure better employment opportunity to the needy people (Table – 3). Maharastra and Tamilnadu performs a better fixed with regard to job opportunity in the Economic zones (26.66 and 26.28 per cent) Andhra Pradesh also did a proper job in ensuring better employment opportunity in the economic zones. Though Gujarat state stood first in the export performance but fifth question in providing opportunity in the economic zones at all India level.

Conclusion

Although the establishment of economic zones given a prominence in the post globalization period, these zones are at the grass root level. The government must ensure the establishment of more zones so that it creates more employment opportunities. Further it happen in many cases both the government and entrepreneurs acquire the land and misuse for making real estate business. This should be firmly award and creates opportunity to the indigenous industrialists to develop the economic zones.

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