

Special Economic Zones (SEZ) and Its Impact on India's Export



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Abstract In this era of globalization every country is adopting the policy of import substitution and export Promotion. For the export promotion many countries such as USSR, Mexico, and Jordan etc. adopted the policy of Special Economic Zones (SEZ). It was believed that the SEZ are the instrument of export promotion, earners of foreign exchange, stimulator of employment and foreign investment. Special economic zones concept has evolved across the globe and several developing countries have adopted this policy for set-up of industrial zones that focus on exports and helps in generating economic opportunity and able to attract Foreign direct investment. So SEZs can be defined as a geographically delimited area which is physically secured, has single window clearance system, less complicated administrative unit and duty free environment. In this paper, an attempt is made to review the concept of Special Economic Zone and its impact on the exports from India. The study is based on secondary sources of data and it covers for the period of recent ten years.

KEYWORDS: Special Economic Zones (SEZ), Export Promotion, Foreign Exchange, Employment, Foreign Investment, Developing Countries.

I. INTRODUCTION

The genesis of Free Zones in India began with India setting up first Export Processing Zone in Kandla, Gujarat in 1965 as a mechanism to promote exports, increase foreign exchange reserves and to generate additional employment. With the establishment of Kandla SEZ, India became the first country in Asia to recognize the effectiveness of Free Zone scheme to enhance international trade. The proposal to establish Kandla EPZ was initiated in 1961 with the goal to catalyze the development of the Kutch region of Gujarat and the fullest utilization of Kandla Port. The Second zone in the country was, Santacruz Electronic Export Processing Zone (SEEPZ) established at Mumbai in 1974. Initially, SEEPZ was introduced as a single-product zone to stimulate the production of electronics goods with the expectation of transfer of technology to the country. Later, Gem and Jewelry sector was allowed to operate from SEEPZ. In the beginning, Central Government was exclusively responsible for setting up and operating the zones, this policy was amended in 1994, enabling State governments and private

sector to partake in developing and operating the Export Processing Zones.

During the 1980's four more zones were established in different parts of the country focusing on regional economic development. Export Processing Zones were established in Cochin- Kerala, Chennai (Madras)-Tamil Nadu, Falta-West Bengal, Noida-Uttar Pradesh in 1986. All these zones were constructed as Multi- product zones. Cochin EPZ and Falta EPZ were set up with the objective to develop the backward regions of the country. The seventh Export processing zone was set up in Vishakhapatnam, Andhra Pradesh in 1989. The Indian EXIM policy of 2000, announced the establishments of Special Economic Zones in the country with larger provisions and facilities than the Export Processing Zone scheme. Under this policy, zones in SEEPZ, Cochin, and Kandla were converted into Special Economic Zone. Later in 2003, all the other EPZs were also converted as Special Economic Zones.

A. MEANING OF SPECIAL ECONOMIC ZONES (SEZ)

A Special Economic Zone (SEZ) is a specially delineated duty-free enclave and shall be deemed to be foreign territory for the purpose of trade operations and duties & tariffs. Goods and services going in to the SEZ area from domestic tariff area (DTA) shall be treated as exports and goods & services coming from the SEZ area in to DTA shall be treated as imports.

B. OBJECTIVES OF SPECIAL ECONOMIC ZONES (SEZs)

The objective behind an SEZ is to enhance foreign investment, increase exports, create jobs and promote regional development. To put in the government's own words, the main objectives of the SEZs are:

- Generation of additional economic activity;
- Promotion of exports of goods and services;
- Promotion of investment from domestic and foreign sources;
- Creation of employment opportunities;
- Development of infrastructure facilities.

C. INCENTIVES AND FACILITIES OFFERED TO SPECIAL ECONOMIC ZONES

Different types of incentives and facilities are provided for Special Economic Zones to attract investment especially Foreign Direct Investment. The major incentives offered in SEZ Act 2005 are

- 100 per cent Income Tax exemption on export income for Special Economic Zone units for first 5 years, 50 per cent for the next 5 years and 50 per cent of the ploughed back export profit for the next 5 years.

Revised Manuscript Received on October 30, 2019.

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- Duty-free import or procurement of goods for development and operations of Special Economic Zone units.
- Exemption from Central Sales Tax.
- Exemption from Service Tax.
- Exemption from State Sales tax and other levies as imposed by the respective State governments. External commercial borrowing by Special Economic Zone units up to US\$500 Million in a year without any maturity restriction through banking channels.
- Exemption of Minimum Alternate Tax under Section 115JB of the Income Tax Act.
- No License is required for Imports.
- Exempted from payment of Stamp duty and registration fee on license of plots.
- Exempted from Dividend Distribution Tax.
- SEZ are allowed to Setup Off Shore Banking units.
- Units are exempted from Central Excise Duty on goods bought from Domestic Tariff Area.

II. RESEARCH PROBLEM

In order to compete in the globalized market, Government of India has liberalized export policies and introduced tax reforms through various incentives. The introduction of Special Economic Zone is considered to be one of the significant mechanisms to improve India's participation in world trade. SEZs play an important role in the host country to find potential buyers in the world market and to earn foreign exchange earnings. Zones are also believed to create ample environment for foreign direct investment, promotion of export, creation of infrastructure, transfer of technology and generations of additional employment. Hence, this study is pertinent to analyze the impact of Special Economic Zone in India's export.

III. RESEARCH METHODOLOGY

The present study is of analytical nature and makes use of secondary data. The analysis of the data forms the core part of the research. In order to analyze the data and draw conclusions, various statistical tools like growth rates and regression have been used through Excel and SPSS Software. The study period was ten years, starting from the year 2009-10 to 2018-19.

IV. OBJECTIVES OF THE STUDY

The major objectives of the study are;

- To review the concept of Special Economic Zones (SEZ).
- To analyze the impact of Special Economic Zones in India's export.

V. SURVEY OF EXISTING LITERATURE

Pakdeenurit (2014),¹ The Study presents the insights of three leading countries in forefront of zone operations, United States as the Pioneer of SEZ, Chinese SEZ Shenzhen

¹ P. Pakdeenurit, N. S. (2014). Special Economic Zone: Facts, Roles, and Opportunities of Investment. *International MultiConference of Engineers and Computer Scientists*. Hong Kong: IMECS.

as the most successful zone in the modern time and India as the largest zone operating country in the world. The study concludes that from the middle of the 20th century, the developing countries had used SEZ policies to facilitate the crucial developmental strategies like increasing employment opportunities, enhancing foreign exchange and promotion of exports.

The study conducted by **Babita Kumari; et.al, (2018)²**, found that SEZs helps in generation of employment, attraction of FDI and contribution in Indian export. At present scenario 1688.34 thousand people is working in SEZs at national level, FDI in SEZs is 433142 crores in 2017 and export output from SEZs in 2016 was 467337 crores which is 19.88% of total export from India.

Anita and Niraj (2016)³, ensured in their study, the zones do not absorb too much scarce govt. resources but to the contrary they should function as a breeding ground for developing new skills and generate revenue for the Govt. for development programs. To attract more FDI, Country needs to improve the investment climate of the country because SEZs are also a part of an economy and these enclaves can't operate efficiently if there exist the supply bottlenecks. Government has to introduce environment regulations for SEZs and also integrate the local Govt. /Bodies in governance of SEZ.

VI. ANALYSIS AND DISCUSSION

A. Special Economic Zones (SEZs) Exports and India's Total Exports

The export performance of SEZs in India is being examined in this section. The indicators used for this purpose include year wise exports of SEZs and their share in India's total exports. The exports from SEZs as well as from India increased rapidly during the period 2009-10 to 2018-19. Table 1 shows the share of the SEZ exports in India's total exports during the period of study.

² Tayyab, B. K. (2018). Role of Special Economic Zone (SEZs) in Creation of Employment, Investment and Export in India. *International Journal of Management Studies*, 15-22.

³ Niraj, A. a. (2016). Impact of Special Economic Zones on Indian Economy. *International Journal of Social Science and Humanities Research*, 565-573.



TABLE – 1 YEAR-WISE AMOUNT OF SEZs EXPORTS AND TOTALEXPORTS

Year	Total Exports (Rs. In Crores)	Annual Growth Rate (In %)	SEZ Exports (Rs. In Crores)	Annual Growth Rate (In %)	Share of SEZ exports in India's total exports (In %)
2009-10	8,45,534	-	2,20,711	-	26.10
2010-11	11,42,922	35.17	3,15,868	43.11	27.64
2011-12	14,65,959	28.26	3,64,478	15.39	24.86
2012-13	16,34,318	11.48	4,76,159	30.64	29.14
2013-14	19,05,011	16.56	4,94,077	3.76	25.94
2014-15	18,96,445	-0.45	4,63,770	-6.13	24.45
2015-16	17,16,384	-9.49	4,67,337	0.77	27.23
2016-17	18,49,434	7.75	5,23,637	12.05	28.31
2017-18	19,56,515	5.79	5,81,033	10.96	29.70
2018-19	23,07,663*	17.95	7,01,179	20.68	30.38
CAGR (In %)	10.56	-	-	12.15	-

Source: Reserve Bank of India (RBI), Special Economic Zone In India (SEZs).

* Provisional Estimates

The above table shows the growth rate of total exports in India during the period from 2009-10 to 2018-19. The amount of Total exports in India has increased from ₹ 8,45,534 crores in 2009-10 to ₹ 23,07,663 crores in 2018-19. Although the amount of exports declined during 2014-15 & 2015-16, it has picked up in the subsequent years. The increase over the period was 2.72 times.

During the study period, the percentage of growth over the previous year lies between -9.49 percent and 35.17 percent. The highest growth rate has been observed as 35.17 percent in the year 2010-11. The negative growth rate has been observed as -9.49 percent in the year 2015-16.

The Compound Annual Growth Rate (CAGR) of Total exports was 10.56 percent which is a welcome trend. During the study period of ten years, it has been observed that the growth rate for five years was above the CAGR and the growth rate for four years was below the compound annual growth rate.

A further analysis exhibits that the SEZs exports made by

India are increasing year by year except the year 2014-15. The SEZs exports have increased from ₹ 2,20,711 Crores in 2009-10 to ₹ 7,01,179 Crores in 2018-19 means it has increased by 3.17 times during the study period.

During the study period, the percentage of growth over the previous year lies between -6.13 percent and 43.11 percent. The highest growth rate has been observed as 43.11 percent in the year 2010-11. The negative growth rate of -6.13 percent has been observed in the year 2014-15.

The Compound Annual Growth Rate (CAGR) of SEZs exports made by the country was 12.15 percent which is a welcome trend. During the study period of ten years, it has been observed that the growth rate for four years was above the CAGR and the growth rate for the remaining five years was below the compound annual growth rate.

The share of SEZs exports in India's total exports have also increased sharply from 26.10 percent in 2009-10 to 30.38 percent in 2018-19.

Figure 1 pictures the total Exports and SEZs exports during the study period.

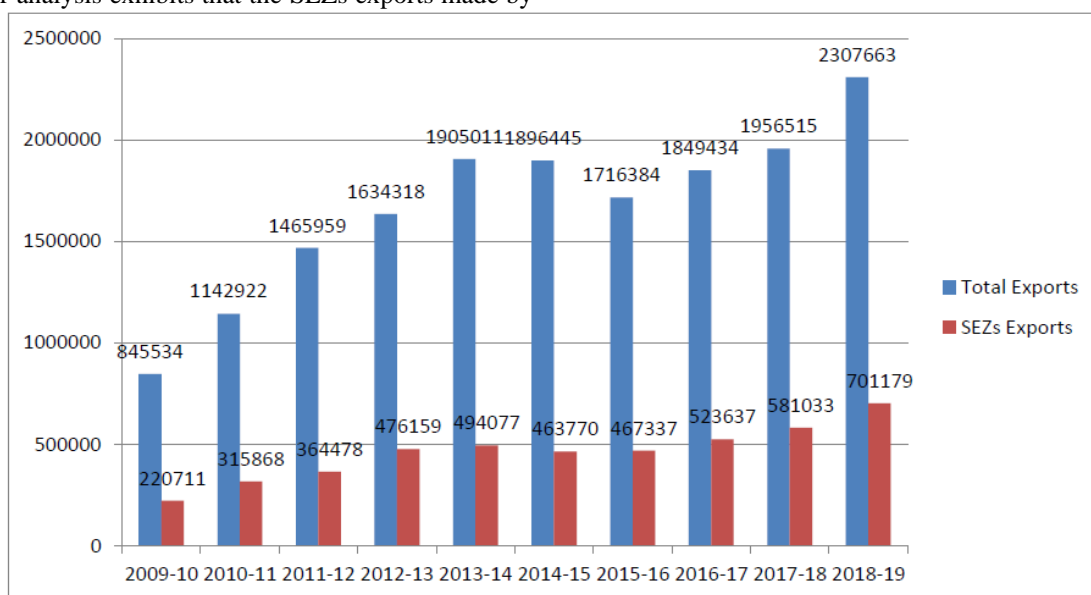


Figure – 1 Total Exports And Sezs Exports

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B. CORRELATION ANALYSIS

Correlation is a measure of the linear relationship between two variables and its value always lies between the ranges -1 to +1.

Testing of Hypotheses

In order to substantiate the objectives, the following hypotheses have been formulated:

Null Hypothesis (H₀) : There is no significant relationship between total Exports and SEZs Exports.

Alternate Hypothesis (H₁): There is significant relationship between total Exports and SEZs Exports.

To examine the significance of SEZs exports on the total export, a co-efficient of correlation has been undertaken. The results of the analysis are presented in the following Table 2.

TABLE - 2
CORRELATION COEFFICIENT MATRIX OF TOTAL EXPORTS, SEZs EXPORTS IN INDIA

	Total Exports	SEZs Exports
Total Exports		
Pearson Correlation	1	.965**
Sig.(2 - tailed)		.000
N	10	10
SEZs Exports		
Pearson Correlation	.965**	1
Sig.(2 - tailed)	.000	
N	10	10

** . Correlation is significant at the 0.01 level (2-tailed).

Interpretation

The correlation between total Exports and SEZs Export appear in Correlation Matrix. The results of correlation reveal that;

The correlation between total export and SEZs export is 0.965 which reveals a Strong degree of correlation among the two variables. The p-value between total exports and SEZs exports is 0.000. As the p-value is less than the significance level of 0.05, there is conclusive evidence about the significance of the association between the variables. Null hypothesis is proved to be rejected.

It is concluded that there is a perfect positive correlation between the total Exports and Special Economic Zones Exports in India.

VII. FINDINGS OF THE STUDY

- It is very encouraging sign that the total exports from India has been showing increasing trend in the first half of the study period (i.e. five years). The trend of total exports in the second half of the period has shown fluctuating trend. The increase over the period was 2.72 times.
- A striking disclosure of the study is that the amount of total exports made by the country has increased from ₹ 8,45,534 crores in 2009-10 to ₹ 23,07,663 crores in 2018-19. It is an encouraging sign that the country secures continued growth in this sphere of activity, registering the Compound Annual Growth Rate (CAGR) of 10.56 percent which is a welcome trend.
- During the period under study it is found that Special Economic Zones in India export increases from ₹ 2,20,711 crores in 2009-10 to ₹ 7,01,179 crores in 2018-19 registering the Compound Annual Growth Rate (CAGR) of 12.15 percent which is also a good sign.
- The share of SEZs exports in India's total exports have also increased sharply from 26.10 percent in 2009-10 to 30.38 percent in 2018-19.

- It is apparent from the statistical analysis that the correlation between total exports and SEZs export found to be strong positive correlation.

VIII. SUGGESTIONS

- The government should aim to simplify the investment approvals and expatriate work permits, remove the required import and export licenses, and accelerate the custom inspection procedures and automatic foreign exchange access.
- Special consideration should be given for multi-product SEZ to protect and promote various traditional exports from the country since the zones are given special incentives and other facilities.
- The Special Agricultural Zone (SAZ) should be encouraged by the Government of India to encourage the farmers use the latest technology for providing better facilities in the specially carved out zones. Uttarkhand is the first state in the country to set up SAZ in 2011.
- The Government should not handover agricultural lands in the form of Special Economic Zones. It damages farmers and food production. As India is populated country, food security is major issue.
- Employment should be given to the person who lost their land in SEZs. They should be given proper employment and made technically competent.
- The SEZ policy and rules have offered a highly conducive investment scenario for the Investors and Developers. The Investors and Developers have been offered various tax benefits and the incentives in order to motive them to bring in more investments which will on the other hand impact on the growth of the SEZs in a positive manner.

IX. CONCLUSION

Needless to say that Special Economic Zones has been playing a crucial role in generating additional economic activities at the National levels. The export and employment generation objectives of the SEZ should not result in compromising the quality of the working conditions within the zones. To attract more FDI, Country needs to improve the investment climate of the country because SEZs are also a part of a economy and these enclaves can't operate efficiently if there exist the supply bottlenecks.

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