



## **SPECIAL ECONOMIC ZONES IN INDIA: IT'S IMPLICATIONS ON TRADE**

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### **Introduction**

This paper critically analyses the impact of Special Economic Zones on India's trade and economic growth. A Special Economic Zone is a region in a country in which the economic regulations are different from that of the other regions in the same country. The regulations of Special Economic Zones act as a magnet for Foreign Direct Investment (FDI). The reason being, when a business is conducted in a Special Economic Zone, there are some additional economic benefits such as tax incentives and the scope of paying lower tariffs. Special Economic Zones are generally made to work with fast monetary development in certain geographic areas. This monetary development is accomplished by leveraging tax incentives as a method of drawing in foreign currency and technological progression. Likewise, SEZs build trade levels for the executing nation and different nations that supply it with transitional items.

To ingrain trust in financial backers and sign the public authority's obligation to a stable SEZ strategy system and so as to grant steadiness to the SEZ system in this manner creating more prominent economic movement and work through the foundation of SEZs, a complete draft of SEZ Bill was prepared after broad conversations with the partners. Various gatherings were held in different pieces of the country both by the Minister for commerce and Industry and senior authorities for this reason. The Special Economic Zones Act, 2005, was passed by Parliament in May, 2005 which got Presidential consent on the 23rd of June, 2005. The draft of SEZ rules were broadly talked about and put on the site of the Department of Commerce submitting thoughts and remarks. Around 800 ideas were gotten on the draft rules. After extensive consultations, the SEZ act alongside the standards became effective on 10<sup>th</sup> February, 2006, accommodating exceptional rearrangements of methodology and for single window leeway on issues identifying with central and state governments.

### **Research Questions**

1. Which state and sectors of India consist of the highest number of Special Economic Zones (SEZ)?
2. Did the total trade of India with the other countries change with the establishment of Special Economic Zones (SEZ)?
3. What are the major incentives and facilities available to units and developers of the Special Economic Zones (SEZ)?

### **Objectives of the Study**

1. To understand the conceptual framework of Special Economic Zones (SEZ) and the issues pertaining to it how it.
2. To analyse the employment and investment in Special Economic Zones (SEZ) in India.
3. To analyse state and sector wise distribution of approved Special Economic Zones (SEZ) in India.
4. To set up a hypothesis whether or not the total trade of India with other countries has changed after the establishment of Special Economic Zones (SEZ).

### **Review of literature**

There have been several researches conducted in this field. Here are the reviews of few research articles, journals and books for the same.



- 1) In the article “Special Economic Zones: Issues and Implications” by Parag and Joshi they deal with the various issues which revolves around the Special Economic zones. The articles also focus on the facilities and obligations involved with the Special Economic zones. The brightest side of this article is that, towards the end of it, the author gives suggestions as to how the Special Economic zones could be used as a tool for the development of agricultural sector. The negative side of the article is that it focused on the issues of SEZ only in the Indian context. It would have been better if it focused on the issues pertaining to SEZ in the other parts of the world also (*Parag Narkhede and Seema Joshi, 2008*).
- 2) The research study “A Study of performance of Special Economic Zones in India” by Dr. P Govindan primarily examines the total number of formal permits, general permits, reported SEZs and export SEZs in India as of January 22, 2019. It also analyses the distribution according to states and sectors of approved SEZs, total exports of India as of January 31, 2019, total exports of Special Economic Zones in India as of January 22, 2019. This survey also looks at the investment and incremental investment, employment and incremental employment generation on the Indian Special Economic Zones. The positive side of this article is the usage of descriptive statistical tools, tables, graphs and paired t test to test the hypothesis. The drawback of this article is that it again focuses only on the year 2019 and also it focuses only on Indian SEZs(*Dr. P Govindan, 2019*).
- 3) The article “Special Economic Zone, Land Acquisition, and Impact on Rural India” by Sazzad and Sen examines the aspects of land acquisition intending to establish Special Economic Zones across India. It has been observed that most of the land which is acquired, eventually falls into the hands of real estate companies and not the intended production sector of industry or infrastructure. This survey successfully brings out how land acquisition in the rural sector leads to large scale unemployment and displacement, primarily in the places where large portion of tracts remain unutilized. The drawback of this article is that it focuses only on the issue of land acquisition pertaining to Special Economic Zones(*ParwezSazzadand Vinod Sen, 2021*).
- 4) In the context of ongoing discussions on the relationship between land acquisition and its development in India, the article “Special Economic Zones in India: Interrogating the Nexus of Land, Development and Urbanization” by Rob Jenkins et al. presents a detailed study of the features of the Indian Special Economic Zone (SEZ). These include export types and economic activities, their land use and location. It finds out that majority of SEZs are less than 1 km<sup>2</sup>, its exports are concentrated in the Information Technology / Information Technology Enabled Service (IT / ITES) and refined oil sectors, and it is limited to some relatively advanced areas. This article concludes with a discussion of links between land, development and urbanization. Resistance to land acquisition claims to be related to both the acquisition process and the relative costs and benefits of the latest development initiatives where the SEZ is an integral part(*Rob Jenkins, et al. , 2021*)
- 5) The paper “The Political Economy of Special Economic Zones” by Lotta Moberg uses a robust political economy framework to illustrate when Special Economic Zones can contribute to economic development. In strong political economy, the institution guides the actions of self-serving individuals to promote economic development. While SEZs can promote economic growth, they tend to encourage misallocation and incentives in the wrong



institutional context. The positive side of this article is that it focuses on the experiences of both India and China. The drawback is that the author fails to provide any suggestions as to how the policy makers can overcome the knowledge problem in order to avoid misdirected economic planning (*Lotta Moberg, 2013*).

- 6) The journal “Comparative Analysis of the Effectiveness of Special Economic Zones and Their Influence on the Development of Territories” by Sinenko and Mayburov revolves around one of the central issues regarding the functioning of Special Economic Zones is the impact of tax incentives offered by Special Economic Zones on states and their home areas. The objective of this article is to provide a comparative analysis of the industrial SEZs that won the 2015 World Free Zones. The journal tactfully brings out the positive and negative impacts of SEZs with regards to development (*Olga Sinenko and Igor Mayburov, 2017*).
- 7) In the journal “China’s Special Economic Zones and Industrial Clusters” by Douglas Zhihua Zeng talks about China open door reform in 1978 as a social experiment. It aims to test the effectiveness of market-oriented economic reforms in a controlled environment. Not knowing what to expect from the reforms, Chinese authorities decided to open only certain segments instead of opening the entire economy at once. In addition to SEZ’s usual goals-attracting foreign investment and technology, promotion of exports and job creation, and spillover to the local economy, the first important mission of China’s SEZ was to test new policies and new institutions for a market-oriented economy. One such approach was a sharp departure from the planned economy of the countries, which were completely centralized at the time (*Douglas Zhihua Zeng, 2012*).
- 8) The journal “Cambodia’s Special Economic Zones” by Peter Warr and Jayant Menon puts forward a question whether the establishment of Cambodia’s Special Economic Zone (SEZ) has been successful since the end of 2005, according to the findings so far. The SEZ has drawn large amounts of foreign investment in countries that would not otherwise exist, creating about 68,000 employment opportunities with equal or better wages and better prospects than other options. An important aspect of Cambodia’s experience is that the government has left the establishment and management of the zone to private sector developers. The policies required to improve the zone’s international competitiveness are similar to those of other economies. Infrastructure needs to be improved. Trade facilitation needs to be improved. You need to increase the reliability of the power supply. Corruption has been reduced and government payment rules have been clarified. And you need to improve the quality of your work by investing in basic literacy skills (*Peter Warr and Jayant Menon, 2021*).
- 9) The book “Special Economic Zones in Africa” by Thomas Farole argues that economic zones have grown rapidly over the past 20 years. The International Labour Organization (ILO) database recorded 176 zones in 47 countries around the world and by 2006, it had recorded 3,500 zones in 130 countries. This tremendous growth took place despite the fact that many zones were unsuccessful to meet their agenda. However, many others contribute significantly to its growth, Foreign Direct Investment (FDI), exports and employment. Moreover, it serves as a stimulant for global trade and structural changes including industrialization and modernization. Besides the exceptions of Mauritius, Kenya, Madagascar and Lesotho, the Sub-Saharan African countries endorsed SEZs very recently. There is an ever-going debate of



whether or not SEZs are an important policy instrument. Despite 30 years of extensive exploration on profitable zones, numerous important questions remain unanswered. There is a deficiency of methodical analysis on the performance of SEZs round the world; policymakers have no other choice than counting on a few case studies. For African policy makers, nearly no exploration exists on the performance of SEZs within the region. This study aims to deal with a number of these questions and providing an analysis which is data driven as well as policy focused. This study is done with a special attention towards the experience of the Sub Saharan Africa with it's Special Economic Zones (Thomas Farole, 2011).

- 10) The study by Bethany Anne Zimmerman on "Sustainable Operation of Special Economic Zones in India: A Comparative Study of Maharashtra and Goa" is mainly focusing on the states of Maharashtra and Goa, this examine explored information approximately the de-notification of zones in each state, main to an exam of whether or not the elements that contributed to de-notification in Maharashtra have been much like the ones keeping Goa from having operational SEZs. The study hypothesized that land acquisition practices, lack of physical infrastructure, and poor social infrastructure were the major factors contributing to the de notification of Maharashtra and the struggle to establish operational zones in Goa. The results show that in order for the SEZ to continue functioning, it is necessary to enact comprehensive Law governing land rights, vocational training and general education. This change would allow the state's residents to participate more in SEZs development plans while reducing the poverty rate inherent in India (Bethany Anne Zimmerman, 2013).
- 11) The study by Rawat et al. on "The impact of Special Economic Zones in India: A case study of Polepally SEZ" provides an overview of the national controversy surrounding SEZs, before moving on to a detailed account of the SEZ acquisition process and impact at Polepally, Andhra Pradesh. Based on an extensive field study, this case study shows how evictions were not based on informed consent, but were forced and that it was an apparently illegal acquisition of land allocated to marginalized communities under the previous agricultural reforms, on the false pretext of being "alienated" from beneficiaries of the reform. The provision of compensation was discriminatory and hindered by corruption that compensation for land, even at "market value", has been inadequate for the widespread negative economic shocks and lack of alternative sources of employment that land loss had more uncompensated social impacts on marginalized groups and that had greater effects on food security and health, even a number of suicides were left to commercial and external interests, the land was made available to them by forced acquisition and no less if the stated aim was better employment and employment more economic development of the inhabitants (Vidya Bhushan Rawat, et al. , 2010).

### **Methodology and Data Analysis**

The following data is related to Special Economic Zones in India (as on January 22, 2019). The data is collected and compiled from pre-existing National and International sources. The study is carried out on the basis of secondary data. The objective is to analyse the total number of SEZs in India, state and sector wise distribution of SEZs in India and also to construct a hypothesis whether or not the total trade of India changed after the establishment of SEZs. With the aim of explaining and analysing the outcome of study results and interpretation of data, I have used descriptive statistical tools (tables, charts, percentages, averages) and inferential statistical tool paired t test to test the hypothesis.



**Table 1, Total Special Economic Zones (SEZs) in India as recorded on 22.01.2019**

Number of formal approvals	<b>421</b>
Number of Notified SEZs	<b>355 + (7+11)</b>
Number of in-principle approvals	<b>32</b>
Operational SEZs	<b>231</b>
Units approved in SEZs	<b>5024</b>

Source: <http://sezindia.nic.in>

**Table 1** illustrates the total number of Special Economic Zones in India as recorded of 22.01.2019. It shows that number of formal approvals is 421, number of notified SEZs 355 + (7 central government + 11 state/private SEZs), number of in principle approvals 32, total operational SEZs 231 and total units approved in SEZs 5024.

**Table 2, Employment and Investment in Special Economic Zones (SEZs) as recorded on 22.01.2019**

<b>Investment</b>	<b>Investment (as on February, 2006) (Rs. In crores)</b>	<b>Incremental Investment (Rs. In crores)</b>	<b>Total Investment (as on 30.09.2018) (Rs. In crores)</b>
Central government SEZs	2,279.20	17,101.80	19,381
State/Private SEZs set up before 2006	1,756.31	11,195.69	12,952
SEZs notified under the Act	-	4,59,979	4,59,979
<b>Total</b>	<b>4,035.51</b>	<b>4,88,276.49</b>	<b>4,92,312</b>

Source: <http://sezindia.nic.in>

<b>Employment</b>	<b>Employment (as on February) (No. of persons)</b>	<b>Incremental Employment (No. of persons)</b>	<b>Total Employment (as on 30.09.2018) (No. of persons)</b>
Central government SEZs	1,22,236	1,17,634	2,39,870
State/Private SEZs set up before 2006	12,468	88,201	1,00,669
SEZs notified under the Act	-	16,56,071	16,56,071
<b>Total</b>	<b>1,34,704</b>	<b>18,61,906</b>	<b>19,96,610</b>

Source: <http://sezindia.nic.in>

**Table 2** illustrates the investment and the employment pertaining to Special Economic Zones as recorded on 22.01.2019. Total investment in SEZs is 4,035.51 (Rs in crores) and employment to 1,34,704 persons as on February 2006. Incremental investment is 4,88,276.49 (Rs in crores) and incremental employment to 18,61,906 persons. Total investment is 4,92,312 (Rs in crores) and total employment is 19,96,610 persons.





**Table 3, State wise distribution of approved Special Economic Zones (SEZs) as recorded on 22.01.2019**

S no.	State	Formal approvals	In-principle approvals	Notified SEZs	Exporting SEZs
1	Telengana	63 (15%)	0 (0%)	57 (16%)	29 (13%)
2	Karnataka	62 (15%)	0 (0%)	51 (14%)	31 (13%)
3	Maharashtra	56 (13%)	12 (38%)	50 (14%)	30 (13%)
4	Tamil Nadu	51 (12%)	3 (9%)	47 (13%)	40 (17%)
5	Andhra Pradesh	32 (8%)	4 (13%)	27 (8%)	19 (8%)
6	Kerala	29 (7%)	0 (0%)	25 (7%)	19 (8%)
7	Gujarat	28 (7%)	4 (13%)	24 (7%)	20 (9%)
8	Haryana	24 (6%)	3 (9%)	21 (6%)	6 (3%)
9	Uttar Pradesh	24 (6%)	1 (3%)	21 (6%)	12 (5%)
10	Madhya Pradesh	10 (2%)	0 (0%)	5 (1%)	5 (2%)
11	Goa	7 (2%)	0 (0%)	3 (1%)	0 (0%)
12	Odisha	7 (2%)	0 (0%)	5 (1%)	5 (2%)
13	West Bengal	7 (2%)	2 (6%)	5 (1%)	7 (3%)
14	Punjab	5 (1%)	0 (0%)	3 (1%)	3 (1%)
15	Rajasthan	5 (1%)	1 (3%)	4 (1%)	2 (1%)
16	Chandigarh	2 (0%)	1 (0%)	2 (1%)	2 (1%)
17	Chhatisgarh	2 (0%)	1 (3%)	1 (0%)	1 (0%)
18	Delhi	2 (0%)	0 (0%)	0 (0%)	0 (0%)
19	Nagaland	2 (0%)	0 (0%)	2 (1%)	0 (0%)
20	Jharkhand	1 (0%)	0 (0%)	1 (0%)	0 (0%)
21	Manipur	1 (0%)	0 (0%)	1 (0%)	0 (0%)
22	Puducherry	1 (0%)	1 (3%)	0 (0%)	0 (0%)
<b>Total</b>		<b>421 (100%)</b>	<b>32 (100%)</b>	<b>355 (100%)</b>	<b>231 (100%)</b>

Source: <http://sezindia.nic.in>

**Table 3** illustrates the state wise distribution of approved SEZs in India as recorded on 22.01.2019. The total of formal approvals is 421, total of in-principle approvals is 32, total of notified SEZs is 355, total of exporting SEZs is 231. Telengana secures the first position with 63 (15%) formal approvals, 57 (16%) notified SEZs, 29 (13%) exporting SEZs. Karnataka secures the second position with 62 (15%) formal approvals, 51 (14%) notified SEZs and 31 (13%) exporting SEZs. Telengana and Karnataka is followed by Maharashtra with 56 (13%) formal approvals, 12 (38%) in-principle approvals, 50 (14%) notified SEZs and 30 (13%) exporting SEZs. The total of top 5 states secured formal approvals is 264 (63%), in principle approvals is 19 (60%), notified SEZs is 232 (65%) and exporting SEZs is 149 (64%). The rest of the SEZs are situated in remaining of the parts of India.



**Table 4, Sector wise distribution of approved Special Economic Zones (SEZs) as recorded on 22.01.2019**

S no	Sectors	Formal approvals	In principle approvals	Notified SEZs	Exporting SEZs
1	IT/ITES/Electronic/hardware/telecom	275 (65%)	0 (0%)	236 (66%)	136 (59%)
2	Biotechnology	23 (5%)	1 (3%)	16 (5%)	4 (2%)
3	Multi-Product	21 (5%)	9 (28%)	18 (5%)	25 (11%)
4	Pharmaceuticals/Chemicals	16 (4%)	2 (6%)	16 (5%)	12 (5%)
5	Engineering	12 (3%)	1 (3%)	3 (12%)	12 (5%)
6	FTWZ	9 (2%)	5 (16%)	5 (1%)	4 (2%)
7	Textiles/Apparel/Wool	7 (2%)	1 (3%)	7 (2%)	7 (3%)
8	Aviation/Aerospace	6 (1%)	1 (3%)	5 (1%)	4 (2%)
9	Multi-Services	6 (1%)	1 (3%)	6 (2%)	2 (1%)
10	Footwear/Leather	5 (1%)	0 (0%)	5 (1%)	4 (2%)
11	Gems/Jewellery	5 (1%)	3 (9%)	2 (1%)	3 (1%)
12	Agro-processing	4 (1%)	2 (6%)	4 (1%)	1 (0%)
13	Port based multi-product	4 (1%)	1 (3%)	3 (1%)	2 (1%)
14	Food processing	3 (1%)	0 (0%)	2 (1%)	2 (1%)
15	Power/energy/solar	3 (1%)	1 (3%)	3 (1%)	3 (1%)
16	Airport multiproduct	2 (0%)	0 (0%)	0 (0%)	0 (0%)
17	Alumina/Aluminium	2 (0%)	0 (0%)	2 (1%)	1 (0%)
18	Auto/Automobile	2 (0%)	1 (3%)	2 (1%)	1 (0%)
19	Beach & mineral/metals	2 (0%)	0 (0%)	2 (1%)	1 (0%)
20	Building product/material	2 (0%)	2 (6%)	2 (1%)	2 (1%)
21	Electronic product	2 (0%)	0 (0%)	2 (1%)	2 (1%)
22	Handicrafts & carpets	2 (0%)	0 (0%)	1 (0%)	1 (0%)
23	Non-conventional energy	2 (0%)	0 (0%)	2 (1%)	2 (1%)
24	Petrochemicals	2 (0%)	1 (3%)	0 (0%)	0 (0%)
25	Granite Industries	2 (0%)	0 (0%)	1 (0%)	0 (0%)
26	Light Engineering	1 (0%)	0 (0%)	0 (0%)	0 (0%)
27	Writing & paper mills	1 (0%)	0 (0%)	1 (0%)	0 (0%)
<b>TOTAL</b>		<b>421 (100%)</b>	<b>32 (100%)</b>	<b>355 (100%)</b>	<b>231 (100%)</b>

Source: <http://sezindia.nic.in>

**Table 4** illustrates the sector wise distribution of approved SEZs in India as recorded on 22.01.2019. The total of formal approvals is 421, total of in-principle approvals is 32, total of notified SEZs is 355, total of exporting SEZs is 231. IT/ITES/electronic/hardware/telecom secures the first position with formal approvals 275(65%), notified SEZs 236 (66%) and exporting SEZs 136 (59%). The total of top 5 states secured formal approvals is 13 (40%), notified SEZs is 298 (84%) and exporting SEZs is 189 (82%). The rest of the SEZs fall in the remaining sectors.



**Table 5, Total trade of India with the other countries before and after the establishment of Special Economic Zones (SEZ)**

Before SEZ	Total trade (US\$)	After SEZ	Total trade (US\$)
2004-2003	141,882.53	2007-2008	414,751.34
2003-2002	114,040.40	2008-2009	488,981.25
2002-2001	95,167.08	2009-2010	467,098.71
2001-2000	95,016.43	2010-2011	619,581.79
2000-1999	86,499.29	2011-2012	795,270.27
1999-1998	75,448.63	2012-2013	790,986.90
1998-1997	76,141.43	2013-2014	764,594.22

Source: <http://commerce.gov.in>

**HYPOTHESIS TESTING** A paired T test is performed in order to test the hypothesis for the above-mentioned data. The hypothesis is performed at 0.05 level of significance with 6 degrees of freedom. The null and alternative hypothesis are as follows-

Null Hypothesis ( $H_0$ ): There is no significant difference of India's trade after the establishment of Special Economic Zones (SEZ).

Alternative Hypothesis ( $H_1$ ): There is a significant difference of India's trade after the establishment of Special Economic Zones (SEZ).

BEFORE SEZ		AFTER SEZ	
Mean	97742.25571	Mean	620180.64
Standard Error	8888.275683	Standard Error	62399.51011
Median	95016.43	Median	619581.79
Mode	0	Mode	0
Standard Deviation	23516.16704	Standard Deviation	165093.5857
Sample Variance	553010112.3	Sample Variance	27255892038
Kurtosis	1.234048346	Kurtosis	-2.351857673
Skewness	1.214927561	Skewness	-0.059758828
Range	66433.9	Range	380518.93
Minimum	75448.63	Minimum	414751.34
Maximum	141882.53	Maximum	795270.27
Sum	684195.79	Sum	4341264.48
Count	7	Count	7

**CALCULATED T-VALUE: 7.45**

**CRITICAL T-VALUE: 2.45**

**Interpretation:** The calculated T-value is more than the critical T-value. Hence, we reject the null hypothesis or accept the alternative hypothesis which means there is a significant difference in India's total trade with other countries after the establishment of Special Economic Zones (SEZ).





### Export performances of a few selected SEZs of India

NO.	Name of special economic zones	Exports (in INR)		
		2018-2019	2019-2020	2020-2021
1	Madras Export Processing Zone SEZ (Chennai, Tamil Nadu)	1.866 billion	16.188 billion	43.964 billion
2	Coachin SEZ (Kerala)	12.492 billion	74.206 billion	194.318 billion
3	Noida SEZ (Uttar Pradesh)	13.587 billion	37.636 billion	65.505 billion
4	Kandla SEZ (Gujarat)	514 million	48.821 billion	134.359 billion
5	Vishakhapatnam SEZ (Andhra Pradesh)	2.728 billion	34.388 billion	99.928 billion
6	Santacruz Electronic Export Processing Zone SEZ (Mumbai, Maharashtra)	2.565 billion	49.142 billion	149.664 billion
7	Falta SEZ (West Bengal)	207.2 million	2.179 billion	6.406 billion
<b>Total</b>		<b>33.96 billion</b>	<b>262.56 billion</b>	<b>694.15 billion</b>

Source: <https://www.india-briefing.com/news/guide-indias-special-economic-zones-9162.html/>

### Major findings of the analytical study

- 1) It shows that number of formal approvals is 421, number of notified SEZs 355 + (7 central government + 11 state/private SEZs), number of in principle approvals 32, total operational SEZs 231 and total units approved in SEZs 5024.
- 2) Total investment in SEZs is 4,035.51 (Rs in crores) and employment to 1,34,704 persons as on February 2006. Incremental investment is 4,88,276.49 (Rs in crores) and incremental employment to 18,61,906 persons. Total investment is 4,92,312 (Rs in crores) and total employment is 19,96,610 persons.
- 3) The state wise distribution of approved SEZs in India as recorded on 22.01.2019: The total of formal approvals is 421, total of in-principle approvals is 32, total of notified SEZs is 355, total of exporting SEZs is 231. Telengana secures the first position with 63 (15%) formal approvals, 57 (16%) notified SEZs, 29 (13%) exporting SEZs. Karnataka secures the second position with 62 (15%) formal approvals, 51 (14%) notified SEZs and 31 (13%) exporting SEZs. Telengana and Karnataka is followed by Maharashtra with 56 (13%) formal approvals, 12 (38%) in-principle approvals, 50 (14%) notified SEZs and 30 (13%) exporting SEZs. The total of top 5 states secured formal approvals is 264 (63%), in-principle approvals is 19 (60%), notified SEZs is 232 (65%) and exporting SEZs is 149 (64%). The rest of the SEZs are situated in remaining of the parts of India.
- 4) The sector wise distribution of approved SEZs in India as recorded on 22.01.2019: The total of formal approvals is 421, total of in-principle approvals is 32, total of notified SEZs is 355, total of exporting SEZs is 231. IT/ITES/electronic/hardware/telecom secures the first position with formal approvals 275(65%), notified SEZs 236 (66%) and exporting SEZs 136 (59%). The total of top 5 states secured formal approvals is 13 (40%), notified SEZs is 298 (84%) and exporting SEZs is 189 (82%). The rest of the SEZs fall in the remaining sectors.



- 5) A statistical hypothesis conducted with the help of Paired T test shows that there is a difference in India's total trade after the establishment of Special Economic Zones (SEZ).

## **Advantages of Special Economic Zones (SEZ)**

### **1) Customs and Excise Benefits**

- SEZ units are allowed to import or procure from domestic sources, duty-free, all their requirements for capital goods, raw materials, consumables, spares, packing materials, office equipment, etc., for implementation of the business in the SEZ without any license or specific approval (*India Fillings, 2020*).
- Duty-free import and domestic procurement of goods for setting up of SEZ unit (*India Fillings, 2020*).
- Goods imported or procured locally duty-free could be utilised over the approval period of 5 years (*India Fillings, 2020*).
- Domestic sale of finished products, by-products on payment of applicable customs duty (*India Fillings, 2020*).
- Domestic sale of rejects and waste and scrap on payment of applicable customs duty on the transaction value (*India Fillings, 2020*).

### **2) Income Tax**

- Physical export benefit (*India Fillings, 2020*).
- 100% IT exemption (10A) for first 5 years and 50% for 2 years thereafter (*India Fillings, 2020*).
- Reinvestment allowance to the extent of 50% of ploughed back profits (*India Fillings, 2020*).
- Carry forward of losses (*India Fillings, 2020*).

### **3) Foreign Direct Investment (FDI)**

- 100% Foreign Direct Investment under the automatic route is allowed in the manufacturing sector in SEZ except for arms and ammunition, explosive, atomic substance, narcotics and hazardous chemicals, distillation and brewing of alcoholic drinks and cigarettes, cigars and manufactured tobacco substitutes (*India Fillings, 2020*).
- No cap on foreign investments for SSI reserved items (*India Fillings, 2020*).

### **4) Banking, Insurance & External Commercial Borrowings**

- Setting up of off-shore banking units is allowed in SEZs (*India Fillings, 2020*).
- Freedom to bring in export proceeds without any time limit (*India Fillings, 2020*).
- External commercial borrowings by units up to \$500 million a year allowed without any maturity restrictions (*India Fillings, 2020*).
- OBUs allowed 100% income tax exemption on profit for 3 years and 50% for the next 2 years (*India Fillings, 2020*).
- Flexibility to keep 100% of export proceeds in EEFC account. Freedom to make the overseas investment from it (*India Fillings, 2020*).

- Commodity hedging permitted (*India Fillings, 2020*).
- Exemption from interest rate surcharge on import finance (*India Fillings, 2020*).
- SEZ units allowed to write off unrealised export bills (*India Fillings, 2020*).

### **5) Central Sales Tax & Service Tax**

- Exemption to sales made from domestic tariff area to SEZ unit (*India Fillings, 2020*).
- Exemption from service tax to SEZ units (*India Fillings, 2020*).

### **6) Licenses & Approvals**



- SEZs are permitted to have non-polluting industries in IT and facilities like golf courses, desalination plants, hotels and non-polluting service industries in the coastal regulation zone area (*India Fillings, 2020*).
- SEZ units are exempted from a public hearing under Environment Impact Assessment notification (*India Fillings, 2020*).
- SEZ units enjoy exemption from port restriction under Drugs & Cosmetics Rules (*India Fillings, 2020*).

#### 7) Companies Act

- Enhanced limit of Rs.2.4 crores per annum allowed for managerial remuneration (*India Fillings, 2020*).
- Agreement to the opening of regional office of Registrar of Companies in SEZs (*India Fillings, 2020*).
- Exemption from requirement of domicile in India for 12 months prior to appointment as Director (*India Fillings, 2020*).

Source: <https://www.indiafilings.com/learn/sez-unit-benefits-india/>.

#### **The incentives and facilities offered to the units in SEZs for attracting investments into the SEZs, including foreign investment include:**

- Duty free import/domestic procurement of goods for development, operation and maintenance of SEZ units (*Special Economic Zones in India, 2018*).
- 100% Income Tax exemption on export income for SEZ units under Section 10AA of the Income Tax Act for first 5 years, 50% for next 5 years thereafter and 50% of the ploughed back export profit for next 5 years (Sunset Clause for Units will become effective from 01.04.2020) (*Special Economic Zones in India, 2018*).
- Exemption from Minimum Alternate Tax (MAT) under section 115JB of the Income Tax Act (*Withdrawn w.e.f. 1.4.2012*) (*Special Economic Zones in India, 2018*).
- Exemption from Central Sales Tax, Exemption from Service Tax and Exemption from State sales tax. These have now subsumed into GST and supplies to SEZs are zero rated under IGST Act, 2017(*Special Economic Zones in India, 2018*).
- Other levies as imposed by the respective State Governments (*Special Economic Zones in India, 2018*).
- Single window clearance for Central and State level approvals (*Special Economic Zones in India, 2018*).

Source: <http://sezindia.nic.in>

#### **The major incentives and facilities available to SEZ developers include:**

- Exemption from customs/excise duties for development of SEZs for authorized operations approved by the BOA (*Special Economic Zones in India, 2018*).
- Income Tax exemption on income derived from the business of development of the SEZ in a block of 10 years in 15 years under Section 80-IAB of the Income Tax Act (Sunset Clause for Developers has become effective from 01.04.2017) (*Special Economic Zones in India, 2018*).
- Exemption from Minimum Alternate Tax (MAT) under Section 115 JB of the Income Tax Act (*Withdrawn w.e.f. 1.4.2012*) (*Special Economic Zones in India, 2018*).
- Exemption from Dividend Distribution Tax (DDT) under Section 115O of the Income Tax Act (*Withdrawn w.e.f. 1.6.2011*) (*Special Economic Zones in India, 2018*).
- Exemption from Central Sales Tax (CST) (*Special Economic Zones in India, 2018*).



- Exemption from Service Tax (Section 7, 26 and Second Schedule of the SEZ Act) (*Special Economic Zones in India, 2018*).

Source: <http://sezindia.nic.in>

### Issues of Special Economic Zones (SEZ)

There are several issues pertaining to the Special Economic Zones (SEZ). Some of them are as follows-

1. **The problem of land grabbing:** While the Special Economic Zones fuelled India's total trade, it has also caused immense landlessness. The most affected ones are the rural farmers for whom their land is all that they have. The lands which are the means of survival for these poor farmers, are taken away in the context of development. This issue of land grabbing has severe consequences such as malnutrition of children, increased death rate due to suicides, hunger and poverty. As a result of land grabbing. Farmers have also lost their wells and bore wells which are an assured mean of irrigation.
2. **Loss of revenue of the government:** In normal scenario, government earns huge tax benefits from the industries. However, the industries located in the Special Economic Zones (SEZ), enjoy tax exemptions. Consequently, the government loses its revenue.
3. **Impacts on children:** As mentioned earlier, the establishment of the Special Economic Zones has led to land grabbing. Land being their medium to earn money, the poor farmers are not able to afford their wards going to school. Hence, these children have to drop out from the schools and start working at a very young age (below 18) to support their families financially. This has increased the number child labours.
4. **Impacts on women:** The impact of the Special Economic Zones (SEZ) on the rural women are even worse. Poverty and unemployment have forced these women to undertake more work in order to meet the basic necessities of their families. Not only this, the rate of violence against women has also increased because of the frustration of the male members because of losing their lands, poverty and unemployment.
5. **Migration:** The loss of land due to the establishment of Special Economic Zones (SEZ) has led to increased unemployment in the agrarian/agricultural sector. As a result of losing their jobs, people started migrating to other places in search of the basic necessities of life.

### Conclusion

This study concludes that the Special Economic Zones has made a significant contribution in investments, incremental investments, employment, incremental employments. With the help of inferential statistical analysis (paired T test), the study shows how the establishment of the Special Economic Zones (SEZ) boosted India's total tradewith other countries. The study also showed that the total number of Special Economic Zones in India as recorded on 22.01.2019. It shows that number of formal approvals is 421, number of notified SEZs 355 + (7 central governments + 11 state/private SEZs), number of in principal approvals 32, total operational SEZs 231 and total units approved in SEZs 5024. The highest number of the Special Economic Zones (SEZ) is established in the states of Telangana, Karnataka followed by Maharashtra. While, in the sector wise distribution of the Special Economic Zones (SEZ), IT/ITES/electronic/hardware/telecom secures the first position. This study finally talks about the issues and benefits pertaining to the Special Economic Zones (SEZ) where we have seen that land grabbing is the most serious issue related to the establishment of SEZs while tax exemption is one of its key benefits. It also mentions the key benefits available to the units and developers of the Special Economic Zones (SEZ).



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