Chapter - I

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Chapter - I

Research Design

1.1 Introduction

India can be a signatory to the global agreements, policy, and legal acts and wishes to open up as much as and as quickly as possible to the world economy. Under the liberalization policy, the abolition of industrial licensing system was expected to increase the number of entrepreneurs who would freely establish industrial and business enterprises. The increase, in the number of enterprises- both indigenous and foreign, and the multiple choices available to the consumers was expected to create an environment of competition. The privatization of public sector undertakings through the disinvestment strategy was expected to promote efficiency, and thereby, keep the cost structure at the lowest level. This concept of Liberalization, Privatization, and Globalization encouraged exports and kept imports well within limits.

The Indian economy has opened up opportunities for foreign investors to invest in India. Foreign Financial Institutions are given freedom to bring their funds to India. The exchange rate is now partly market determined and India is getting accustomed to changes in the rate due to external factors and internal policy changes. To a large extent convertibility in current account has been obtained for the rupee. Licenses, permits, and quotas for imports and exports have largely disappeared, and export subsidies are no longer there. Our banks adjust their interest rates to invite external deposits. Indian companies have been given the freedom to mobilize depository receipts from abroad. Investment opportunities for the same can now be exploited by Indian companies as the Foreign Exchange Act has been amended to permit greater freedom, and quantitative restrictions on imports have been virtually done with. Most of the restrictions have gone, and as per the obligations of the WTO, import duties have been heavily reduced, domestic income and corporation tax rates have been reduced on comparable terms with other countries; taxation laws at home are being simplified, freedom has now done away with piece preference procedures for establishing branches in India and large inflow of non-residents deposits is encouraged to India. Indian companies are now being listed on the foreign stock
markets. Our own stock markets are the impact of variable purchases of shares from foreign institutions.

Many changes have been introduced with the advent of globalization as an objective of policy at home. There have been improvements in India’s traditional export lines. India’s share of world exports has increased to a smaller extent. Foreign institutional fund flow has increased and there has been a continuous increase in foreign exchange. Globalization has introduced new income earning opportunities not just in the export of goods, but also in the export of services. It has dramatically increased inter-relationship between countries. To compete in the global market, the Government of India has liberalized export policies, licensing of technology, and implemented tax reforms by providing various facilities for industries and for privatization of public sector assets. To achieve its three-fold objectives of attracting Foreign Direct Investment (FDI), increasing exports, and accelerating economic growth, Government of India has announced the introduction of Special Economic Zones (SEZs).

Even though India and China are neighbours, they did not maintain good relationship during the pre-liberalization period, whereas they have become close friends in the liberalization period particularly, when China became a member of the World Trade Organization (WTO) in 2000. Former Minister of Commerce, Shri Murasoli Maran during his visit to China was impressed with the prominent role played by the Special Economic Zones (SEZs) in the double digit GDP growth of that country. Inspired by the impressive impact of these industrial enclaves he introduced the concept of SEZ in the Indian economy through the Annual Export-Import Policy in March 2000.

India adopted the new economic policy of LPG (Liberalization, Privatization, and Globalization) from July 1991 in order to achieve economic growth in every sector of the economy, and thereby, enhance the rate of growth. To make the Indian economy more competitive globally, the need to promote export and enhance foreign investment was recognized. For this purpose, the Government of India announced the introduction of Special Economic Zones (SEZ) Policy in April 2000.

Special Economic Zone is a geographical region whose economic laws are more liberal than country’s economic laws. The SEZ policy provides for setting up
the SEZs in the Public sector, private sector or through Joint sector or even by State Governments. The setting up of exclusive, privileged zones with a liberal tax and labour regime will attract investors from developed countries interested in taking advantage of the cheaper costs and fewer regulations to set up manufacturing units that would create products for sale in richer markets. A foreign company or an individual, planning to set up business operations in India can do so as a liaison office/representative office, project office or a branch office or through a Joint Venture or a wholly owned subsidiary, and commence operations through incorporation of the Indian Companies Act of 1956. The word ‘Special’ in the Special Economic Zone means the “Special economic systems and policies” allowing SEZs to utilize the Special Economic Management Systems like Special Tax Incentives, Independence of International Trade activities, and attracting and utilizing Foreign Capital.

1.2 Historical Background of Special Economic Zones

The first Special Economic Zone was set up in Spain in 1929 with the intention of increasing exports. The concept of SEZ was given a big boost in China in 1979. The industrial development of Singapore, South Korea, Taiwan, and Hong Kong was possible due to the SEZ policy adopted by them that attracted the attention of the world by transforming their image from import oriented economies to export oriented economies. Based on their experience, the first Export Processing Zone (EPZ) was started in India at Kandla in Gujarat, during the year 1965. Several other EPZs were set up at various parts of India in the subsequent years. SEZs in India functioned from 1.11.2000 to 09.02.2006 under the provisions of the Foreign Trade Policy, and after five years, the Special Economy Zone Act (2005) was introduced, and in 2006, the SEZ rules were formulated.

India took the lead in setting up the first Export Processing Zone in Asia at Kandla in 1965. The second EPZ came up at Mumbai in 1974. Four more zones were set up at Noida (NEPZ), Chennai [Madras Export Zone (MEPZ)], Cochin (CEPZ), and Falta (FEPZ) during the mid-eighties and the EPZ at Vishakhapatnam [Vishakhapatnam Export Processing Zone (VEPZ)] in 1994. In 1980, a Committee, popularly known as the Tandon Committee, was setup to suggest policy measures for accelerating the progress of free trade zones and 100 per cent EOUs. To examine the
recommendations of the Committee, an inter-ministerial group was set up, which proposed EPZs in the Salt Lake Area in West Bengal, Chennai in Tamil Nadu, Cochin in Kerala, Nava Sheva in Maharashtra, Vishakhapatnam in Andhra Pradesh, Mudgaon Vasco in Goa, and Noida in Uttar Pradesh. Of these, four SEZs were approved in the first instance for Cochin, Chennai, Falta, and Noida, respectively, which became operational during 1985-86. The SEZ at Vishakhapatnam (VEPZ) was approved in 1989 and was commissioned in 1994. As SEZs could set up only by the Central Government, no SEZs were established by any of the state governments. The policy was modified in 1994 to enable state governments, autonomous agencies, and the private sector to develop infrastructure for new zones or strengthen the same in the existing zones. Several EPZs were setup at various parts of India in subsequent years. Today, there are seven conventional SEZs operating in India as shown in Table 1.1. They are:

<table>
<thead>
<tr>
<th>Name of the SEZ</th>
<th>Location</th>
<th>Type</th>
<th>Date of Notification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kandla SEZ</td>
<td>Kandla, Gujarat</td>
<td>Multi- products</td>
<td>01.11.2000</td>
</tr>
<tr>
<td>SEEPZ SEZ</td>
<td>Mumbai, Maharashtra</td>
<td>Electronics, and Gems &amp; Jewellery</td>
<td>01.11.2000</td>
</tr>
<tr>
<td>Noida SEZ</td>
<td>Noida, Uttar</td>
<td>Multi- products</td>
<td>01.01.2003</td>
</tr>
<tr>
<td>MEPZ SEZ</td>
<td>Chennai, TN</td>
<td>Multi- products</td>
<td>01.01.2003</td>
</tr>
<tr>
<td>Cochin SEZ</td>
<td>Cochin, Kerala</td>
<td>Multi- products</td>
<td>01.11.2000</td>
</tr>
<tr>
<td>Falta SEZ</td>
<td>Falta, West Bengal</td>
<td>Multi- products</td>
<td>01.01.2003</td>
</tr>
<tr>
<td>Vishakhapatnam</td>
<td>Vishakhapatnam,</td>
<td>Multi- products</td>
<td>15.03.1989</td>
</tr>
</tbody>
</table>

Source: www.sezindia.ac.in

1.3 Rationale behind Setting up of Special Economic Zones in India

SEZ is a specially demarcated area of land, owned and operated by a private or Government developers, and is deemed to be foreign territory for the purposes of trade, duties and tariffs with the intent of increasing exports. The Special Economic Zones Act, 2005 was passed in the Parliament in May 2005. After extensive consultations, the SEZ Act, 2005, supported by SEZ rules came into effect on 10th February 2006 providing for drastic simplification of procedures and for single
window clearance on matters relating to central as well as state governments. The main objectives of the SEZ Act are:

- Generation of additional economic activity,
- Promotion of exports of goods and services,
- Promotion of investment from domestic and foreign sources,
- Creation of employment opportunities, and
- Development of infrastructural facilities.

The Special Economic Zones Act, 2005 was developed to overcome the shortcomings of existing statutes governing the SEZs in India and to simplify the procedures for development, operation, and maintenance of the Special Economic Zones and for setting up units and conducting business in the SEZs.

The SEZ rules provide for:

- Single Window Clearance for setting up of an SEZ unit in the Special Economic Zone,
- Single Window Clearance on matters relating to Central as well as State Governments, and
- Simplified compliance procedures and documentation.

It is expected that the Special Economic Zones will trigger a large flow of foreign and domestic investment and help in the economic and industrial growth of the country, and for this reason, the Government of India is encouraging the setting up of more and more SEZs in the country to attract export industries by offering various incentives, concessions, benefits, and facilities. The SEZ should have a minimum area of 10 hectares and at least 25% of the area is to be earmarked for developing the industrial area for the setting up of units. Only units approved under the SEZ scheme will be permitted to be located in the SEZs. The units in SEZs shall abide by the local laws, rules, regulations, and bye-laws with regard to area planning, pollution control, and the like. They shall also comply with industrial and labour laws as may be locally applicable. The Indian SEZs are numerous covering small, medium and big sized, which are being financed by private, public, and joint sectors.
1.4 Special Economic Zones in Karnataka-An Overview

The Karnataka State Government has also realized the potential of SEZs in the present driving industrial / economic growth and is committed to facilitate exports through the establishment of Special Economic Zones in the state. The Karnataka state government has initiated several measures to promote exports and attract fiscal benefits by offering various incentives and concessions to the units operating in the SEZs in accordance with the SEZ Act, 2005 enacted by the Government of India. Sector - specific SEZs are developed by the Government of Karnataka for Pharma and Bio-technology, Textile industries, Food Processing, and Agro- based industries. SEZs developed by private agencies in Karnataka are IT/ITES, Apparel, Petro-chemical, Wind energy harnessing equipments and parts, Hardware Pharmaceuticals, Precision Engineering products, which are in different locations in Bangalore, Mysore, Mangalore, Hassan, Belgaum, Udupi, Shimoga, and other places of Karnataka.

1.5 Incentives and Concessions to Special Economic Zones

The incentives and concessions offered by the government play a very important role in developing export- oriented units in the SEZs. There are certain incentives and facilities offered to SEZ developers and units in the SEZs.

1.5.1 Incentives and Concessions to SEZ Developers

- 100% FDI allowed for township with residential, educational, and recreational facilities on a case- to- case basis and franchisee for basic telephone services in SEZ
- Income Tax benefits under Sec. 80 1A to developers for a block of 10 years out of 15 years
- Duty free import / domestic procurement of goods for development, operation, and maintenance of SEZ
- Exemption from Service Tax or Central Sales Tax
- Income of infrastructure capital fund of company for investment in SEZ is exempted from income tax
• Investment made by individuals and institutions in an SEZ company are eligible for exemption
• Developer permitted to transfer infrastructural facility for operation and maintenance
• Generation, transmission, and distribution of power in SEZs allowed
• Freedom in allocation of space and built-up area to approved SEZ units on commercial basis
• Authorized to provide and maintain services like water, electricity, security, restaurants, and recreation centers on commercial lines.

1.5.2 Incentives and Concessions to Units in SEZs

1.5.2.1 Income tax Incentives

• Deduction from profits and gains from export of goods / services as follows (Section 10AA): 100% income tax exemption for first 5 years, 50% income tax exemption for next 5 years, 50% income tax exemption for next 5 years to the extent of profits reinvested
• Exemption from Dividend Distribution Tax
• No MAT (Minimum Alternate Tax)
• Capital Gains tax exemption on relocation of plant to SEZ (Section 54GA)
• No TDS by Overseas Banking Units (OBUs) on interest on deposits/borrowings by Non-Residents or Not Ordinarily Residents

1.5.2.2 Indirect Taxes Incentives

• SEZ units may import or procure from the domestic sources duty free all their requirements of capital goods, raw materials, consumables, spares, packaging materials, office equipment, DG sets, etc. for implementation of their project in the Zone without any license or specific approval
• No import duty on the goods imported by the export oriented units in the SEZ
• No excise duty on the goods procured from DTA (Domestic Tariff Area)
• No service tax on services availed from DTA (Domestic Tariff Area)
• No Value Added Tax (VAT) and Central Sales Tax (CST) on goods procured from DTA (Domestic Tariff Area) and a duty drawback U/S 75 allowed to SEZ units
On goods procured from DTA, drawback under section 75 allowed to SEZ units

1.5.3 Other Incentives / Concessions for SEZ Units

- 100% FDI under automatic route allowed in the manufacturing sector in the SEZ units
- No cap on FDI for SSI reserved items
- External Commercial Borrowings (ECB) by units up to $500 million a year allowed without any maturity restrictions
- Freedom to bring in export proceeds without any time limit
- Flexibility to keep 100% of export proceeds in EEFC account
- SEZ units allowed to write-off unrealized export bills
- SEZ units may sub-contract part of production or production process through units in DTA/another SEZ/EOU units
- SEZ units may sub-contract part of process abroad
- Inter-unit sales permitted provided payment is in foreign currency
- Exemption from interest rate surcharge on import finance
- Allotment of land at concessional rate for EOU's
- Subsidy provided for purchase of capital goods like equipments and machinery.

Attractive financial concessions are also provided by the Government of Karnataka. Developers of the Special Economic Zone, industrial units, and other establishments within the SEZ are exempted from all state and local taxes as well as levies including sales tax, purchase tax, entry tax, turnover tax, cess or in respect of all transactions made between units or establishments within the Special Economic Zone and in respect of supply of goods and services from domestic tariff area to units/establishments within the Special Economic Zone. All industrial units and their expansion units located in the Special Economic Zones, irrespective of their location within the state, shall be fully exempt from payment of stamp duty and registration fees.

1.6 Statement of Research Problem and Need for the Study

The SEZ Act, 2005 has been brought to effect to give a long-term and stable policy framework with minimum regulatory regime. Its main objective is to promote
exports of goods and services, promotions of FDIs, creation of employment opportunities and infrastructure development, for which various incentives, concessions, benefits and facilities are given to the export-oriented units in the SEZs. However, the tax benefits and concessions given to SEZs lead to enormous revenue loss to the government. The Central Board of Excise and Customs (CBEC) have found that Special Economic Zones have led to INR 1,75,847 crore worth of revenue loss during 2009.

Nearly 60% of approved SEZs are in the IT/ITES sectors located in urban or semi-urban areas of Karnataka, and are availing the benefits of incentives and concessions so provided. These sectors are not in actual need of incentives and concessions because they are capable of competing in the international market. Well-established large industries are enjoying the sops than the small and medium industries. The medium and small-scale industries need more support from the government to establish their units in the SEZs.

There is lack of clarity in the incentive packages. 100% Income Tax exemption is given on export income for SEZ units under Section 10AA of the Income Tax Act for the first 5 years, 50% for the next 5 years, and thereafter, 50% on the ploughed back export profits for the next 5 years. Therefore, only maximum of 15 years exemption is provided for the EOUs from the year of establishment of the unit in the SEZs. This exemption will be given to SEZs only up to the year 2014, after which any unit establishing in these zones will not get tax exemption. Even sick units in SEZs cannot avail the exemption after the expiry of 15 years. As a result, the SEZs lose its importance after the expiry of the given period. Government of India has provided a relief to the SEZs for their expansion by extending the sunset clause of tax exemptions from 2012 to 2014, but there still needs to be more expansion of SEZs in India. The purpose of the enactment of the SEZ Act is only served when it generates additional revenue to the government through exports and by attracting Foreign Direct Investment. Nevertheless, the sunset cause of SEZs may not encourage the establishment of further SEZs to boost exports and FDI because the clause is only for a limited period, which may not attract establishment of more number of SEZs and export-oriented units. Hence, steps must be taken to tackle these issues.
Stability in fiscal concession is essential to ensure credibility of the government's intention to boost international trade and economic development. Therefore, incentives and concessions for industries in the SEZs play a very important role in increasing the exports, flow of FDIs, and in improve their performance.

Hence, there is a need for a comprehensive study to examine the impact of incentives and concessions in increasing exports, investments, and revenue earnings through exports, and the rate of growth of SEZs and its units after the enactment of the SEZ Act, 2005 and SEZ Policy (2006).

The present study attempts to analyze whether the generous offering of the present incentives is enough to ensure the effective performance of the units in SEZs or if is there any requirement of amendments to be made in the statutes to encourage exports and FDI. The study intends to look analytically at the promotion of SEZs, through the various schemes of incentives and concessions offered to SEZ units by analyzing the perception of the unit holders.

1.7 Objectives of the Study

The primary objective of the present research is to study the impact of the incentives and concessions in the promotion of SEZs in Karnataka and its effects on the growth of the SEZs and its units in Karnataka. Against this background, the broad objectives of the study are as under:

- To examine the growth of SEZs and Export-Oriented Units of SEZs in Karnataka
- To analyze the exports and imports of SEZ units operating in Karnataka
- To analyze the trend in investments attracted by the SEZs in Karnataka

The other specific objectives are listed below:

- To evaluate the incentives and concessions based on the perception of the SEZ units
- To analyze the influence of incentives and concessions on the growth of SEZs and its units
- To analyze the influence of incentives and concessions on investment, and
- To analyze the influence of incentives and concessions on exports-imports and Net Foreign Exchange Earnings
1.8 Scope of the Study

Based on the positive effects of SEZs in China, the Indian Government took the initiative to encourage all state governments to start SEZs in their respective states. The category of SEZs cover a broad range of specific zone types, including Free Trade Zones (FTZ), Export Processing Zones (EPZ), Free Zones (FZ), Industrial Estates (IE), Free Ports, and others. Karnataka state is selected for the present study because the concept of SEZ was introduced to Karnataka only after the enactment of the SEZ Act, 2005. Until then there were no SEZs and very few IT/ITES EPZs were in operation as EOUs. The SEZ/EPZ is not much developed in Karnataka as compared to SEZ developed states of Andhra Pradesh, Maharashtra, Gujarat, and Tamil Nadu, and no study has been made to analyze the performance of SEZs in Karnataka in particular. SEZs in Karnataka comprising of public, private, and joint sector and different categories like Sector Specified SEZ, Multi-product SEZ, IT/ITES SEZ, and Warehousing Zones, which are in operation after the enactment of the SEZ Act, are considered for the present study. The study is confined to the various incentives and concessions offered by the Government of India and by the State Government of Karnataka for the SEZs and its units.

The study is limited only to operating SEZs in Karnataka because performance can only be determined through its operating experience. The study includes public, private, and foreign units, irrespective of size. Twenty (20) SEZs and ninety-six (96) operating SEZ units were considered for the present study. About 26 units failed to respond to the questionnaire and 14 units’ responses were incomplete, and thus, could not be considered for analysis. Therefore, the analysis is made based on the responses provided by 59 units to the questionnaire.

1.9 Data Base of the Study – Research Methodology

The study employs both primary and secondary sources of data. The primary data was collected from the SEZ developers and units by questionnaire-based survey method and through interview method. The questionnaire was designed to know the perception of the SEZ developers and SEZ units on the different incentives and concessions given to them. It is divided in to three parts, Part-A, Part-B, and Part-C. Part-A is deals with information of Units of SEZ, Part-B deals with the perception on the different incentives and fiscal benefits provided to units of SEZs by the
government and its role in the promotion of the SEZ, and Part-C presents a profile of the respondents. Of the 20 operating zones, three zones were visited to collect the data, while the remaining developers and units were approached through e-mail and telephonic conversation to collect their responses.

Personal and telephonic interview method is also used to collect information on their practical experience in claiming different tax incentives. The database for the analysis of export-import and investment was provided by the office of the Development Commissioner of SEZs, Cochin Special Economic Zone, Cochin.

1.10 Research Hypotheses

\[ H_1: \text{Incentives and concessions have a significant impact on Net Foreign Exchange Earnings.} \]

\[ H_2: \text{Incentives and concessions have a significant impact on investment.} \]

\[ H_3: \text{Incentives and concessions have a significant impact on the growth of the number of SEZs.} \]

The hypotheses are tested with the help of the data obtained through secondary sources applicable for analysis of this study.

1.11 Sources of Data Collection

The research study is purely analytical in nature. Hence, the data for this work has been collected from primary as well as secondary sources. The secondary data for analysis has been collected from different books, journals, magazines, newspapers, RBI bulletins, Internet sources, relevant reports, seminar/conference proceedings, and other literature available in this field. The primary data was collected through a structured questionnaire for SEZ unit holders and through personal interview with the unit holders.

1.12 Sample Size

According to the Government of Karnataka published data there are 58 Approved, 35 Notified, and 20 Operating SEZs in Karnataka. Out of 20 operating SEZs, 96 are Operating Units and were given a Letter of Approval to operate in the zone. Some of the units are under construction and very few units’ permit has been
cancelled due to litigation. Therefore, the study considers only the 20 operating SEZs
and 96 operating units as shown below:

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>SEZ Developer</th>
<th>Location</th>
<th>Sector</th>
<th>Operating SEZ Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>01.</td>
<td>Biocon Limited</td>
<td>Bangalore</td>
<td>Bio Tech</td>
<td>06</td>
</tr>
<tr>
<td>02.</td>
<td>Wipro Limited</td>
<td>Dodda Kannenahalli, Bangalore</td>
<td>IT</td>
<td>04</td>
</tr>
<tr>
<td>03.</td>
<td>Wipro Limited</td>
<td>Electronic city, Bangalore</td>
<td>IT</td>
<td>02</td>
</tr>
<tr>
<td>04.</td>
<td>Adarsh Prime Projects Pvt. Ltd.</td>
<td>Devarabeesanahalli, Bangalore</td>
<td>IT/ITES</td>
<td>10</td>
</tr>
<tr>
<td>05.</td>
<td>Manyata Promoters</td>
<td>Nagavara, Bangalore</td>
<td>IT/ITES</td>
<td>10</td>
</tr>
<tr>
<td>06.</td>
<td>Shamaraj &amp; Co Pvt. Ltd.</td>
<td>Kundalahalli, Bangalore</td>
<td>IT/ITES</td>
<td>02</td>
</tr>
<tr>
<td>07.</td>
<td>KIADB</td>
<td>Hassan</td>
<td>Textiles</td>
<td>04</td>
</tr>
<tr>
<td>08.</td>
<td>Cessna Garden Dev. Pvt. Ltd</td>
<td>Bangalore</td>
<td>IT/ITES</td>
<td>02</td>
</tr>
<tr>
<td>09.</td>
<td>Vikas Telecom Ltd.</td>
<td>Bangalore</td>
<td>IT/ITES</td>
<td>22</td>
</tr>
<tr>
<td>10.</td>
<td>Tanglin Developments</td>
<td>Bangalore</td>
<td>IT/ITES</td>
<td>06</td>
</tr>
<tr>
<td>11.</td>
<td>Infosys Ltd.</td>
<td>Manganese</td>
<td>IT/ITES</td>
<td>01</td>
</tr>
<tr>
<td>12.</td>
<td>ITPL</td>
<td>Bangalore</td>
<td>IT/ITES</td>
<td>02</td>
</tr>
<tr>
<td>13.</td>
<td>Synfra Engg &amp; Construction Ltd</td>
<td>Udupi</td>
<td>Hi-Tech Engg.</td>
<td>02</td>
</tr>
<tr>
<td>14.</td>
<td>Bagmane Constructions</td>
<td>Bangalore</td>
<td>IT/ITES</td>
<td>05</td>
</tr>
<tr>
<td>15.</td>
<td>Primal Projects</td>
<td>Bangalore</td>
<td>IT/ITES</td>
<td>09</td>
</tr>
<tr>
<td>16.</td>
<td>KIADB</td>
<td>Hassan</td>
<td>Food Processing</td>
<td>01</td>
</tr>
<tr>
<td>17.</td>
<td>Quest</td>
<td>Belgaum</td>
<td>Precision Engg.</td>
<td>02</td>
</tr>
<tr>
<td>18.</td>
<td>HCL Technologies Ltd.</td>
<td>Bangalore</td>
<td>IT/ITES</td>
<td>03</td>
</tr>
<tr>
<td>19.</td>
<td>Infosys Ltd.</td>
<td>Mysore</td>
<td>IT/ITES</td>
<td>01</td>
</tr>
<tr>
<td>20.</td>
<td>Gopalan Enterprises</td>
<td>Hoodi, Bangalore</td>
<td>IT/ITES</td>
<td>02</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
<td></td>
<td><strong>96</strong></td>
</tr>
</tbody>
</table>

Source: Ministry of Commerce and Industry and sezindia.ac.in

### 1.13 Period of Study

After the enactment of the SEZ Act, 2005, the scope of SEZs has increased
considerably in Karnataka. Therefore, the study relates to the post-SEZ Act period of
eight years from 2005-06 to 2012-2013.
1.14 Statistical Tools and Techniques

To analyze the data collected, frequency distribution tables are used as per the requirements of the data analysis. Statistical Package for Social Science (SPSS 20 version) is used for data analysis and interpretation of the findings. To analyze the primary and secondary data and to interpret it meaningfully simple percentage and average is used. To analyze the collected secondary data, descriptive statistics is used to establish the causality relationship between variables, while confirmative factor analysis and trend analysis is used to study the growth of SEZs, units, export, import, and investment. To analyze the primary data statistical techniques such as Standard Deviation with co-efficient of variation, Correlation, ANOVA, and Chi-square test is used. In the present study, to test the hypothesis - for the confirmative factor analysis, and multiple regressions with dummy variable technique, structural equation modeling of IBM AMOS 20.0 Version (Analysis of Moment structure) is used. To make the presentation more effective, tables, diagrams and graphs are used for both primary and secondary data.

1.15 Limitations of the Study

Efforts have been made to analyze many issues related to incentives and concessions in the present study, but some limitations have remained despite the best efforts made by the researcher. The major limitation encountered in the collection of the primary data through the structured questionnaire was the unwillingness of the respondents to respond to it. Of the 96 operating units, responses could be collected from only 59 units with great difficulty by repeatedly mailing the questionnaire and through telephonic conversation. Another major limitation involved in the study was the constraints in the database.

Prior to the enactment of the SEZ Act, 2005, the Cochin SEZ did not maintain data product-wise, sector-wise, and unit-wise of the EPZs/SEZs. Hence, the researcher analyzed the trend of exports-imports, investment, and the number of units for a shorter period from the year 2005-06 to 2012-13, the period after the SEZ notification.

There is a lack of accountability and systematic information with the Central or State Government regarding the tax exemptions availed by each unit and zone. The
reason being that the incentives availed by the unit holders and developers is spread across different government departments, which makes it difficult to compile and combine data on the revenue foregone by both, the Central and State government. The Development Commissioners Office at Cochin is the only authority mandated to collect data from the units in each zone, and is presents it in the Annual Performance Report. There is no compulsion for the units to provide information on the tax exemptions, which handicaps the collection and compiling of statistical information on SEZs. Due to this limitation, the researcher made a proxy of the revenue foregone through all forms of tax exemption offered by the Central and State government by taking into consideration the exports and imports of the zone. This covers only the possible indirect taxes foregone by the units and does not cover the direct taxes. Due to the lack of information on the income earned by the units, an estimation of the direct taxes foregone could not be known.

With all these limitations in obtaining secondary data, an attempt was made to study the impact of the tax incentives on net foreign exchange earnings, investment, and growth in the number of units in the SEZs in Karnataka through path analysis.

1.16 Chapter Scheme

The research work is presented in the following chapters

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The First Chapter entitled *Research design* deals with the Introduction followed by the statement of the research problem and need for the study, objectives, scope of the study, sample frame work, period of the study, hypotheses, statistical tools and techniques and methodology adopted in the study, limitations of the study, and the chapter scheme.

The Second Chapter entitled *Literature Review* provides related studies undertaken in different dimensions by categorizing them into five heads across the globe on SEZs and Incentives and Concessions to SEZs.

The Third Chapter, *Special Economic Zones in India and Karnataka- An Overview* provides the profile of approved, notified, and operating SEZs in India and Karnataka and the distribution of different sectors of SEZs. It also gives a profile of the Developers and Units operating in India and Karnataka.

The Fourth Chapter *Incentives and Concessions to Special Economic Zones – An Overview* provides a detailed discussion on the different Incentives and Concessions given to SEZ Developers and SEZ Units. It also discusses the SEZ Act and SEZ Policies of both Central and State Government.

The Fifth Chapter *Impact of Incentives and Concessions on the Performance of Special Economic Zones in Karnataka – An Evaluation* examines the Performance of SEZs in Karnataka through exports-imports, net foreign exchange earnings, investment, and its growth in Section- I. It also evaluates the incentives and concessions based on the perception of the unit holders and analyzes the impact of the incentives and concessions in different dimensions in Section- II.

The Sixth Chapter entitled *Summary of Major Findings, Suggestion and Conclusion* deals with the major findings of the study followed by suggestions. It also summarizes and suggests the scope for future research in this area of the study and conclusion.