

An Assessment of Potential Costs and Benefits of SEZs in India

**A Study for
for the
Department of Commerce,
Government of India**

An Assessment of Potential Costs and Benefits of SEZs in India*

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Executive Summary

*“The reformer has enemies in all those who profit by the old order and only lukewarm defenders in all those who would profit by the new” – Machiavelli in *The Prince**

In a nutshell

This study on the SEZ policy in India examines the current debate surrounding the economic aspects of the policy. The main conclusions are that there is a broad consensus amongst all stakeholders, including political parties that the SEZ Policy is to stay.

Second, since SEZ is a relatively new development in India (prior to 2006), only 19 SEZs were operational, there is severe data limitation for understanding the overall impact of SEZs on export performance, employment generation, etc. Therefore, our analysis depends mainly on the performance of the converted SEZs. The primary purpose of SEZs is to generate exports and they should focus on that.

Third, the Department of Revenue’s estimation, based on a debatable assumption, that the same amount of investment and additional economic activities would have been generated if the units were located outside SEZs. Overall, we find that the expected benefits of SEZs outweigh expected costs.

Fourth, there appears to be no problem regarding land acquisition for SEZs, and the issue of rehabilitation. A positive development is that there is a broad political consensus for having a comprehensive rehabilitation and resettlement plan of those whose livelihood will be affected by land acquisition.

Fifth, the new generation SEZs (such as at Bangalore, Hassan, Sriperumbudur) have created a tremendous local area impact in terms of direct employment, emergence of new (formal and informal) activities, changes in consumption pattern and social life, human development facilities (such as for education, healthcare).

Finally, the size of an SEZ is a debatable issue. The idea behind having minimum and not the maximum area limit is to allow SEZs to develop world-class infrastructure. Recently, in order to avoid political backlash, the EGoM has decided to put a ceiling on the size of the SEZ. Given the political economy of industrial development in India, it may not be possible for the Government to limit the number of SEZs. However and for a more inclusive and broad based industrial development of the country, the Government (both central and state) should encourage the development of SEZs (for that matter any industrial development initiatives) in places which are hitherto underdeveloped, possessing wasteland and/or single crop land. The history of industrial development in India is full with examples (such as Bhilai, Durgapur, Jamshedpur, Haldia) where industries were set up in barren land areas and they acted as a catalyst for overall development of such areas.

Introduction

Industrial and urban development in various parts of the world have shown a similar pattern as being witnessed by today's India i.e. there is always a tension arising out of land use change, which is accompanied with the sensitive human dimensions. It is also a fact that no country has made economic progress without a robust and mass-based manufacturing sector. History of India's industrial development, backed by a good infrastructure, shows that large-scale manufacturing is one of the key factors for creating new jobs and for the overall development of the economy, particularly in local areas where the manufacturing units are located.

In spite of several positive developments, during the first three decades after independence, the overall growth story of the Indian economy was moderate. In late 1970s, almost 40 percent of India's population was living below the poverty line. During the first three decades of independent India, the annual growth rate of the Indian economy was averaged at around three percent – the so-called Hindu rate of growth and with a high population growth there was hardly any growth of income in per capita term.

The situation started changing in 1980s. While the country is pursuing vigorous economic reforms since early 90s, a significant change in the relationship between the state and the business has been happening since early 80s. This change (better state-business relationship) was one of the main factors responsible for the high growth rate that the Indian economy witnessed since 1980s.

However, there was relatively greater growth in the services sector than in agriculture and industry. The share of the manufacturing sector in total employment remained very low and, in fact, declined in 1990s. Thus, one of the major challenges that the Indian economy faces today is to generate manufacturing employment. This policy thrust has been reflected in the draft Approach Paper of the 11th Five Year Plan. There is a political will too, as it is compatible with the overall credo of the National Common Minimum Programme adopted by the United Progressive Alliance government in 2004. It is also consistent with the overall objectives of the National Foreign Trade Policy of India, 2004-09. The policy agenda in the setting up of Special Economic Zones (SEZs) in India is to be looked at from this angle.

Given the scope of this report, commissioned by the Department of Commerce, Government of India, it has looked into the benefits of SEZs mainly by considering the following questions:

- Whether exports are being generated from SEZs or not?
- Whether employment is being generated or not?
- Whether SEZs have a positive impact on the development of local areas or not?

On the other hand, cost issues have been looked at by taking into account the possible loss of government revenue on account of fiscal incentives for the setting up of SEZs and also by looking at issues relating to possible decline in agriculture and associated livelihood opportunities.

Besides literature review, this study involved a field survey, which was conducted in 14 SEZs located in eight states in different parts of India. These included the EPZs (Export Processing Zones), which were converted into SEZs since the year 2000 as well as new generation SEZs, which were set up following the SEZ Policy 2000 of the Government of India.

The Economics of SEZs/EPZs

SEZ/EPZ, as defined by the World Bank and the United Nations Industrial Development Organisation, is an industrial area that constitutes an enclave with regard to customs tariffs and the commercial code in force in the host country and are intended to provide an internationally competitive duty-free environment and quality infrastructure for the promotion of exports at a lower cost.

The concept of SEZs/EPZs gathered momentum during 1980s within the realm of new growth theory, incorporating the features of neo-institutionalism (as against historical institutionalism) and the role of a development state. It asserts that the state should be a facilitator and be proactive in promoting private sector led industrialisation.

Empirical analyses of SEZs/EPZs suggest that this model is likely to be more successful when strong backward linkages are developed. It, thus, creates a demand for intermediate goods and services, which can enhance the viability of local industrial and service sectors and can also improve labour and managerial skills. It is important to note that the development of backward linkages must be a market-driven phenomenon.

Commentators often say that SEZs/EPZs can lead to enclave-led growth of a country. UNCTAD's (United Nations Conference on Trade and Development) Least Developed Countries Report 2004 argues that in order to avoid enclave-led growth, a country should adopt a policy of "balanced growth based on agricultural productivity growth and export-accelerated industrialisation". It has elaborated a number of conditions, which are to be fulfilled for adopting such a policy. Importantly, all these conditions exist in India.

SEZ Policy in India

In India, the first EPZ was established at Kandla, Gujarat in 1965 with the provision of better infrastructure and tax holidays. The second one was established in Santa Cruz in Maharashtra in 1973. In the decade of 80s, five more EPZs were established in different parts of the country. It is interesting to note that though the country has started pursuing vigorous economic reforms in early 1990s, in that decade no new EPZs were established. However, a number of provisions (either new or revised) have been made for better functioning of these establishments.

The Central Government introduced the SEZ Policy in the year 2000. Private sector was allowed to play a more active role in developing SEZs with or without government participation. During 2000-05, approvals were given to set up 26 SEZs. Interestingly, most of these SEZs were in the nature of joint ventures between a State Government and a private party.

In order to impart stability to the SEZ policy regime and to generate more economic activity and employment through exports, the SEZ Act was enacted by the Parliament of India in 2005 and associated rules and regulations were notified in February 2006. Since then 234 approvals have been given.

Export performance of EPZs/SEZs in India has shown steady improvement, including acceleration since the year 2000. From a mere 0.027 percent in 1966-70, the share of exports from SEZs in total exports has increased to 5.01 percent in 2005-06. Employment is increasing – more than double since 2000. In 2006, private investment in SEZs was about Rs. 2,235 Crores, of which the foreign component was about Rs. 600 Crores.

The Department of Commerce, Government of India expects that by the year 2009 total investment in SEZs would be Rs. 60,000 Crores and one million additional jobs will be created. If all the formally approved 234 projects become operational, investments of the order of Rs. 300,000 Crores is expected and four million additional jobs will be created.

Relevant Issues on SEZs in India

The debate around the setting up of SEZs in India is centred on the following five issues:

- Loss of government revenue
- Decline in agriculture and associated livelihood opportunities
- Uneven regional development
- Misuse of land for real estate
- Discrimination against existing industrial units

Department of Revenue, Government of India has estimated that over a five-year period (2005-10) there will be revenue loss to the tune of Rs. 175,847 Crores due to various tax exemptions/incentives to SEZs. According to the Department of Commerce, Government of India, total revenue loss due to SEZs would not be more than Rs. 33,065 Crores. On the other hand, it has estimated that due to additional economic activity (on account of SEZs) there will be additional revenue of Rs. 148,332 Crores during the same period.

In the year 2006-07, as estimated by the Department of Revenue, revenue loss on account of fiscal incentives to SEZs was only 3.99 percent of the total revenue loss due to various incentives to export promotion schemes. It is, thus, unclear why there is so much debate on revenue loss on account of SEZs.

Furthermore, this estimation of revenue loss (by the Department of Revenue) has been made by assuming that the same amount of investment and additional economic activities

(thus, generating additional revenue) would have been possible if the units (located in SEZs at present and expected to be located in SEZs) are located outside SEZs and do not avail any benefits from other export promotion schemes – a heroic assumption, indeed!

From our intuitive analysis (that is by looking at the local area impact of old as well as new generation SEZs), we can safely say that there will be net revenue gains on account of SEZs. This will mainly be on account of additional economic activities that these initiatives are generating (or expected to generate) at a local level. Given that India's tax structure is primarily based on "indirect taxes" there is a logic to draw such an intuitive conclusion. It is another matter that much of these gains may to accrue to state governments, because of the changing nature of India's tax regime (the introduction of a Value Added Tax regime and possibly a general system of Goods and Services Tax in the near future).

It is being apprehended that due to the implementation of the SEZ policy in different parts of the country, a large amount of agricultural land will be put to use for industrial purpose, and that will have severe implications on the livelihood of farmers (and those associated with agriculture).

According to the Department of Commerce, only 0.000012 percent of cultivable land of the country will be used for the setting up of SEZs. However, it is true that cultivable land is being increasingly used for industrial purpose and infrastructural development and this is not a new development. The real issue is whether those who are losing their immediate livelihood opportunities are expected to avail alternative opportunities or not. This is a complex issue, and multi-pronged. Coherent efforts on the part of state and non-state actors are required to overcome this challenge over time.

There is a possibility that SEZs will be set up in states where there is already a strong tradition of manufacturing and exports. In fact, of the 234 SEZs formally approved since the SEZ Act, 2005 came into force, 182 are in six states. However, the rest are spread over 13 other states and union territories. Thus, it is not true that SEZs are being set up only in those states, which are industrially advanced and it is expected that the setting up of a few SEZs (and associated infrastructural development) would trigger large-scale manufacturing in industrially backward states.

In regard to misuse of land for real estate, the SEZ Act 2005 and SEZ Rules 2006 have enough safeguards. Besides these, the Empowered Group of Ministers and the Board of Approval are taking special care in order to balance the land use in SEZs between processing and non-processing areas.

Discrimination against existing industrial units located in non-SEZ areas is a complex issue and no definite conclusions can be drawn unless one compares the performance of similar units in SEZs and non-SEZ areas. With SEZs expected to become fully operational in about five years time, there is bound to be some tension. Therefore, a comprehensive study is required to be done to look into this matter and find appropriate solutions.

Performance of the SEZs Surveyed and Related Issues

A total of 14 SEZs, out of 27 so far actually functioning (i.e, exporting) were visited by the CUTS team during March-April 2007. Out of 1,040 units operating in these SEZs, 58 were surveyed in detail. A set of three questionnaires was used. And to understand the overall impact of an SEZ in a particular area, ethno-survey method was used by visiting several villages in the vicinity of an SEZ and the survey team obtained information from a cross-section of people on 'local area impact'.

It has been found that these SEZs are performing satisfactorily in terms of exports and employment generation. 76 percent of the total employment in the units surveyed was found to be local and nearly two-fifth were women.

When asked about the factors responsible for the success of SEZs, except for ‘social infrastructure’ all others (such as physical infrastructure, fiscal incentives, quality of regulatory governance, stability of the policy regime) were rated as ‘very important’ – ranging from 74 percent respondents rating ‘policy regime’ as ‘very important’ to 91 percent in case of ‘physical infrastructure’.

It was found that the SEZs have very profound indirect impact on the surroundings, signaling a positive trend. There is also a significant change in the mindset of the local people. Thanks to a steady source of income they are now considering various options for investing their money, sending their children to better schools, etc.

Conclusions and Recommendations

As against the Chinese model of “big and few” India has adopted a policy of “small and many” while developing SEZs in the country. This model (of “small and many”) is more suitable for India, given its federal structure of governance. From our analysis and results of the field survey, two major conclusions and recommendations are highlighted.

First is that there appears to be no problem regarding land acquisition for the existing and approved SEZs. However, this could be a potential political problem in future and therefore, both Central and State Governments should strive to generate better political consensus in this regard. It is good that there is political will to do so across a broad spectrum of ideologies. This political will is to be converted into a political consensus – not just among political parties but at the level of civil society as a whole – that is, including the NGOs and media.

Interestingly, if one looks at the popular press reporting, we discern a mindset issue with regard to land acquisition for SEZs (or for that matter for industry to be developed by a private party) as against those for infrastructural development (which is more or less a domain of the government) – the issue is why should a government acquire land for private parties and, as a consequence of that, some people are thinking that the government and private sector are making a profit out of this business. In this regard, there is a huge communication gap between government agencies, private parties, political parties and the civil society.

However, we also observed (again intuitively and by looking at news items in the press) that in places where there is a historical and well-developed relationship between the state and the civil society (for instance in Tamil Nadu, where the history of this relationship dates back to early 1980s when the mid-day meal scheme for primary school children was introduced; in Gujarat where this relationship is well developed and mainly as a result of the milk cooperative movement) this communication gap is less. As a result of that, the transaction cost of acquiring land for industrial purpose is much less. At the same time, in places where the relationship between the state and the civil society is under-developed and yet there is a history of collective action on the part of public, we found that this communication gap is relatively higher.

In short, the challenge before the state is to reduce the transaction cost of acquiring land for industrial purpose by improving the state-civil society relationship through better communication between the state and the public. We are not saying that the state should take itself completely out of the process of land acquisition (and leave it to private parties), as that can, in fact, result in relatively greater transaction cost (as against the state acquiring the land).

It's time for the Central Government to develop (in consultation with the State Governments) a 4P (public-private-people-partnership) model for land acquisition. The compensation model followed for acquiring land for JSW Steel Factory in Salboni in West Bengal is a good one, as it provides landowners a stake in the venture and also works as a safety net. Strictly speaking, this is not a 4P model but, in consultation with multiple stakeholders, this could be worked upon to develop this model.

Secondly, the size of an SEZ is a debatable issue. Given the political economy of industrial development in India, it may not be possible for the Government to limit the number of SEZs. However and for a more inclusive and broad based industrial development of the country, the Government (both central and state) should encourage the development of SEZs (for that matter any industrial development initiatives) in places which are hitherto underdeveloped, possessing wasteland and/or single crop land.

The history of industrial development in India is full with such examples (Bhilai, Durgapur, Jamshedpur, Haldia) where industries were set up in barren areas and they acted as a catalyst for overall development of such areas. Given India's population structure and the quality of that population, it is a fact that the country requires generation of manufacturing employment for an inclusive growth. Other than generating such employment (through demand-side factors such as large-scale industrialisation), the present government is taking a number of steps for augmenting the supply of quality employment (supply-side factors for generating quality employment are being augmented by undertaking various human development schemes such as National Rural Health Mission, Sarva Shiksha Abhiyan, Mid-day Meal Scheme for Primary School Children).

Thus, what is required from the policy-makers (including politicians) is a missionary zeal for large-scale industrialisation in India and by taking into confidence the civil society at large. Special emphasis should be given to develop industrial complexes (with all facilities for quality infrastructure and social amenities) in hitherto barren lands so as to mainstream those, *the aam aadmi*, who have been left behind in the process of economic growth and development.

The scope of this report was not broad enough to look into all the above-stated aspects (past, present and future) of mass-based industrial development in India. We recommend that the Government of India should undertake a comprehensive study with the vision of a Developed India in 2050. Such a study should be inter-disciplinary – looking into the economic, social and political aspects of the past, present and future industrialisation in India. Detailed econometric analysis (based on secondary as well as primary data) should be juxtaposed with social and political analysis (based on ethnography of existing industrial complexes) and, most importantly, this comprehensive study should look at the opportunities and challenges of large-scale industrialisation in India by doing an institutional (both historical and new institutionalism) analysis of the dynamics of state-business and state-civil society relationship in India.

I. Introduction

The annals of industrial development in various parts of the world has shown a similar pattern as being witnessed by today's India and no country (be it early industrialisers like the United Kingdom or countries like Japan, which became industrialised in the 20th Century or late industrialisers like China, South Korea) has made economic progress without a robust and mass-based manufacturing sector. It is another matter that countries like UK and Japan are now progressively moving towards services-driven economy but that has occurred after their successful transformation from a pre-dominantly agricultural economy to an industrial one.

If one looks at the history of the development of India's manufacturing sector, there are several examples, which show that large-scale manufacturing is one of the key factors for absorbing semi-skilled and unskilled labour into a functioning labour market and also for the overall development of a local economy.

The history of industrial development (including infrastructure development) tells us that it has resulted in changes in land use pattern. In many cases, rigorous land reform (in whatever form they may be) preceded industrial development. The same is true in India. There are numerous examples of agricultural land converted for industrial purpose. And today this is happening at a much brisker pace than before – one need not go far from cities to witness this. Noted Indian economist Amartya Sen has argued for industrialisation as: “When people move out of agriculture, total production does not go down. So per capita income increases. For the prosperity of industry, agriculture and the economy, you do need industrialisation. Those in effect preventing that, either by politically making it impossible for an industrialist to feel comfortable or making it difficult to buy land for industry, do not serve the interest of the poor well. Prohibiting the use of agricultural land for industries is ultimately self-defeating.”¹

During the period from 1950s to late 70s, though the Indian economy has experienced several positive developments (including the development of a manufacturing base, particularly heavy industries, which was almost in non-existence at the time of independence), India's overall growth story was moderate. The average rate of growth (also

¹ The Telegraph, Calcutta, July 23, 2007

known as the Hindu rate) was around three percent and, with high population growth, average increase in per capita income was negligible. This was one of the reasons for high incidence of poverty in India. In late 70s, almost 40 percent of India's population was living in poverty.

The situation started changing in 1980s. While the country is pursuing vigorous economic reforms since early 1990s, a significant change in the relationship between the state and the business has been happening since early 1980s. As argued by Atul Kohli (2006), this change in relationship (the political economy of India's growth story since 1980s) was mainly responsible for the high growth rate that the Indian economy witnessed since 1980s.²

Interestingly, India witnessed a much higher growth rate in 1980s than in 1990s (and this was true for both agriculture and industry). There were several reasons for this. Low base rates prior to 1980s was one of them while Kohli explained the relatively low growth rates in 1990s as an interim phenomenon on account of policy changes having far-reaching implications. During the first half of this decade, India's growth story has become more positive (outshining the growth rates achieved in 1980s though it was slightly less in agriculture).

Table 1: India's Growth Story, 1980-2005

	1980-90	1990-2000	2000-05
GDP Growth	5.8	5.6	6.2
Agricultural Growth	3.9	3.0	2.3
Industrial Growth	6.5	5.8	6.6
Gross Investment as a percentage of GDP	22.8	22.3	24.1

Source: Kohli, Atul, Politics of Economic Growth in India, 1980-2005, Economic and Political Weekly, April 1 and April 8, 2006. Calculations for the data in 1980-90 and 1990-2000 are based on 1993-94 price series. The data for 2000-05 are our calculations based on 1999-2000 price series from Economic Survey 2005-06 (Table 1.6).

It is clear from Table 1 that while India witnessed good growth rates since 1980s, there was relatively greater growth in the services sector than in agriculture and industry.³ It is also

² Kohli, Atul (2006), Politics of Economic Growth in India, 1980-2005, Economic and Political Weekly, April 1 and April 8, 2006

³ While average industrial growth rates were more or less similar to the overall GDP growth rates, agricultural growth rates were much below the overall GDP growth rates – this means that the average growth rates of the third sector (services) were much higher than the overall GDP growth rates. The same inference can also be drawn by looking at the ratio of gross investment to GDP – there was not much change in this ratio over a period of 25 years (a long period). It is also true that

true that over this period there was not much increase in industry's share in India's overall GDP while that of agriculture has fallen substantially. The result was that the share of the manufacturing sector in total employment has remained very low at 11 percent in the year 1999-2000 and there is hardly any improvement since then. The total number of employed in organised manufacturing sector was 9.5mn in 1987-88, which reduced to 7.75mn in 2001-02, and thereafter, there was a slight increase to 7.87mn in 2003-04.⁴

It is true that in recent times new employment is being generated in India in the services sector. However, this employment is mostly at the higher or at a lower end – there is not much scope for the engagement of semi-skilled persons in this sector. At the same time, there is declining employment in agriculture and, besides that, a large number are unproductively engaged in this sector (disguised unemployment) and this is mainly on account of declining productivity in Indian agriculture. Thus, two major challenges that the Indian economy faces today are how to:

- increase agricultural productivity; and
- generate manufacturing employment.

While the first challenge is not within the scope of this study (suffice it to say that increase in agricultural productivity can only come through technological improvement, which will further release a large number of workers out of agriculture), given the changing profile of the Indian labour market policy-makers are rightly giving more emphasis on generating manufacturing employment. This policy thrust has been reflected in the draft Policy Paper of the 11th Five Year Plan and there is a political will too, as it is compatible with the overall credo of the National Common Minimum Programme adopted by the United Progressive Alliance government (the coalition running the Central Government) in 2004. Thus, the Government of India has taken a right step in promoting new investment in the manufacturing sector and given the positive state-business relationship it has started resulting in positive returns in terms of new employment opportunities, local area development, etc. The policy agenda in the setting up of Special Economic Zones (SEZs) in India is to be looked at from this angle.

the investment-output ratio is much lower in case of services than in industry (manufacturing) – in other words, services sector can generate relatively much more income than the manufacturing sector, given the same level of investment.

⁴ Ministry of Finance, Government of India, Economic Survey of India, 2006-07, Table 7.17, pp 155

SEZs in India

Special Economic Zone (SEZ) is an economic model to process and promote the manufacturing of specific products for domestic consumption as well as exports from a country. However, in effect, it is almost exclusively export-oriented. The concept is associated with formation of a handful of enclaved zones, set apart from rest of the country by providing specific facilities such as quality infrastructure, attractive fiscal package with minimum possible regulations. According to Hon'ble Commerce and Industry Minister of India, Shri Kamal Nath: "SEZs are purported mainly to provide 'One Stop Shop' for doing away with numerous controls and clearances, along with fiscal concessions and simplified procedures."⁵

In April 2000, the Government of India introduced a policy for setting up of SEZs for industrial activities with the underlying objective of providing an internationally competitive, hassle-free environment for production. This policy provides for setting up of SEZs by the governments (both Central and States), private players and as joint venture between the public (the state) and the private sector. It was stated in that policy that the existing Export Processing Zones (EPZs) operating in the country would be converted into SEZs.

⁵ *Kamal Nath defends SEZs*, The Hindu Business Line, December 19, 2006
<http://www.thehindubusinessline.com/2006/12/20/stories/2006122004691000.htm>

Accordingly, eight EPZs, which were operational till 2000 were converted into SEZs (and it was also mentioned in the Export-Import Policy of the Government of India, 2002-07) and fiscal incentives to these converted EPZs, were made effective through provisions of relevant statutes.⁶ After five years of this policy coming into effect, in the year 2005 the Parliament of India enacted the SEZ Act. Other than specific objectives, as mentioned in this Act, the overarching objective was to install a stable policy regime, which can boost investors' confidence. In February 2006, the SEZ Rules came into effect.

Following the SEZ Act, 2005, 234 formal approvals and 162 in-principle approvals have been made by the Department of Commerce, Government of India. Out of this, notifications have been issued in respect of 92 SEZs. Besides these, 11 SEZs were approved before the SEZ Act, 2005 came into effect.

The main objectives of the SEZ Act, 2005 include:

- Promotion of investment from domestic and foreign sources
- Development of infrastructure facilities
- Creation of employment opportunities
- Promotion of exports of goods and services

Given the above-stated objectives, the SEZ Act, 2005 is consistent with the objectives of the National Foreign Trade Policy of India 2004-09.⁷ A Single Window SEZ approval mechanism is in place through a 19 member Inter-Ministerial Board of Approval (BoA) under the Chairmanship of Secretary, Department of Commerce, Government of India. Periodically, the BoA considers applications for setting up of SEZs, which are duly recommended by State Governments and Union Territories. Besides the BoA, in late 2006 the Government of India has formed a body called the Empowered Group of Ministers (EGoM) to review the rules and regulations for facilitating the formation of SEZs.

⁶ Eight converted EPZs are located at Vishakhapatnam (Andhra Pradesh), Kandla and Surat (Gujarat), Cochin (Kerala), Santa Cruz (Maharashtra), Chennai (Tamil Nadu), Noida (Uttar Pradesh) and Falta (West Bengal).

⁷ Two major objectives of the National Foreign Trade Policy of India 2004-09 are employment generation and export promotion.

Despite that the objectives of creating SEZs in India are laudable, it has become a debatable issue in the domain of policy making and implementation. Though known by different names, SEZs exist in many countries – not only in the developing world but also in rich countries such as the United States of America. In India, such zones have existed from 1960s (though in different name i.e. Export Processing Zone). In fact, India was the first country in Asia to create such zones.

Worldwide SEZs have played a vital role in the promotion of exports, employment generation as well as for overall development of an economy. There are costs too and in some countries it has been found that associated costs are sometimes more than the benefits.

The debate around the formation of SEZs in India is mainly centred on its implementation aspects. While fiscal incentive (and associated loss of possible government revenue) is an issue, there are other issues as well, such as methods and associated matters with land acquisition, the nature of land use pattern. It is true that some of these concerns are serious and it is also true that they are to be addressed jointly by the Central Government and the State Governments.

This is because while the Central Government has laid down the overall policy and associated rules and regulations, it is the responsibility of the State Governments to implement them – in other words, to identify investors (including for joint venture), the type of manufacturing, the location of an unit, land use pattern, etc. This can best be done by looking at the functioning of the existing SEZs in India as well as experiences of other countries, which have been promoting SEZs. Considering that the experiences of SEZs are mixed, it is important to understand the success stories and their reasons for success as well as to look into the possible reasons for non-success.

The Scope

The Department of Commerce, Government of India has commissioned CUTS International to do a study on “An Assessment of Potential Costs and Benefits of SEZs in India”. The scope of the study is as follows.

(1) Study the implications and potential impact of Special Economic Zones set up in India in the private sector by evaluating select Special Economic Zones

(2) Study the following aspects of selected SEZs for evaluating the impact on the overall socio-economic development of the country:

- The fiscal incentives granted to these SEZs, availed by them and the investment so far made in them
- Additional economic development so far created in the following fields:
 - ✓ Infrastructure development
 - ✓ Employment generation
 - ✓ Investment
 - ✓ Foreign exchange earnings/export income
- Potential of the new generation SEZs for augmenting and enhancing further additional economic development in future in the above fields
- Impact of the SEZs on the adjoining areas and on local communities by virtue of their sourcing raw material etc. from domestic suppliers; enhanced opportunities for employment of both skilled and unskilled workers, etc
- Extent of technology transfer effected and proposed
- Human resources development programmes through trainings; working conditions in the SEZs; labour issues, if any, etc

(3) Study various issues raised on SEZs, including potential revenue loss to Government on account of the incentives granted, land acquisition and relief and rehabilitation policies, land use pattern in the SEZs, etc

(4) Assess potential costs and benefits of SEZs and the overall socio-economic development on the basis of the above analysis and suggest strategies to optimize the same

While a rigorous econometric analysis to capture the impact of SEZs on specific variables was beyond the scope of this study, it has looked into the benefits of SEZs mainly by considering the following questions:

- Whether exports are being generated from SEZs or not?
- Whether employment is being generated or not?
- Whether SEZs are resulting in the development of local areas or not?

On the other hand, cost issues have been looked at by taking into account the possible loss of revenue (on the part of the Government) on account of fiscal incentives for setting up of SEZs. However, the data on revenue loss have been taken from secondary sources and there were some divergences in the data from different sources.

Other important issues such as loss of agricultural land and livelihood opportunities of farmers, the question of food security, though important and analysed in some respect, are not central to this study.

Methodology

Evaluating the impact of SEZs in India is a challenging task because it is a relatively new development. In addition to data problems, finding an appropriate methodology (for benefit-cost) can be challenging as well as time consuming. However, with some modifications to conventional benefit-cost analysis, the study included some empirical analysis.

The net estimated benefits are evaluated by considering the following factors:

- Incentive scheme/tax revenue
- Infrastructure costs
- Exports (foreign exchange earnings/forward linkages)
- Employment creation
- Human resource development
- Working conditions
- Impact on the local community

A comprehensive set of questionnaires (semi-structured and structured questionnaires) was prepared to gather the views of different stakeholders especially entrepreneurs, business associations, government officials and landholders on the above-stated factors. A total of 14 SEZs across the country were surveyed. This included 8 converted (from EPZ) SEZs (those, which are developed by the Central Government), 6 SEZs, which are developed by State Industrial Development Corporations (joint venture), and one SEZ developed solely by a private investor.

The survey was carried out from 12th March to 12th April 2007. In these 14 SEZs there are 1,040 operational units, of which 58 units were surveyed in detail. Intensive survey instead of an extensive one was done in order to get a comprehensive picture about the impact of SEZs on factors as stated above. Besides an intensive survey, references were drawn from available secondary literature.

The Structure

This study is structured into different sections. Following the Introduction, a brief analysis of the economics of SEZs/EPZs is presented in Section 2. Section 3 looked into the details of the SEZ policy in India. In Section 4, some relevant issues (keeping in mind benefits and costs) on SEZs in India are analysed. A detailed analysis of the performance of SEZs surveyed and related issues (including perception of various stakeholders) are provided in Section 5. Conclusions and recommendations are summarised in Section 6.

II. The Economics of SEZs/EPZs

“Thirty years ago, 80 Special Economic Zones in 30 countries generated barely US\$6bn in exports and employed about 1mn people. Today, 3,000 SEZs operate in 120 countries and account for US\$600bn in exports and 50mn direct jobs. By offering privileged trading terms for manufacturing-based exports, SEZs can attract investment and foreign exchange, spur employment, and boost the development of improved technologies and infrastructure.”
– World Bank’s Online Discussion, July 2004

Special Economic Zone (SEZ) or Export Processing Zone (EPZ) as defined by the World Bank and the United Nations Industrial Development Organisation is an industrial area that constitutes an enclave with regard to customs tariffs and the commercial code in force in the host country and are intended to provide an internationally competitive duty-free environment and quality infrastructure for the promotion of exports at a low cost.

This concept has evolved over the years in order to counter the anti-export bias created by the import substitution industrial policy regime, which was prevalent in many countries during the period 1950-80. During that period, over-valued exchange rate coupled with high tariffs and quantitative restrictions makes production for import substitution significantly profitable relative to production for exports. Attempts to promote export-oriented industries within an import-substituting regime, therefore, require countervailing fiscal measures such as duty drawbacks, cash compensation or import replenishment licenses. Thus, SEZs/EPZs are considered as a second-best policy choice consisting of compensating for one distortion (import duties) by introducing another (a subsidy).⁸

⁸ Aggarwal, A. (2005), *Performance of Export Processing Zones: A Comparative Analysis of India, Sri Lanka and Bangladesh*, Working Paper No. 155, p. 4, Indian Council for Research on International Economic Relations, New Delhi

Many in the economics literature, such as Baldwin and Krugman (1989), Dixit (1989), have argued that costs involved in production and marketing of exports are likely to be significant. In order to export successfully, therefore, firms need to possess a competitive advantage to overcome the advantages typically enjoyed by rival firms located in the country into which they export (for instance greater familiarity with local laws, customs and local tastes and lower transport costs).⁹

The concept of SEZs/EPZs gathered momentum during 1980s within the realm of new growth theory (known as “heterodox approach” or alternatively as “new institutional approach”) incorporating the features of neo-institutionalism (as against historical institutionalism) and the role of a developmental state. The new growth theory argues that institutions (economic, social, political) all play a vital role in the developmental process of a society. Since developing countries lack efficient institutions, therefore, the state should play an active role in promoting new institutions. In other words, it asserts that the state should be a facilitator and be proactive in promoting private sector led industrialisation.¹⁰

EPZ/SEZ is one such state-led policy for industrial development. EPZs/SEZs are benefited (other than general fiscal and non-fiscal concessions), from locational advantage, modern efficient infrastructure, and better governance through single window facility ensuring less transaction costs of doing business.

In general, trade-related infrastructure and institutions are poor in developing countries. The cost of doing business is high, as argued in numerous studies. Since country-wide development of infrastructure is expensive and implementation of structural reforms require time due to socio-economic and political realities, SEZs/EPZs are considered as a strategic tool for the promotion of exports, especially from developing countries. However, given the limited technological and marketing capabilities of developing countries, these zones may not affect exports substantially unless they attract foreign direct investment as well.

⁹ Baldwin, R. E. and P. R. Krugman (1989), *Persistent trade effects of large exchange rate shocks*, Quarterly Journal of Economics, Vol. 104, No. 4, pp. 635-54; Dixit, A. (1989), *Entry and Exit Decisions under Uncertainty*, Journal of Political Economy, Vol. 97, No. 3, pp. 620–38

¹⁰ This was a central argument in Kohli’s paper explaining the politics (and the political economy) of India’s growth since 1980s.

The new theories also stress on possible external effects generated by SEZs/EPZs and that may take the form of learning, human capital development, demonstration effects and so on, and can accelerate the process of industrialisation of developing countries. The concept of SEZ/EPZ is, thus, a catalyst for fast learning for all major stakeholders of the process of industrialisation (policy makers, entrepreneurs and labour) and also a pioneer for attracting export-oriented FDI, which promotes exports.

Competitive advantage of SEZs/EPZs may also be explained within the framework of cluster approach, as argued by Porter (1990).¹¹ SEZs/EPZs are industrial clusters that are concentrated in a geographic region. These industries share common infrastructure, a pool of skilled human capital, and governmental and other institutions that provide specialised training, information and technical support. Also, these industries can co-operate to create joint business and can have agreements for sharing technologies, distribution network, etc. External economies of scale and other advantages of a cluster also help operating firms in reducing costs and acquiring other types of competitive advantages (Dunning, 1998).

Madani (1999) provides a detailed account of the arguments for and against SEZs/EPZs through her empirical study, using a cost-benefit approach expanded along the lines of a social accounting framework and incorporating evidences from a large number countries. While arguing that both the neo-classical and new growth schools fail to capture exactly the linkages and externalities of SEZs/EPZs, she finds that “under propitious circumstances and good management, EPZs generally achieve two basic goals of creating employment and increasing foreign exchange earnings.”¹² She also argued that the question of revenue loss on account of fiscal incentives would arise only when an entrepreneur locates that unit (to be located in an SEZ/EPZ) in a place without such an incentive. In other words, one cannot assume that there would definitely be revenue loss on account of providing fiscal incentives to SEZs/EPZs.

¹¹ Porter, M. E. (1990), *Competitive Advantages of the Nations*, Free Press, New York

¹² Madani, Dorsati (1999), *A Review of the Role and Impact of Export Processing Zones*, World Bank, Washington DC, 1999

In her study, Madani also documented that EPZs have contributed to the “development of human capital, both through skill acquisition and productivity gains by workers and through the development of managerial and supervisory skills. EPZs typically employ a large proportion of female workers so it can be argued that they play an important role in women’s economic empowerment by getting women into the formal work force at reasonable wage rates.”

Jenkins, Esquivel and Larrain (1998) have arrived at more or less similar conclusions in their study on selected Latin American countries. Their empirical results confirm that employment generation is the major benefit from EPZs. “In developing nations with relatively high levels of unemployment, EPZs might represent an efficient mechanism for reducing the economic and social burden of large pools of unemployed people.... EPZs can have significant net positive effects on the host economy since wages paid to people employed in EPZ firms tend to be much higher than their opportunity cost.”¹³

They suggested that EPZs are likely to be more successful when strong backward linkages are developed, thus, creating a demand for intermediate goods and services, which can enhance the viability of local industrial and service sectors and can also improve labour and managerial skills. It is important to note, however, that the development of backward linkages must be a market-driven phenomenon. Policies that try to force backward linkages through legislation requiring, for example, that a certain percentage of inputs must come from local industries are likely to hinder or distort the development of backward linkages.

Furthermore, in many countries in East and South East Asia, SEZ/EPZ model for the development of the manufacturing sector was adopted to test social and political acceptability of a more liberal economic policy regime. For instance, in China the first EPZ was established in late 1970s and it was a success. However, the success of this model in China was also on account of two very important developments in that country in late 70s:

¹³ Jenkins, Mauricio, Gerardo Esquivel and Felipe B. Larrain (1998), *Export Processing Zones in Latin America*, Development Discussion Paper No. 646, Harvard Institute for International Development, August 1998

- A comprehensive land reform programme was started in 1978 (moving away from collective to individual ownership), which resulted in a huge growth in agricultural productivity (and as a result of that a large number of labourers were released from agriculture).
- Town and Village Enterprises were rapidly developed – they not only absorbed a portion of labour released from agriculture but also provided a stable backward linkage to manufacturing activities.

In other words, the argument is that by providing better conditions for manufacturing-based exports, SEZs/EPZs can attract investment and foreign exchange, generate employment, and boost the development of improved technologies and infrastructure. It is in this context one has to look into the Chinese experience of SEZs.

The development of SEZs in the past 20-odd years is one of the highlights of remarkable Chinese economic achievements. SEZs in China can be classified into two levels as per their scales. SEZ can be a whole city (sometimes even a whole province) having special financial, investment and trade policy, while Economic and Technological Development Zones (ETDZ) are set up in relatively small piece of land in coastal areas and other places for specific industrial development.

As early as in 1980, the Chinese Government set up the first group of SEZs in Shen Zhen, Zhu Hai, Shan Tou and Xia Men, all of which are located in coastal areas of Southeastern China, followed by ten other coastal cities, Hai Nan province and Pu Dong area in Shanghai as the second group. To further open up to the outside world and to spread successful experience of SEZs, in 1984 the government decided to establish Economic and Technological Development Zones (ETDZ) along the coastal areas. Consequently, between 1984 and 1988 China's first group of 14 National Economic and Technological Development Zones were established. Since then, SEZs in China are gradually being developed in the following manner:

- Extending from SEZs to ETDZs;
- Stretching from coastal region in the east to middle and western region in inland China; and
- Upgrading from fundamental industries to hi-tech industries.

To date, there are 54 national-level ETDZ, among which eastern coastal region has 33. Besides this, hundreds of provincial and municipal ETDZs have been established all over China.¹⁴

The overwhelming success of SEZs in China is being cited as an example of successful high-speed industrialisation of an economy with minimum amount of resistance or other related obstacles/hindrances.

However and despite their appeal, critics claim that SEZs/EPZs can attract investment only by offering incentives (which can create distortions in the overall functioning of an economy) rather than building underlying competitive conditions. They also argue that these incentives create a fiscal burden on the taxpayer and can also be detrimental to a country's environmental and labour standards. They also believe that direct and indirect costs of maintaining such privileged zones may not benefit the rest of an economy and, instead, may lead to enclaves of prosperity.

For instance, well-known trade economist Jagdish Bhagwati has criticized the formation of SEZs by arguing that "Given the current progress in reforms undertaken in earnest since 1991, there is no need to establish SEZs. It made sense to have SEZs in the pre-reform era when policies of the country as a whole could not be tweaked. That period warranted the setting aside of certain exclusive economic zones with low trade barriers and other favourable policies to enhance growth."¹⁵ One can argue that such an opinion would hold true if conditions existed for evenly balanced economic growth in all parts of the country. Secondly, if there are enough resources available to develop good infrastructure in all over the country. On both counts, the situation is far from ideal.

¹⁴ Extracts from the address by Mr. Song Deheng, Consul General of the People's Republic of China in Mumbai at a Conference on "Special Economic Zones: Growth Drivers of Maharashtra" June 5, 2006, World Trade Centre, Mumbai

¹⁵ *No need to build SEZs: Bhagwati*, Economic Times, New Delhi, October 19, 2006

UNCTAD's (United Nations Conference on Trade and Development) Least Developed Countries Report 2004 argued that in order to avoid enclave-led growth, a country should adopt a policy of "balanced growth based on agricultural productivity growth and export-accelerated industrialisation". "This strategy is applicable to countries which (i) are predominantly agrarian in the sense that, initially, the majority of the labour force is employed in agriculture; (ii) have a small industrial sector alongside agriculture; and (iii) have surplus labour in rural areas owing to a large labour supply in relation to the available land. The strategy seeks to promote development and poverty reduction through a process of industrialisation, linked in a balanced way to the development of the rural economy and agriculture. Over time there is a structural transformation in which the proportion of the working population engaged in non-agricultural occupations increases, and the population of working age becomes more and more fully and productively employed."

All these three conditions exist in India. It is also true that the National Common Minimum Programme of India (as declared in 2004 and reflected in the draft Policy Paper of the 11th Five Year Plan) has adopted this policy in letter as well as spirit.

A central issue to the formation of SEZs/EPZs is fiscal incentives (in the form of tax holidays, etc). Table 2 summarises major advantages and disadvantages of various types of fiscal incentives, which are normally provided to an SEZ/EPZ. On balance and by taking into account various considerations, it has been argued that tax holidays are least effective as against accelerated depreciation schemes.

In short, this brief analysis of the economics of SEZs/EPZs shows that this model can indeed generate manufacturing employment and exports, and can also be made inclusive (as against enclave-led) provided it is accompanied by growth in agricultural productivity and that the process of industrialisation is "linked in a balanced way to the development of the rural economy and agriculture".

Table 2: Relative Advantages and Disadvantages of Different Types of Fiscal Incentives

Advantages	Disadvantages
<i>Lower CIT rate</i>	
<ul style="list-style-type: none"> • Simple to administer • Revenue losses are more transparent 	<ul style="list-style-type: none"> • Largest benefits go to high-return firms that are likely to have invested even without incentives • Invites tax avoidance through high-tax enterprises shifting profits to low-tax ones via transfer pricing (intra-country and international)
<i>Tax holidays</i>	
<ul style="list-style-type: none"> • Simple to administer • Allow taxpayers to avoid contact with tax administration (which may be important if it is complex or corrupt) 	<ul style="list-style-type: none"> • Attracts short-term projects • Creates competitive distortions between old and new firms • Revenue costs are not transparent unless tax filing is required
<i>Investment allowances and tax credits</i>	
<ul style="list-style-type: none"> • Can be targeted to certain types of investment with highest positive spillovers • Revenue costs are more transparent 	<ul style="list-style-type: none"> • Distorts choice of capital assets in favor of short-lived ones, since a further allowance is available each time an asset is replaced • Qualified enterprises may attempt to abuse the system by selling and purchasing the same assets to claim multiple allowances • Greater administrative burden • Discriminates against investment with delayed returns if carry-forward provisions are inadequate
<i>Accelerated depreciation</i>	
<ul style="list-style-type: none"> • All benefits of investment allowances and credits are available • Does not generally discriminate against long-term assets • Moves the CIT closer to a consumption-based tax, thus reducing distortion against investment 	<ul style="list-style-type: none"> • Some administrative burden are there • Discriminates against investments with delayed returns if carry-forward provisions are inadequate
<i>Exemptions from indirect taxes (VAT, import tariffs, etc)</i>	
<ul style="list-style-type: none"> • Allow taxpayers to avoid contact with tax administration (which may be important if it is complex – thus, raising the transaction costs of doing business) 	<ul style="list-style-type: none"> • VAT exemption may be of little benefit – under regular VAT, tax on inputs is already credited while outputs may still get taxed at a later stage • Prone to abuse – easy to divert exempted purchases to unintended recipients

Source: Adapted from Fletcher. K. (2002), Tax Incentives in Cambodia, Lao PDR, and Vietnam, paper prepared for the IMF conference on Foreign Direct Investment: Opportunities and Challenges for Cambodia, Lao PDR, and Vietnam, Hanoi, Vietnam, August 16-17, 2002

III. SEZ Policy in India

The first ever-major policy announcement made by the Government of India after attaining political independence in 1947 was the Industrial Policy Resolution (IPR) of 1948. The Policy adopted an import substitution industrialisation strategy across all sectors for rapid economic development of the country. However, within this strategy it was well recognized that efforts would be made towards export promotion. This strategy received further boost during the implementation of the 2nd and 3rd Five Year Plans of India (from mid-50s to mid-60s). Though the Government did not do anything substantial for promoting exports (particularly manufacturing exports) during this period some discrete and piecemeal policy steps were taken in mid-60s when Kandla EPZ was established in 1965 with the provision of better infrastructure and tax holidays.

Though the SEZ/EPZ model was successful in many countries, in India EPZs were not able to emerge as an effective instrument for export promotion and this was mainly on account of multiplicity of controls and clearances, absence of good infrastructure, and an unstable fiscal regime.

The Export-Import Policy of 1997-2002 introduced a more comprehensive and liberal concept to establish SEZs in India. While correcting the shortcomings of the EPZ model, some new features were incorporated in the SEZ Policy announced in April 2000. It intended to make SEZs an engine for economic growth supported by quality infrastructure and complemented by an attractive fiscal package (both at the Centre and the State) with minimum possible regulations. The salient features of the SEZ Policy 2000 are:

- A designated duty-free enclave to be treated as a foreign territory only for trade-related operations and associated duties and tariffs
- No licence required for import
- Manufacturing as well as service-related activities allowed
- SEZ units to be positive net foreign exchange earner within three years
- Domestic sales subject to full customs duty and import policy in force
- Full freedom for subcontracting
- No routine examination of export/import cargo by customs authorities

The SEZ Act of 2005 is a continuation of this Policy and one of its overarching objectives is to reduce policy uncertainty. The main objectives of the SEZ Act, 2005 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 and development of infrastructure facilities. Various fiscal and non-fiscal incentives and facilities are offered to prospective entrepreneurs for attracting investments (including foreign investment). It is expected that these incentives and facilities will trigger a large flow of foreign and domestic investment in the areas of infrastructural development and manufacturing activities leading to generation of additional economic activity and creation of employment opportunities and quality infrastructure.¹⁶ Table 3 summarises the fact sheet on SEZs.

Table 3: Fact Sheet on Special Economic Zones (As on July 23, 2007)

SEZ Act 2005	Passed by parliament in May 2005 Received Presidential assent on 23 rd June 2005 Came into effect on 10 th February 2006 supported by the SEZ Rules
No. of formal approvals	362
No. of notified SEZs	132
No. of in-principle approvals	177
Investment made in 132 notified SEZs	Rs. 43123 Crores
Employment created in 132 notified SEZs	35053 persons (direct employment)
Expected investment and employment from SEZs (by December 2009)	At the 132 notified SEZs as on 30 June 2007: Investment: Rs. 2,59,159 crores Employment: 17,43,530 additional jobs (direct employment)
	If 362 SEZs becomes operational: Investment: Rs. 3,00,000 crores Employment: 4 million additional jobs (direct employment)
Exports in 2006-07	Rs. 34,787 Crores (Rs. 9301 Crores by New Generation SEZs) Growth of 52% over Rs. 22840 Crores in 2005-06
Exports projected by all 151 SEZs (19 Old + 132 New) in 2007-08	Rs. 67,088 Crores 200 percent increase in two years Exports from SEZs likely to cross 100,000 Crores by 2008-09

Source: Department of Commerce, Government of India

¹⁶ Ministry of Finance, Government of India, Economic Survey 2006-07, Box 6.6, p.127

A Brief History of EPZs/SEZs in India

The evolution of EPZs/SEZs in India during last 40 years (since 1965 till 2007) can be divided into five phases, which are discussed below:¹⁷

Initial Phase: 1965-80

The Government of India established the first EPZ (a port-based one) in Kandla situated in a highly backward region of Kutchh in Gujarat in 1965. It was followed by the one at Santa Cruz in Mumbai, which was operationalised in 1973. With no clarity in policy these two EPZs had different sets of objectives (Tandon Committee, 1981). The overall import substitution policy pursued by the Government at that time heavily influenced the performance of these EPZs.

As stated in Kundra (2000), rigid policies, unattractive fiscal and non-fiscal incentives, absence of single-window system, limited powers to the zone authorities, etc have had their adverse impact on the poor performance of the two EPZs, which was further aggravated by infrastructural bottlenecks, procedural constrains, etc.¹⁸ Forced by a lacklustre progress of these EPZs, the Government appointed three different committees to review their progress and offer remedial measures after identifying factors responsible for their poor performance.¹⁹

Despite some recommendations made by these Committees, the policy regime remained virtually static and there was hardly any improvement in the performance of these two EPZs in the decade of 1980s.

¹⁷ This section draws heavily on the research undertaken by Aradhna Aggarwal, ICRIER Working Paper Nos. 148 and 155 (see bibliography for full reference)

¹⁸ Kundra, A. (2000), *The Performance of India's Export Zones: A Comparison with the Chinese Approach*, Sage Publications, New Delhi

¹⁹ The Kaul Committee, 1978 examined the functioning of Kandla EPZs, and Santa Cruz EPZ was reviewed by the Review Committee on Electronics in 1979, while the Tandon Committee (1981) reviewed both these zones.

Expansionary Phase: 1980-90

The decade of 70s witnessed grim economic conditions in the country. Excessive protectionism pursued since 1951 compounded by oil price shocks in 1976 and 1978 made India's balance of payments position precarious and there was an urgent need to promote exports for earning much-desired foreign exchange. The Tandon Committee recommended establishing four/five EPZs to provide a fillip to the country's export promotion efforts.

In 1984, the Government of India established four EPZs: at Cochin in Kerala, Chennai in Tamil Nadu, NOIDA in Uttar Pradesh, and Falta in West Bengal. One more EPZ was set up in Visakhapatnam in Andhra Pradesh in 1989 though it was operationalised in 1994. Except the Chennai EPZ, all others were established in industrially backward regions. It was ironical that despite the expansion of this model there was no clear set of policy objectives against which they could be evaluated. Moreover, the same rigid laws and procedures continued to dog the performance of these EPZs.

Consolidation Phase: 1990-2000

The process of economic liberalisation was initiated in India in 1991. Under the New Industrial Policy of 1992, wide ranging measures were initiated to unshackle the economy (particularly the industrial sector) from restrictive and protectionist policies. Arora (2003) have compiled the details of such measures undertaken by the Government.²⁰ According to that (Arora, 2003), Central Board of Excise and Customs, Director General of Foreign Trade, Reserve Bank of India etc had issued 146 circulars on EPZs/EOUs (Export Oriented Units) during this 10-year period, which constituted 62 percent of total circulars issued on EPZs/EOUs till 2003.

These circulars were aimed at simplifying procedures of doing business, delegating more powers to zone authorities, providing more fiscal and other tax incentives, providing improved infrastructural facilities and enlarging the scope and coverage of EPZs/EOUs to include agriculture, horticulture and aquaculture sectors.

²⁰ Arora, O. P. (2003), *Compilation of Circulars on EPZ/SEZ/EOUs Issued by CBEC, DGFT & RBI*, Published by Ankur Arora Associates, 2003

Emerging Phase: 2000-2005

The Central Government introduced an SEZ Policy in April 2000. According to this Policy, private sector was allowed to play a more active role in developing SEZs with or without government participation. According to this Policy, the minimum size of an SEZ should not be less than 1,000 hectares. Number of incentives (both fiscal and non-fiscal) was also increased. Several measures were taken to improve the quality of governance of the zones. These included relaxation in the conditions for approval process and simplifying custom rules. Development Commissioners were given the power of a labour commissioner.

From November 1, 2000 EPZs at Cochin, Kandla, Santa Cruz and Surat have been converted into SEZs. In 2003, other existing EPZs (viz. Chennai, Falta, NOIDA and Vishakhapatnam) were also converted into SEZs. In addition, approvals were given for the setting up of 26 SEZs in various parts of the country. These include Kakinada (Andhra Pradesh), Positra (Gujarat), Indore (Madhya Pradesh), Dronagiri (Maharashtra), Paradeep (Orissa), Nanguneri (Tamil Nadu), Bhadohi and Kanpur (Uttar Pradesh) and Kulpi (West Bengal).

Acceleration Phase: 2005 onwards

In order to impart stability to the SEZ policy regime and to generate more economic activity and employment through exports, the SEZ Act was enacted by the Parliament of India in 2005 and associated rules and regulations were adopted in February 2006. It provided a huge fillip to the concept of SEZ as a model of economic development.

Under the SEZ Act the minimum area requirement is set at 1,000 hectares for multi-product SEZs, while for multi-service and sector-specific SEZs it is 100 hectares. For IT-based (information technology) SEZs, minimum land area requirement is set at 10 hectares and a minimum built up area of 100,000 sq. meters, and for gems and jewellery it is 10 hectares and a minimum built up area of 50,000 sq. meters. These requirements for biotech and non-conventional energy and Free Trade Warehousing Zones (FTWZs) are 10 hectares and a minimum built up area of 40,000 sq. meters, and 40 hectares and 100,000 sq. meters, respectively.

Approval Mechanism and Administrative Set Up

Before the SEZ Policy 2000 came into operation the EPZs in India had a three-tier management structure. At the apex level there was the EPZ Section in the Department of Commerce headed by the Commerce Secretary, which considered policy issues and periodically reviewed the working of zones. At the next level there was the Board of Approval, which was responsible for examining proposals for setting up enterprises in the EPZs. An officer of the level of Additional Secretary headed it. At the third tier there was Development Commissioner who was the Chief Executive of an EPZ. The Chief Executive was responsible for the day-to-day administration, approval of investment proposals under the automatic route and enforcement of various regulatory provisions. A Joint Development Commissioner, four Deputy Development Commissioners, two Assistant Commissioners of Customs, security officer and other staff assist him.

Approvals were centralised with the Board of Approval. But the Board of Approval did not have powers to grant final clearance. It was a recommendatory body. Entrepreneurs needed to get their proposals cleared by the Secretariat of Industrial Approvals and also by the Department of Commerce. Furthermore, entrepreneurs had to acquire individual clearances from various state and central government departments. Powers of the Board of Approvals were decentralised by introducing an automatic approval route in 1991. Powers of approval under the automatic approval routes for EPZ units were granted to Development Commissioners. However, investment proposals under the automatic routes were subject to several stringent conditions.

Proposal for the setting up of an SEZ as a private/joint venture initiative is required to be submitted to the Chief Secretary of the concerned State. The State Government, in turn, forwards the same to the Department of Commerce with their recommendations. Thereafter, an Inter-Ministerial Committee known as the Board of Approval considers a proposal along with the recommendation of the State Government. Applicant also has the option to submit the proposal directly to the Board of Approval. In such cases, the applicant shall have to obtain the concurrence of the State Government within 6 months from the date of such approval.

Following mechanism has been provided for in the SEZ Act/Rules with a view to prevent violation of its objectives.

- In order to fulfill the obligations regarding proper utilisation and for being accountable for its activities, a unit will have to execute a bond-cum-legal undertaking.
- Where an entrepreneur and/or a developer does not utilise the goods or services on which exemptions have been availed, refund of the amount equal to the benefits availed will have to be made.
- The letter of approval to the entrepreneur can be cancelled in case of contravention/non-fulfillment of terms and conditions or obligations.
- Provision for penal action has also been provided in case of non-achievement of positive net foreign exchange.
- There are provisions in the SEZ Rules for monitoring of utilisation of goods imported or procured from the domestic tariff area.

There is a concern raised in some quarters that while approval for setting up an SEZ does not take much time (due to a Single Window Clearance policy followed by the Board of Approval), there is no such mechanism at the state level – in other words, developers have to go through the rig morale of approvals/clearances from various agencies at the local level before developing an SEZ. In this regard, Department of Commerce, Government of India could prepare a guideline for Single Window approval at the state level and requests states to follow that.

Performance of EPZs/SEZs

The export performance of the EPZs established during the period between 1965 and 2005, which is divided into five phases as discussed above, can be seen in Table 4.

Table 4: Export Performance of EPZs in India

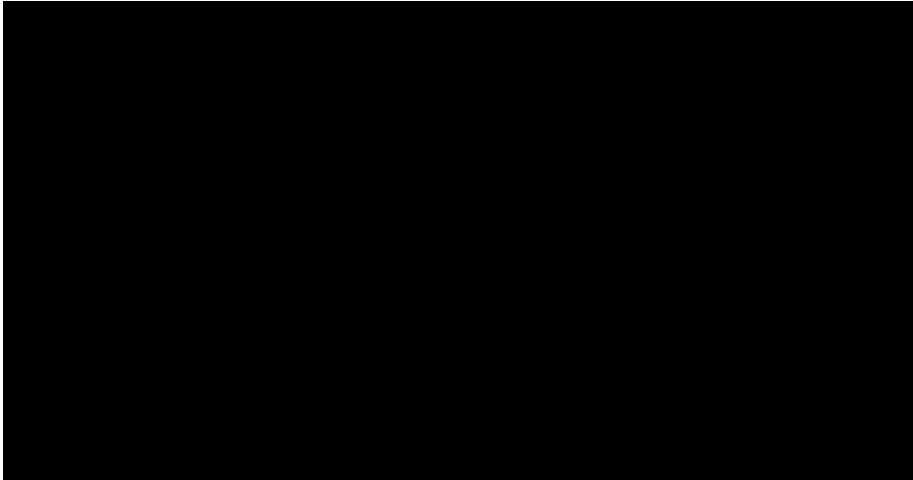
(Rs. Million)

Phase	Year	Average Annual Total Export
I (1965-80)	1966-70	3.26
	1971-75	17.36
	1976-80	186.77
	Average	69.1
II (1980-90)	1981-85	2317.24
	1986-90	5829.1
	Average	4073.17
III (1990-2000)	1991-95	20848.74
	1996-2000	59184.79
	Average	40017
IV (2000-05)	2001-03	93251.75
	2003-04	138544
	2004-05	183090
	Average	120277.85
V (2005-07)	2005-06	228395.3
	2006-07	347874.71
	Average	288135.01

Source: Department of Commerce, Government of India

The figures in Table 4 show that there has been a meagre growth in exports during the first phase (1965-1980) and it accelerated towards the end of the period when average annual exports rose to Rs.187 million from just Rs.17 million during the first half of 1970s. Although the Phase III (1990-2000) witnessed a big change in the government policies towards exports due to economic liberalisation the growth in exports remained almost static during this period. The subsequent phases, i.e., Phase IV and V (after SEZ policy was in place) registered a quantum jump in average annual exports of Rs.120277 million and further to Rs. 288135 million from Rs. 400017 million during the Phase III (1990-2000). The overall growth rate of exports during the period 1966-2002 is estimated at 42.4 percent.

After the SEZ Act came into place in 2005 there has been a tremendous growth in exports from these old EPZs converted into SEZs and the new generation SEZs which came into effect after the SEZ Policy of 2000 and after the SEZ Act enacted in 2005. The export growth rate was 32 percent in 2004-05 over 2003-04 and 23 percent in 2005-06 over 2004-05. The export projections for the year 2006-07 from these operational SEZs are Rs. 34787.471 crores, which will be up by 52 percent. The total exports from these SEZs stood at Rs. 22839.53 crores (\$5004.56 million) in 2005-06, which works out to around five percent of India's total exports for the year. This shows that there has been a steady increase in the share of SEZs in the overall exports from India since the first EPZ was established in Kandla in 1965.



Employment Growth in EPZs/SEZs

Table 5 shows the growth of employment in these EPZs/SEZs during the entire period from 1966 till 2006. Total employment increased from a mere 70 workers in 1966 to around 89,000 workers in 2002. Employment per zone on an average also increased from 70 to over 12,000. However, the average annual growth rate in employment declined continuously. This was despite the fact that four new EPZs became operational in late 1980s and another EPZ at Vishakhapatnam came up in 1994. Since employment growth rate reflects the rate of EPZ expansion, one may suggest that EPZs could not maintain the rate of growth after an initial phase of rapid expansion.

Table 5: Employment Growth in EPZs/SEZs

Sr. No.	Year	Total Employment	Average Zone Employment (No.)	Average Annual Employment Growth Rate (%)
1.	1966	70	70	-
2.	1970	450	450	50.2
3.	1975	1450	725	41.9
4.	1980	6000	3000	34.2
5.	1985	16200	4050	22.6
6.	1990	35205	5868	16.9
7.	1995	61432	10239	11.9
8.	2000	81371	11624	6.2
9.	2002	88977	12711	5.2
10.	2006	178763	22600	77.8

Source: Department of Commerce, Government of India

It is worth noting that after the SEZ Act came into operation in 2005 the new generation SEZs provided more employment, which is reflected in the figures, shown in the table above. The total employment almost doubled between 2002 and 2006 registering an average annual increase of about 20 percent.

As shown in Table 6 Kandla SEZ is the largest in terms of area (700 acres) yet the number of units operating is smaller as compared to the smallest SEZ located in Santacruz in Mumbai (93 acres). The total number of units operating in Santacruz SEZ (SEEPZ) in 2007 was 256 employing on an average 253 persons. There are 156 units operating in NOIDA SEZ employing about 23900 persons (average per unit being 153 persons). The Falta SEZ employs the least number of persons per unit, which stands at just 44 persons.

Table 6: Zone-wise Employment and Number of Units: 1980-2007

Year	Kandla	SEEPZ	Cochin	Falta	Chennai	Noida
1980	3500 (54)	2500 (37)	-	-	-	-
1985	8510 (114)	7500 (59)	56 (2)	40 (1)	150 (1)	1000 (6)
1990	10,000 (136)	12,500 (101)	2279 (23)	280 (7)	6146 (39)	4000 (50)
1995	10147 (91)	22000 (156)	5800 (36)	1650 (24)	12334 (82)	9500 (111)
2000	12518 (109)	32105 (212)	4356 (48)	2308 (72)	10563 (94)	10181 (146)
2002	9821 (96)	38525 (197)	5107 (49)	2579 (80)	13171 (85)	16284 (109)
2007	14300 (164)	65000 (256)	7813 (93)	3881 (88)	21620 (111)	23900 (156)
Size of the zone (acres)	700	93	103	280	261	310

Parentheses contain data on number of industrial units.

Source: Department of Commerce, Government of India

Employment generating potential of SEZs, as reflected in the employment elasticity of exports, is directly linked with their expansion. Since employment elasticity is large in the initial stages of SEZs, new SEZs are likely to play a critical role in this country where over 60 percent of the population is still directly/indirectly dependent on agricultural activities and the level of education attainment is very low. The average employment elasticity in Kandla during 1966-1971 was estimated at 1.09; however, after economic liberalization policy initiated and SEZ investment expanded during the period 1991-2000, it was reported to be around 0.62. After the SEZ Policy of 2000 came into effect, the employment elasticity is estimated at 0.295.²¹

²¹ Aggarwal, A., "Impact of Special Economic Zones on Employment, Poverty and Human Development", May 2007, ICRIER Working Paper No. 194, pp.19

Investment in SEZs

Private investment by entrepreneurs for establishing units in the SEZs is of the order of about Rs. 2235 crores, of which foreign/NRI investment is about Rs. 600 crores, accounting for nearly 25 percent of total investment. The Ministry of Commerce expects that total investment in these SEZs would be Rs. 60,000 crores and 10,00,000 additional jobs will be created by December 2009. If all the formally approved 234 projects become operational investments of the order of Rs. 3,00,000 crores including about US\$15-20 billion in FDI is expected and 4 million additional jobs may get created in these SEZs.

Despite having improvement in international business climate in recent years, India has been slow in receiving foreign direct investment (FDI). The rising trend in FDI observed in 2005-06 accelerated further in 2006-07. The provisional data (Economic Survey 2006-07) show that the FDI in April-September 2006 at US\$ 4.2 billion was almost twice its level in April-September 2005. Cumulative FDI inflows since August 1991 up to September 2006 were US\$ 43.29 billion. During the same period China was able to attract more than US\$ 200 billion. The reasons for slow FDI inflows are: multiplicity of central and states laws, infrastructure bottlenecks, lack of political will to implement the remaining, yet much required, reforms such as capital account convertibility, labour laws, etc.

The benefits derived from multiplier effect of the investments and additional economic activity in the SEZs and the employment generated thus will far outweigh the tax exemptions and the payments made for land purchases. Stability in fiscal concession is absolutely essential to ensure credibility of Government intensions.

IV. Relevant Issues on SEZs in India

Following the SEZ Act of 2005 and the SEZ Rules of 2006, the Department of Commerce has approved the setting up of a large number of SEZs in different parts of the country. This has generated debates on a number of issues and they can be broadly clubbed under five heads, which are as follows.

- Loss of government revenue
- Decline in agriculture and associated livelihood opportunities
- Uneven regional development
- Misuse of land for real estate
- Discrimination against existing industries

Loss of government revenue

The SEZ Act, 2005 offers various fiscal and non-fiscal incentives and facilities for attracting investment (including foreign direct investment) into the SEZs. Some of these measures are as follows.

- Duty free import/domestic procurement of goods for the development, operation and maintenance of SEZ units
- Exemption from customs/excise duties for development of SEZs for authorized operations approved by the Board of Approval
- 100 percent income tax exemption on export income for SEZ units under Section 10AA of the Income Tax Act during the first five years, 50 percent during the next five years and 50 percent on the ploughed back export profit during the next 5 years
- Income tax exemption on export income for a period of 10 years under Section 80-IAB of the Income Tax Act
- Exemption from minimum alternate tax under section 115JB of the Income Tax Act
- External commercial borrowing by SEZ units upto US\$500mn in a year without any restriction on maturity and through recognised banking channels
- Exemption from Central Sales Tax and Service Tax
- Exemption from dividend distribution tax under Section 115O of the Income Tax Act
- Single window clearance for Central and State level approvals

- Exemption from State Sales Tax and other levies as imposed by the State Governments

Department of Revenue, Government of India is against providing blanket tax sops to all SEZs and also to all types of industrial and service units operating in SEZs without some conditions. It has estimated that over a five-year period (2005-10) there will be revenue loss to the tune of Rs. 175,847 Crores due to various tax exemptions/incentives to SEZs. The Ministry has come out with an analysis of the revenue loss based on some assumptions and the trend of revenue forgone during 2005-06.

It must be understood that this revenue loss is notional as there would be no revenue if these SEZs are not put in place. Further, since most of the investment in these SEZs will be private, it will not lead to extra burden on the exchequer. All sales made by SEZs to the domestic tariff area (DTA) will be only after payment of full customs duty and, hence, will add to the exchequer.

Department of Commerce, Government of India, while strongly favouring tax exemptions/incentives for SEZs has critiqued the revenue loss estimates of the Department of Revenue on the ground that these estimates do not reveal the true picture of the situation. The assumptions on which the Department of Revenue made its estimation were not plausible, as they do not take into account the ground realities and thus, the figures are overestimated. Many of these tax exemptions are already offered to Export Oriented Units (EOUs)/Software Technology Parks (STPs) till 2009.

According to Department of Commerce, total revenue loss due to SEZs would not be more than Rs. 33,065 Crores. On the other hand, it has estimated that due to additional economic activity GDP will increase by Rs. 845,160 Crores. This increase in additional economic activity would generate additional revenue of Rs. 148,352 Crores during the same period (i.e. 2005-10).

Table 7: Revenue Loss on Account of Export Promotion Schemes

Scheme	2005-06	2006-07
Advance Licence	13261 (35.27)	17610 (32.75)
EOU/EHTP/STP	10277 (27.34)	13651 (25.38)
EPCG	5332 (14.18)	8648 (16.08)
DEPB	5650 (15.03)	4873 (9.06)
SEZ	1070 (2.84)	2146 (3.99)
DFRC	815 (2.16)	824 (1.53)
DFIA	--	530 (0.98)
DFCEC	585 (1.55)	1266 (2.35)
Target Plus	500 (1.33)	3120 (5.80)
Vishesh Krishi and Gram Udyog	60 (0.15)	800 (1.48)
Served from India Scheme	40 (0.10)	300 (0.55)
Total	37590	53768

*Source: Department of Revenue, Government of India
Figures in parentheses are percentage to total.*

Table 7 shows that the revenue loss on account SEZs is much less than that due to other export promotion schemes. It is, thus, unclear why there is so much debate on revenue loss on account of SEZs. Secondly, the estimation of revenue loss on account of SEZs has been made by assuming that the same amount of investment and additional economic activities (thus, generating additional revenues) would have been generated if the units are located outside SEZs and do not avail any benefits from other export promotion schemes – a heroic assumption, indeed!

This issue of revenue loss also came up in India's Trade Policy Review by the World Trade Organisation, which was held in May 2007. This has noted an observation by the Reserve Bank of India that the revenue loss can be justified only if the SEZs ensure forward and backward linkages with the domestic economy. At this Review, India replied that the critique of SEZs was 'premature', since employment in them was projected to rise from 31,000 to 100,000 by the end of the year and four million by 2010, adding jobs in sectors such as textiles, gems and jewellery, and leather, which are relatively more labour intensive.²²

²² Bridges Weekly Trade News Digest, Vol. 11, No. 19, May 31, 2007, International Centre for Trade and Sustainable Development, Geneva

Degeneration of agriculture and associated livelihood issues

It is being apprehended that due to the implementation of the SEZ policy in different parts of the country, a large amount of agricultural land will be put to use for industrial purpose, and that will have severe implications on the livelihood of farmers (and those associated with agriculture) and food security.

The total land area of 237 formal approvals granted till date is 34,510 hectares out of which over 50 approvals are for State Industrial Development Corporations/State Government ventures, which account for approximately 17,800 hectares. No fresh land acquisition took place in any of these cases. The land already available with the State Governments or SIDCs or with private companies has been utilised for this purpose.

Box 1: Land Requirement for SEZs

Total Land in India: 29,73,190 sq. km.

Total Agricultural Land in India: 16,20,388 sq. km. (54.5 percent of total land)

Land requirement for formally approved 362 SEZs: 487 sq. km.

Land requirement for in-principle approved 171 SEZs: 1,571 sq. km.

Total land requirement for formal and in-principle approved SEZs will not be more than 0.065 percent of the total land area and not be more than 0.12 percent of the total agricultural land in India.

Source: Department of Commerce, Govt. of India

In India, there is over 130mn hectares of wasteland (some of which can be converted into agricultural land). Thus, the issue of land acquisition for SEZs (for that matter for any industries) is a choice between using wasteland or agricultural land.

This issue is also to be looked at from the point of view of returns from agriculture. In many parts of India, returns from agriculture are steadily falling. Besides marketing and other price-related issues, this is on account of falling agricultural productivity. In many cases, farmers are willing to sell their land for industrial purpose, provided they receive good compensation and other measures (such as a stake in an industry, employment, etc) are implemented. In many areas where SEZs are coming up, land prices are increasing at a rapid rate.

Another contentious issue in this regard is that acquisition of agricultural land will damage India's food security. This issue (food security) has economic as well as political dimensions (food sovereignty). Food security does not depend only on the availability of land and production of food grains. Most crucially, it depends on a person's access and ability to buy food, and that is related to purchasing power.

According to the Department of Commerce, only 0.12 percent of cultivable land of the country will be used for the setting up of SEZs. It is also true that cultivable land is being increasingly used for industrial purpose (not just for SEZs) and infrastructural development. And this is not a new development. Loss of agricultural land is a micro issue and politically it is not prudent to set this aside by looking at it in a macro sense. The real issue is whether those who are losing their immediate livelihood opportunities (on account of land acquisition; not only land owners but also sharecroppers, tenant farmers, agricultural labour) are expected to avail alternative livelihood opportunities or not.

This is a complex issue and cannot be resolved in a short time, as availing alternative livelihood opportunities would require acquiring different types of skills, etc. Multi-pronged and cogent efforts on the part of state and non-state actors are required in order to overcome this challenge over time. (See Box 2)

Box 2: Special Empowerment Zone

The new compensation plan for land to be acquired for a steel factory in Salboni in West Midnapore district in West Bengal seems a fine way to overcome the increasing reluctance of landholders to part with their property. The proposal worked out between the JSW Steel and the State Government promises each landowner a mix of cash compensation and shares in the project's special purpose vehicle (SPV), equal in value to the full price of the land acquired. There is also a job offer for one member of each of the 741 land-owning families who will be dislocated by the factory. This (package) works out as a safety net in case of adverse outcomes such as the SPV failing to develop the project.

Innovative deals like this one that take farmers along on the path to prosperity are clearly the way forward. It is not just that it gives the displaced a stake, literally in the project's success, it takes care of temporal and current needs of the agriculturists as well.

Source: The Financial Express, June 03, 2007

According to Sharad Joshi, a farmers' leader and Hon'ble Member of Parliament (Rajya Sabha): "Though farmers love their land but in today's changed circumstances they are ready to sell their land for their own betterment. If given the option to sell their land, which amounts to their voluntary retirement from farming and by employing them in industrial activities, they will have a better living. SEZs being established at a time when there is land degradation due to climatic change and unfortunately most of the SEZs are coming up in irrigated arable lands close to the cities would result in food security concerns, as the expansion of the agriculture into marginal lands may be difficult."²³ He favoured SEZs either for those lands that are owned by developers themselves or for lands of farmers, which are purchased through open bidding system. He is opposed to the policy of government acquisition for private SEZ developers. (See Box 3)

Box 3: More than Willing to Sell their Land!

The residents of Jewar, a small *tehsil* (a small unit of revenue collection and administration typically comprising a few towns and villages) in Uttar Pradesh (75 km. From Delhi) are excited by the announcement that an international airport would be built in that area. Most farmers in the area said they were looking forward to selling their land to the government. "We are not opposed to acquisition of our lands. All we want is adequate compensation," said 87-year-old Mani Ram of Kishorpur village. Those without land are looking forward to jobs. Devraj Singh, an agricultural labourer, said he would "get more work if the airport comes up". Jitendra Kumar, a 19-year-old college student, added that the airport would create opportunities for people like him: "There are simply no jobs here. There is no industry. If the airport comes up, at least people like me can drive taxis."

Source: mint, June 05, 2007

Shri G. K. Pillai, Secretary, Department of Commerce, Government of India cited the changes (with respect to land price) that have taken place in Sriperumbudur (near Chennai in Tamil Nadu) following the setting up of an SEZ. In that area 700 hectares of land were acquired in 2002, much before the SEZ came up. Farmers were paid Rs. 500,000 per acre as per the market price at that time. The land price has gone up to Rs. 80,00,000 per acre (16 times in four years). A farmer having his land some three kilometres away from SEZ is contemplating to sell one acre (out of three acres that he owns) and said that his own pension, his daughter's marriage and son's education will be taken care of through this sell.²⁴

²³ Comments at a meeting of the Parliamentarians on SEZs, which was organised by CUTS International in New Delhi on May 03, 2007

²⁴ Interview of Shri G. K. Pillai to rediff.com on February 21, 2007

Uneven regional development

There is a possibility that SEZs will be set up in states where there is already a strong tradition of manufacturing and exports. According to some critics, this will aggravate regional disparities. The SEZ Act, 2005 provides for setting up of SEZs in any State/Union Territory.

The 234 formally approved SEZs are spread over 17 states and two UTs. However, almost 70 percent of approvals have taken place in states like Andhra Pradesh, Gujarat, Haryana, Karnataka, Maharashtra, and Tamil Nadu. It is interesting to note that except Andhra Pradesh, all these states have witnessed significant industrial development since independence.

Table 8: The Big Six States in terms of SEZ Approvals

States	Level of Approval			Land Area (Sq. Km.)	Land Area (Sq. Km.)
	Formal	In-principle	Notified	(Owned)	(Proposed)
Andhra Pradesh	45	9	15	94.33	40.51
Haryana	19	27	2	2.90	349.00
Gujarat	18	10	6	85.71	54.39
Karnataka	29	17	10	16.73	47.20
Maharashtra	47	26	7	81.50	290.00
Tamil Nadu	24	12	9	91.21	50.78
Total	182	101	49	372.78	831.88

Source: Department of Commerce, Government of India

Taking into account the Chinese example, some critics have pointed out that it would be better to develop lesser number of SEZs of bigger size. In a federal country like India (especially after liberalisation), it would be difficult to implement such a policy. Even smaller states are keen to develop SEZs in their backyards, as they have the potential to generate employment, expand the market and thus, there would be additional sources for revenue.

For instance, Nagaland has urged the Centre to set up an SEZ along with a software technology park around Dimapur (the State capital), which will be in line with the country's Look East Policy.²⁵ Then Hon'ble President of India, Dr. A. P. J. Abdul Kalam has suggested the setting up of three SEZs in Meghalaya (another State in North East India, which is one of the most backward regions of the country in terms of industrial development), which could generate 25,000 employment and Rs. 2,500 Crores of additional revenue.²⁶

Other than political economy factors to be taken into account in understanding why India is setting up a large number of SEZs (including many, which are of smaller size), it is to be understood that a number of single product SEZs are being established and due to the very nature of the production process of these products they do not require large area. For instance, a number of SEZs is exclusively established to cater to the growing importance of IT (information technology) and IT-enabled services in India's economic development and it is understood in India's policy circle that these SEZs are one of the factors behind phenomenal growth of this sector in recent times. (See Box 4)

Box 4: Indian IT and IT-enabled Services – A Success Story

The software industry has emerged as one of the fastest growing sectors in India in the last decade or so. It has shown a compound annual growth rate of over 28 percent during the period between 1999-2000 and 2005-06. Exports increased from US\$12.9 billion in 2003-04 to US\$17.7 billion in 2004-05 (by nearly 37 percent), with export earnings accounting for about 21 percent of India's total exports in 2004-05 (and expected to rise to 35 per cent by 2008). The industry's contribution to GDP rose from 1.2 percent in 1999-2000 to an estimated 4.8 percent in 2005-06 and further to 7 percent by 2008 (as per NASCCOM's projections).

In terms of employment generation (contrary to some popular perceptions), total direct employment in the Indian IT/ITES sector is estimated to have grown by over a million, from 284,000 in 1999-2000 to nearly 1,287,000 in 2005-06. In addition, it is estimated to have helped create an additional 3 million job opportunities through indirect and induced employment.

Global software giants such as Microsoft, Oracle and SAP have established their captive development centers in India. A majority of these companies have already aligned their internal processes and practices to international standards such as ISO, CMM, and Six Sigma. This has helped establish India as a credible sourcing destination. As of December 2006, over 400 Indian companies have acquired quality certifications with 82 companies certified at SEI CMM Level - higher than any other country in the world.

Source: Economic Survey 2006-2007, Government of India, Ministry of Finance, P.146-148; <http://www.nasscom.in/Nasscom/templates/NormalPage.aspx?id=11028>; OECD (2007b), "India drives to upgrade IT Outsourcing Workforce", Business Week, December 2006

²⁵ Financial Express, March 20, 2007

²⁶ The Hindu Business Line, March 06, 2007

Misuse of land for real estate

It is being argued and there are apprehensions that the promoters of SEZs will get land cheaply and will make a fortune out of real estate development and indiscriminate speculation. The required minimum processing area is 35 percent (recently the Empowered Group of Ministers has decided to raise this to 50 percent). The rest will be for residential, recreational facilities, which will be used by these developers for real estate/commercial purposes.

The Provisions of the SEZ Act clearly mentions that land utilisation would be strictly according to the UDPFI (Urban Development Plan Formulation & Implementation) guidelines issued by the Ministry of Urban Development, Government of India. The present guidelines and the actual proposed usage as per the Master Plan of a Multi-product SEZ are stated in Table 9.

Table 9: Land Use Pattern in Multi Product SEZs

Land Use	% Area allocation as per the UDPFI Guidelines	In Multi Product SEZ
Residential	35-40	27
Commercial	4-5	2.8
Industrial	10-12	35
Recreational	18-20	8.4
Public & Semi-public Activities	12-14	6.6
Transportation	12-14	7.2
Others	Balance	13.2
Total	100	100

As per the SEZ Rules a developer may allot land in non-processing area for business and social purposes such as educational institutions, hospitals, hotels, recreation and entertainment facilities, residential and business complexes, provided that infrastructure for business or social purposes in the SEZ, as may be approved by the Board, shall be eligible for exemptions, concessions and drawbacks.

To regulate usage of SEZ area by the developers, the SEZ Board of Approvals will assess the size requirement of infrastructural facilities like housing, commercial spaces, recreational amenities etc. based on the employment generation potential of an SEZ. In the first phase it is proposed to allow only a maximum of 25 percent of the approved housing while the other approved infrastructure will be allowed to be created as per the developer's plans and as approved in the Master Plan. The balance housing shall be allowed to be established by the Approval Committee in three phases depending upon the progress in allotment/occupancy of units in the processing area.

Discrimination against existing industries

There is a criticism that due to fiscal incentives enjoyed by units in an SEZ they will be relatively more competitive than similar industries outside SEZs and as a result of this there may be a tendency to establish industrial units only in SEZs, which can aggravate uneven economic development of the country. However, it is also true that many SEZ-related incentives are equally applicable and units in an SEZ are required to undertake many obligations too (such as export obligation), which may not be the case for non-SEZ units.

Many have argued for providing special incentives for similar units located outside an SEZ. For instance, the Ministry of Communications and Information Technology, Government of India as per its recently announced semi-conductor policy is to contribute 20 percent of capital expenditure for units in SEZs and 25 percent for those in non-SEZ areas (subject to a minimum investment of Rs. 2,500 Crore).

This is a complex issue and one cannot reach any conclusion (in terms of industrial competitiveness, choice of locations) without a comprehensive study of the performance of similar units in SEZs and non-SEZ areas. Since most of the SEZs in India have become functional very recently, such a study should be done after at least five years of their operation.

V. Performance of the SEZs Surveyed and Related Issues

A field survey was conducted during 12th March to 12th April 2007 to obtain information/data regarding investment, exports, employment, etc and to document the views, etc of different stakeholders associated with SEZs in India. In the field survey our main emphasis was to understand and quantify (wherever possible) the impact (both positive and negative) of the SEZs.

A total of 14 SEZs, out of 27 so far actually functioning (that is, exporting) were surveyed, which included seven EPZs established during 1965-2000 and subsequently converted into SEZs after SEZ Policy came into effect in 2000. The other seven are new generation SEZs, which were established after SEZ Policy 2000 came into effect. Of these seven, six are developed by the respective State Industrial Development Corporations and one was by a private developer.

Out of 1,040 units operating in these 14 SEZs, we have surveyed 58 units, which is approximately 5.6 percent of total units.²⁷ Though the sample size is small, it is fairly representative, as care was taken to select at least one unit from each product group. Moreover, the purpose was to conduct a qualitative (than quantitative) study. The following SEZs were surveyed.

- Kandla and Surat (Gujarat)
- Cochin (Kerala)
- Biocon and Hassan (Karnataka)
- Santa Cruz and Serum, Pune (Maharashtra)
- Jaipur (Rajasthan)
- Chennai, Mahindra World City and Nokia (Tamil Nadu)
- NOIDA (Uttar Pradesh)
- Falta and Manikanchan (West Bengal)

²⁷ A standard practice of any statistical survey is to select five to ten percent of total population as sample size.

In order to evaluate the performance of these SEZs we prepared three sets of questionnaires. The first questionnaire was designed for the SEZ developer and in most cases we have obtained the relevant information/data from the office of the Development Commissioner of concerning SEZ. The second questionnaire was related to industrial units and information/data were gathered from selected units by visiting them and discussing with the concerned entrepreneur or officials. The third questionnaire was meant for business chambers/associations where the views of office bearers such as president or secretaries of the concerning chamber/association were obtained on different aspects of the functioning of SEZs. The questionnaires are annexed.

Furthermore, in order to understand and document the overall impact of an SEZ in a particular area, the survey team visited several villages in the vicinity of an SEZ and talked to a large number of people who are engaged in formal and informal activities in such areas. The survey team obtained information from a cross-section of people on changes in their daily life including employment and earning opportunities, consumption patterns, civic amenities, recreational and transport facilities, etc, which might have taken place after the establishment of an SEZ. Details of SEZs surveyed are provided in Table 10.

Table 10: Details of the SEZs Surveyed

SEZ	Developer	Type	No. of Units	Units Surveyed
Kandla	Central Govt.	Multi Product	160	07
Surat	Central Govt.	Multi Product	128	07
Hassan	State Govt.	Single Product	01	01
Biocon	State Govt.	Single Product	01	01
Cochin	Central Govt.	Multi Product	93	08
Santa Cruz	Central Govt.	Multi Product	259	07
Serum	Private	Single Product	01	01
Jaipur	State Govt.	Single Product	23	03
Chennai	Central Govt.	Multi Product	111	01
Mahindra City	State Govt.	Multi Product	05	01
Nokia	State Govt.	Single Product	01	01
NOIDA	Central Govt.	Multi Product	156	11
Falta	Central Govt.	Multi Product	88	04
Manikanchan	State Govt.	Single Product	14	05
Total	--	--	1040	58

Export performance

During 2005-06 the units in these SEZs exported goods and services to the tune of Rs. 4,300 Crores – largest being contributed by Santa Cruz and Noida, which, taken together, accounts for 48 percent of total exports from SEZs. Details of exports by the units surveyed in different SEZs are provided in Table 11.

Table 11: Exports by the Units Surveyed (2005-06)

SEZ	Exports (Rs. Crore)
Kandla	383
Surat	43
Hassan	450
Biocon	250
Cochin	152
Santa Cruz	1,022
Serum	--
Jaipur	26
Chennai	15
Mahindra City	68
Nokia	578
NOIDA	1,019
Falta	32
Manikanchan	263
Total	4,301

Employment generation

In 58 units surveyed in 14 SEZs, the total number of employment was 19,752 of which nearly 76 percent were hired locally and nearly two-fifth were women. About 57 percent was found to be skilled employment and unskilled employment was about four percent. Details about employment are provided in Table 12. It was found that women employment is higher in new generation SEZs – at 55 percent as compared to the converted SEZs, which was 30 percent. As against 80 percent employees hired locally in converted SEZs only 32 percent were hired locally in the new generation SEZs. It is interesting to note that semi-skilled are finding more jobs in new generation SEZs. (See Box 5)

Box 5: Job to Jobless!

Shri G. K. Pillai, Secretary, Department of Commerce, Government of India, in his interview to rediff.com (February 21, 2007) spoke about the Gems and Jewellery Park in Hyderabad in Andhra Pradesh where about 700 girls and 300 boys are employed from the surrounding areas. All these girls and boys are from families of landless agricultural labour. Earlier, they were unable to get two square meals a day. But now they have a job. The SEZ has given them self-respect.

In Nokia SEZ in Tamil Nadu, out of 3,800 persons working 3400 are semi-skilled. It was found that girls after completing secondary and/or higher secondary education (of the age group of 16-21) are recruited in Nokia after imparting three months training. On the other hand, in Serum Bio-Pharma Park in Pune, it was found that only five percent are locally employed. This is not surprising, as skills required for such products may not be available in the vicinity.

Table 12: Employment in the Units Surveyed

SEZ	Total	Local	Skilled	Semi-skilled	Unskilled	Women
Kandla	1521	1037	845	536	140	289
Surat	650	301	484	166	--	158
Hassan	1700	1105	1105	595	--	1530
Biocon	730	365	438	219	73	365
Cochin	923	760	335	382	206	227
Santa Cruz	6420	6280	5125	1295	--	2776
Serum	180	95	140	40	--	130
Jaipur	360	208	245	115	--	11
Chennai	160	64	40	60	60	60
Mahindra City	95	93	70	13	12	09
Nokia	3800	3000	400	3400	--	1900
NOIDA	2433	1125	1627	695	111	317
Falta	555	535	320	180	55	14
Manikanchan	225	120	125	100	--	--
Total	19752	14993	11299	7796	657	7786

Manikanchan (gems and jewellery) SEZ in the Salt Lake City in West Bengal covers an area of 4.8 acres with 14 operational units. It provides employment to 1,020 artisans (both skilled and semi-skilled) who mostly hail from Howrah, Hooghly and Midnapore districts (far from the Salt Lake City). What is interesting about employment generation in Manikanchan is that there is a reverse migration of artisans. Prior to the establishment of this SEZ, many of these artisans used to migrate to Gujarat and its neighbouring states in search of employment, but now with the establishment of the Manikanchan SEZ they are returning back to West Bengal, earning an average emolument of Rs. 8,000 to 10,000 per month.

Fiscal incentives

We asked a simple question: “How crucial are tax incentives/exemptions for attracting investment into SEZs”. The opinion expressed by the units overwhelmingly supports the view that they will not be able to survive without such incentives. Nearly 90 percent of the respondents favoured provision of fiscal incentives. There was hardly any respondent not demanding income tax exemptions, rather most of them made the plea for continuation of income tax exemptions.

Majority of the units working in these SEZs have favoured similar tax exemptions/incentives from the State Governments. Despite the SEZ Act, 2005 being in operation, which calls for all state tax concessions to be extended to units working in SEZs, most of the State Governments still retain their taxes.

Infrastructure facilities

The infrastructure within the SEZ is generally superior to that available outside. However, no exclusive arrangements have been made for power, water or telecommunications by the zone authorities. Only Cochin and Madras SEZs have reported to have effluent treatment plant and water purifier. Captive power plant scheme is applicable but not operational in any converted SEZs, except in Falta.

The new generation SEZs, however, have their own captive power plants. The units in most of the SEZs have their own back up arrangements for power supply. The old SEZs are not properly connected with good quality roads from different directions leading to the zone and there is no transport facility available within the zone. Poor streetlights and poor security system create problems especially for the staff working during night shifts.

Though the physical infrastructure is improving gradually since the SEZ Policy came into being in 2000, they are far from satisfactory. Social utilities are almost non-existent except canteen. Only in Kandla and Surat certain area is earmarked for such facilities whereas in the rest of SEZs it is almost negligible. Even basic facilities such as fire stations, guesthouse, hospitals, etc are not available.

However, new generation SEZs coming up mainly in the private sector are developing world-class infrastructure. Amongst the facilities provided to the employees are a well-stocked library, a cafeteria, a double-storied lunchroom, which provides multi cuisine food at a very subsidised rate, a well-furnished gymnasium with state-of-the-art equipment, a spacious meditation centre, a well functioning crèche and separate rest rooms for male and female workers.

Power availability is rated as satisfactory in most of the zones except in Noida where the units do not get regular supply of power for more than three to four hours daily. Most of the respondents have expressed concern against high electricity charges making the cost of production relatively high. They also rate other facilities such as warehousing, container handling, banking and port as poor. Nearly half of the respondents said that these infrastructure facilities are improving since 2000 but the pace of such improvement is very slow. Water supply in most of the zones is average but there is a concern on high water charges.

Location

In order to find the role of location in making an SEZ successful we posed several questions. It is interesting to note that 82 percent of the respondents feel that location plays a vital role for their success. The location of SEZ was defined in terms of proximity to big cities, proximity to port/airport/railway station, and whether in a specific state (developed or backward).

Nearly 75 percent respondents were of the opinion that they would favour SEZs to be near bigger cities and that too in developed regions of the country. The unit holders in Santa Cruz are convinced that their locational advantage plays a vital role for their success. Presence of government offices, better residential and banking facilities and cosmopolitan nature of cities attract investors, according to the respondents.

For instance, Nokia SEZ is located about 40 km. from the city centre in Chennai. It is a huge establishment covering an area of 210 acres. One of the prime reasons to set up a manufacturing unit in Sriperembudur is because it is cost effective. It has the inbuilt advantage of being located close to Chennai. The choice of Chennai for an ideal expansion is known to most investors for its availability of skilled workforce, presence of good logistics, excellent infrastructure facilities, including port facilities, and closer to a huge customer base.

Governance

The quality of governance was looked at through transparency, service delivery, attitude of the officials and application of rules/procedures. While those firms established in the converted SEZs are relatively complacent the new generation SEZ units are highly dissatisfied with the transparency aspect. Similar is the result regarding the attitude of officials. Unit holders in old SEZs somehow get along with the officials while those in new SEZ are finding it difficult to do so. Many respondents have stated that the approach, vision, attitude, openness of officials of the Office of the Development Commissioner hugely affect their overall functioning.

Regarding the operation of the single window facility, most of the respondents have reported that it is non-functional. Though every SEZ has now houses a single window clearance facility, it is not operating effectively. The effectiveness of this facility depends to a large extent on administrative efficiency of the Office of the Development Commissioner. Most of the respondents said that they face lot of difficulties in understanding the rules, regulations and procedures laid down in the SEZ Act and Rules and even the officials of the DC office are ignorant or not well conversant on them.

Though the number of visits by the DC officials has declined substantially but the visits by labour inspectors has not declined. It is reported by many respondents that they have employed a full time person to deal with government officials. It is worth mentioning that the SEZ Act has provided that the power of the Labour Commissioner to be vested onto the Development Commissioner but in many SEZs (for example in Cochin and Jaipur) inspectors from the State Labour Department are visiting SEZ units.

The regulatory environment sets ground for payments of speed-money. Nearly 80 percent of the respondents have reported a substantial reduction in speed-money payments since the SEZ Policy 2000 came into force. However, grey areas remain such as in customs clearance. Customs clearance takes inordinate delay and thus, affected by irregular payments. The attitude of many custom officials is reported to be hostile and exploitative by many of the units surveyed.

Policy regime

Stability in government policies, especially related to its tax regimes is absolutely necessary for attracting any investment, both domestic and foreign. Firms require that the policies of the Government related to industrial and foreign trade should be visible, comprehensive, transparent and predictable over longer-term. This is necessary for their long-term investment plan as well as for their efficient operation.

Table 13: Factors Responsible for the Success of SEZs

Factors	Important (%)	Very Important (%)
Physical Infrastructure	9	91
Social Infrastructure	52	48
Availability of Raw Materials	12	88
Proximity to Port and Airport	18	82
Fiscal Incentives	16	84
Regulatory Governance	10	90
Stability of the Policy Regime	26	74

Table 13, above, summarises the responses with regard to the factors responsible for the success of an SEZ. We posed whether the unit holders consider them as ‘less important’ or ‘important’ or ‘very important’. Interestingly, none of the respondents considered any of these factors as ‘less important’. Overwhelmingly, every factor obtained a huge majority of being ‘very important’ rather than ‘important’. Only social infrastructure was half and half. Stability of policy regime was rated the least in the ‘very important’ category, other than social infrastructure, thus conveying a sense of a smaller problem than other factors, all of which scored over 80 percent.

Local area impact

SEZs, which have been established purposely to enhance exports and employment, also have their indirect, yet very profound, impact and implications for the society as a whole. Amongst the 14 SEZs surveyed, it was found that they have very profound indirect impact on the surroundings, signaling a positive trend. For instance, in Noida, earlier it was difficult for a worker to move his family from his remote village to urban industrial area; given the high costs of living and no social security back up. The basic problem was lack of affordability. This often left young girls uneducated, thereby unproductive. But now, with the introduction of a regulated insurance scheme, healthcare schemes and provident fund for every employee in the SEZ in addition to a monthly wage of approximately Rs 4,000 a worker can afford to bring his family leading to a perceptible change in their overall life style and pattern.

Among some of the SEZs visited, the emphasis on honing human resource development was very apparent. Keeping its requirement in mind Himatsingka Seide Limited, Hassan demands a strong set of skilled manpower. In adhering to its policy of generating local employment, HSL has recruited mostly women who have graduated from one of the 80 odd schools in the district. It has so far employed approximately 1,700 women who hail from nearby villages. A very interesting aspect of the recruitment policy is that after a preliminary interview, a second round of discussion is arranged with a candidate along with her parents to discuss her job profile, job expectations, facilities offered, etc. This instills a sense of confidence in a candidate who feels more secure at work.

In Falta in West Bengal, setting up of an SEZ has helped in enhancing infrastructural facilities in terms of electricity connection and better communication facilities through more efficient telecommunication. After its establishment there has been a perceptible reduction of anti-social activities. There is also a significant change in the mindset of the local people. Thanks to a steady source of income they are now considering various options for investing their money, sending their children to better schools, etc.

Box 6: Nokia SEZ: A Success Story

The Nokia plant that manufactures mobile phone handsets is spread over an area of 210 acres of land. Nokia's rationale to have a manufacturing unit within the scheme of the SEZ supports the economic logic that this would enable them to have their suppliers much closer to them so that costs can be cut and issues relating to time lag, logistics, etc could be handled much more efficiently. This is apart from the fact that it also generating tremendous backward linkages. The land had been leased to Nokia on a long-term contract of 99 years by SIPCOT. It exports about 25 percent of its total production to over 15 countries spread over Middle East, South East Asia, and Africa.

Approximate investment to be made by the company is US\$500 million, out of which US\$150 million has already been invested in the first three years. A remarkable exemplification of the enthusiasm with which the company functions can be seen from the fact that it took merely 23 weeks to build up an area of 29,000 sq. mt. on international scales to start production! The Nokia SEZ has provided direct employment to about 3,800 people so far, who hail from the local vicinity as well as some other near by districts such as Kancheepuram. About 75 percent of the employed are women who are high school graduates, from modest family backgrounds. The living conditions of these young working women have undergone a perceptible change, with their salaries touching up to Rs. 4,500 per month in addition to perks.

Growth prospects within the company are immense, with a commensurate increase in salary structures. Nokia had also asked the State Government to set up an ITI near Sriperumbudur. Nokia offered to provide support in terms of providing the right training environment. Realising that attrition could be a key concern in the coming days, Nokia had taken 800 apprentices as part of a one-year vocational training programme, and these apprentices will have the freedom to go anywhere after receiving the training.

The success of the Nokia SEZ can be seen easily in the changing dynamics of life patterns and changing attitudes of the people around. Work culture is now changing for the better with less hierarchy and more transparency. The production unit has set a benchmark against quality standards in all departments, be it efficiency in production, work ethos or managerial skills. This model is bound to have a demonstration effect, with up-coming companies emulating it, thereby raising the general standards of industrialisation and development in and around the whole area.

VI. Conclusions and Recommendations

As against the Chinese model of “big and few” India has adopted a policy of “Small and many” while developing SEZs in the country. This is consistent with its federal democratic set-up allowing each state and associated stakeholders to share the benefits of such a development strategy.

SEZ is not a new phenomenon in India. The first EPZ in India was set up in Kandla, Gujarat in 1965. The Santacruz EPZ in Mumbai came into operation in 1973. Till the year 2000, the Government of India established six more EPZs and subsequently they were converted into SEZs.

During 1990s the Government of India initiated wide-ranging measures for revamping and restructuring these EPZs. It embarked upon progressive liberalisation of policy provisions, relaxation of controls and simplification of procedures. Delegation of more powers to zonal authorities, providing additional fiscal incentives and providing greater facilities were some of the most important reforms initiated by the Government of India to enhance export competitiveness of these zones.

To achieve the objectives of increasing exports, attracting more investment and accelerating the country’s economic growth, the Government of India introduced a new SEZ Policy in April 2000. After the SEZ Policy 2000 was adopted 12 new SEZs were set up mostly in joint sector where State Governments acquired land. Thus, 19 SEZs were operationalised before the SEZ Act, 2005. The enactment of this Act (and associated Rules adopted in February 2006) is a significant development as far as reduction in policy uncertainty is concerned. Since February 2006, 234 formal approvals and 162 in-principle approvals have been granted. Out of this, notifications have been issued in respect of 92 SEZs. Thus, the SEZ Act is expected to act like a catalyst for future industrial development in India.

From our analysis and results of the field survey, following broad conclusions and recommendations are drawn.

First, there is a broad consensus amongst all stakeholders, including political parties that the SEZ Policy is to stay. However, there remain some differences regarding some of the provisions of the SEZ Act, 2005 (particularly on governance aspects, the functioning of the Office of the Development Commissioners) and they are to be reviewed.

Second, since SEZ is a relatively new development in India (prior to 2006), only 19 SEZs were operational, there is severe data limitation for understanding the overall impact of SEZs on export performance, employment generation, etc. Therefore, our analysis depends mainly on the performance of the converted SEZs. The primary purpose of SEZs is to generate exports and they should focus on that.

Third, it is not clear how the Department of Revenue, Government of India has estimated the revenue loss on account of fiscal incentives to establish SEZs. Its estimate is based on a debatable assumption that the same amount of investment and additional economic activities would have been generated if the units were located outside SEZs. Overall, we find that the expected benefits of SEZs outweigh expected costs.

Fourth, there appears to be no problem regarding land acquisition for SEZs, as much of the required land is already in the possession of the State Governments. However, this could be a potential political problem in future and therefore, both Central and State Governments should strive for generating political consensus in this regard. A positive development is that there is a broad political consensus for having a comprehensive rehabilitation and resettlement plan of those whose livelihood will be affected by land acquisition. The compensation model followed for acquiring land for JSW Steel Factory in Salboni in West Bengal is a good one, as it provides landowners a stake in the venture and also works as a safety net.

Fifth, the new generation SEZs (such as at Bangalore, Hassan, Sriperumbudur) have created a tremendous local area impact in terms of direct employment, emergence of new (formal and informal) activities, changes in consumption pattern and social life, human development facilities (such as for education, healthcare).

Finally, the size of an SEZ is a debatable issue. The SEZ Act, 2005 made no provision for upper limit of the land area for an SEZ but mentioned only the minimum size at 1000 hectares. The idea behind having minimum and not the maximum area limit is to allow SEZs to develop world-class infrastructure. Recently, in order to avoid political backlash, the EGoM has decided to put a ceiling on the size of the SEZ and is contemplating to leave the issue of land acquisition to the private sector. The two are contradictory in that the government cannot reduce SEZ-related land acquisition to a contract between a landowner and a developer, and yet put a ceiling on the land so acquired. Given the political economy of industrial development in India, it may not be possible for the Government to limit the number of SEZs. However and for a more inclusive and broad based industrial development of the country, the Government (both central and state) should encourage the development of SEZs (for that matter any industrial development initiatives) in places which are hitherto underdeveloped, possessing wasteland and/or single crop land. The history of industrial development in India is full with examples (such as Bhilai, Durgapur, Jamshedpur, Haldia) where industries were set up in barren land areas and they acted as a catalyst for overall development of such areas.

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Annexure: Survey Questionnaires

*Stakeholders Perception Survey on
Potential Cost and Benefits of Special Economic Zones in India*

Details of the SEZ

1. Name of the SEZ: _____
2. Location (City/State): _____
3. was the SEZ established in a developed locality: Yes/No, Why?

4. Year of approval: _____
5. Year of operationalisation: _____
6. Nature of SEZ (Single product/Multi product/Service) _____
8. Name of the developer: _____
9. Nature of association between partners: Govt./Private/Public-Private Partnership

Land Issues in SEZ

1. Total Area Covered (in hectares/sq.mtrs): _____
2. State the Stake Holding pattern: (%) _____
3. Number of Industrial Units Operating (list to be obtained): _____
4. Number of Industrial Units yet to start (list to be obtained): _____
5. Number of Service Units operating (list to be obtained): _____
6. Number of Service Units yet to start (list to be obtained): _____
7. Pattern of land-Use in the SEZ:
 - Area Under Processing Units: ha/sq mtrs..... % of total area
 - Area Covered Under Facilities: ha/sq.mtrs..... % of total area
 - Area Under Infrastructure Facilities:.....ha/sq.mtrs % of total area
 - Area Under Residential Purposes:..... ha/sq.mtrs..... % of total area
 - Area Under Forest /Trees cover:..... ha/sq.mtrs..... % of total area
 - Area lying vacant for future use:.....ha/sq.mtrs..... % of total area

8. Land Use Pattern Prior to Acquisition of Land:

- Barren/Waste Landha/sq mtrs
- Forest Land.....ha/sq mtrs
- Cultivated Land.....ha/sq mtrs
- Pasture Land.....ha/sq mtrs

Compensation Issues

1. Compensation paid to:

- Land Owners/Cultivators: Rs _____ per ha/sq mtrs
- Govt. Agency (panchayat/municipality): Rs _____ per ha/sq mtr
- Any Others _____

2. Total Compensation Paid by the Developer: Rs. _____

3. Any other type of compensation like giving employment/ shareholding/ partial land ownership/ any other mechanism for compensation to affected people:

4. Total value of output produced by all units operating in the year: _____

Employment Issues

1. No of families displaced by acquisition of land: _____

2. Total Employment in all units: _____

- Skilled (No.).....; Total Emoluments Rs.....; Av. WageRs.....pm
- Semi-Skilled (No.)....; Total Emoluments Rs.....; Av. Wage Rs.....pm
- Unskilled (no).....; Total Emoluments Rs.....; Av. Wage Rs.pm
- No of Women Employed: ...; Total Emoluments Rs...; Av. Wage Rs ... pm

3. No of local people employed in units: _____

4. Is there any opportunity for local people to get in-house training for employment?
Yes/No free/fee (amount Rs _____)

- If yes, how many trained till date _____ of whom employed _____

Infrastructure Issues

1. Infrastructure arranged by the Zone administration/other government Department:

- Standard factories built by the zone: Yes/no
- Water Y/N

- Electricity Y/N
- Telecommunication Y/N
- Ware housing Y/N
- Transport facilities within the zone Y/N
- Transport for zone Y/N
- Recreation facilities Y/N
- Hotels/guest houses/club Y/N
- Residence for administration staff/labour Y/N
- Hospital Y/N
- School Y/N
- Fire Station Y/N
- Police station within/outside (Kms.away)
- Any security services provided within zone Y/N

2. Quality of Infrastructure in Zone (Scale of 0-5)

- Warehouse facility:
- Container handling facilities:
- Efficiency of banks:
- Transport facilities for the zone:
- Roads leading to the zone:
- Transport within the zone:
- Logistics:
- Port facilities:
- Airport facility (distance in Kms):
- Internet facilities:
- Telephone/mobile facilities:

Export/Import Issues

1. Total value of inputs used by all units; Rs. _____
2. Total FDI in the SEZ: \$.....already invested\$.....yet to come\$.....
3. Total Value on imported inputs by all units: \$ _____

Environmental Issues

1. No of Polluting Industries (list be obtained): _____
2. Environmental Pollution control devices used: Yes/ No
3. The Type of Environmental Hazards created by the units: noise/water/air
4. Did the industries take any environmental legislation clearance? Yes/No
 - (a)If no, is it because it was not required? _____
 - (b)If yes, did they face delay in getting the environmental clearance? _____

Educational Issues

1. Have new schools come up near the SEZ? _____
2. Has enrolment in schools increased of both male/female? _____
3. Has the literacy rate of male/female in the area increased? _____
4. Have new schools/colleges/universities come up near the SEZ? _____

Other services

1. Have new hospitals come up near the SEZ? Yes/ No
2. If yes, do they provide services to patients at subsidised cost? _____
3. Have retail outlets/grocery shops come up near the SEZ? Yes/ No

*Stakeholders Perception Survey on
Potential Cost and Benefits of Special Economic Zones in India*

For Industrial Units

1. Name of Industrial Unit: _____
2. Year of Establishment: _____
3. Product Manufactured/service provided: _____
4. Ownership holding private/government/PPP _____
5. Production capacity per year: _____
6. Total production (year?) _____
7. Total value of production (year?) _____
8. Total employment: _____ skilled _____ semiskilled _____ unskilled _____
9. Local employment: _____ Female workers _____
10. Wages: Skilled Rs.pm; semiskilled Rs./pm., unskilled...../pm
11. Any FDI: _____ How much \$ _____; % of total.
12. Total exports: _____; % of total production _____
13. Exporting to which countries: _____
14. Land area covered: _____ ha/sq mtrs
15. Bought from (name of seller) _____
16. Land price paid Rs. _____ To whom? _____
17. Are you getting the facilities/benefits promised by Government in SEZ Policy? Yes/No
18. What problems you are facing?

19. Do you think SEZ policy helped grow faster than otherwise in absence of SEZ?

20. Do you think that the land owners displaced were adequately compensated? Yes/No

21. What particular policy actions you need for your industry to grow faster:

22. How many authorities did you visit at the time entry?

23. How many of them you deal with in day-to-day operation?

24. Quality of governance of the Zone

(Put 1 for good; 2 moderate; 3 deficient against each parameter):

- Transparency:
- Effective in providing services:
- Attitude of the officials:
- Simplified rules:

25. Frequency of Irregular payments in different processes

(Put 1 for one time; 2 multiple times; 3 every time against each)

- Approval process:
- Customs clearance:
- Labour inspection:
- Environment inspections:
- Judicial measures:
- Interaction with police:
- Interaction with tax authorities:

26. Infrastructure arranged by the Zone administration/other government department:

Standard factories built by the zone: Yes/No

- Water: Y/N
- Electricity: Y/N
- Telecommunication: Y/N
- Ware housing: Y/N
- Transport facilities within the zone: Y/N
- Transport for zone: Y/N
- Recreation facilities: Y/N
- Hotels/guest houses/club: Y/N
- Residence for administration staff/labour: Y/N
- Hospital: Y/N
- School: Y/N
- Fire Station: Y/N
- Police station within/outside: (Kms.away):
- Any security services provided within zone: Y/N

27. Quality of Infrastructure in Zone (put in scale of 0-5)

- Warehouse facility:
- Container handling facilities:
- Efficiency of banks:
- Transport facilities for the zone:
- Roads leading to the zone:
- Transport within the zone:
- Logistics:
- Port facilities:
- Airport facility (distance in Km.):
- Internet facilities:
- Telephone/mobile facilities:

28. Factors crucial for the success of the zone (put in scale of 0-5)

- Physical infrastructure within zone:
- Infrastructure external to zone:
- Social infrastructure:
- Availability of raw materials:
- Proximity to port, airport, bigger cities:
- Tax concessions:
- Subsidies:
- Exemption from other industrial laws
- Governance of the zone:
- Policy regime:

For Business Chambers/Associations

1. Name of the Association:
2. Do you support the SEZ policy? _____
3. Does this policy fulfill your demands? _____
4. What changes are needed to make it more effective? _____
5. Has SEZ created a positive impact on local economy? Yes/No
6. The developer has done job as per the conditions of the SEZ Act?
7. Whether land acquired was at government rate or market price?
8. While acquiring lands preference should be given to infertile/waste lands?
9. Would you prefer to go far off urban areas for such infertile/wastelands?

10. Will it not increase costs and make SEZ a non-viable entity?

11. Land acquisition has become a bone of contention, what do you propose for a viable land acquisition policy?

12. To avoid allegations of exploitation which of the following is applicable?

- Transparent business plans
- Projected benefits
- Accountability
- Others

13. Which areas according to you should be given priority under ‘to be revised rehabilitation policy’?

14. Do you think that in the long run SEZ will lead to misuse of tax incentives?

15. Instead of promoting economic development is SEZ causing environmental damage and harming farmers’ livelihood? What measures need to be taken for protecting the same?

16. Infrastructure arranged by the Zone administration/other government department:

Standard factories built by the zone: Yes/No

- Water: Y/N
- Electricity: Y/N
- Telecommunication: Y/N
- Ware housing: Y/N
- Transport facilities within the zone: Y/N
- Transport for zone: Y/N
- Recreation facilities: Y/N
- Hotels/guest houses/club: Y/N
- Residence for administration staff/labour: Y/N
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- Warehouse facility:
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- Roads leading to the zone:
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- Port facilities:
- Airport facility (distance in Km.):
- Internet facilities:
- Telephone/mobile facilities:

18. Factors crucial for the success of the zone (put in scale of 0-5)

- Physical infrastructure within zone:
- Infrastructure external to zone:
- Social infrastructure:
- Availability of raw materials:
- Proximity to port, airport, bigger cities:
- Tax concessions:
- Subsidies:
- Exemption from other industrial laws:
- Governance of the zone:
- Policy regime:

For Farmers/ land owners/village Panchayats
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1. Name of the land owner:
2. Whether the owner is a farmer/renting out for cultivation/village panchayat?
3. How much of land acquired for SEZ?
4. What price paid? Rs.per ha/sq mtrs
5. Was this price a government reserve price/ market price?
6. If not market price than how much different from it?
7. Have you been adequately compensated?
8. Was the land cultivable before sale? Yes/No
9. What crops raised just before acquisition?

10. Whether the land had irrigation facilities? Yes/No

11. Apart from price that was paid, were you assured of some employment or/and some share holding in the SEZ? Yes/No give details:

12. Has creation of SEZ helped your village/local economy increase income and employment?

13. is there any new small/tiny manufacturing or service units came up after SEZ?

14. What negative impact the SEZ has created in your local economy in terms of social/criminal/environmental hazard?

15. Do you think without SEZ you were better off?

16. Was there any opposition to creation of SEZ from local community?

17. On what grounds was the opposition?

18. Do you support the SEZ policy of the government?