

**Sazzad Parwez**

## **ENTERPRISING SEZ ENCLAVES AND ECONOMIC DEVELOPMENT IN INDIA**

### **ABSTRACT**

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This paper is based on the premises of economic development through the creation of economic enclaves across the region-seeking industrialization in the context of India. The study suggests that Special Economic Zones policy has attracted a considerable amount of export-oriented investment and production, employment creation, and technical know-how. However, the policy has not met the desired results considering the objective of economic development. Assessment leads to understanding that competitiveness of domestic firms and linkages with foreign affiliates can be strengthened by the adoption of institutional re-structuring to create the conducive environment for further industrialization. It may lead to related spillovers to have positive impacts on the overall economy.

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*Key Words: India; special economic zones; economic development; investment; exports employment*

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## INTRODUCTION

The magnitude of an economy is usually estimated by its trade, investment, employment, and revenue in relations with rest of the world, particularly the volume of trade. According to Sjöholm (1999), for a country to be economically successful, knowledge of market environment, foreign preferences, distribution channels, and other market conditions are necessary. To achieve this, exports orientation may be helpful in accomplishing higher efficiency in production activities leading to other forms of positive implications. It may also enhance the innovative undertakings of the firm in terms of developing new products, new technologies, and new methodologies of transaction to be competitive (Zucker, Darby, and Armstrong 1994). There are channels to realize it; key channel could be intervention through production led by foreign direct investment (FDI)<sup>1</sup> creating various forms of economic and social spillovers<sup>2</sup>.

Increase in exports by domestic firms through direct contract with the multinational companies (MNCs)<sup>3</sup> can be positive spillovers to strive for. Presence of MNCs in the domestic market itself may increase the export performance of domestic firms (Parwez 2016a). The technical supremacy of MNCs may leak out to the domestic firms directly or indirectly.

This form of approach is applicable in economic enclaves such as Special Economic Zones (SEZs) in developing economies. Spillovers can take place when the presence of MNCs improves the productive efficiencies of domestic firms, enhancing quality of products; thus improving their export performance (Eden, Levitas, and Richard 1997). Similarly, the foreign buyers of intermediate goods may provide other forms of possible opportunities, so domestic producers can expand their production, create jobs, and achieve the economies of scale. Most of the developing Asian countries (e.g., India, China,

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<sup>1</sup> Foreign direct investment (FDI) is an investment made by a company or individual in one country in business interests in another country, in the form of either establishing business operations or acquiring business assets in the other country, such as ownership or controlling interest in a foreign company. Foreign direct investments are distinguished from portfolio investments in which an investor merely purchases equities of foreign-based companies.

<sup>2</sup> Spillover effects are economic events in one context that occur because of something else in a seemingly unrelated context. In an economy in which some markets fail to clear, such failure can influence the demand or supply behavior of affected participants in other markets, causing their effective demand or effective supply to differ from their notional (unconstrained) demand or supply.

<sup>3</sup> A multinational corporation (MNC) has facilities and other assets in at least one country other than its home country. Such companies have offices and/or factories in different countries and usually have a centralized head office where they coordinate global management.

Indonesia, Malaysia, Thailand) are now working towards export-oriented industrialization to attract FDI to strengthen their share in international trade and domestic economy in particular (refer Eden, Levitas, and Richard 1997; Audretsch and Feldman 1996). The export-oriented industrialization may induce the domestic companies to diversify based on available information of market, international trade, and technology.

However, productivity, economic growth, and development can be materialized only if bureaucratic regime facilitates greater flexibility in terms of regulations, license policy, and other forms of red tape; which are highly discouraging (Singh 2009). Reforms in these lines will compel introduction of the strategies as per market, competition, foreign companies, and technology resulting to increasing efficiency and productivity. It will also encourage existing SEZ affiliates to move toward technology advancement either through process of technology transfer or Research and Development (R&D) activities to enhance competitiveness (Kokko and Blomström 1995). Therefore, market friendly economic reforms would not only catalyze export-oriented efficiency-seeking SEZ enclaves but also force existing companies to reframe their strategies.

As emphasised earlier, the objective of this study is to assess SEZ policy implications in the context of investment, employment, export, and other factors of economic development in India. The focus of the paper is to address spillovers that benefit the host economy referring to SEZ. The present study relied on secondary data collected on investment, export, and employment before and after the of SEZ Act in 2005. Secondary data has been retrieved from available reports of Department of Industrial Policy & Promotion, Ministry of Employment and Labor, Department of Commerce, economic survey, and articles and reviews by peer-reviewed national and international journals.

This study is spread over six section to cover implications of SEZ on Indian economy. The first section provides a brief overview of developmental model leading to industrialization in general. The second section explores current status of SEZ in India. The third section discusses the implications and spillovers from SEZ in terms of investment. The fourth section talks about employment generated by industrialization through the numerous SEZ enclaves across India. The fifth section further discusses on the export-led advancement of SEZ units both at government and private levels. The sixth section further tries to analyze the involvement of various relationships among the indicators mentioned above to pursue a path forward for the government agencies as well for the private manufacturing sector. This final section is the conclusion of the study.

## **DEVELOPMENT MODEL AND INDUSTRIAL RATIONALIZATION**

Recent phase of economic recession, recovery, and growth has led to broad discussion among scholars, corporate, and government on ideal development model. Studies reveal that growth in Gross Domestic Product (GDP) should not be the only and the most important determinant of economic development. In order to realize the most effective and inclusive development, factors leading to the overall wellbeing must be considered (Dasgupta and Weale 1992). As, it has been noted that with increase in national income generally leads to social development, but it is not necessary (Dreze and Sen 1995; Parwez 2016a).

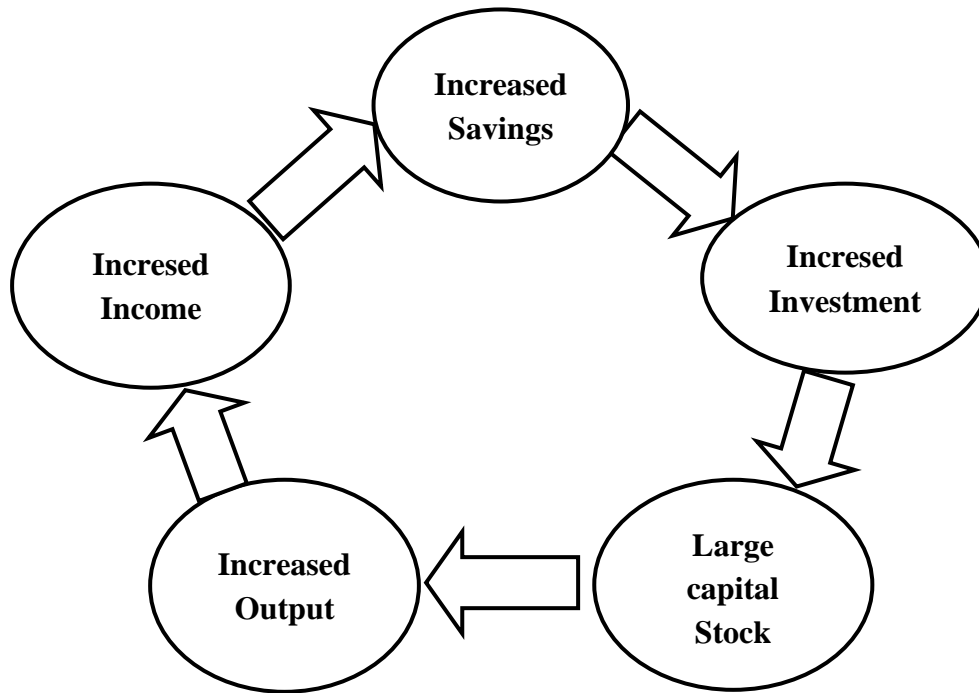
Also, higher income may mean more capital available for investment to support or encourage economic activities. Investment means greater productivity, and increase in workers income go together with economic growth. Furthermore, increase in income lead to more tax-based revenue for state, and it can be spent to enhance public goods such as education, health care, and infrastructure facilities; thereby resulting in actual improvement in the standard of living of the poor.

Economic models explain the current discourse on economic development in emerging economies. Among the few, the model conceived independently by Harrod (1939) and Domar (1946) known as Harrod-Domar model, was initially developed to understand the business cycle; This model was later on adapted to explain the economic development and growth.

According to the Harrod-Domar model, economic growth depends on labor and capital; higher capital investment leads to capital accumulation in economy, produces economic development. The Harrod-Domar model derives implications and guidelines for developing countries, where labor is in abundant supply, but capital is not adequate, therefore leading to under-performance or slow economic development.

Developing economies do not have the income level to have adequate saving reserve; therefore, accumulation of capital in the economy from investment leads to slow or no growth. The model suggests that economic growth largely depends on investment, accumulation led saving, and further investment complemented by technological advancement.

Figure 1. Harrod – Domar Growth Model

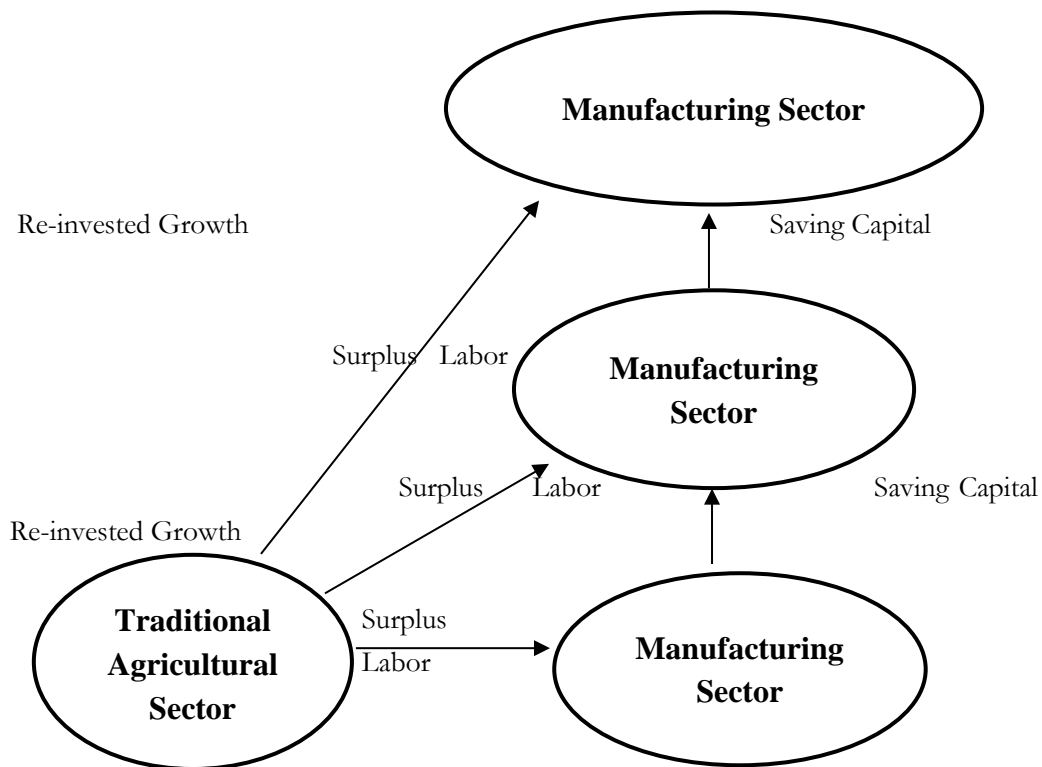


Source: Conceptualized by the Author

Developing countries in general are dual economies which is composed of the traditional agricultural sector and the manufacturing industrial sector. The characteristics of the agriculture sector are dominated by low productivity and low income. Therefore, it reflects on low savings leading to low investment causing low production activities and resulting in high level of unemployment. It has been understood that the industrial sector is supposed to be technologically advanced with capital investment in the urban set up. Lewis (1954) suggested that the manufacturing industries would draw labor from the rural areas (agriculture sector). As the productivity and incentive is low in agriculture, the challenging pressure may force workers to move toward the industrial sector for income and better living condition. Increased income may lead to higher savings and further investment means increase in production activities which enhance employment creation in the economy. Higher productivity generates the condition for more production in less time, leading to production of higher quantity of produce for sale. Aspiration and lack of option will motivate farmers and laborers to move from relatively low productive agricultural sector to

high productivity of industrial set up. As the cycle works in this form, the number of persons that rely on the agriculture sector will decrease over time. The Lewis model reflects India’s development model; it demonstrates a large surplus of population in the agrarian economy which is available to provide for the industrial sectors’ labor.

**Figure 2. Lewis Structural Change (Dual Sector) Model**



Source: Conceptualized by the Author

Low labor cost is a major incentive for the companies seize the opportunities for further expansion. Low labor cost attracted companies from the US, the UK, and Western Europe who would transfer heavy manufacturing work to the low-cost, under-developed region. India quickly established itself as the hub for low cost manufacturing destination for the export oriented products like clothes, toys, and low technology-added electronic goods.

The above argument and development models suggest that India could be on the road of industrialzsation. It endorses movement of labor force from the agrarian economy to industrial set-up and realization of industrialization leading to development. An eventual

urbanization is being encouraged to reduce dependence on agriculture sector. There is possibility that labor force movement may lead to shortage of labor in agriculture, may also divert workers from cities to industrialized locations. This movement from rural and urban regions will create a situation of labor surplus for SEZ units (Parwez, Patel, and Chandra Sekhar 2017). It may also witness movement of labor from less developed states to developed states for sake of greener pasture.

## **LITERATURE REVIEW**

Most of the existing literature primarily focused on the concept, economic rationality, developmental impacts of SEZ, and the similar economic enclaves. Most of the research considers the benefits of SEZ for the host country since they lack adequate capital, knowledge, and technology. The contemporary literature covers the economic implications of integration in the form of export-oriented production policy.

It may be appropriate for the developing state to attract foreign investment to encourage manufacturing activities without being subject to large scale liberalization and deregulation of the entire economy, but the pressure from western agencies has compelled countries to give in and open up further (Kokko, Zejan, and Tansini 2011). The purpose of building these zones is to promote export-led production without negatively impacting the domestic firms.

Several nomenclature have been used for SEZ across the world interchangeably. Economic zones are referred to as free economic zone in Russia, industrial free zone in Ghana, Cameroon, and Jordan, *maquiladoras* in Mexico, Costa Rica, and El Salvador, special export processing zone in Philippines and special economic zone in China (Armas and Sadni-Jallab 2002).

Developing countries all over the world have established Export Processing Zone (EPZ) in their respective countries with the expectation of developmental gains through new employment opportunities, foreign exchange earnings, and technology transfer (Warr 1989). Stoltenberg (1984) suggested that most investments in SEZ depend on proximity with capital sources (e.g., in case of China, capital source happens to be Hong Kong which is broadening China's investment base).

Ge (1999) suggested that economic enclaves may serve as a policy tool to facilitate reforms, trade, and utilization of resource, eventually enforcing structural changes leading to development. Wang and Bradbury (1986) and Madani (1999) pointed that the SEZs-led foreign exchange earnings allow low income economies to collaborate with domestic firms

to generate new technology, knowledge, and support system to encourage countryside industries. Wong (1987) pointed out that expenditure on infrastructure, trade-based economy, over-ambitious goals may be difficult to achieve in a short span of time as well as other socioeconomic issues.

A study by World Bank (2008) showed that while economic zones have positive impacts on economic growth, they are not successful socio-economic development. Success stories from South-East Asia and South America has been difficult to replicate, particularly by drawing comparisons in Africa where many of these attempt have failed.

The SEZ processes combine the global movement of capital with domestic cheap labor to achieve the desired objective. SEZ units are given preferred treatment with respect to taxation, infrastructure, technological transfer, import controls, duties, labor, and environmental laws (Parwez 2015). The SEZ units are expected to process intermediate inputs, capital, and labor for export-oriented goods to enhance capacity of local firms, technology, and know-how. Economic zone units generally produces capital-led labor intensive semi-processed product for the international market to attain greater profit. It is a form of *footloose industrial activities*<sup>4</sup> where international trade for finished goods does not incorporate the element of global dynamism (Sharma 2000).

The capital led investment provided the opportunities to host countries to advance technically, gain access to knowledge, and benefit from the created environment for proper utilization of resources which made local companies to be competitive globally with the impetus on efficiency (Parwez 2016b). Johansson (1994) believed that neo-classical economic model failed to acknowledge these spillovers within the SEZs and outside. Evidently, FDI is vital for India's integration into international production chains which involves goods and services with worldwide outreach (Chakraborty and Basu 2002; Parwez 2014).

Whether or not FDI produces spillovers in terms of creating jobs, achieving technological advancement, influencing domestic firms to be competitive leading to economic development can only be proved with global evidence but so far empirical evidence has suggested otherwise. Productivity in terms of spillovers ends when the estimates are based on the domestic firms samples only (Newman, Rand, and Talbot 2015).

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<sup>4</sup> Footloose industry is a general term for an industry that can be placed at any location without effect from factors such as resources or transport. These industries often have spatially fixed cost, which means that the costs of the products do not change despite where the product is assembled.



Evidences are rare regarding employment spillovers taking place due to SEZ oriented investment from foreign to domestic firms within backward linkages (where domestic firms supply raw materials to foreign companies) or through forward linkages (where foreign firms supply raw materials to domestic companies); results are along the lines of current status in the manufacturing industry attributed with the inefficiency in forward and backward linkages within the industry (Kokko, Zejan, and Tansini 2011).

It is also attributed to the orientation towards low labor cost discourages technology transfers and allied externalities; the positive externalities is largely absent. Generally, domestic companies in developing economies do not possess the required technical, marketing, management knowledge, and capital to force spillovers and create catalytic impact for larger benefit (Johansson 1994). On the other hand, Johansson and Nilsson (1997) made suggestions based on the stimulating effect of SEZs that the export-oriented impact is significant but limited to only few countries.

Majority of developing countries is experiencing the shift away from an import substitution based developmental model to export led production oriented policy as development approach. These economic zones have been instrumental policies to encourage industrial activities - exports, production, employment and revenue via domestic and foreign investment and technology (Boyenge 2007; Menon and Mitra 2009), although most of the economic zone are single companies. A majority of new economic zones are established in developing countries despite the doubt regarding the real impact; The emergence of new SEZ across have not subsided incentivised by low production cost (Parwez 2018).

From India's perspective, the SEZ Policy is considered the third generation economic reform where the first two were comprised to liberalize the macro-policy framework and establish institutions to structure a market driven economy. The SEZ scheme was introduced in 2000 and has its genesis in the Export Processing Zone (EPZ) scheme of 1965. By the late 1990s, the government of India set up seven more zones to promote export oriented industrial activities. However, all of the existing EPZs were converted into SEZs under the new scheme of government (Aggarwal 2006; Parwez 2015).

On other hand, growth rate of exports, foreign investment, revenue, and the creation of employment opportunities witnessed sharp rise in early eighties and gradual rise in last twenty years led by growing demand and the trend in the international market (Newman, Rand, and Talbot 2015; Reddy 2009).

On socio-economic front, employment creation could be the utmost importance for human development and SEZ has contributed even though desired results have not been attained. SEZs enhanced export oriented activities, although they could not induce technology based change, contribution in seeding new industrial establishment and transformation is largely insignificant (Aggarwal 2006; Govilkar 2008). The SEZ Act is considered the most significant step for long-term policy framework and direction. Similarly, Curtis, Hill, and Lin (2006) noted that SEZs will only be successful in countries with strong governance and geographic interaction with competitively low labor cost.

Ramachandran and Biswas (2007) said that the SEZs is an unusual instrument for economic development. Individual states play decisive role evident by unequal regional industrial development. Further, they suggested that the location of SEZ is motivated by proximity to the large cities, highways, and broad gauge railing lines which are key infrastructure. Mukhopadhyay and Pradhan (2009) found that most of the SEZs are tiny in size and belong to Information Technology/ Information Technology Enabled Services (IT/ITES) sector being concentrated in the blocks with close proximity to metro cities of Delhi, Mumbai, Kolkata, Bangalore, Chennai, and Hyderabad. Similarly, Reddy, Prasad, and Kumar (2009) suggested that the majority of SEZ are being established in Southern-region and State-wise where the Maharashtra and Andhra Pradesh emerged as top two states in establishing new SEZ entity. The SEZ policy in the last few decades created new North-South divide in India. Southern-Western States emerged as significantly prosperous economically compared to the Northern-Eastern States.

## **THE STATUS OF SPECIAL ECONOMIC ZONE IN INDIA**

India's development strategy was based on the philosophy of national self-sufficiency, government regulation, and planned industrialization. It was seen as backward looking and bureaucratic nightmare to serve as a development model. The government policies comprised of bureaucratic licensing requirements, import restriction, and public ownership of heavy industries among the many (Topalove 2004). India's trade policy was attributed with high tariffs and widespread import restrictions. To encourage and provide comparative advantage to the domestic firms from international competition, the import and manufacturing of certain goods were banned as protective measure. Imports of capital goods were controlled with red tape such as import licenses and many others. The processes

of licensing were plagued with delays, corruption, and the *actual user* policy<sup>5</sup> restricted imports by intermediaries (Ahluwalia 2002).

These restrictive trade policies continued until the late 1970s. However, due to growing dissatisfaction about outcome, there was progression of India's development strategy toward export-led manufacturing and open market economy in the early 1980s. In order to achieve high economic growth and lower poverty, policies that promote export-orientated production activity were further pursued. It compelled the introduction of several reformative measures during the 1980s and 1990s (Sharma 2000). The process for industrial licensing and permit was relaxed, and restrictions on import were also reduced.

With the introduction of Liberalisation, Privatisation and Globalisation (LPG)<sup>6</sup> Policy in 1991, promoting SEZ and similar activities India went forward with rapid industrialization process. India's SEZ policy is inspired from the Chinese model to take advantage of available surplus labor for advancement of economic development as future direction. Economic reforms have also led to institutional restructuring to enhance and sustain economic development while creating conducive business environment. Opinion was raised that a mature and productive SEZ policy will facilitate the process of export-led rapid economic development, which will draw foreign investments to establish new units and joint venture with the domestic firms leading to transfer of technology and managerial skills. It has been emphasised, the SEZs establishment serves as the tool for economic and political changes (refer to United Nations Industrial Development Organisation, 2015). Progression during the last three decades suggests that India's development model is currently in transition from export-oriented to consumer-driven.

It must be noted that SEZ is an export-oriented manufacturing scheme, defined as a deemed foreign territory with special rules for the facilitation of FDI for export-oriented production. The key point of deemed foreign territory is that individual units within the SEZ are allowed operational freedom in routine activities and not supervised by customs and labor rules.

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<sup>5</sup> The actual user condition is an important mechanism to control imports and restrict the identity of the importer to the manufacturers or those who use the goods for their own use and not for trading. The purpose of the condition is to keep the traders as well as trading activities out of the import operations.

<sup>6</sup> LPG or Liberalisation, Privatisation and Globalisation model was introduced by the government of India as new model of economic reforms. The primary objective of this model was to make economy of India as developing economy in the globe with capabilities that help it match up with the biggest economies of the world. The chain of reforms that took place with regards to business, manufacturing, and financial services industries targeted at lifting the economy.

The SEZ policy has emerged as trade capacity development programme oriented towards promotion of export led manufacturing using tax concession and business incentives to attract foreign investment, technology, which will generate revenue and employment required to improve the economy. The SEZ is being developed as geographical regions that differ from prevailing economic regulations and has more flexible and liberal economic and labor laws.

The EPZ's scheme failed to achieve the desired objective and turned out to be economically unfeasible and the expected positive impact on the economy was not visible. Due to the several shortcomings such as the existence of multiple points of control, lack of know-how, absence of adequate infrastructure, and an unstable fiscal and monetary regime led to the introduction of the SEZ policy in 2000. The government policy directed towards development of SEZs as an engine for economic growth complemented by world class infrastructure and providing financial package both at the Centre and the State level, with the least amount of regulations and control.

There are more than 491 SEZs which have been earned the approvals with 352 SEZs along with the 33 which has in-principal approval given by the government. Currently there are 196 SEZs that are operational in the country (refer to Table 1). These numbers reflect on the active engagement of SEZ policy but results are far from the anticipated results.

**Table 1. The Current Status of SEZ in India**

Forms of SEZ	SEZ in number
Number of Formal approvals	491 (Excluding 67 SEZs approved by BoA for cancellation/de-notification)
Number of notified SEZs (As on 5.15.2014)	352 (out of 491) + (7 Central Govt. + 11 State/Pvt. SEZs)
Number of Valid In- Principal Approvals	33 196 (Break up: 20 are multi product SEZs, remaining are
Operational SEZs (As on 30th September, 2014)	IT/ITES, Engineering, electronic hardware, textiles, Biotechnology, Gems & Jewellery and other sector specific Special Economic Zones)
Units approved in SEZs (As on 30th September, 2014)	3,864

Source: Special Economic Zones in India (2015) (<http://www.sezindia.nic.in/>)

Data suggests that SEZs are preferred either Western or Southern part of the country for development new economic enclaves. There are only a few SEZs located in the

Northern or Eastern part of India; these regions are in proximity to cities such as Delhi or Kolkata (refer to Table 2). This form of regional disparity is motivated by state government policies, political stability, law and order, transaction cost, availability of infrastructure, and proximity to port.

**Table 2. State-wide Distribution of SEZs**

Sl.No.	States/UTs Formal	Formal Approvals (491)	Formal Approvals (in %)	Notified SEZs (352)	Notified SEZs (in %)	In-principle approvals (33)	In-principle Approval (in %)
1	Maharashtra	69	14.1	52	14.8	9	27.3
2	Telangana	60	12.2	42	11.9	0	0
3	Karnataka	59	12	39	11.1	0	0
4	Tamil Nadu	55	11.2	51	14.5	5	15.2
5	Andhra Pradesh	40	8.1	30	8.5	4	12.1
6	Gujarat	35	7.1	28	8	4	12.1
7	Haryana	34	6.9	25	7.1	3	9.1
8	Kerala	32	6.5	25	7.1	0	0
9	Uttar Pradesh	31	6.3	22	6.3	1	3
10	Madhya Pradesh	19	3.9	9	2.6	1	3
11	West Bengal	12	2.4	5	1.4	2	6.1
12	Rajasthan	9	1.8	8	2.3	1	3
13	Others	36	7.3	16	4.5	3	9.1

Source: Ministry of Commerce and Industry of India (2015) (<http://www.sezindia.nic.in/>)

Since independence, Maharashtra and Gujarat have been the engine for economic growth. The last few decades reflect the emergence of Southern states such as Karnataka, Tamil Nadu, and Andhra Pradesh where these regions have witnessed considerable economic development.

The government's commitment to SEZ policy leading to the enactment of SEZ Act in 2005 has instilled confidence among the domestic as well as foreign investment firms. The state governments also played important role in implementing norms, creating infrastructure, business environment, and providing the necessary approvals in time. The objective of introducing the Special Economic Zones Act in 2005 was to overcome the limitations of prevailing regulations and to streamline the processes for economic development via promotion of export oriented manufacturing activities.

## **SILLOVERS FROM FOREIGN DIRECT INVESTMENTS**

Economies of scale is the most attractive incentive for investment in another country in addition to low labor and input costs which reduces the overall transaction costs. It enhances the competitiveness of the businesses and quality of production processes (Hijzen and Swaim 2007).

Local economies benefits from FDI activities leading to the creation of capital, employment, production processes, managerial skills, technology transfer, along with much needed infrastructure furthering economic advancement of the region. Furthermore, the FDI activities enhance consumption and money circulation in the market. Existing literatures suggest that the benefits of FDI prevail over the demerits. Most of foreign affiliates, be it individuals and corporates, create various forms of capital with successful ventures in the given field. They also bring fresh perspective and expertise to the target market.

For economic spillovers to take their full effect, the prevailing linkages among firms need to be strengthened, and capabilities of domestic firms must be braced. To achieve this, the production and supply of produce is crucial. The absence of an effective and efficient supply base can limit the forms and volume of FDI flows in the country (Parwez 2014).

It has been perceived that manufacturing of exports oriented products require relatively lower skills, low-level technology and labor intensive. Capital is a highly mobile factor that depends on the presence of relatively competitive and cheaper labor. A location or country is not as attractive if production cost is higher due to labor cost. Limited participation of domestic firms in the production processes and minimum transfer of knowledge from MNCs to domestic entity limits the spillovers.

While India's exports are driven by high-end information technological products and services, it is largely indigenous in nature. However, the manufacturing that is set up under the umbrella of SEZ across the country is labor-intensive, import-dependent, and technically low in value-added. Hence, the backward network developed by foreign manufacturing firms in domestic structure has been weak. To increase productivity and profitability, it is important for industry to move towards higher segments of the value chain. With growing regional economic integration in East and Southeast Asian countries, impending opportunities could emerge from the growth of regional production linkages where backward and forward stakeholders could act as sub-contractors of end product (Aitken, Hanson, and Harrison 1997). Networking and transection with domestic firms

offer possibilities of technology transfer, it provides a favorable route for domestic firms to access international market. The requirement of strengthening domestic firms and improving their networking with foreign firms are necessary pre-requisite for the country to benefit from the expected FDI flows arising from the establishment of regional production enclaves.

To improve the competitiveness of domestic firms and strengthen their network to foreign companies, the government needs to apply a more comprehensive approach. This approach should combine industrial re-structuring to develop domestic firms and create an atmosphere conducive to innovation and expansion of economic spillovers in order to enhance participation in higher strata of industrial value chain.

According to the estimates of Credit Rating Information Services of India Limited (CRISIL) (2013), infrastructure sectors including oil and gas, power, roads, railways, ports, urban infrastructure, airports, and telecom has attracted more than \$345.28 billion investment (FDI) between the period of 2007-2008 and 2011-2012. They also observed that increasing financial overheads due to high interest rates and on-going global recession may not affect the investments sentiments for the infrastructure projects which suffering from long gestation periods. There are three key reasons for the positive sentiments in the context of investment in Indian infrastructure: The first is better institutional structure for encouraging infrastructure investments, especially for the private sector; The second is the years of experience of government, regulators, firms, and other players regarding the process of participation in infrastructure projects; The third is the improved project implementation mechanism and financial capabilities of firms to handle large and complex projects.

Activities of manufacturing export-oriented productions, generating revenue, and creating employment in SEZ units highly depend on investment made by the foreign and domestic firms. Promoting investment activities, transfer of technology, and utilization of foreign and domestic resources to develop local economy is happens to be prime aim of SEZ policy. To encourage private firms, government has also introduced FDIs up to 100 % in SEZs units.

**Table 3. Investment in SEZ After the Enactment of the SEZ Act in 2005**

Types of SEZs	Total Investment (As on 31 <sup>st</sup> December 2015)
Central Government SEZs	Rs. 14,860.96 cr
State Govt./Pvt. SEZ established prior to SEZ Act, 2005	Rs. 10,961.51 cr.
SEZs Notified under the Act	Rs. 3,47,623.36 cr.
Total	Rs. 3,73,445.83cr.

Source: Special Economic Zones in India (2016) (<http://www.sezindia.nic.in/>)

On-going government efforts has resulted in some positive outcome in terms of investment. Table 3 reflects on investment made in central and private-state government SEZs units. It shows that investment in notified SEZs is greater in both the private/state government and central government affiliates. It also says that investments by private-state government SEZ (e.g., Rs. 10,961.51 crore) is greater than the central government SEZs (e.g., Rs. 14,860.96 crore). In total, notified SEZs attracted investment of Rs. 347,623.36 crores.

Additionally, Table 4 reflects on investment made in various central government owned SEZs. Total investment in central government owned SEZs happens to be Rs. 3,900 crore in the year 2007-2008, and the distribution of investment was more or less the same, except for Santacruz Electronics Export Processing Zone (SEEPZ) SEZ. Since one of the most important objectives of SEZs is to attract FDI, in 2007-2008, all of the seven central government SEZs only attracted Rs. 865.8 crore FDIs; this was largely contributed by MEPZ SEZ Chennai with the maximum amount of FDI in tune of Rs. 237 crore, followed by the SEEPZ SEZ Mumbai with the amount of Rs. 154.3 crore.

**Table 4. Government SEZs (EPZs Converted to SEZs) (unit: Rs. crore)**

Sl. no.	Zone	Government Investment	Private Investment by Units (Excl. FDI)	FDI Proposed	FDI Made	Total Private Investment Made
1	Kandla SEZ	93.6	238.1	0.0	137.4	375.5
2	SEEPZ SEZ	57.3	625.1	461.9	154.3	789.4
3	Noida SEZ	117.7	540.0	0.0	135.0	675.0
4	MEPZ SEZ	87.5	434.3	252.5	237.4	671.7
5	Cochin SEZ	104.3	429.0	0.0	76.8	505.8
6	Falga SEZ	101.1	385.4	-	8.4	393.8
7	Visakhapatam SEZ	67.9	371.5	200.0	116.5	488.0
Total		629.7	3033.7	914.4	865.8	3899.5

Source: Ministry of Commerce and Industry, Deptt. of Commerce (GoI) (2015)



The FDI received by SEZs in 2007 and 2008 involves about 8 % of the total FDI inflows in the country. It suggests that there is substantial scope, as FDI received is decreasing. Same declining pattern can be observed in the private and state government owned SEZs performance.

Dynamic nature of FDI is inversely connected to economic development. Economic development is poorer in those countries where economic stability is absent. Economies with higher level of instability tend to have lower or more fluctuating economic growth rates, and also appear less investment-friendly for foreign investors. Due to these factors, most of the countries and companies prefer China and India as investment destination as their economy is stable, low cost with massive market. Generally in India, a foreign investor get 4% return as compare to 1% in other countries (Department of Promotion and Productivity, 2014), so they are attracted mainly due to higher return on investment.

The cumulative FDI inflows since the introduction of SEZ policy in 2000 to 2014 reported to be US\$ 212,031 million; India is among the top 15 investment destination (Department of Promotion and Productivity 2014) even in prevailing recession across the globe. Investment is bound to increase with the introduction of new economic reforms (such as Goods and Services Tax) and relaxation of FDI norms for various sectors.

### **EMPLOYMENT STATUS IN SEZs**

The employment opportunities are key indicators to determine the success of the SEZ policy in India's labor-surplus economy. Table 5 reflects the employment in SEZ units during February 2006 and September, 2014 in actual numbers. The employment created by central government controlled SEZs (2,11,348 persons) is higher than private/state government SEZs and notified SEZs (1,13,8723 persons).

**Table 5. Employment in SEZ**

Forms of Employment	Number of people
Direct employment created in notified SEZs (30 <sup>th</sup> September, 2014)	10,63,046 people (all incremental employment generated after February 2006)
Direct employment in private/state govt. SEZs which came in to force prior to SEZ Act, 2005 (30 <sup>th</sup> September, 2014)	75,677 person (incremental employment generated since Feb. 2006 as 63,209)
Direct employment in 7 SEZ established by the Central Government (30 <sup>th</sup> September, 2014)	2,11,348 person (incremental employment generated since Feb. 2006 as 89,112)
<b>Total</b>	<b>13,50,071 persons</b>

Source: Ministry of Commerce and Industry, Deptt. of Commerce (GoI), 2015

Table 6 indicates that job opportunities created by central government owned SEZs is four times greater than the state government-private SEZs contribution in the year 2007 - 2008. Also, the number of employed persons per unit is 172 and 111 for central and state government SEZs, respectively.

**Table 6. Employment in SEZs before SEZ Act in 2005**

	Employment ( Person)	No. of Units
Central Government SEZs	193,474	1,122
State Govt/Pvt. SEZ	44,768	403
<b>Total</b>	<b>238,242</b>	<b>1,525</b>

Source: Ministry of Commerce and Industry, Deptt. of Commerce (GoI), 2015

The central government owned SEZs has created more employment opportunities than the state government and private owned SEZs. Among the central government controlled SEZs, the major employers are SEEPZ, Noida SEZ, and MEPZ SEZs with 43, 17 and 15 % shares, respectively (refer to Table 7).

**Table 7. Government SEZs Employment (EPZs converted to SEZs)**

Sl. no.	Zone	Direct Employment			Total
		No. of Units Approved	Men	Women	
1	Kandla SEZ	167	9873	9129	19002
2	SEEPZ SEZ	333	58747	26356	85103
3	Noida SEZ	200	27080	5920	33000
4	MEPZ SEZ	106	12706	16489	29195
5	Cochin SEZ	120	6336	5038	11374
6	Falga SEZ	154	5612	5988	11600
7	Visakhapatnam SEZ	42	2342	1858	4200
	Total	1122	122696	70778	193474

Source: Ministry of Commerce and Industry, Deptt. of Commerce (GoI), 2013

On the other side, employment opportunities created by the state government-private SEZs is largely reflected by Surat and Nokia SEZs with the highest numbers, while Jodhpur and Mahindra City SEZs were at the bottom. Economic feasibility, location and low transaction rate play key role towards the performance of an industrial unit. Another noteworthy trend among SEZ's units is that, they tend to provide large number of employment to female workers. The SEZs also has done well in terms of employment creation for large skilled workforce; reflected from the fact that between 2011 and 2014, SEZ employment increased more than 51 % from the earlier 844,916 in 2011 to 1,283,309 in 2014 (Department of Commerce, GoI 2015).

A close observation of overall employment pattern in SEZ, suggests that the economically developed states of Western and Southern region contribute to the larger extent. There has been a steady growth of employment in SEZ units over the years, but in the last few years, there has been considerable decline which is a matter of concern.

Table 8 also reflects that growth in employment opportunities in states such Tamil Nadu, Maharashtra, Karnataka, Telangna, Andhra Pradesh, and Gujarat have been rapidly created and they have contributed to more than 50 % of employment in the country. Several Northern and Eastern states' contribution in terms of employment in SEZ has been lacklustre. Numbers on employment in SEZ also depend on the quantity of SEZ. Also determined by presence of adequate business environment comprised of industry friendly policy, peaceful business environment, raw material, and adequate physical infrastructure (roads, electricity, water and many more).

**Table 8. States/UTs-wise Contribution of Employment from SEZs**

Sl. No.	States/UTs	Employment* (In Persons)			
		2011-12	2012-13	2013-14	2014-15 (as of Sept,2014)
1	Gujarat	42097	51190	75586	64356
2	Karnataka	85055	141366	193686	206096
3	Tamil Nadu	219989	237950	268405	288160
4	Maharashtra	194469	271134	339919	340061
5	Kerala	23799	25701	32311	45581
6	Andhra Pradesh	117266	144346	157280	46024
7	Telangana	0	0	0	128749
8	Uttar Pradesh	63637	75101	83970	89684
9	West Bengal	36309	55656	48112	49599
10	Haryana	29220	38497	50208	54732
11	Madhya Pradesh	12313	12429	10308	10440
12	Rajasthan	11028	13163	14574	16254
13	Chandigarh	7620	6140	5927	6369
14	Chhattisgarh	0	119	119	40
15	Odisha	1787	1715	1577	2043
16	Punjab	299	369	1299	1855
17	Goa	28	28	28	28
Total		844916	1074904	1283309	1350071

Source: Dept. of Commerce, GoI (2015)

Note: \* Calculated on cumulative basis.

Densely populated states such Rajasthan, Madhya Pradesh, Odisha, Punjab, and Chhattisgarh represent that India's SEZ is negligible, mainly due to lack of infrastructure, not so friendly business environment leading to higher transaction cost aggravated by law and order situation in some of these states which has attracted only few manufacturing shops and few jobs.

It can be observed from Table 8 that some major states such Bihar, Himachal Pradesh, Jammu and Kashmir, and Assam do not even feature in the list, because they do not possess single SEZ to be considered for employment calculation. States such as Uttar Pradesh and West Bengal reflect some decent numbers but mainly due to availability of some attractive location (e.g., Noida and Kolkata, respectively) in terms of accessibility and connectivity reduces transaction cost. As most of SEZ units of Uttar Pradesh are situated in Noida/Greater Noida of National Capital Region (NCR)<sup>7</sup>, proximity to national capital

<sup>7</sup> National Capital Region (NCR) is inter-state region with NCT-Delhi as its core. It has notified covers an area of about 34,144 sq kms falling in the territorial jurisdictions of four State Governments namely, National Capital Territory of Delhi, Haryana, UP, and Rajasthan and constitutes about 1.60% of the country's land area.

and presence of adequate infrastructure is the key. On the other hand, most of the SEZs in West Bengal located in Kolkata advantaged from metro city and ports.

## **EXPORTS FROM SPECIAL ECONOMIC ZONE**

The SEZ policy has facilitated the progression of industrialization in India. The SEZ provided certain dividends, but they are still far from the desirable results. One of the main reason for the under-achievement is largely due to poor import-export performance burdened with enormous taxes and duties even after various forms of exemptions (OECD, 2015). To complement SEZ policy, government further reformed the export policy to facilitate trade. This created an environment to smooth the operations for manufacturing units. Government also promoted dedicated export-oriented manufacturing shops under the umbrella of Export Oriented Units (EOU)<sup>8</sup>, and they complemented the export potential of SEZ (OECD, 2007). Additionally, these EOU were conceived and focused particularly on the development of exports-based trade.

Since the enactment of the SEZ Act in 2005, approvals have been granted to 491 proposals. Until the end of 2015, agencies have granted 196 SEZs that were functional and effectively exporting products from India. Companies operating in SEZs were entitled to incentives such as duty-free procurement of material, exemptions from income, service, and sales taxes for the given period.

The SEZs' share of total Indian exports increased from 24.86 % in 2011-2012 to 26.10 % in 2013-2014 which valued US\$ 82.37 billion (Table 9); this can be considered decent performance. It shows that India's export from SEZ has been positive between 2005 and 2011 as export growth has been more than 71 % but it declined for the period of 2011 to 2014 to 16 %. In fact, between 2013 and 2014, growth rate in export was as low as 4 %. It can be noted that in 2009 - 2010, SEZ witnessed highest growth rate of 121 % with earnings of US\$ 49.05 billion, improved to US\$ 88.18 billion in 2012-2013.

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<sup>8</sup> The Export Oriented Units (EOUs) scheme, introduced in early 1981, is complementary to the SEZ scheme. It adopts the same production regime but offers a wide option in locations regarding factors like source of raw materials, ports of export, hinterland facilities, availability of technological skills, existence of an industrial base and the need for a larger area of land for the project.

**Table 9. Exports from the Operational SEZs (2005-2014)**

Years	Exports		Growth over previous year
	Value in Rs. Crores	Billion USD	
2005-2006	22,840	5.08	-
2006-2007	34,615	7.69	52%
2007-2008	66,638	14.81	93%
2008-2009	99,689	22.15	50%
2009-2010	2,20,711	49.05	121%
2010-2011	3,15,868	70.19	43.11%
2011-2012	3,64,478	81.00	15.39%
2012-2013	4,76,159	88.18	31%
2013-2014	4,94,077	82.35	4%

Source: Ministry of Commerce and Industry, Dept. of Commerce (GoI) (2015)

State wise analysis of export pattern in the last few years shows negative growth for the year 2013 - 2014 and 2014 - 2015. Major states demonstrate steady growth in export activities for year 2011 - 2012 to 2013 - 2014, but the third quarter of 2014 - 2015 reveals that all Indian state has suffered from decline growth in export, being adversely affected by the lack of demand in international market.

**Table 10. States/UTs-wise Contribution of Exports from SEZs**

Sl. No.	States/UTs	Exports (Rs. in Crore)			
		2011-12	2012-13	2013-14	2014-15 (as of Sept, 2014)
1	Gujarat	182414.33	226937.74	225042	107602.42
2	Karnataka	22006.81	39363.94	51372.88	21682.80
3	Tamil Nadu	50152.39	67618	71417	35847.40
4	Maharashtra	24198.83	42962.25	56399.23	26073.40
5	Kerala	31373.3	33824.47	8003.64	2853.77
6	Andhra Pradesh	18163.8	27687.71	33291.07	3955.01
7	Telangana	0	0	0	16598
8	Uttar Pradesh	13637.38	12591.49	16282.42	7736.87
9	West Bengal	14870.7	15050.7	16204.27	2696.75
10	Haryana	3442.95	4980.75	8740.43	5397.80
11	Madhya Pradesh	1637.12	1937.16	2984.23	2048.65
12	Rajasthan	1315.69	1498.42	2036.59	1039.78
13	Chandigarh	1103.25	1339.93	1778.15	1024.80
14	Chhattisgarh	0	9.56	1.84	2.96
15	Odisha	158.27	217.21	386.09	115.62
16	Punjab	2.91	139.6	136.72	145.52
17	Goa	0	0	0	0
	<b>Total</b>	<b>364478</b>	<b>476159</b>	<b>494077</b>	<b>234821</b>

Source: Dept. of Commerce, GoI, 2015

Note: \* Calculated on cumulative basis.

Even though Punjab's share in employment is negligible compared to other major states of Gujarat, Tamil Nadu, Maharashtra, Andhra Pradesh, it has been the only state that witnessed positive growth during this period. Due to the lack of demand and economic slowdown, many states suffered with more than 50 % decline in the SEZ related employment, mainly hampered by closure of many shops. SEZs spread in the country reflects an interesting picture; even though there are more IT/ITES SEZ across, physical exports are dominated by the Indian manufacturing sector.

**Table 11. Exports from SEZs Established by Central Government (June 30, 2012)**

Sl. No	Name of the SEZ	Location	Type	Physical Exports			Total
				IT/ITES	Trading	Manufacturing	
1	Kandla Special Economic Zone	Kandla	Multi product	0	21.45	748.4571	769.9071
2	SEEPZ Special Economic Zone	Mumbai	Electronics, Gems and Jewellery	0.86	162.15	2413.18	2576.19
3	Noida Special Economic Zone	Noida	Multi product	210	0	1658.03	1868.03
4	MEPZ Special Economic Zone	Chennai	Multi product	751.31	0.04	2057.44	2808.79
5	Cochin Special Economic Zone	Cochi	Multi product	128.03	14.19	7883.3	8025.52
6	Falta Special Economic Zone	Falta	Multi product	0	27.11	145.51	172.62
7	Visakhapatnam SEZ	Vishakhapatnam	Multi product	21.18	98.37	498.84	618.39
8	Total			1111.38	323.31	15404.757	16839.4471
Exports from State Special Economic Zones established prior to SEZ Act.							
9	Total			26901.33	1834.649	48802.97	77538.9458
10	Grand Total			28012.71	2157.959	64207.727	94378.9458

Source: Dept. of Commerce, GoI  
Not: 2015\* Calculated on cumulative basis.

Data shows that the manufacturing sector exported the goods worth of Rs. 64207.727, was doubled by IT/ITES sector to Rs. 28012.71. It must be noted that exports from SEZ under the State Government/Private SEZs are almost five times of the Central

Government owned SEZ. It is mainly due to the fact there are only seven central governments owned SEZs compare to more than 480 state and privately owned SEZs.

Table 11 also suggests that central government owned SEZs put more emphasis on manufacturing sector with a purpose of creating employment then export. With respect to export, considering seven central government controlled SEZ performance- Cochin Special Economic Zone (Rs. 8025.52), MEPZ Special Economic Zone (Rs. 2808.79) in Chennai and SEEPZ Special Economic Zone (Rs. 2576.19) contributes to about 80 % of physical export.

## **DISCUSSION AND CONCLUSION**

This study focused on the question of whether SEZ produces spillovers that can help the host economy to develop in terms of job creation, exports-oriented production, and investment leading to revenue creation advanced by technology transfer to boost the capacity of domestic firms to further improve economic development goal. It has been observed that the productivity spillovers take place horizontally from multinational companies to domestic companies within the given particular industry. However, the positive relationship ends here, when the estimate is based on the domestic firm's samples only, it is difficult to find any evidence that significant productivity or employment spillovers took place due to the establishment of SEZ through investment by foreign and domestic firms within backward linkages (where domestic firms supply raw materials to foreign companies) or through forward linkages (where foreign firms supply raw materials to domestic companies) (Parwez 2014). Given the limited transaction between multinationals and domestic firms, it would be difficult for productivity spillovers from MNCs to take their full effect through forward or backward linkages to domestic firms (Sharma 2009). This is the existing case in the Indian economy in context of free economic zone as the instrument of economic development.

For spillovers to take its effect, the prevailing linkages among firms need to be strengthened and at the same time, the development of the capabilities among domestic firms must be strengthened. To achieve this, the production and supply of produce would be crucial. The absence of an effective and efficient supply base has evidently limited the type of FDI flows. Investment and technical know-how restricted to only exports oriented product which is labour-intensive, low level of skills, only application of basic machinery, and import reliant (Tripathy, 2008). These types of investors and investment are highly mobile, depending on the presence of relatively competitive, exemption and cheaper labor



offerings, the country becomes less or more attractive for investment. With the limited participation of domestic firms in the production process and networks of MNCs, clearly limits the effect of spillovers effect into the Indian economy.

While India's exports are concentrated in high end information technological products and services, it is not indigenous in nature. In case of manufacturing, export oriented SEZ are labor-intensive, highly import dependent, and low in technically knowledge dissemination (Chandrasekhar 2009). To increase productivity and profitability, it is important for industry as a whole to move up towards higher segments of the value chain.

With growing regional economic integration in East and Southeast Asian countries, impending opportunities could emerge from the growth of regional production linkages where backward and forward stakeholder could act as sub-contractors of end product. Networking and transaction with domestic firms offer possibilities of technology transfer and, favourable route for domestic firms to access global markets (Ge 1999). The requirement of strengthening domestic firms and improving their networking with foreign firms are necessary pre-requisite for the country to benefit from the expected FDI flows arising from the establishment of regional production set up such as SEZ.

To improve the competitiveness of domestic firms and strengthen their networking, the government needs to apply a more comprehensive approach. This approach should combine industrial re-structuring for development of domestic firms and create a conducive atmosphere for the innovation to take place and expansion of FDI-related spillovers leading to increase participation in higher strata of industry value chain.

Economic development of India needs an understanding and enhancing the detrimental role of the government at the center and state level. Indian SEZs are industrial townships with manufacturing and service based units, enjoying tax concessions, exemptions form regulations to produce export-oriented goods and services to provide impetus to economic development. As mentioned earlier, SEZ scheme is supposed to attract domestic and global investors toward export oriented production inspired by the successful Chinese model. Enactment of SEZ Act in 2005 provided the exemption and tax concessions, relaxation, infrastructure for developers, it has played a significant role in attracting foreign investment in areas such as software, hardware, and apparel which could have gone to other Asian destinations in the absence of these benefits.

To reduce inconvenience, the SEZ Act has created the office of the Development Commissioner (DC) with a purpose of facilitating and sorting out the regulatory issues

connected with licences, electricity, land, water, environment and labor clearances through single window initiative (Singh 2009; Parwez 2015). It was supposed to reduce the transactions costs. The absence of DC as the single window authority, companies will be forced to go through process of knocking offices of numerous state and central-level department for approvals. It may lead to the development of negative sentiments towards conducting businesses in India.

The size of investment rest on the scale of business operation leading to eventual production, revenue generation, employment creation and technology transfer/development. However, by far production processes happens to be labor intensive, but it has created positive industrial environment and established India as investment destinations as it lower down the cost even production further.

Even though numerous steps have been taken by the government for the industrialization evidences suggest that the impact on the economy has not been that significant enough. With the introduction of new manufacturing-based campaign of *Make in India*<sup>9</sup>, SEZs are more likely to be the center of realization of ambitious campaign. The Minimum Alternate Tax (MAT)<sup>10</sup> and Dividend Distribution Tax (DDT)<sup>11</sup> exemptions for SEZ developers ended in 2011, as it became an unappealing proposition. It was reported that firms were misusing the scheme as real estate arbitrage rather than for manufacturing activities. Further, information technology firms were abusing the policy to avail tax benefits and incentive; once Software Technology Parks of India (STPI) programme ended exemptions and benefits, many of the companies also closed their shop (Parwez and Sen 2016).

While complexity and duplicity of taxes imposed on firms adversely impacted the interest of SEZs, it must be noted that companies were also given various kinds of concessions and tax benefits. The point of discussion is generally the level of tax being relaxed. Though, the subject of taxation is also aggravated by the unpredictability of the

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<sup>9</sup> Make in India is an initiative of the Government of India to encourage multinational, as well as domestic, companies to manufacture their products in India with objective of developing India as top destination globally for foreign direct investment and manufacturing hub.

<sup>10</sup> Minimum Alternate Tax (MAT) is a local tax that India has required companies to pay since the late 1980s. If a company's income tax in India is less than 18.5%, then it should pay the MAT, which comes to around 20%, including additional duties.

<sup>11</sup> Dividend Distribution Tax (DDT) is the tax levied by the Indian Government on companies per the dividend paid to a company's investors.

administration leading to negative investments sentiments. Growth of trade and investment depends heavily on predictability and simplicity of taxation policies. A conducive environment for the investment, whether foreign or domestic is key for furthering the agenda. However, even though there is a presence of various adversity, the SEZ policy continues to be relevant from *Make in India* perspective.

India has undertaken several free trade agreements (FTAs) with countries such as Japan, Sri Lanka and with Association of Southeast Asian Nations (ASEAN) to import duties and taxes, being reduced to zero for several products to encourage trade. This may cause negative impacts on domestic firms which are highly taxed. Foreign policy should lead to recognition of India as 'most favoured nation' status, will lead to the automatic lowering of tariff under the FTAs, reductions and exemption should extend to all manufacturing companies, not only to the ones in SEZs.

However, it is evident that taxation issues are not the only factor hampering SEZs, despite offering several incentives and exemption for the promotion of manufacturing activities at both the centre and state level. Therefore, it implies that all these incentives need to be re-evaluated and considered in justified manner (Sivananthiran 2007). It should be noted that incentives and exemptions could not be sustainable form of promoting industrialization. These so-called advantages should not be the only reason for firms to be in SEZs, as it could defeat the very objective of industrial development and adversely impact the economy. It may give an impression that firms are abusing the SEZ scheme for their vested interest. However, experiences suggest that profitability happens to be the only and prime objective for companies, excluding the factor such as job creation, revenue generation, development of infrastructure, technological advancement and overall positive impact on economy is considered as default product from company's perspective. Industrialization process highly depends on the facilitation and friendly business environment. Factors such as location of SEZ, infrastructure facility, logistical issues, and efficient zone management are key determinants.

Talking about legal issues, several economists suggest that stringent and inflexibility of labor laws has hampered the effectiveness of SEZs. Basu (2003) believes that India requires a legal regime, which allows firms to formulate different kind of contracts depending on their needs. There are endorsements from various sectors that the policy of labor flexibility can attract investment leading to the various kind of spillovers.

The important piece of legislation on labor law is the Industrial Disputes Act (IDA), which can be considered obsolete and unsuitable considering the current economic scenario.

The amendments in IDA during the 1980s did not leave much space for flexible labor law. Rather, it further made obligations for firms that employ more than one hundred workers to get permission from the state government before retrenching workers, an approval that is rarely given, mainly motivated by short term vested political interest.

According to some analysts, the worst consequence of Indian labor law stringency is that it keeps thousands of workers unemployed, as companies see advantage in keeping small nature of business as they are wary of the fact that if they grow, they will not be able to discharge workers as per need, so, firms do not hire in the first place; small firms remain small (Singh 2009; Parwez 2015).

On the other hand, losses in terms of revenue is major issue that has plagued SEZ entities. Comptroller and Auditor General of India (2015) reports that more than 50 % of land allotted to SEZs across the country remains idle, and their very purpose was defeated with no significant increase in employment even revenue foregone for the government is happens to be in tune of Rs. 83,000 crore between 2007 and 2013 as tax concessions given to companies. Also, there are also reports that ineligible tax deductions were extended to companies (Comptroller General of India 2014).

Revenue loss also included the loss to the exchequer on account of central excise and service tax that could have accrued if these companies were not given the name of SEZ. The revenue foregone, or loss to the exchequer, could be worse considering other forms of concessions availed by these companies such as stamp duty, Value Added Tax, and Central Sales Tax, could not be quantified in the absence of any monitoring mechanism.

The Parliamentary Standing Committee estimated the duties foregone to be over Rs 1.75 lakh crore from tax holidays granted to SEZs between 2004 and 2010. On the other hand, data from the Department of Commerce says that the revenue foregone due to central excise and customs duty concession is amount to Rs. 5534.1.

India's SEZ scheme is highly inspired by the success of Chinese SEZs; factored by the creation and availability of complementary infrastructure facilities such as road, electricity, water sources and ports but these infrastructure facilities are absent in India. To promote SEZs activities and manufacturing in India, the emphasis of the state should be on developing the necessary infrastructure facilities and creating enabling environment for comprehensive development of SEZ. The SEZs needs to be located and well connected with roads, ports, railways, and airports.

India has advanced to a world-class IT and ITES sector that exports its software's products and services internationally. Most of the IT/ITES SEZs are developed as private

entity, performing better than the government owned SEZs. It must be noted that factors such as availability of skilled manpower, global demand of IT/ITES related products and services, and culmination of tax holiday in STPI contributed to establishment of large number of IT/ITES based SEZ (Parwez 2016b).

Yet for all of India's achievements in IT and service sector, there is a prevalence of high level of poverty and unemployment rates. India may have performed well in IT/ITES, but when it comes to exporting the manufacturing based products, India is the poor cousin of China. Henceforth, there is a great attention being paid within India to support export-oriented manufacturing processes. While SEZs offers an prospect for India to break new ground, the inevitable comparisons with China highlight the distance that India needs to cover. Over the years, India's has been overshadowed by China's higher GDP and industrial growth.

As mentioned, series of concession and tax holidays, flexibility in regulations and many more factors has created a positive investment perception. India is an attractive destination for investment lies in the fact that it has surplus labor with low cost processes, stable legal system, well-established financial institutions and transection mechanism, large English speaking young population (both as market and human resource) and encouraging government. India needs to introduce many forms of reform to be able to compete and take advantage of said factors.

This study reveals that the impact of SEZ policy on Indian economy has not met the expected results. The SEZ has attracted more domestically focused FDI compare to global channels. Findings suggest that the major goal for private firms in SEZ is happens to exploit the populated domestic market (inward looking strategy). Evidences also suggest that India's factor market is less efficient compared to other competitive developing countries in international markets. However, SEZs spillovers has been noticeable as it has improved competitiveness of domestic industry, created employment, and technological advancement. Creation of social infrastructure at location of SEZ is one of most important positive spillovers. But limited impact is indicative of inefficiency of forward and backward linkages of companies and industries. However, success of SEZ policy in India is limited in nature, but with the introduction new government policies that focus on manufacturing activities may have positive impact on future SEZ performance.

## ACKNOWLEDGEMENT

I am grateful to the reviewers of the journal for their extremely useful suggestions and comments for furthering the quality of paper.

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