

# Special Economic Zones: The engines of development

Mrs. Nazeefa Begum Makandar, Research Scholar, Department of Economics, Karnatak University, Dharwad, nazeefamak@yahoo.com

Dr. P.M. Honakeri, Rtd Professor, Dept of Economics, Karnatak University, Dharwad, hparashuram@yahoo.co.in

**Abstract - Special Economic Zones are also called popularly as Export Promotion Zones. These are the geographical areas located by the government of the country to be given to the multinational companies in order to provide them land and other basic facilities and encourage them to take up large scale production of various consumer goods so that the exports of the country can grow and further help in the economic growth. This policy was implemented after the improper implementation and unsatisfactory results and outcomes of the 1991 policy which urged the government to take up steps for rapid economic growth in this competitive modern world.**

**Key words: Employment, Engines of development, Export promotion zones, Foreign direct investment, International business, Special Economic Zones**

## I. INTRODUCTION

Special Economic Zones are also called popularly as Export Promotion Zones. These are the geographical areas located by the government of the country to be given to the multinational companies in order to provide them land and other basic facilities and encourage them to take up large scale production of various consumer goods so that the exports of the country can grow and further help in the economic growth. This policy was implemented after the improper implementation and unsatisfactory results and outcomes of the 1991 policy which urged the government to take up steps for rapid economic growth in this competitive modern world.

The first SEZ was established in India in Kandla and further an act was passed in the Indian parliament during the year 2005 and soon after the implementation of the act by the legislature number of SEZs was established in various parts of the country.

The SEZs were implemented with the main aim to use the barren lands unfit for cultivation and invite large companies to establish productive organisations so that the exports of the country would increase which would provide employment to the local farmers who surrendered their land and help the government to correct the deficit in the revenue occurred due to the lack of cultivable land. This idea of SEZs has now taken a different turn and the geographical areas which were located as barren and given to establish SEZs has adversely affected the people to a large extent. Instead of providing employment to the local people the SEZs have grabbed their cultivable land and made them unemployed. The government with an aim to earn huge revenue from the SEZs started giving cultivable

land to the companies making the farmers prone to distress and long term unsolvable problems.

## II. INDIAN POLICY FOR SEZ

A Special Economic Zone is that geographical area in a nation or a state in which a separate legal structure provides for more tolerant economic policies and governance arrangements than that prevail in the country at large, the main intention for such separate set of rules and regulations is to stimulate/ encourage more investment, trade, and employment. According to a rough estimate around 2,500 SEZs exist throughout the world, they are spread across 120 countries. SEZs are, in theory, supposed to attract large amount of investment by providing convenient infrastructural facilities, a favorable taxation organization, and the benefits of economic clusters. The wider benefits for the entire economy are, in theory, large amount of exports, particularly in high value added sectors, and eventually an increase in the rate of sustainable economic growth. Employment generation is also often cited as a probable outcome of a Special Economic Zone.

India did not pass a separate SEZ Act until 2005, but it has been experimenting with the concept of SEZ since the 1960s. The Kandla Export Processing Zone (EPZ) in Gujarat is said to have been the world's first. It was followed in the 1970s by the establishment of the Santa Cruz Electronics Export Zone (SEEZ), which in the 1980s was lengthened to include production of gems and jewelry. The 1980s the EPZs was created in Noida, Chennai, Cochin, and Falta (West Bengal), later followed by the Vishakhapatnam EPZ in 1994. Immediately thereafter, also in 1994, the policy was renewed to permit (in addition to the central government) state governments, autonomous

agencies, and private-sector firms to develop and operate EPZs. A EPZ in Surat which was established under private sector was the first to emerge under the 1994 EPZ policy.

### Objectives of SEZs

Special Economic Zones are on the whole established with the main aim of achieving the following objectives:

1. To encourage and increase foreign investment, to attract more foreign direct investment (FDI), hence increasing the GDP.
2. Enhance Global Export share.
3. As testing laboratories for the application of new policies and approaches- China's large-scale SEZs are best examples for this act.
4. To generate of additional economic activity, or to support wider economic reform strategy, which help reduce anti-export bias while keeping defensive barriers intact. The SEZs of China, The Republic of Korea, Mauritius, Taiwan, and China, are in this pattern.
5. They create huge employment opportunities and serve as "pressure valves" to lighten large-scale unemployment. SEZ programs of Tunisia and the Dominican Republic are frequently cited as examples of programs that have remained enclaves and have not catalyzed dramatic structural economic change, but remained healthy, job-creating programs.
6. In the support of a wider economic reform strategy and to increase development. In this view, SEZs are a simple tool permitting a country to develop and expand exports. Economic Zones reduce anti-export bias while keeping protective barriers intact. The SEZs of China, The Republic of Korea, Mauritius, Taiwan, and China, follow this pattern.
7. Development better and modern type of infrastructure facilities.
8. Exposure to technology and pave way for the global market.

As stated by Douglas Zhihua Zeng, SEZs confer two main types of benefits, which in part explain their popularity- "static" economic benefits such as employment generation, export growth, government revenues, and foreign exchange earnings; and the more "dynamic" economic benefits such as skills upgrading, technology transfer and innovation, economic diversification, productivity enhancement of local firms, etc

### Benefits and Incentives

In order to encourage participation in Special Economic Zones, companies have been provided with certain benefits and incentives, including the following:

- Tax benefits, holidays from tax payment, income tax exemptions etc.)
- Moderate labour Regulations, the rules to work with the labour are quit liberal.
- Exemption from excise and customs duty on holding of capital assets, consumable stores, raw-materials from domestic market.
- Exemption from payment of sales tax, import duty, income tax payment, minimum alternative tax and dividend distribution tax.
- Streamlined procedures to set up the units, single window clearance.
- Liberal approach in foreign direct investments. They can invite investment from outside easily.
- Increased capacity for capital account convertibility.
- Relaxed export regulation, they are encouraged to increase their exports.
- Profits could be earned back fully.
- Reimbursement of central sales tax paid on domestic purchases.
- Non-applicability of related environmental laws.

### Important role of SEZs in International Business

One of the main objectives of SEZ is to enhance exports, i.e. to have a major role in international business. A main factor in determining the success of SEZ is growth in the exports made by them. The purpose behind their establishment is to provide an internationally competitive environment to increase export, by making available goods and services free of tax and duties supported by convergent infrastructure which is modern and easily available.

In order to motivate the exports, normally, related enactments were provisioned with the following:

- Long-term and stable policy framework with minimum regulatory rule.
- Prompt and single window approval mechanism.
- Import and export movements of goods are based on self-declaration.
- No routine examination is made unless specific order from concerned authority.
- Packages of incentives to attract foreign and domestic investments for promoting exports-led-growth.
- Exemption from custom duty on goods imported into the SEZ by the developers to carry out their certified operations.
- Exemption from customs duty on goods exported from the SEZ by the developer or SEZ units.

- Free Trade and Warehousing Zones, to create trade related infrastructure to facilitate import and export of goods and services and to create world-class infrastructure for warehousing with all facilities.
- Freedom to carry out trade transaction in free currency.
- “Deemed Export” Facilities in the SEZ.

### III. ROLE OF SEZs IN INTERNATIONAL BUSINESS

The establishment of SEZ in India was envisaged as an important strategic tool to accelerate the growth of international trade. This manifests itself in the form of increased exports as a unit set-up to produce goods and services. Hence, the increased level of export has been critical to the success of SEZs.

With the influence of economic liberalization and introduction of SEZs on a wide scale, India has witnessed extraordinary growth in its exports.

Although the period of 1999-2000 witnessed a big change in the government policies towards exports due to economic liberalization, its growth remained almost static during this period. Detailed export data from the period 2001 to 2016 is shown below:

Year	Total
2015-16	171,637,804.58
2014-15	189,634,841.76
2013-14	190,501,108.86
2012-13	163,431,828.96
2011-12	146,595,939.96
2010-11	113,696,426.38
2009-10	84,553,364.38
2008-09	84,075,505.87
2007-08	65,586,352.18
2006-07	57,177,928.52
2005-06	45,641,786.15
2004-05	37,533,952.62
2003-04	29,336,674.75
2002-03	25,513,727.66
2001-02	20,901,797.34
2000-01	20,357,101.09

The overall growth rate of export during the period 1966-2002 is estimated at 42.4 percent. After the SEZ Act came into existence in 2005, a tremendous growth in exports has been observed. Moreover, SEZ in India has also made a noteworthy progress in terms of export promotion between the periods 2005-06 and 2010-11. During 2001-2010, it

has shown a 121% growth over the previous year. The same is still continuing as shown in the above table.

Despite all this growth, as per the Report of the Comptroller and Auditor General of India Report, the actual exports are far behind in comparison to the projection of companies:

Projection (RS. Cr)	Actual (RS. Cr)	%	No. of Developers	No. States
3,95,547.43 cr	1,00,579.70	-74.5%	84	9

### IV. SPECIAL ECONOMIC ZONES: THE ENGINES OF DEVELOPMENT

#### EMPLOYMENT EFFECTS

SEZs have played a major role as an employment generator; it has absorbed a large number of labours in the manufacturing and other allied activities, thereby increasing the per capita income of the area and contributing in the reduction of poverty. In almost all the Special Economic Zones we see that a large amount of labors are given employment opportunities. In some zones men and women are given equal opportunities as per their qualifications.

#### DIRECT EMPLOYMENT GENERATOR

In so far as SEZs comprise labour-intensive activities, enterprises in SEZs constitute a significant source of new employment. Due to the availability of labour at low wages, developing countries generally attract investment into simple processing labour intensive industries. This increases the demand for unskilled labour within the zone. The labour from the local areas are given a chance to get absorbed in the. Shift towards higher value added activities as SEZs grow, might increase demand for skilled labour also. SEZs also generate employment for unskilled labour by creating demand for physical infrastructure within the zone. This stimulates the local construction industry giving employment to unskilled labour.

Demand for utilities such as water, electricity, communication, and administration also rises. Finally, there has been increasing demand for various support services such as, hotels and restaurants, and transport to sell and purchase the raw materials and send out the finished goods from one place to another which is expected to have a substantial impact on employment generation.

#### THEY EARN FOREIGN EXCHANGE:

SEZs provide foreign exchange earnings that relax the foreign exchange constraints of the rest of the economy regarding the import needs of the rest of the economy and accelerate investment activities. SEZs thus generate development funds, which facilitate generation of economic activities and employment. They also generate economic activity outside the zone due to the

transformation of investment funds into fixed assets and purchase of inputs and services from the rest of the economy. Once additional incomes are generated, there is an increase in demand for various goods and services such as housing, education, health and transport. This in turn has multiplier effects on income and employment.

### EMPLOYMENT FOR WOMEN

Evidence suggests that women's share to total employment in SEZs is substantially higher than both the economy as a whole as well as the manufacturing sector outside the SEZs (Kusago and Tzannatos 1998). Women workers are considered more disciplined and hard working. It is found that employers prefer female workers to male workers in the belief that manual nimbleness, greater discipline and patience make women more suitable for the unskilled and semi-skilled activities carried out in the zones. Almost all the special economic zones also absorb a large number of labors.

### SKILL FORMATION (HUMAN CAPITAL FORMATION) EFFECTS

There are various modes by which SEZs can positively contribute to human capital formation. One is the firm level activity whereby the host country labour force acquires skills from within the firm through training and learning by doing on the job (Kusago and Tzannatos 1998). Special Economic Zone units can thus directly affect the skill formation as workers are provided additional training on- and off the jobs. Local employees of multinational corporations (MNCs) in some cases are sent to their headquarters abroad or elsewhere for middle and, more often, higher management training, and advanced technician training. Training may spread broader than enterprise programmes. SEZs take up employees welfare programmes to increase their working capacity.

### TECHNOLOGY UPGRADING EFFECTS

SEZs attract export-oriented FDI and promote other forms of collaborations between local firms and MNCs. For instance, SEZs facilitate the insertion of domestic SMEs (small and medium enterprises) into global value chains by offering them an enabling investment climate (Gereffi 2005). Global standards, low-cost competition, and advances in technology raise challenges for the SEZ units competing in global value chains. This stimulates learning and innovation which are critical aspects of human development. In the form of mergers and collaborations SEZs bring new and better types of production machines which are cost effective and generate huge amount of commodity units.

## V. CONCLUSION

With operational success, the role of the special economic zones has expanded from trade to investment technology, Research and Development, service, and training. Free

zones have become the center of activity in modern economy. SEZs have played a significant role in economic development of countries, by improving international business. They have been since inception playing the role of engines of development, both social and economic; they have increased the rate of employment, enhanced the per capita income and improved the standard of living of the masses in the developing countries. However, due to the economic slowdown prevailing globally, the export businesses especially are at stake. Some of the countries are facing turmoil and set back due to unstable SEZ business. Though in some cases SEZs have cropped up agitations among the people who has to give up their land for the establishment of the SEZ unit. They had to be resettled and rehabilitated. Apart from all these hindrances and difficulties the SEZs have and have been working as the engines of development.

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