

# Does India Still Need Special Economic Zones?

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## ARTICLE DETAILS

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## ABSTRACT

Titled "Does India still need Special Economic Zones? An analysis of Impact of SEZ and various tax provisions and exemptions concerning the same" this study aims to study the performance of exports, investments and employment of SEZ in comparison to the total export, investment and employment growth rate of the country, the effect on economy if such tax incentives are withdrawn and concluding on whether the tax incentives provided by the government should be continued or not. This evaluation involves using of graphical analysis of employment, investment and export of SEZ in comparison with the overall countries progress. The graphical analysis was selected since we believed it was one of the better indicators of comparison for the above data.

## 1. Introduction

India was one of the pioneer countries to acknowledge the importance of special economic zones in the entire Asia. Special economic zones are nothing but areas which are given special exemptions, better infrastructure and better trade controls and clearance policies to have smooth export functioning for the enterprises established under SEZ's. In order to boost the spirit of investors with regards to safeguard their investments, at the same time giving a better assurance and accountability the government of India amended the Special economic zone act, 2005 in may 2005. Until then enterprises established under SEZ's were governed under the provisions of foreign trade policy and fiscal incentives made effective through relevant statutes. The SEZ created provided employment creation, export compatibility and reliability, boosting the infrastructure, regional development, improvising foreign earnings and helping the overall economic development of the country. The sunset which withholds from providing exemption from the year 2020 will have a major impact on the purpose of SEZ. The various provisions to the income tax act that provide exemption for enterprises established in India will no longer continue from 2020. This research paper helps in determining positive or negative impact of such withdrawal by comparing previous data available on investments, employment and exports of SEZ's and India as a whole.

## 2. Review of Literature

- a) **(Chandrachud & Gajalakshmi, 2013)** Researchers analyses the level of economic sway felt by Indian economy in the 21<sup>st</sup> century, dissect both global and Indian context. Also scrutinize the growth of Export performance, Employment generation and foreign Investment in the economy. It also studies SEZ in different sector and states. In which it shows a favorable increase in the employment, export and the investment in the SEZ industries year after year.
- b) **(Bhatt, Puri, & Appolloni, 2011)** This paper analyses whether the industrial policy framework of the Indian Government with regard to the proliferation of SEZs has satisfied its aims and objectives. Wherein the

concentration of SEZs has increased in States which face lower levels of unemployment and a comparably high level of FDI inflow. Further, the concentration of the SEZs has been restricted majorly to the IT industry resulting in rigidity in the export mix. It concludes the research results have shown that the policy of the Indian Government has been lopsided. Researchers have also suggested that the scale and investment magnitude should also be revised and should aim to adopt international industry best practices to achieve the desired objective.

- c) **(Kumar, 2017)** The Paper aimed to analyze the current status and performance of SEZs in India in terms of investments, employment and exports. He has studied the impact through comparing the investment & performances of employment and exports year by year using secondary data which shows 85% of formally approved SEZ's are located in 9 states as on 1, May 2017. The focus of SEZs in these specific states limits the scope of the scheme. It concludes that the growth of Indian SEZs with regard to exports, investment and employment generation is exceptional since SEZ Act 2005 came into effect. Regional and sectoral concentration restricts the scope of employment generation and balanced regional development in country. There is a high requirement to rethink about the sectors to which the benefits need to be continued or to be restrained.
- d) **(More, 2015)** This paper explains the background of SEZ & its origination. Going through it explains the objective of such SEZ & its importance. Later it elucidates the SEZ in India, types of SEZ it also briefs the problems of SEZ & the researcher also suggests ideas to overcome the lacks. The research concludes by saying SEZ is important for solving unemployment issues and brings more foreign funds at the same time rural people should also be benefited by SEZ's.
- e) **(TK & Arul, 2016)** Discusses the performance of different sectors of SEZ's post SEZ's act 2005.

Performance means the Export contribution by every sector, Investment received by the entities and talks about the employment created by the entities. Tax exemption received by the companies is also discussed with related data's. Concludes saying SEZ's has helped the economy and most importantly the manufacturing sector.

- f) **(Punj, 2014)**The paper investigates the impact of SEZs on labour and livelihood rights of worker and those displaced on account of establishment of SEZs. Researcher elucidate objective of study and limitations. After data analysis, the results were SEZs labour rights regime is not supportive of social dialogue; Current SEZs labour rights regime does not secured decent work for labor etc... In addition, have suggested his opinion to resolve.

**3. Research Design**

**a) Statement of problem**

Special economic zone act, 2005, was passed by parliament in May 2005, supported by SEZ Rules, came into effect on 10<sup>th</sup>February 2006. It's been 13 years since the act was enacted and all the direct tax benefits are ending by 31<sup>st</sup> march 2020. Thus in this paper we are trying to analyze the overall performance of SEZ's in terms of export, employment and investment, study its contribution to the economy and conclude does India still needs SEZ's or not.

**b) Sources of data:**

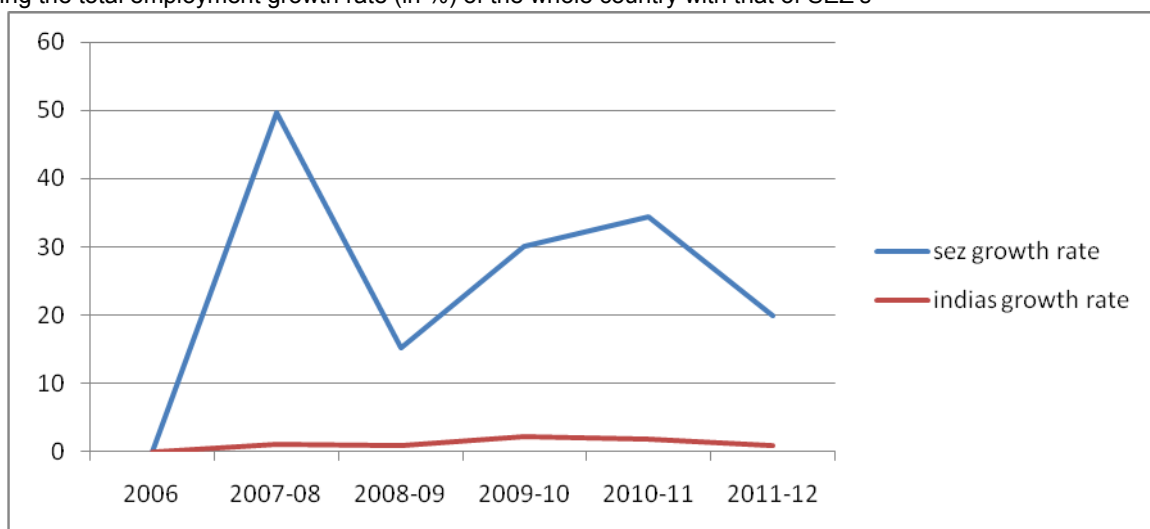
Secondary data has been taken for this purpose of this report

The historical export, employment & investment have been collected from following websites:

- <http://sezindia.nic.in/index.php>  
(ministry of commerce of india, 2006-15)
- <https://tradingeconomics.com>

**4. Data Analysis and Interpretation**

- 1) Comparing the total employment growth rate (in %) of the whole country with that of SEZ's



X-axis:- year; y-axis:- employment growth rate in percentage

SOURCE: - Ministry of commerce and industries, 2017; tradingeconomics.com; ministry of statistics and programme implementation (MOSPI)

As shown in the diagram above the growth rate is compared up till the year 2011-12. The relevant data from

**c) Hypothesis:**

H0: SEZ'S does nothelp in growth of the economy rather leads to huge amount of tax losses to the government. Thus, SEZ's act needs to be removed and sunset clause is needed.

H1: SEZ's helps in growth of the economy even though government incurs huge tax losses. Thus, SEZ act should continue and sunset clause needs to be removed.

**d) Data analysis tool:**

SPSS software was used for comparing performance through various graphs.As our data does not study relationship between two or more factors and have quantitative data so analysis through correlations, regression etc...Is not practicably possible.

**e) Expected Outcome:**

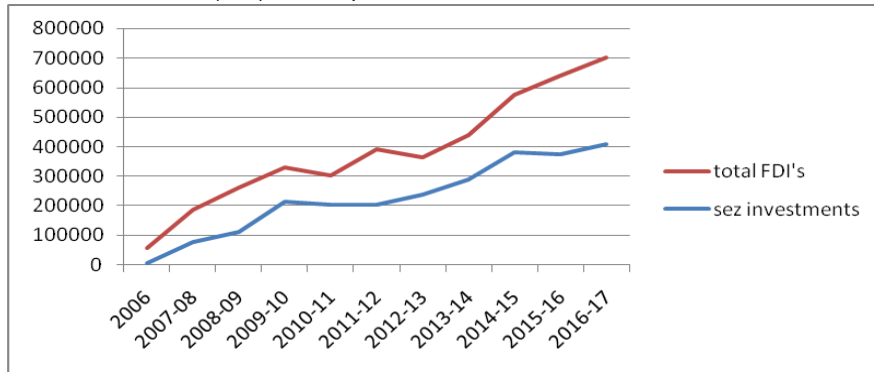
SEZ has wide opened doors for multinational companies which has lead to more exports, investments and more job creation over years. Thus, Sunset clause needs to be removed, as it will have huge impact on exports, investments and job creations. Which concludes India still needs SEZs.

**f) Limitations**

1. This paper doesn't cover SEZs policy which was announced in 2000.
2. External factors like politics are excluded from study.
3. Exports, employments and investment after sunset clause are just our assumption to study the impact of such situations and its outcome. Result are just probability and not certain
4. .Utilization of allocated land is not considered for this research paper.

2012 onwards is not available for India total employment rate. rate is always higher when it comes to SEZ's. But as reported under various articles the employment growth

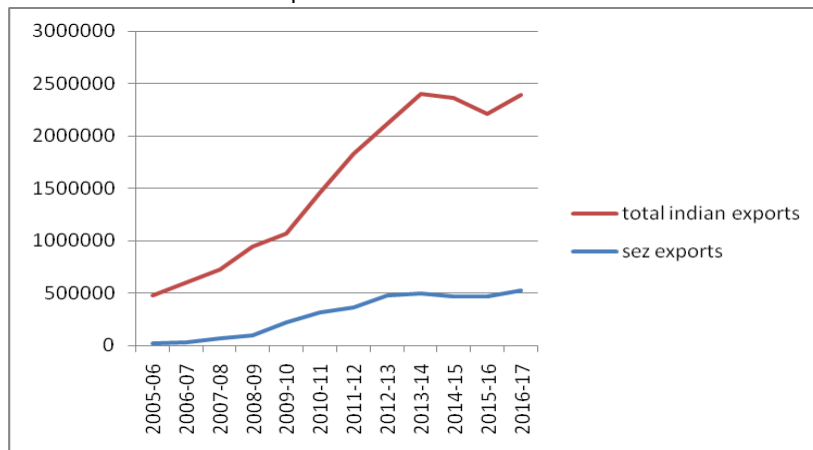
2) Comparing the total investments in India (FDI) as compared to SEZ's



X-axis:-year; y-axis:- investments in rupees in crores

SOURCE: -Ministry of commerce and industries, 2017 Department of Industrial Policy and Promotion IMF, World Bank, OECD, Prof: Werner Antewelier, University of British Columbia. As we can observe that the trend in increase of investments in SEZ increasing very rapidly and had slight disdain in 2009-10 to 2011- 12 which also has a critical blow on overall FDI in India.

3) Comparison of exports in SEZ's with that of total exports in India

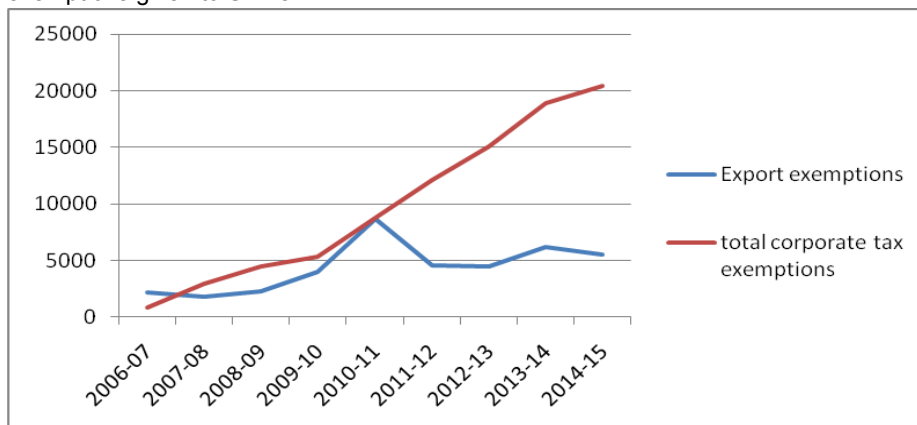


X-axis:- year; y-axis:- export in rupees in crores.

Source: World Bank, 2017; Annual Report 2014-15, Department of Commerce, Ministry of Commerce and Industry, Government of India; Handbook of Statistics on Indian Economy, Reserve Bank of India; DGFT; RBI statistics on Indian economy, September 2016.

As we observe that when the SEZ act was passed there huge impact on foreign trade policy of the country. Since 2012-13 the growth is stable or is growing in a very slow pace.

4) Comparison of tax exemptions given to SEZ's



X-Axis:- Year; Y-Axis:- Amount of tax exemption in rupees in crores.

Source: Ministry of Commerce and Industry, Government of India. \*2014-15 figures are estimated figure by the Ministry of Finance, GOI. Corporate tax incentives has been steady over the years, led to major source of attraction to investors than the export incentives thus major economic contribution is deteriorating. Corporate tax incentives have been the major benefits.

## 5. Findings and Suggestions

Our research paper led to know the human resource development, both direct and indirect. The potential of SEZs in creation of employment is relatively increasing due to new establishment of SEZs in India. The trend in new technologies may effect in the upcoming employment rates. The Investors (including domestic and foreign investors) are relatively increasing in all the zones because of the leniency in SEZs policy after the SEZ Act 2005. The exports of SEZs play a major role in increasing the foreign revenue in India. These special economic zones should forge links with the outside units for future benefits. The lands that are acquired by SEZs are whether properly estimated or not because they tend to accumulate more land to get tax benefits which gives them exemption under SEZ policy. The government need to lower the remuneration for SEZ zones if possible by reducing the custom duty for SEZ exports and imports which may benefit SEZ's zone and as well as government based on the exempted incentives that SEZ has gained by the implement of GST they need to establish a supporting infrastructure for setting up of SEZs.

## 6. Conclusions

India still need SEZ's for the growth of foreign investments which is growing at an increased pace, exports as compared to the total Indian export is low but it has been having stable growth from 2012-13 even though there are downfalls in total exports of India. The various employment opportunities seized due to establishment of SEZ's are much higher after the amendment of SEZ act, 2005. It has led to improving the standard of living but still government should take measures regarding the single window clearance and rigid labor laws affecting social responsibility of such enterprises. The sunset clause might have slight affect on the overall growth of SEZ's; due to stabilized government industrial and fiscal policies such effects can be lowered. There are various shutdowns of SEZ's due to low demands and low economical growth. As we know direct tax incentives are not available after the year 2020 and this taxes are the major attraction for the investors, removal of such provisions will lead to fall in export growth, increase in unemployment and lack of foreign reserves earned in the future. We conclude that the government should reconsider removal of such provisions and can come up with some alternative measures as it has direct effect on GDP growth rate of the country.

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