

Role of Special Economic Zone (SEZs) in Creation of Employment, Investment and Export in India

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ABSTRACT

Special economic zones (SEZs) 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. So objective behind this paper is to evaluate the performance of SEZs in India in terms of generation of employment, attraction of Foreign Direct Investment (FDI) and contribution in Indian export. To fulfill the objective data related to employment, investment and export from SEZs are collected from different sources like Ministry of Commerce and Industries, economic survey of India and official website of SEZ. These data are organized in Ms Excel and simple tabular analysis is done. Simple and compound growth rate is calculated to show the change in the performance of SEZs. It is found in the study 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.

Keywords: Special Economic Zone (SEZ); Foreign Direct Investment (FDI); Employment creation; Export contribution; Growth rate.

INTRODUCTION:

Special economic zone is a geographically delimited area which is physically secured, has single management and administrative unit and duty free environment (Zeng, 2015). Special economic zone (SEZ) is an area in which business and trade laws are different from rest of the country. SEZ is also seen as trade capacity development tool for rapid economic development. Economic development in SEZs takes place by using tax and business incentives to attract foreign investment and technology (Desai, 2006). Today, there are approximately 3,000 SEZs operating in 120 countries, which account for over US\$ 600 billion in exports and about 50 million jobs. By offering privileged terms, SEZs attract investment and foreign exchange, spur employment and boost the development of improved technologies and infrastructure (Ramananda & Pandian, 2012). SEZ is indeed a tool that, if implemented in its true spirit it will help host country to take a giant leap and stand into the league among the developed countries of the world (Khan and Varshney, 2012; Raheem, 2011). SEZ has promoted and accelerated the development of economy, to increases infrastructure facilities,

employment and export. For entrepreneurs included in SEZ have provided international grade services and amenities as well as financial promotion schemes, so they have obtained new life (More, 2015). There are various modes by which SEZs can positively contribute to human capital formation. One is the firm level activity whereby the host country labour force acquires skills from within the firm through training and learning by doing on the job (Kusago and Tzannatos, 1998). SEZs attract export-oriented FDI and promote other forms of collaboration between local firms and MNCs. For instance, SEZs facilitate the insertion of domestic SMEs (small and medium enterprises) into global value chains by offering them an enabling investment climate (Gereffi, 2005). SEZs also generate employment for unskilled labor by creating demand for physical infrastructure within the zone. This stimulates the local construction industry giving employment to unskilled labor (Sivalingam, 1994). Demand for utilities such as water, electricity, communication, and administration also rises. There has been increasing demand for various support services such as, hotels and restaurants, and transport, which is expected to have a substantial impact on employment generation.

In India SEZs were established to solve the problem of infrastructural deficiency, complex business procedure, bureaucratic hassles and barriers raised by monetary, trade, fiscal, taxation, tariff and labour policies (Doharmann, 2008). SEZ in India was conceived by the Commerce and Industries Minister Murosoli Maran during a visit to Special Economic Zone in China in 1999. The scheme was announced at the time of annual review of Export Import Policies from 1.4.2000. The basic idea is to establish the zone as area where export production could take place free from all rules and regulations governing imports and exports and to give them operational flexibility. SEZ is a specifically delineated duty free enclave, which shall be deemed to be a foreign territory for the purposes of trade operations and duties and tariffs. So this paper aims i) to analyze the employment opportunity provided in SEZs ii) to analyze the investment growth in SEZ and iii) to assess the export outcome from SEZs and their contribution in Indian export.

DATA BASE & METHODOLOGY:

To fulfil the objective of the study secondary data related to employment in different type of SEZs, growth in investment, export outcome from SEZs and their contribution in total export are collected from different department and organisations such as Development Commissioner of SEZ and ministry of commerce and industries on temporal basis (Table1). These data are organised in MS Excel, where analysis part is done. The whole research is based on descriptive reasoning and comparative study.

Table 1: Data Source and extractable information

S. No	Data source	Year	Parameters
1	Ministry of Commerce and Industry (GOI)	2007 to 2017	Growth of SEZ in India, Export, employment and investment data
2	Economic Survey	2007 to 2016	Contribution of export from SEZ in Indian Export, Export from India
3	www.sezindia.nic.in	2007 to 2017	Growth of SEZ in India, Export, employment and investment data

Simple tabular analysis is done on the secondary data as it is considered to be quite appropriate and accurate in its results for the study. Besides this simple growth rate (equation 1) and compound growth rate (equation 2) are calculated to show the temporal change in export, employment and investment in India.

$$\text{Simple Growth Rate (G)} = \frac{P_n - P_0}{P_0} * 100 \dots \dots \dots \text{Equation 1}$$

Where,
 G = Growth Rate
 P_n = value at the end of the period (Current Year)
 P₀ = value at the beginning of the period (Previous Year)

$$\text{Compound Annual Growth Rate (CAGR)} = \left(\frac{P_n}{P_0} \right)^{\frac{1}{T}} - 1 * 100 \dots \dots \dots \text{Equation 2}$$

Where,
 P_n = value at the end of the period (Current Year)
 P₀ = value at the beginning of the period (Starting Year)
 T = Total year of study

RESULT AND DISCUSSION:

Origin of SEZs in India:

In 1990’s economic reforms incorporated in India which do not resulted in expected economic growth of India. So after this the modern day Special Economic Zone came in to existence. In India SEZ policy is mainly adopted to promote the economic growth of the country. Before SEZs policy rigid administrative law and poor physical infrastructure facility are the main drawback of Indian economy which act as obstacle for the Foreign Direct Investment (FDI). Thus, the lack of investor friendly environment in India prevented growth of Indian industry, in spite of implementation of liberal economic policy by the central government. This resulted in the formation of a much larger and more efficient form of their predecessors with world-class infrastructural facility.

‘The Special Economic Zones Act, 2005’, was passed by Parliament in May 2005 and became effective on and from 10th February 2006. The SEZ Act 2005 defines the key role for the State Governments in Export Promotion and creation of infrastructural facilities. A Single Window SEZ approval mechanism has been facilitated through a 19 member inter-ministerial SEZ Board of Approval or BOA. And the decision of the SEZ Board of Approval is binding and final. In India, Special Economic Zones are being established in an attempt to deal with infrastructural deficiencies, procedural complexities, bureaucratic hassles and barriers raised by monetary, trade, fiscal, taxation, tariff and labour policies (Tantri, (2011). According to Ministry of Commerce and Industry (2017) in India 424 formal approved SEZs, 354 notified SEZs and 31 in-principle approved SEZs and 222 operational SEZs exists. Total numbers of approved units in SEZs are 4643.

Employment opportunities in SEZs:

Generation of employment is one of the most important goals behind the development of SEZs (Bakshi, 2014). For the host country or economy, generation of employment was noticed as a prime source of benefit of development of SEZs in any country or region (Jenkins et al., 1998). In case of India also above observation is true as SEZs provide employment to 134.70 thousand people in 2006 and at present scenario 1688.34 thousand people is working in SEZs at national level. In 2006 highest employment was under central government SEZs i.e. 122.24 thousand people which are about 90.75% of total employment of SEZ. In 2017-2018 highest employment is under SEZs notified under the act i.e. 1448.02 thousand people which is 81.40 % of total employment under SEZs and 234.86 thousand people i.e. 13.2% are working in central government SEZs and 95.97 thousand people i.e. 5.40 % are working in state/private SEZs (table 2).

There is continuous growth in the overall employment opportunity in SEZs between 2006 and 2017. Highest increase among total employment in SEZs was between 2006 and 2007-08 i.e. 149.61%. Besides this rise in employment among central government SEZs and state and private SEZs (set up before 2006) was highest between 2006 and 2007-08. There is 1.57 % decline in employee of central government SEZs mainly because of diversion of employee from government SEZs towards notified SEZs, as between said period’s employee of notified SEZs increased with 86.88% growth rate (table 3). Again there is decline in number of employee in central government SEZs and state and private SEZs (set up before 2006) and reason behind this type of decline was diversion of employee towards the notified SEZs.

Table 2: Employment in SEZs in India (2006-2017)

(Figure in thousands)

S. No	Type of SEZ	2006	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
1	C.G SEZs	122.24 (90.75%)	193.47 (57.54%)	196.92 (50.83%)	193.83 (38.48%)	210.43 (31.10%)	213.85 (25.31%)	219.40 (20.41%)	218.54 (17.63%)	211.35 (15.65%)	241.05 (15.49%)	241.21 (14.29%)	234.86 (13.20%)
2	S/Pvt. SEZ	12.47 (9.25%)	44.77 (13.31%)	55.89 (14.43%)	58.19 (11.55%)	66.30 (9.80%)	79.02 (9.35%)	89.94 (8.37%)	77.96 (6.29%)	75.68 (5.61%)	76.28 (4.90%)	87.36 (5.17%)	95.97 (5.40%)
3	Notified SEZ	0.00	97.93 (29.15%)	134.63 (34.74%)	251.59 (49.95%)	400.14 (59.10%)	552.05 (65.34%)	765.57 (71.22%)	943.34 (76.08%)	1063.05 (78.74%)	1239.20 (79.61%)	1359.77 (80.54%)	1448.02 (81.40%)
4	Total	134.70 (100.00)	336.24 (100.00)	387.44 (100.00)	503.61 (100.00)	676.61 (100.00)	844.92 (100.00)	1074.90 (100.00)	1239.85 (100.00)	1350.07 (100.00)	1556.54 (100.00)	1688.34 (100.00)	1778.85 (100.00)

Source: Ministry of Commerce and Industries, 2017

Compound annual growth rate (CAGR) is also calculated to show the growth in employment under SEZs between 2006 and 2017. Because between every year there is fluctuation in rate of change in employment, so to show the cumulative change between the stated periods CAGR is calculated. According to the data shown in table 3 CAGR of employment in central government SEZs is 6.12%, 20.39% in state/private SEZs set up before 2006, 30.91% in notified SEZs and 26.44% in total employment in SEZs. So from the analysis of table 2 and table 3 it can be said that notified SEZs plays most important role in providing job facilities within SEZs in India.

Table 3: Employment growth in SEZs in India (2006-2017)

S. No	Year	Central Government SEZs	State/ Pvt. SEZs set up before 2006	SEZs notified under the act	Total
1	2006-07	58.28	259.06	N.A	149.61
2	2007-08	1.78	24.84	37.47	15.23
3	2008-09	-1.57	4.12	86.88	29.98
4	2009-10	8.57	13.94	59.04	34.34
5	2010-11	1.62	19.18	37.96	24.88
6	2011-12	2.59	13.82	38.68	27.22
7	2012-13	-0.39	-13.31	23.22	15.34
8	2013-14	-3.29	-2.93	12.69	8.89
9	2014-15	14.05	0.80	16.57	15.29
10	2015-16	0.07	14.52	9.73	8.47
11	2017	-2.63	9.86	6.49	5.36
12	Compound Annual Growth Rate (CAGR)	6.12	20.39	30.91	26.44

Source: Ministry of commerce and industries, 2017

SEZs wise growth trend of employment shows the rapid rise in total employment between 2006-07 to 2007-08 after that there is increase in employment in SEZ but there is rapid fall in the growth rate of employment in SEZs from 149.6% to 15.23% (figure 1). In case of notified SEZs employment increased with substantial rise in 2009-10. In 2012-13 and 2013-14 there is decline in employment in central government, state government and private SEZs. Not only this notified SEZs also experience decline in employment opportunity after 2012. Because after 2012 government change some policies related to SEZs like imposition of minimum alternate tax(MAT) and divided distribution tax (DDT) which affect finally the performance of SEZs. For example the numbers of approved and notified SEZs declined to 412 and 329 respectively by 31 December 2015. Between July 2012 and January 2015 more than 15000 hectares of SEZ land was de-notified. Because of this that there is gradual fall in employment opportunity in central government SEZs and state and private owned SEZs. There is also fall in growth rate of employment in notified SEZs (Aggarwal A, 2016).

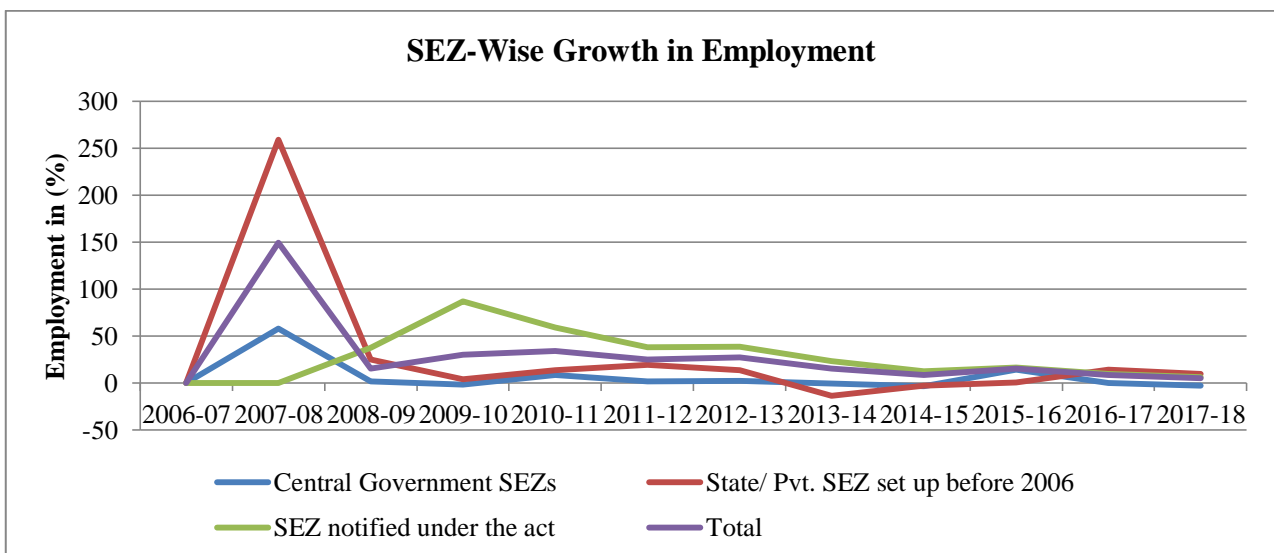


Fig. 1

Investments in SEZs:

The most important characteristics of SEZs in India are the 100% FDI. Domestic as well as foreign and also NRI investors are largely interested in investing their money in Indian SEZs (Bakshi, 2014). There has been constant rise in the investment across all the sectors because of leniency in SEZs policy after the SEZ Act 2005. In 2006 total investment was just 4035.51 crores and in 2017 it becomes 433142 crores (table 4). Between 2006 and 2007 there is highest increase in the total investment, because it was initial stage of development of SEZs in India. Till 2009 there is continuous rise in the total investment but in 2010 and 2011 there is decline in total investment by -4.09% and -0.46% respectively. Again there is increase in total investment till 2014 but because of change in the SEZs rule in 2014 there is again decline in 2015 by -1.80%. Between 2015 and 2017 there is again rise in total investment from 373454 crores in 2015 to 433142 crores in 2017. In case of government SEZs there is continuous rise in investment between 2006 and 2017 except 2014. In 2014 there is decline in investment under government SEZs with -4.78%, after 2014 there is again rise in the investment from 12898.66 crores in 2014 to 15974 crores in 2017. In case of state/private SEZs highest rise in investment i.e. 1166.16%, was between 2008 and 2009 from 5533.98 crores in 2008 to 70069.1 crores in 2009. But in two successive years i.e. 2010 and 2011 there is decline in investment with -88.99 % and -1.02 % respectively. Again there is rise in investment in state/private SEZs from 7637.6 crores in 2011 to 11780 crores in 2016. Between 2016 and 2017 again there is fall in investment in state/private SEZs with -2.56% declines. Highest growth in case of notified SEZs was between 2007 and 2008 i.e. 42.03 % from 69349.57 crores in 2007 to 98498 crores in 2008. In case of notified SEZs there is continuous increase in investment till 2010, between 2010 and 2011 there is -1.02% declines and again there is rise from 182750.74 crores in 2011 to 757308 crores in 2014. Again there were -2.71% declines in investment between 2014 and 2015 and after that again increase from 347623 crores in 2015 to 405690 crores in 2017. According to the data shown in table 8 earlier central government SEZs attracts highest investment as in 2006 about 56.42% of total investment was made under the central government SEZs and remaining investment was under state/private SEZs, because at that time notification of SEZs was not done so there is no investment in notified SEZs. With the passes of time because of amendments in rules and change in the behaviour of economy of host country there is gradual increase in share of investment by notified SEZs. According to recent data on SEZs there is 15974 crores investments are made in central government SEZs, 11478 crores in private and state government SEZs and 406590 crores in notified SEZs (sezindia factsheet, 2017). Highest investment as well as highest employment is made by notified SEZs where about 1448.02 thousand people employed by them. According to bank report 2008 it is less expensive task to establish private SEZs and their performance is also better than the other type of SEZs (World Bank 2008). As of 30th June 2017, about 93.66 % investment is made into the notified SEZs, whereas central government SEZs has only 3.69 % and state/private SEZs has only 2.65% of total investment. Compound annual growth rate of total investment under SEZs is about 52.97% between 2006 and 2017, 19% CAGR in both the central government SEZs and state/private SEZs and 19.32% in notified SEZs (table 5).

Table 4: Investment in SEZs in India (2006-2017)

(figures in Crore)

Sl. No	Types of SEZs	2006	2007 -08	2008 -09	2009 -10	2010 -11	2011 -12	2012 -13	2013 -14	2014 -15	2015 -16	2016 -17	2017 -18
1	C.G SEZs	2279.2 (56.42%)	3899.49 (5.33%)	4871.08 (4.87%)	6896.95 (4.64%)	10452.59 (5.15%)	11486.41 (5.69%)	11919.72 (5.04%)	12898.66 (4.47%)	12282 (3%)	14869 (4%)	15894 (4%)	15974 (3.69%)
2	S/Pvt. SEZ	1756.31 (43.47%)	3960.44 (5.41%)	5533.98 (5.08%)	70069.1 (4.72%)	7716.31 (3.80%)	7637.61 (3.78%)	8749.7 (3.70%)	10209.94 (3.54%)	10694 (3%)	10962 (3%)	11780 (3%)	11478 (2.65%)
3	Notified SEZs	0	69349.57 (94.78%)	98498 (94.78%)	134494.76 (90.57%)	184640.64 (91.04%)	182750.74 (90.53%)	216047.2 (91.27%)	265368.38 (91.99%)	357308 (94%)	347623 (93%)	379016 (93%)	405690 (93.66%)
4	Total	4035.51	77209.5	108903.06	211460.81	202809.54	201874.76	236716.62	288476.98	380284	373454	406689.67	433142

Source: Ministry of commerce and industries, 2017

Table 5: Growth in investment in SEZs in India (2006-2017)

S. No	Year	Central Government SEZs	State/ Pvt. SEZs set up before 2006	SEZs notified under the act	Total
1	2006-07	71.09	125.50	N.A	1813.25
2	2007-08	24.92	39.73	42.03	41.05
3	2008-09	41.59	1166.16	36.55	94.17
4	2009-10	51.55	-88.99	37.28	-4.09

S. No	Year	Central Government SEZs	State/ Pvt. SEZs set up before 2006	SEZs notified under the act	Total
5	2010-11	9.89	-1.02	-1.02	-0.46
6	2011-12	3.77	14.56	18.22	17.26
7	2012-13	8.21	16.69	22.83	21.87
8	2013-14	-4.78	4.74	34.65	31.82
9	2014-15	21.06	2.51	-2.71	-1.80
10	2015-16	6.89	7.46	9.03	8.90
11	2016-17	0.50	-2.56	7.04	6.50
12	Compound Annual Growth Rate (CAGR)	19	19	19.32	52.97

Source: Ministry of Commerce and Industries, 2017

A clear picture of growth in investment among all SEZs is shown by line graph in figure 2, which clearly shows that between 2006 and 2011 there is substantial rise in investment in all types of SEZs except state/private SEZs, there is sharp decline in growth trend of investment in state/private SEZs between 2008 and 2011. This decline in investment is because of effect of global recession of 2008. The global recession of 2007-08 has changed the pattern of FDI flows with three major developing economies-Russia, Saudi Arab and India (Mamata T, 2011). After 2012 there is continuous rise and fall in growth trend of investment which depends on the nature and environment of market and local, regional, national and international economic situation (Sahoo, 2015).

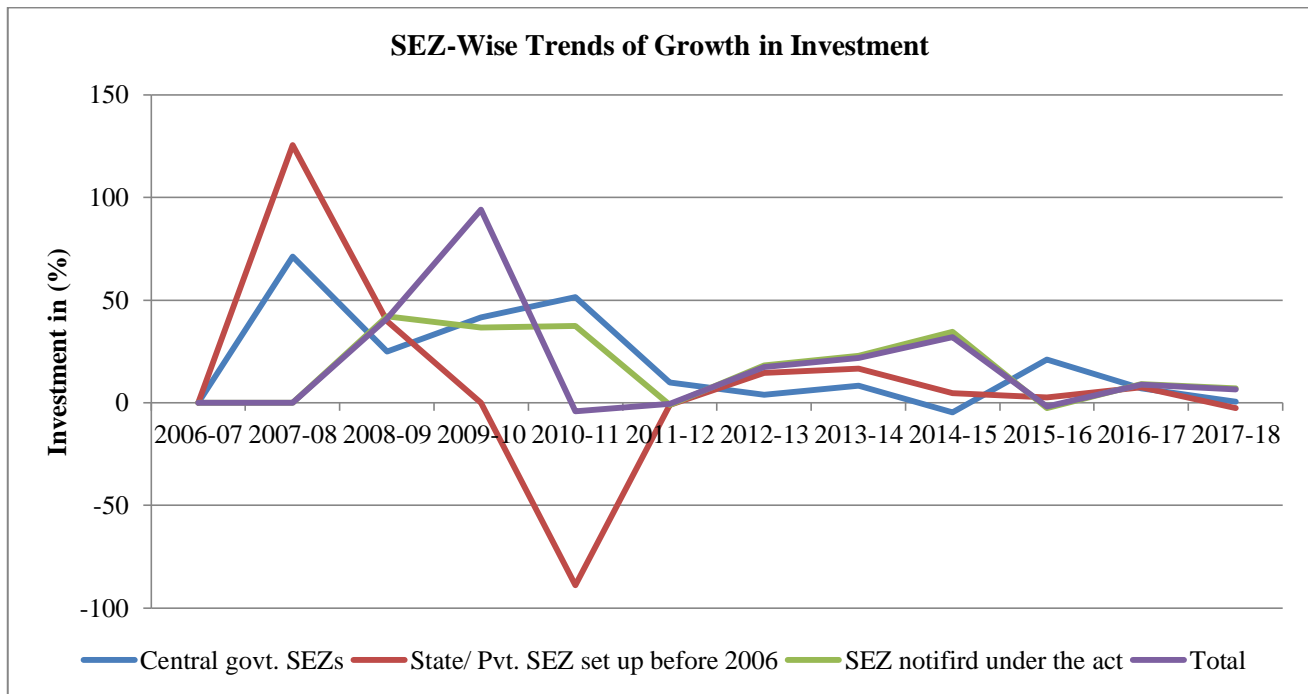


Fig. 2

Export situation of SEZs:

Since 2006 SEZ is exhibiting increment in the export value till 2014 from 22,840 crores in 2006 to 4, 94,077 crores in 2014. It is during the period 2014-2015, there is a declining trend in the export from 4, 94,077 crores in 2014 to 467337 crores in 2016 (table 6). The growth pattern thus calculated is depicting that SEZ has performed well during the past years than the recent years, it can be clearly noted that till 2010 the export performance in terms of values are exponential and after 2010 i.e. from 2011 their growth is steadily linear and during 2015 it has declined (figure 3). From the analysis made, it is clear that despite a decrease in total export, SEZ contribution to total export is increasing. Growth percentage of SEZ indicates direct proportionality with total export. In 2006 contribution of SEZs export to total export was just 5 % which reached to 29% in 2013 and again after 2013 there is decline in the contribution. After 2013 contribution of export from SEZs to total export decline to 19.88% in 2016.

Table 6: Growth in Export from SEZs (2005-2016)

S. No	Years	SEZ - Exports (in Rs. crores)	Growth Over Previous Year (%)	Total Exports (in Rs. crores)	SEZs Export Contribution to Total Export (%)
1	2005-06	22840	-	456417.9	5.00
2	2006-07	34615	52	571779.3	6.05
3	2007-08	66638	93	655863.5	10.16
4	2008-09	99689	50	840755.1	11.86
5	2009-10	220711	121	845533.6	26.10
6	2010-11	315868	43.11	1136964	27.78
7	2011-12	364478	15.39	1465959	24.86
8	2012-13	476159	31	1634318	29.14
9	2013-14	494077	4	1905011	25.94
10	2014-15	463770	-6	1716378	27.02
11	2015-16	467337	0.80%	2351270	19.88

Source: World Bank, 2017

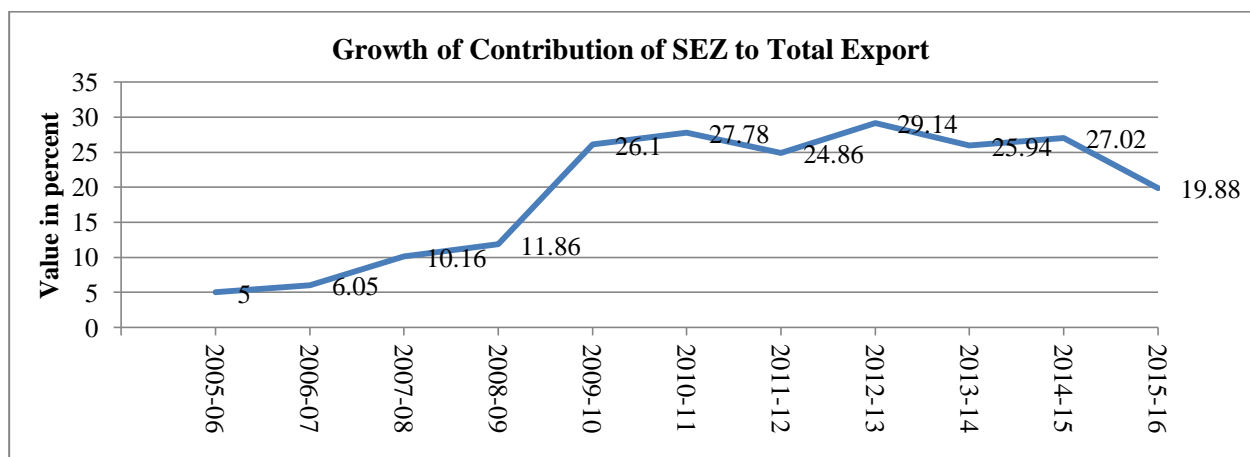


Fig. 3

CONCLUSION:

This paper is mainly focused on assessing the role of SEZs in generation of employment opportunity, attraction of investment and contribution of export from SEZs in Indian export. From the analysis made, generation of employment was noticed as a prime source of benefit of development of SEZs in any country or region. In case of India also above observation is true as SEZs provide employment to 134.70 thousand people in 2006 and at present scenario 1688.34 thousand people is working in SEZs at national level. It is clear that despite a decrease in total export, SEZ contribution to total export is increasing. The most important characteristics of SEZs in India are the 100% FDI. Domestic as well as foreign and also NRI investors are largely interested in investing their money in Indian SEZs. There has been constant rise in the investment across all the sectors because of leniency in SEZs policy after the SEZ Act 2005. In 2006 total investment was just 4035.51 crores and in 2017 it becomes 433142 crores. Growth percentage of SEZ indicates direct proportionality with total export. In 2006 contribution of SEZs export to total export was just 5 % which reached to 29% in 2013 and again after 2013 there is decline in the contribution. After 2013 contribution of export from SEZs to total export decline to 19.88% in 2016. So from the analysis of this paper it can be said that SEZs act as a driving force for economic development of India. As it helps in the employment generation, attraction of investment and contribute in the export generation of India.

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