

SPECIAL ECONOMIC ZONES IN INDIA: PERFORMANCE, ISSUES & CHALLENGES AND WAY FORWARD

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ABSTRACT

In the post globalization era, India like other developing economies has vigorously followed export promotion policy, a shift away from import substitution based development strategy. In consonance with this strategy Indian government started promoting Special Economic Zones (SEZs) which expanded the role of the states enormously and shifted the onus of economic development on the states. With the passage of SEZ policy 2000 and enactment of SEZ Act 2005 doors have been opened in India for large scale acquisition of agricultural land for development of SEZs by many Indian states. Acquired land will be transferred to private capitalists for developing and maintaining these SEZs which will enjoy wide range of tax concessions, incentives and minimal regulations with the sole purpose of developing infrastructure needed for industrial development, promoting exports, attracting domestic as well as foreign direct investment (FDI) and generating employment. In the context of this neo liberal development agenda present paper seeks to analyze current status of SEZs in India and benefits of establishing SEZs in terms of employment generation and exports. The paper further attempts to develop a critique of the way land has been expropriated resulting in large scale proletarianization of peasants and discusses various other issues and challenges. Finally some policy intervention is suggested for protecting workers' interests and forging a link between SEZs and outside economy.

KEYWORDS: SEZs, Development, Employment, Exports, Expropriation, Workers' Interests.

Introduction

India was the first country in the Asia Pacific Region to recognize the importance of Export Processing Zones (EPZs) which were perceived as a key instrument not only for promoting exports and foreign exchange earnings but also for accelerating economic growth via increased investment, technology transfers, and employment generation. The first EPZ was established in Kandla, Gujarat in 1965 at the time when India's trade policy was tilted in favor of import- substitution –led industrial growth. Six more EPZs were developed by the late 1990's. These EPZs were developed to ensure better infrastructural facilities for the industrial units set up in the EPZs in India. As far as performance of these EPZs is concerned their contribution to exports, foreign exchange and employment has not been very significant (Kundra 2000). Since performance of EPZs fell short of expectations the government replaced the earlier regime of EPZs by a new scheme called Special Economic Zones (SEZs). All the existing EPZs were converted into SEZs under this new scheme.

Numerous terms such as ' Free Economic Zones', 'Special Export Processing Zones', 'Industrial Free Zones' and ' Free Trade Zones' have been used all through the existing EPZ literature. In India, these enclaves are called 'Special Economic Zones' (SEZs). SEZ policy was introduced on 1st April 2000 in a bid to provide globally competitive environment after developing world class infrastructure needed for (1) high economic growth and industrial development, (2) promoting exports and net foreign exchange earnings (3) attracting domestic and foreign investment (FDI) and (4) generating employment opportunities.

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The SEZ Act was passed by the parliament in 2005 and it came into force from 9th February, 2006. This Act envisaged SEZs as an engine of economic growth supported by various incentives- fiscal and otherwise, both at the centre and state level with a single window clearance. Thus unlike the EPZs which were initially developed by the government (except EPZ in Surat , Gujrat which was later privatized) and which invited more domestic than foreign investment present SEZs encourage private capitalists and corporate houses including foreign capitalists to develop and govern these SEZs . All these SEZs are private investment driven and central government is not funding any of these SEZs. Under the present act government is merely playing the role of a facilitator, providing the land to the private capitalists for developing SEZ after forcibly acquiring it from the farmers in the name of ' public use'. Thus role of private players in developing industrial infrastructure in SEZs has increased substantially after the SEZ Act 2005.

The SEZs are specially designed duty free areas which are governed by economic laws that are different from general economic laws applicable to the rest of the country facilitating production, trade, commerce, investment and employment. The SEZ area has both 'Processing' and 'Non Processing Area' where the former is the one in which core business activities of SEZs take place (at least 50% of the SEZ area must be processing area) and the latter is meant to support infrastructure which mainly caters to the needs of the employees working in SEZ. The SEZ Rules provide for: (i)) single window clearance for setting up of an unit in a SEZ, (ii) simplified procedure for conducting business in SEZs and matters related to central as well as State Government (iii) comprehensive package for all major stakeholders including developers, operators, suppliers, residents, etc., (iv) various fiscal incentives (iv) establishing free trade and warehousing zones (FTWZ)(v) off shore banking facilities, and (vi) facilitating public private participation for infrastructure development. Salient features of SEZ (Ministry of Commerce and Industry,

Government of India) are:

- SEZ is a designated duty free enclave treated as a territory outside the customs territory of India
- Only Manufacturing or service activities are allowed
- No license is required for imports;
- Full freedom for sub-contracting;
- The industrial unit operating in the SEZs shall earn positive net foreign exchange to be calculated cumulatively for a period of five years from the commencement of production;
- Domestic sales subject to full customs duty and import policy in force;
- No routine examination by customs authorities of export or import cargo;
- Direct tax and indirect tax benefits as prescribed in the SEZs Act to the SEZ developers, co-develops and units.

Present Status of SEZs in India

After the SEZ Act 2005 there has been surge in establishment of numerous SEZs in many states to reap the benefits of wide range of incentives, concessions and facilities provided to these SEZs. Prior to the enactment of the SEZs Act there were seven Central Government Special Economic Zones (SEZs) and eleven State/Private Sector SEZs. According to Ministry of Commerce and Industry formal approvals have been granted to 417 proposals for setting up of SEZs in the country (as on 14.11.2019). Number of notified SEZs is 368 including 7 Central Government and 11 State/ Pvt. SEZs. Out of 368 notified SEZs 238 SEZs are operational (as on 17th December 2018)' as per the list of states/ UTs wise operational SEZs provided by Ministry of Commerce and Industry. Total land area covered under all types of SEZs is 48053.53 hectare.

Table 1: Fact Sheet on SEZs

Number of formal approvals (As on 14.11.2019)	417
Number of notified SEZs (As on 14.11.2019)	349 +7 Central govt. +12 State/ Pvt. SEZs
Number of in- Principle approvals (As on 14.11.2019)	33
Operational SEZs (As on 30 th Sept., 2019)	238 (25 are multi product SEZs, remaining are sector specific SEZs)
Units approved in SEZs (As on 30 th Sept., 2019)	5,168

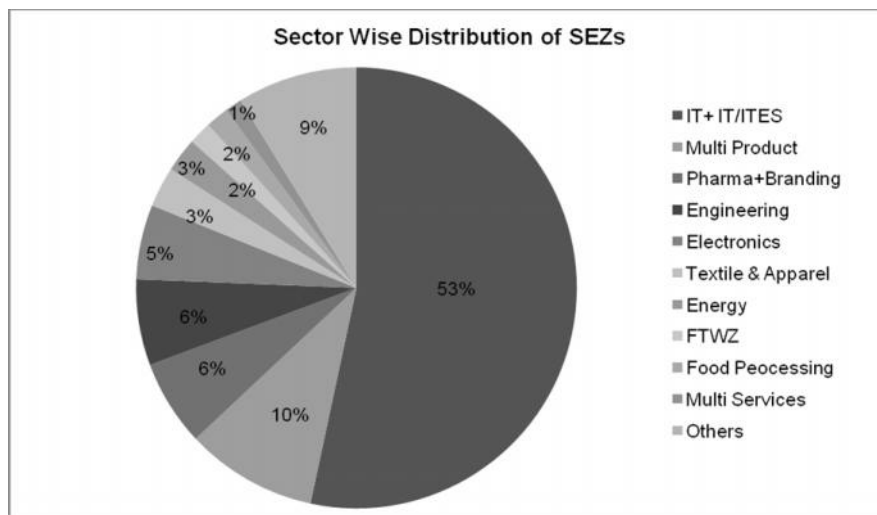
Source: www.sezindia.nic.in

More than 80% SEZs are located in seven states---Andhra Pradesh, Gujarat, Karnataka, Maharashtra, Tamil Nadu, Telangana and Kerala. Out of these states Tamil Nadu has the highest number of operational SEZs (40 out of 52 SEZs are operational in Tamil Nadu). Telangana has the highest number of notified SEZs-57 out of which only 30 are operational. In Karnataka 32 out of 51 SEZs operational are followed by Maharashtra where 31 out of 51 SEZs are operational. Andhra Pradesh, Gujarat and Kerala have 20, 20 and 19 operational SEZs respectively. Uttar Pradesh has 13 operational SEZs. In Chandigarh, Chhattisgarh, Odisha and Punjab all approved SEZs are operational. West Bengal and Madhya Pradesh are the States where more than 70 per cent SEZs are functioning. In the states of Nagaland, Jharkhand, Goa and Manipur not a single SEZ is operational.

Table 2: List of States/ UTs- wise Operational SEZs as on 14.11.2019

State	No. of SEZs	Types of SEZs
Andhra Pradesh	20	IT/ITES -3, Pharma -4, Multi product -6, Textiles- 2, Footwear -1, Food Processing -2, Leather -1, Building Products -1
Chandigarh	02	IT/ITES -1, Electronics Hardware &IT/ITES -1
Chhattisgarh	01	Solar -1
Gujarat	20	IT/ITES -6, Multi product -6, Engineering goods and related services -2, Pharma -1, Textile -2, Chemicals -1, Solar -1, Multi Service -1
Haryana	07	IT/ITES -7
Kerala	19	IT/ITES -12, Port based -2, Animation and gaming -1, Agro based food processing -1, Electronic Industries -1, Solar Photo voltaic -1, Multi Product-1.
Karnataka	32	IT-2, IT/ITES -22, Aerospace -1, Bio Tech-1, Pharma -1, Precision Engr. Products -1, Textiles -1, Multi Product -1, Electronics 1, Engineering -1
Maharashtra	31	IT/ITES -17, Pharma & Biotech -4, Multi Products -3, Engineering -2, Power Sector -1, Electronics -2, FTWZ -1, Engineering and Electronics -1
Madhya Pradesh	05	IT/ITES/BPO/KPO -4, Multi Product-1
Odisha	05	IT/ITES -1, Manufacturing and Export of Aluminum -1, Mineral based industries -1, IT -1, Multi Product -1
Punjab	03	IT-1, IT/ITES-1, Pharmaceuticals-1
Rajasthan	03	Multiproduct-1, Gems and Jewellery-2
Tamil Nadu	40	IT/ ITES-17, IT - 1, Electronics and related services- 5, Engineering (Heavy, auto, transport etc.) - 7, FTWZ -1, Multi Services -2, Textile & Apparel- 2, Multi Product -2, Food Processing-1 Footwear 1, Biotech -1
Telangana	30	IT/ ITES-19, IT -2, Biotech -2, Aerospace and Precision Engineering -1, Electronics and related services -2, FTWZ -1, Aviation -1, Pharma -1, Gems and Jewellery-1
Uttar Pradesh	13	IT &IT/ ITES-9, FTWZ-1, Non Conventional Energy -1, Solar Energy Equipment Cell-1, Multi Product-1, Handicraft Engineering-1.
West Bengal	07	IT/ ITES-4

Source: sezindia.nic.in



List of States/UTs-wise operational SEZs (Table-1) shows diversified structure of SEZs ranging from hi-tech IT/ITES SEZs, electronics hardware & software, numerous types of engineering products and related services, pharmaceuticals and bio-technology, aerospace industry, power sector SEZs to textiles & apparel, agro-based food processing, footwear, gems & jewellery, FTWZ, leather products, building products, aluminum & mineral based industries, port based SEZs etc. Out of total 238 operational SEZs 53% are related to IT and IT/ITES and rest 43% are meant for multi product and sector specific SEZs engaged in labor intensive manufacturing. It shows that assembly type operations are not dominant. Rather 'value addition' component is more significant which have great potential for employment generation both direct and indirect. Various studies have found direct employment impact of SEZs very significant in many countries of Asia (Aggarwal 2006, Mondale 2003). China, Philippines, Taiwan, Indonesia, Korea, Thailand are some of the countries which are successful examples of employment creation by SEZs.

Employment generation through all SEZs was 15, 91,381 in 2015 -16 in India which increased to 19, 96,610 in 2018-2019. Although contribution of SEZs in total national employment is abysmal they have contributed significantly to employment generation at the regional level. According to Aradhna Aggarwal (2007) employment generation, both direct and indirect, is the most important channel through which SEZs have impacted on human development and poverty reduction in India. Author identified three channels through which SEZs may affect human capabilities (i) Employment effects (ii) Human capital formation effects (iii) Technology upgrading effects.

Total investments in the SEZs increased from 4,035.51 crore in 2006 to Rs. 5,21,631.44 crore in 2019. With total investment of Rs. 5, 21,631.44 crore SEZs have generated employment of 21, 94,472 persons (as on 30th Sept. 2019).

Exports in the manufacturing sector from SEZs during the last four years are over 8 lakh crore according to the Ministry of Commerce and Industry.

The major increase in the value of exports from SEZs was visible ever since 2005 when SEZ Act was introduced. SEZs have witnessed increase in exports by 56% between 2005-06 and 2006-07 and by 93 per cent between 2006-07 and 2007-08. In spite of high growth in exports from SEZs, it was not more than 5 per cent of the total exports of India. Exports grew at the rate of 11% in 2017-18, 21% in 2018-19 and around 15% in 2019-20 (till September 2019). The details of employment generation in SEZs and contribution of SEZs in total exports are given in Table-3 and Table-4 respectively.

Total Investment of SEZs

Investment	Investment As on Feb, 2006	Incremental Investment	Total Investment As on 30 th Sept, 2019
Central Government SEZs	Rs.2,279.20 cr.	Rs. 17,162.04 cr.	Rs.19,441.24 cr.
State/ Pvt. SEZs Set up before 2006	Rs.1756.31 cr.	Rs.11,676.84 cr.	Rs.13,433.15 cr.
SEZs notified under the Act	----	Rs.4,88,757.05 cr.	Rs. 4,88,757.05 cr.
Total	Rs.4, 035.51 cr.	Rs.5,17,595.93 cr.	Rs.5,21,631.44 cr.

Source: Fact sheet on SEZs, www.sezindia.nic.in

Employment Generation in SEZs

Employment	Employment As on Feb, 2006	Incremental Employment	Total Employment As on 30 th Sept, 2019
Central Government SEZs	1,22,236 persons	1,04,872 persons	2,27,108 persons
State/ Pvt. SEZs Set up before 2006	12,468 persons	93,694 persons	1,06,162 persons
SEZs notified under the Act	0 persons	18,61,202 persons	18,61,202 persons
Total	1,34,704 persons	20,59,768 persons	21,94,472 persons

Source: Fact sheet on SEZs, www.sezindia.nic.in

Export Generation in SEZs

Exports in 2017-18	Rs. 5,81,033 Crore (Growth of 11% over FY 2016-17)
Exports in 2018-19	Rs. 7,01,179 Crore (Growth of 21 Crore over FY 2017-18)
Exports in 2019-20 As on 30 September, 2019	Rs.3,81,912 Crore (Growth of 14.46 over the exports of the corresponding period of FY 2018-19)

Source: Fact sheet on SEZs, www.sezindia.nic.in

Issues and Challenges

Over the past few decades in general and after SEZ Act 2005 in particular various state governments have expropriated vast tracts of agricultural and forest land for developing SEZs in the name of 'public purpose' which led to the large scale dispossession and displacement of farmers, tribes and other marginalized groups who were robbed of their basic social security – land, in the absence of adequate social security measures. Critics have questioned the prevailing rationale behind state-led coercive land expropriation and its transfer to private capitalists who are using 'non processing area' for real estate development and its exclusionist nature justifying Harvey's formulation of 'accumulation by dispossession'. What is noteworthy is that in this entire process government is playing the pivotal role. Over the years due to the interest of real estate developers these SEZs have become centre of scams and corruption. Originally SEZs sites were to be based on economic potential of the region but currently sites are selected keeping in view real estate speculation. This neo liberal model of development has brought tremendous changes in the life and livelihood of the peasants and indigenous people pushing them towards unorganized market as informal labor in the absence of appropriate exit options. In river valley areas where SEZs are being established livelihood of fishing communities are also affected due to depletion of natural resources, damage to the ecosystem and the marine life. In search of employment either they migrate to urban areas and engage in unorganized market as informal labor or start working as casual labor in nearby SEZs where they work 5.3 percent more hours at 34 percent less hourly wages as compared to non SEZs employment (Sunanda Sen and Byasdeb Dasgupta) . In both the cases they work under exploitative conditions. Labor laws related to minimum wages, contractual labor, social security, conditions of working, trade union and right to strike are not applicable to SEZs in India which further weakens the bargaining power of the workers. Many studies have observed that poor working conditions, compulsory overtime, job insecurity, and use of pressure tactics to meet deadlines, labor exploitation are widespread in the zone (Majumdar 2001, Dewan 2001).

Some of the critiques have opined that SEZs may encourage "enclave economies" having no links with the rest of the economy. In fact wide range of incentives, subsidies and concessions alienate SEZs from the domestic economy by creating disincentives for the units located outside SEZs and the worst sufferers are the marginalized groups, indigenous and landless people. Further, since more than 80% SEZs are located in 7 States – Andhra Pradesh, Gujrat, Karnataka, maharashtra, Tamil Nadu, Telangna and Kerala this is going to aggravate the problem of balanced regional development. These SEZs, according to critics, are threat to the water and food security in areas where SEZs are developed. It is believed that People residing in the SEZ area would have less access to water because of bulk supply of water within the SEZs. The release of untreated effluents from the SEZ further would have adverse implication on the health of people residing in the area as has happened in Ankleshwar (Gujarat) and Patancheru (Andhra Pradesh).

Conclusion

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. India is in the forefront of supply of skilled man power, particularly in the area of software engineering. Due to the world trend of recession in the advanced countries of the west, Indian skilled manpower had more employment opportunities within the country. Hence the schemes like SEZs have great employment potentials for the software engineers and other skilled workers. The Export Performance of SEZs in India reveals that the SEZs are playing an important role in promoting export of our country. There is a rapid increase in SEZs export as compared to India's total exports. When the whole world including India was reeling under the effects of the global recession, growth in SEZs exports was 121.40 percent in 2009-10. The SEZs exports are mostly increased by the 2000 to 2010. The reason for tax concessions is reducing the SEZs units in Government of India. The government, therefore, should create a more encouraging atmosphere and provide SEZ policy 2000 announced by the government and SEZ Act 2005 aimed at developing world class infrastructure with a view to promote exports, investment both domestic and foreign and to generate additional employment opportunities. But this neo liberal model of development based on SEZs has brought tremendous changes in the life and livelihood of the peasants and indigenous people pushing them towards unorganized market as informal labor in the absence of appropriate exit options. Hence a long term strategy needs to be evolved to address the socio-economic consequences of land expropriation and issues related to agricultural development. This contradiction of development and dispossession and land versus capital will continue to pose serious challenge in the coming years which needs to be addressed seriously.

Government intervention through appropriate policy changes is also required to ensure the implementation of labor standards, health and safety measures, working conditions and other labor related issues. Since SEZs are exempt from all the major labor laws proactive government policies is needed to ensure healthy management-labor relations. With the emergence of new generation SEZs, the scope of human capital formation and technology upgrading effects will widen. It is therefore important for the government to play a pro active role in strengthening these effects.

One of the weaknesses of SEZs is its alienation from the industrial units working outside the SEZs for which it is often described as 'enclave economies'. Systematic efforts is needed to forge links between 'outside economy' and SEZs because SEZs can affect human capabilities outside the zone through employment effect, technology up gradation effects and human capital formation effects (Aradna Aggrawl, 2007). Out of total 238 operational SEZs 53% are related to IT & IT/ITES which increases the scope of technology up gradation effect and human capital formation effect which needs to be strengthened. The key objective of economic development in any economy is 'growth with justice' where the latter aim is achieved through poverty alleviation and positive human development. For achieving this broader aim strategies need to be devised to increase employment opportunities within SEZs, protect workers' interests and forge linkages between SEZs and the domestic economy.

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