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Impact of SEZs on export promotion

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Abstract
The Special Economic Zones are playing a vital role in enhancing Indian exports. The major exports of India and the export figures from SEZs in India have common sectors like gems and jewellery and electronic goods. The direction of exports product - wise/ services and the sector-wise will be driven by the direction of such exports from SEZs in India. This paper devotes to analyse the impact of SEZs on Export Promotion.

Keywords: Export Promotion, SEZs, FDI

Introduction

Special Economic Zones in future can emerge as potent tools for enhancing Indian exports. The major export items from India are manufactural goods which include gems and jewellery, electronic goods, drugs, engineering goods and textile products. Most of the approved SEZs in India are already focusing on the same products. So in the near future we can expect greater contribution of SEZs in total Indian exports.

Table-1 gives state wise number of notified SEZs and Table 4.5 portrays distribution of SEZ exports across states.

Table 1: State wise No. of Notified SEZs

States	No. of SEZs
Andhra Pradesh	74
Maharashtra	61
Tamil Nadu	57
Haryana	32
Karnataka	32
Gujarat	30
Kerala	17
Uttar Pradesh	17
West Bengal	11

***Source*:** Ministry of Commerce & Industry, SEZ in India, 2017

Geographical distribution of SEZs in India is not even and it cannot be even because of uneven facilities available in different states which are indispensable for SEZs. Andhra tops the list followed by Maharashtra, Tamil Nadu, Haryana, Karnataka and others.

Though largest number of SEZs are located in Andhra Pradesh it ranks sixth among states having SEZ exports. Gujarat is at number one position followed by Karnataka, Tamil Nadu, Maharashtra, Kerala and Andhra Pradesh. Thus the South and West India account for substantial share. Odisha is at the lowest step of the ladder.

The Imperative for building on and consolidating initial gains

While India's Balance of Payments situation has remained comfortable for quite some time now, there are certain aspects of concern that need to be addressed before they assume serious proportions. In particular, India's Balance of Trade is in deficit, which is a fairly high proportion of GDP. While exports have shown impressive growth over the past decade, imports have also risen sharply resulting in a growing adverse balance of trade position.

This gap is financed in part through net services income and net remittances.

However, the Current Account remains in deficit, notwithstanding these inflows, and the remaining gap is covered through net inflows on the Capital Account. Given India's dependence on petroleum imports in very significant volume, its foreseeable import scenario would continue to put severe pressure on the Balance of Trade. The high proportion of very mobile and somewhat transient FII inflows on the Capital Account, adds to these concerns. Given this scenario there is no option for India other than promoting enhanced export and FDI growth. Given the very encouraging performance over the last five years, the SEZ program is a promising instrument for achieving both these objectives.

In the light of these imperatives, Department of Commerce has evolved a strategy of doubling the country's merchandise exports by 2014 to US$ 500 bn. and to US$ 750 bn. by 2016–17.

The strategy, inter alia, targets three areas for export promotion.

(a) Provide incentives and make exports easier;
(b) Help exporters get market access
(c) Improve export infrastructure

In this context the question which needs to be asked from the SEZ prospective is as to how SEZs can build upon their significant achievements and contribute towards achieving the objective of doubling our exports by 2013-14.

Performance of SEZs in terms of Export & FDI

SEZ has various objectives but export promotion and ever increasing inflow of FDI are the principal objectives. Table - 2 shows performance of SEZs in terms of growth of exports and FDI.

Table 2: Performance of SEZs (Rs Crore)

Year	Exports	% age of growth over previous year	FDI	% age of growth over previous year
2008–09	99,689	50	10,983	49.72
2009–10	2,20,711	121.30	16,778	52.77
2010–11	3,15,868	43.11	22,790	35.83
2011–12	3,64,478	15.39	11,466	–49.69

***Source*:** Ministry of Commerce & Industry

The Financial Express, May 16, 2012, New Delhi.

Though growth of export through SEZs has never halted, the rate of growth over the past few years is causing concern. This can partly be attributed to sluggishness in the global market. But the need for accelerating the rate of SEZ export is very significant. In 2009–10 the SEZs doubled their exports over the previous year. But the rate has slided since then and efforts on the part of all stakeholders are called for.

FDI in SEZs presents bleaker picture. In 2009–10 and 2010–11 FDI increased at the rate of 52.77 and 35.83 percent respectively over the previous year but in 2011–12 it went down by 49.69 percent. It is disparaging and measures must be taken to raise FDI.

Performance of SEZs in terms of Export, Employment and Investment

SEZs are playing an important role not only in promoting exports but also job creating in opportunities and enhancing investment prospects. Table 3 reflects these.

Table 3: Performance of SEZs in terms of Export, Employment and Investment

Year	Cumulative Export (Rs. Crore)	Growth (%)	Employment	Growth (%)	Cumulative investment (Rs Crore)	Growth (%)
2008-09	99,689	–	3,87,439	–	1,08,903	–
2009-10	2,20,711	121.30	5,03,611	29.98	1,65,267	51.75
2010-11	3,15,868	43.11	6,76,608	34.35	2,02,809.54	22.71
2011-12	3,64,477	15.38	8,44,916	24.87	2,01,874.76	

Source: Export Promotion Council for SEZs and EOUs

The Financial Express, May 18, 2012, New Delhi.

Export scenario has been portrayed in Table 4 also. As evident from Table 3, there has been consistent increase in employment opportunities. Scope and prospect of employment opportunities can be brighter with ever expanding SEZs. But declining rate of growth of employment is not a good omen and must be addressed effectively. Cumulative investment in 2011–12 climbed down. This shows shrinkage in SEZ activities. Recent incentives and liberal attitude of the Govt. of India are likely to boost the morale of SEZ investors. Land controversies had dampened the enthusiasm of SEZ investors for long, but fortunately controversies have been settled. Under the changed political scenario buoyancy will definitely return to SEZs.

"The Special Economic Zones (SEZs) Policy supported by the SEZ Act 2005 and SEZ Rules 2006 intends to make SEZs an engine for economic growth supported by quality infrastructure, complemented by an attractive fiscal package, both at the Central and State levels and with the single-window clearance mechanism. The process of globalization has enhanced the relevance of SEZs, which have become an important component in the export-led industrialization strategy, playing a crucial role in promoting the manufacturing sector, including providing an enabling investment climate for SMEs and offer platform for attracting export-oriented FDI. The spin-off effects of SEZs, particularly the new generation ones, are creation of employment, development of infrastructure and additional economic activity."

A Country's export depends on several macro-economic factors which directly and indirectly influence the course of international trade and no success of exports can be attributed to one factor only. Some of the prominent factors which influence country's exports are: World GDP growth leading to global demand, exchange rate mechanism, inflation, multilateral trade agreements and other economic phenomenon. The export growth rate of SEZ is expected to contribute a larger share of the total exports of India. India recognized early the effectiveness of the Export Processing Zone (EPZ) model in promoting exports with Asia's first EPZ set up in Kandla in 1965. With a view to overcome the multiplicity of controls and clearances; absence of world-class infrastructure; and an unstable fiscal regime to attract larger foreign investments in India, the Special Economic Zones (SEZs) Policy was announced in April 2000. SEZs in India functioned from 1 November 2000 to 9 February 2006 under the provisions of the Foreign Trade Policy and fiscal incentives were made effective through the provisions of relevant statutes. The SEZ Act 2005, supported by SEZ Rules, came into effect on 10 February 2006, providing for drastic simplification of procedures and for single window clearance on matters relating to Central as well as State Governments. The SEZ Rules provide for different minimum land requirements for different classes of SEZs.

In addition to seven Central Government SEZs and 12 State/private-sector SEZs set up prior to the enactment of the SEZ Act 2005, formal approval has been accorded to 580 proposals out of which 374 SEZs have been notified. The performance of SEZs has been reasonably good despite some criticism.

Export performance of SEZs in India

SEZs are becoming increasingly important in India's exports. The performance of SEZs is mainly examined in three areas, exports, employment and investment which has been done earlier. Now export performance of SEZs is exclusively dealt with.

Exports

A total of 130 SEZs are already exporting. Out of this 75 are information technology (IT)/IT enabled services (ITES), 16 multi-product and 39 other sector specific SEZs. The total number of units in these SEZS is 3139. The physical exports from the SEZs have increased by 121 per cent to Rs 2, 20,711 crore in 2009-10 with a CAGR of 58.6 per cent during 2003-04 to 2009-10 compared to the CAGR of 19.3 per cent for total merchandise exports of the country for the same period. When the whole world including India was reeling under the effects of the global recession, growth in exports from SEZs was 121 per cent in 2009-10 compared to a paltry 0.6 per cent growth in total exports from India. Exports during the first three quarters of 2010–11 have been to the tune Rs. 2, 23,132 crore. The share of SEZs in India's total exports has increased consistently from 4.7 per cent in 2003-04 to 26.1 per cent in 2009-10 and 29.7 per cent in the first three quarters of 2010-11 (see Table 4.8).

Table 4: SEZs Exports and India's Total Exports: A Comparison Year

	Exports from SEZs		Exports from India		Share of SEZs Exports in Total xports
	Value (Rs crore)	**Growth (%)**	**Value (Rs crore)**	**Growth (%)**	
2003-04	13,854	39.0	2,93,367		4.7
2004-05	18,314	32.2	3,75,340	27.9	4.9
2005-06	22,840	24.7	4,56,418	21.6	5.0
2006-07	34,615	51.6	5,71,779	25.3	6.1
2007-08	66,638	92.5	6,55,863	14.7	10.2
2008-09	99,689	49.6	8,40,755	28.2	11.9
2009-10	2,20,711	121.4	8,45,534	0.6	26.1
2010-11(Apr.-Dec.)	2,23,132	–	7,51,633	23.4	29.7

Source: Economic Survey 2010–11 Govt. of India.

One of the criticisms SEZs face is that exports are mainly from the old SEZs which were formerly free trade zones (FTZs) and not from Greenfield SEZs. It is interesting to know that not only have many greenfield SEZs started exporting but also the exports of new SEZs, i.e. SEZs notified under the SEZ Act 2005, have grown rapidly over the years resulting in the highest share of 53.4 per cent for this category in 2009-10 compared to Central Government SEZs and State Government/private SEZs established prior to the SEZ Act 2005 (see Table 4).

Table 4: Exports from New and Old SEZs

	2005-06	**2006-07**	**2007-08**	**2008-09**	**2009-10**
Central Gov. SEZs					
Value(in Rs crore)	19,657	25,358	39,275	46,985	58,037
Growth (%)	–	29	54.9	19.6	23.5
Share (%)	86.1	73.3	58.9	47.1	26.3
State Gov./Pvt SEZs Established prior to SEZ Act, 2005					
Value(in Rs crore)	3183	9134	22,167	31,640	44,729
Growth (%)	–	187	142.7	42.7	41.4
Share (%)	13.9	26.4	33.3	31.7	20.3
SEZs notified under SEZ Act, 2005					
Value(in Rs crore)	–	122	5195	21,064	1,17,946
Growth (%)			4158.2	305.5	459.9
Share (%)	–	0.4	7.8	21.1	53.4

Source: Economic Survey, 2010–11, Govt. of India.

Employment

Out of the employment of 6, 44, 073 persons in SEZs, an incremental employment of 5, 09,369 persons was generated after February 2006 when the SEZ Act came into force. At least double this number obtains indirect employment outside the SEZs as a result of the operations of SEZ units. This is in addition to the employment created by the developer for infrastructure activities.

Conclusion

The main objectives of the SEZ Act 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 incentives and facilities are offered to units in SEZs for attracting investments into SEZs (including foreign investment) as well as for SEZ developers. These incentives and facilities are expected to trigger a large flow of foreign and domestic investment in SEZs, particularly in infrastructure and productive capacity, leading to generation of additional economic activity and creation of employment opportunities. The SEZ Rules provide for different minimum land requirements for different classes of SEZs. Every SEZ is divided into a processing area where alone the SEZ units are set up and a non-processing area where the supporting infrastructure is to be created. The SEZ Rules also provide for simplified procedures for development, operation and maintenance of the SEZ and setting up units in SEZs, single window clearance both relating to Central as well as State Governments for setting up of an SEZ and units in a SEZ and simplified compliance procedures/documentation with emphasis on self-certification.

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