CHAPTER 2
REVIEW OF LITERATURE

In this chapter, the existing literature on the subject has been reviewed thoroughly. An overview of various aspects and issues of this study has been presented through the review of studies already conducted on the subject. No doubt various studies have been carried out on Special Economic Zones (SEZs) all over the world, but these have different perspectives. An attempt has been made to identify the gap that exists in the research area. The present study aims to analyse the SEZ scheme in India, performance of SEZs in India and working environment of SEZs in India. In this context, the review of studies already done would be quite useful to draw some important conclusions that can serve as a guide mark for the present study.

Subrahmanian and Mohanan (1978) in their study analysed the Indian experience of SEZs related to the central idea behind the setting up of EPZs in underdeveloped countries to motivate MNCs. In the study, they have mentioned the Santa Cruz Electronics Export Processing Zone (SEEPZ) and brought out that operations of MNCs have not achieved the expected results. First, the overall production and export, as well as the proportion of value added, by units in the SEEPZ have been far below the targets. Second, the proportion of the value added has varied inversely with the degree of foreign control, with Indian-owned units using Indian technology performing far better than units controlled by MNCs. The study emphasised that maintenance of ecological balance along with industrial development is required.

Warr (1989) examined that EPZs are economic enclaves within which manufacturing for export occurs under virtual free trade conditions. Many developing countries have established EPZs with the hope of reaping economic gains through employment, foreign exchange earnings and technology transfer. This article studies the benefits and costs of EPZs in Indonesia, the Republic of Korea, Malaysia and the

---


Philippines; and reviews the relationship between the welfare effects of EPZs and the host country’s economic policies.

**Warr (1990)** concludes that infrastructure costs were a major determinant of outcomes. In the Philippines, infrastructure costs in the Bataan EPZ were very high, because the government chose an isolated area that required operations for grounding all the way up to buildings and the provision of utilities. On the other hand, the EPZs in Masan (Korea) and Penang (Malaysia) used existing infrastructure or selected the locations near pre-existing industrial areas, which kept these costs at a minimum. Foreign exchange earnings steadily increased and employment creation was substantial. All three zones (Masan, Bataan and Penang) were projected to contribute further to foreign exchange earnings and employment creation. As for business linkages, the local suppliers to Bataan and Penang did not appear to have expected to increase their linkages with MNC operations in the EPZs, as they offered few inputs. In the case of Masan, local suppliers were projected to increase over time because they supplied a significant share of raw materials to the EPZ production processes.

**Jenkins, Esquivel and Larrain (1998)** their study is based on selected Latin American countries. Their empirical results confirm that employment generation is the major benefit from EPZs. “In developing nations with relatively high levels of unemployment, EPZs might represent an efficient mechanism for reducing the economic and social burden of large pools of unemployed people. EPZs can have significant net positive effects on the host economy since wages paid to people employed in EPZ firms tend to be much higher than their opportunity cost.” They suggested that EPZs are likely to be more successful when strong backward linkages are developed, thus creating a demand for intermediate goods and services, which can enhance the viability of local industrial and service sectors and also improve labour and managerial skills. It is important to note, however, that the development of backward linkages must be a market-driven phenomenon. Policies that try to force backward linkages through legislation requiring, for example, that a certain percentage of inputs must come from local industries are likely to hinder or distort.

---


Madani (1999) provides a detailed account of the arguments for and against SEZs/EPZs through her empirical study. She uses a cost-benefit approach expanded along the lines of a social accounting framework and incorporates evidence from a large number of countries. While arguing that both the neo-classical and new growth schools fail to capture the linkages and the externalities of SEZs/EPZs exactly, she finds that “under propitious circumstances and good management, EPZs generally achieve two basic goals of creating employment and increasing foreign exchange earnings.” The author also argued that the question of revenue loss on account of fiscal incentives would arise only when an entrepreneur locates that unit (to be located in an SEZ/EPZ) in a place without such an incentive. In other words, one cannot assume that there would definitely be a revenue loss because of providing fiscal incentives to SEZs/EPZs. Madani documented that EPZs have contributed to the “development of human capital, both through skill acquisition and productivity gains by workers and through the development of managerial and supervisory skills. EPZs typically employ a large proportion of female workers so it can be argued that they play an important role in women’s economic empowerment by getting women into the formal work force at reasonable wage rates.”

Neetha and Varma (2004) state that a small number of relatively larger units have a disproportionately high share of exports and employment, and that most of the units are small. This situation is much the same in other Indian SEZs. A possible reason for the small size of the average unit in Indian SEZs may be because these units represent various types of manufacturing. The study also reveals a low concentration of female workers in Indian SEZs. This may be attributable to the availability of male workers willing to work in conditions offered by investors and to regional and socio-cultural gender norms, which deter female employment.

D.D. Narula (2005) describes the major problem of land acquisition for SEZ as the loss of lives and livelihood of peasants. Narula highlights the problems of unemployment and regional disparities in India, and describes how states acquire agricultural land and how the central and state governments are likely to lose revenue.

Jenkins (2006)\(^8\) seeks to provide a better understanding of the factors that affect tenants in an EPZ to source intermediate goods from the local economy. This paper adopts an econometric model and is based on secondary data collected at the Costa Rica EPZ in 1997. The study finds that (1) manufacturing companies are less likely than service firms to purchases intermediate goods from the local economy; and (2) capital-intensive and older firms (in terms of the number of years spent in the zone) are more likely to purchase local goods.

Curtis et al. (2006)\(^9\) compared China’s experience using SEZs to promote regional export-oriented economic growth with the experience of post-Soviet Russia, Mexico and the Dominican Republic, and found that SEZs will succeed only in countries with a strong central government, geographic ties and cultural ties to developed markets and competitively low-wage labor.

Jain (2006)\(^10\) in his study analysed the SEZ scheme in India. The study shows the need of SEZs, the minimum area requirement for various types of SEZs in India, incentives and facilities provided to SEZ units and developers, provisions relating to establishment of units in SEZs in India. The author further suggested that the need for development of SEZs can be attributed to various factors foreign investment, technological and know-how advancement, development of backward regions, employment generation etc.

Viswanadhan (2006)\(^11\) analysed the export performance of SEZs in India. The author examined that total export from the existing EPZs notified as SEZs after the SEZ Act, for the year 2004-05 were ₹ 18300 crore. Nearly 45 per cent of the total exports came from just one such zone, SEEPZ, the most successful zone among the early zones.

---


Aggarwal (2007) examined the impact of SEZs on employment, poverty and human development. The empirical findings of the study are based on primary and secondary data sources. The primary data was generated through extensive interviews of entrepreneurs and workers across the three largest SEZs, namely, SEEPZ, Madras and Noida. The analysis reveals that employment generation has been the most important channel through which SEZs affected human development in India. Employment generated by zones is remunerative. The role of SEZs in human capital formation and technology upgradation is found to be rather limited. The study argues that the potential of zones could not be exploited fully in India. The study highlighted that the new SEZ policy has given a major thrust to SEZs. However, the creation of SEZs alone does not ensure the realization of their potential. The government will need to play a more proactive role to get benefits from SEZs.

Bloodgood (2007) made an attempt to study the role of government in attracting foreign investment. The author examined that like many other countries, Government of India has offered certain incentives to attract foreign investment, many of which are concentrated in SEZs. Due to this, net foreign direct investment (FDI) flows into India reached at $15.7 billion in 2006-07.

Dogra (2007) criticised the SEZ policy in India. The author stated that the SEZ legislation is an arbitrary act of economic violence against the people of India which can play havoc with livelihood, food security, and environment, justice for workers, fiscal health and balanced development of the economy. The sooner it is scrapped, the better will it be for the country, its people, its peace, its justice and its democracy.

R. Datt (2007) in his article titled, “Development, Displacement and Rehabilitation” stated that the Central body should formulate a socially balanced policy on SEZs. It is no use blindly following China which has only five such SEZs, but in India there is a plan to have 285 SEZs. Unlike China, in a democratic country like

---


India, it is not possible to ruthlessly muzzle the voice of the displaced people in favour of generating profits for the industrial and business classes, and developers.

Kumar (2007)\textsuperscript{16} analysed some of the key features relevant to the creation of SEZs. In the study, he argued that the SEZ policy is a part of the policy of ‘growth at any cost’ with the cost falling on the already marginalised sections in the rural area. The employment generation in SEZs will not be able to compensate for the loss of employment in the activities that SEZ will displace. The output and investment will be much less than claimed in these SEZs.

Majumdar (2007)\textsuperscript{17} examined the various aspects of SEZs and concluded that zones can play a long-term dynamic role in the host country’s development if they are set up appropriately, managed well and integrated with the overall national economy. The author argued that the problems of displacement of farmers and labourers and potential tax revenue losses may offset through gains accrued in terms of higher export earnings, flow of investments, employment creation and technology up-gradation. The study suggests that the policy should be designed to encourage large-sized SEZs, so that they can exploit scale-related advantages.

Mitra (2007)\textsuperscript{18} in his study “Special Economic Zones in India: White Elephants or Race Horses?” looked at the policy of SEZs in India and their suitability for fulfilling the goals of export promotion, employment generation and maintenance of the tempo of economic growth. On the basis of economic theory and history, he concluded that absorption of agricultural labour is necessary for sustained economic development of a developing country. SEZs constitute a means for such sustained development in India. However, the SEZ policy in India has suffered from permission being granted for far too many SEZs which are either sub-optimally sized or are appendages to mega-cities.

Pillai (2007)\textsuperscript{19} in his study on SEZs highlighted that in India, SEZs set up prior to the SEZ Act are providing employment to about 1.85 lakh persons of which about 40

\begin{footnotesize}
\begin{itemize}
\end{itemize}
\end{footnotesize}
per cent are women. Export from the existing SEZs increased from ₹ 13854 crore in 2003-04 to ₹ 34789 crore in 2006-07, an increase of about 151 per cent in the last three years and expected investment of ₹ 100000 crore, including FDI of US$ 5-6 billion by the end of December 2007. He concluded that the SEZ scheme will act as a catalyst in the development process of the country.

Roychowdhury (2007) made an attempt to analyse the pros and cons of the SEZ model for resettlement and rehabilitation. He stated that land for land can be an effective and justified mode of resettlement, provided comprehension for developing the new land is made available. For that, a land bank should be set up after taking stock of the present barren and infertile land in the states and the land available under sick units and closed factories. In no circumstances should very fertile land be acquired, as that will dampen agricultural growth and productivity and endanger food security, which is dangerous for the economy as well.

Sen and Dasgupta (2007) in their paper, based on a field study, found severe insecurity in terms of job contracts, income and other labour status for employees in the highly subsidised and growth-oriented enclaves of SEZs. They revealed that India needs to rethink its drive towards industrialization by setting up many SEZs in different parts of the country. Unconditional benefits to capital, as are offered to these privileged zones only, with the sanction to expropriate labours on legal huge landscapes by displacing the agrarian community open the need to revisit India’s current industrialisation policy.

Ramachandran & Biswas (2007) in their study focused on the possible locations of SEZs, and developed a set criteria and methodology for identifying such locations. The most critical consideration in their case pertains to proximity to national highways, broad gauge rail lines and large cities. SEZs should be established on wasteland only, instead of on productive agricultural land. Applying such criteria, they found 64 districts in 16 states as most suitable for setting up SEZs. The authors warn that politicians may be in a hurry to set up such zones anywhere, but care and patience

is required for not only finding a desirable location but also working for their impact on mankind.

Reddy and Suresh (2007) found that the possible explanation of the trends in the unrecorded decline in the net sown area which adversely affects the livelihood of the farmers permanently. Rational change for land acquisition and its use of non-agricultural need for proper compensation, an attempt is made to understand and delineation on local communities.

Aggarwal (2008) made a systematic analysis of the contribution that SEZs has made to the technological capabilities and industrial diversification at the sectoral level in India. He first explored the importance and nature of technology transfer and technology creation efforts in SEZs. The analysis is based on a fully structured questionnaire based survey of technology management in 75 firms across three SEZs at Santa Cruz, Madras and Noida. The author also examined success stories of technology trends/creation in introducing new products and promoting new industries in the country. This part of the analysis is based on extensive interviews with zones entrepreneurs in 10 operational zones. Of these, seven are the central government zones, while three others are new, upcoming zones. This analysis reveals that SEZs have helped the country in exporting new products and in building the country’s image in certain products in international markets. Though they could not induce technology-based dynamism in the local or national economy, due to smaller scales of operation than in domestic tariff areas, they did play an important role in seeding new industries and transforming some existing industries. It is expected to result in significant inflows of technology and knowledge in SEZs and subsequently in the rest of the economy through spill over effects.

Aggarwal (2008) in his research study emphasized the necessity of SEZ policies in the present WTO regime for the development of India's export and economic activities. The study also focused on the philosophy of land compensation, expectations of farmers from compensation package and the critical role of a chartered


accountant in the exercise of fair valuation for land compensation and investment by farmers for future growth.

Raj and Roy (2008) in their article concluded that the SEZ Act, 2005 is anti-democratic and unconstitutional as it completely violates the right to life and livelihood of the people being forcibly displaced for the implementation of SEZ projects. The Act promotes large-scale privatisation and monopolisation of resources into the hands of a few private developers at huge costs to the state exchequer, the economy and the environment. They found that the issue regarding Nandigram and Singur is a purely economic one. Politicians have merged this issue with the political framework, which emerges as the crux of the problem. Public participation is necessary for the welfare of the community. The economic aspect has been neglected, which should be addressed by the state. Policies have to be streamlined to ensure that the pain and profits of growth are more equitably distributed.

R. Ahmed (2008) revealed that SEZ legislation is an arbitrary act against the people of India, which can play havoc with their livelihood, food security and environmental safety, justice for workers, fiscal health and balanced development of the economy. There is an urgent need for the government to seriously revisit and rethink these two anti-people and undemocratic legislations, and to take concrete steps to remedy the distortions inherent in them, including repealing them to enact few more reasonable legislations in the interests of justice, social harmony equitable development and respect for human and natural rights of the citizens over their land and livelihoods.

Reddy and Srinivas (2008) explained that the promotion of SEZs is an attempt to deal with infrastructural deficiencies and procedural and bureaucratic complexities caused by monetary, fiscal, taxation and labour policies. The objective of setting up SEZs is to gain structural growth with world class infrastructure, which is helpful to the economic growth of India. This study presents an overview of the process and progress of SEZs in the country in general and in Andhra Pradesh in particular.

Shavin Malhotra (2008)\textsuperscript{29} reports findings from an empirical analysis comparing the investment climate in two free trade zones (FTZs) and their respective host country's mainland. The results show that FTZs offer significantly better product and infrastructure facilities, lucrative financial incentives and improved political, social, economic, and legal environment than the host country's mainland. These findings should encourage many small and medium-sized firms to effective use FTZs to enter countries that are otherwise difficult to expand on, given the high risks in the mainland. Based on Dunning’s eclectic paradigm and the Uppsala internationalisation theory, this paper contends that by virtue of their many incentives, FTZs provide MNCs a better investment climate than outside the zone in the host country mainland. This central thesis is tested empirically in a sample of 115 zone tenants across two FTZs Jebel Ali Free Zone in Dubai and the NSEZ in India. The FTZ is compared to the host country environment on six main investment factors production, finance, economic and legal, political and social, infrastructure, and the country and people.

Govilkar (2008)\textsuperscript{30} analysed the SEZ Act, 2005 and SEZ Rules, 2006 and found that the SEZ policy has been adopted and implemented to develop sufficient and high quality infrastructure by the private sector, will attract considerable foreign investment, will increase employment opportunities, will boost the export, and thereby will expand economic activities in the country. The industrial islands could become engines of growth. To improve its share in world trade, India must make special efforts as global export opportunities are increasing. SEZ could be a prominent policy for the same.

Madhumita Dutta (2009)\textsuperscript{31} found that the Nokia Telecom SEZ in Chennai, Tamil Nadu is at the top of SEZ success stories. The idea behind this was that the SEZs will bring in investment, increase exports, economic activity and create employment. The reality is that Nokia initially promised direct employment for 1200 workers, but later scaled up to 8000 including those employed by contracting agencies. Out of this number, 70 per cent are women aged between 19 and 22 years. However, a July 2008 report of the Deputy Chief Inspector of Factories recorded that company employed

\textsuperscript{29} Malhotra Shavin (2008), “A Comparative Analysis Of Investment Climate At Free Trade Zones And Host Country Mainland”, \textit{Jacksonville University Nicolas Papadopoulos Carleton University}.


4,548 people lower than the estimate. The company planned to sell a significant share of its phones in the Indian market, for which a land deal was allotted to Nokia from SIPCOT Industrial Park in February 1997. In the original Memorandum of Understanding (MoU), Nokia was supposed to pay ₹ 8 lakhs per acre as a lease charge for 99 years. In the second MOU, it came down to ₹ 4.5 lakh per acre. Therefore, Nokia’s investment is entirely paid for by public subsidy. Much of the production is sold domestically and employment generation is below projections; and workers are staffed on contract basis with very low job security.

Menon and Mitra (2009) provided an overview of the rationale of the SEZ policy. The study points out the benefits of an export-led growth strategy and argues that the SEZ policy is driven by the objective of increasing (a) export, (b) infrastructure, (c) investment, (d) employment, and (e) economic activity. Otherwise, the core objective would be to increase export-oriented economic activity. Investment and infrastructure would be prerequisites for this to happen, while employment would be a consequence of increased activity. It states that “with the country’s GDP growth being fuelled by the services sector, particularly IT and IT-enabled services, it was necessary to promote manufacturing activities” and recommended that the “location for the new SEZs should be selectively done so that they spread development and address existing regional imbalances”.

Mukhopadhyay and Pardhan (2009) have examined data on SEZ size, location, and performance in order to assess how the zones have met their stated goals of infrastructure development and inclusive development that mitigates regional inequality. He observed that SEZ developers tend to prefer to locate their projects in districts containing or proximate to India’s mega-cities (Chennai, Mumbai, Delhi, Kolkata, Hyderabad, and Bangalore), and that these projects tend to be less than square kilometers in size. These dual observations led him to speculate that (1) the SEZs will act as appendages to mega-cities in highly industrialized areas and may therefore exert further strain on already strained municipal infrastructure; (2) their small size will probably reduce the infrastructure they are able to provide; and (3) their location close to mega-cities might indicate that real estate.

---


Murayama and Yokata (2009)\textsuperscript{34} examined the historical trajectories, outstanding labour, and gender issues of EPZs/SEZ based on the experiences of South Korea, Bangladesh and India. The findings suggest the necessity of enlarging our analytical scope with regard to EPZ/SEZ, which are inextricably connected to the external employment structure. Further, the study calls for an immediate and comprehensive review of the labour and gender conditions in Indian SEZs where workers are in a disadvantageous position not only against capital, but also in comparison with workers in South Korea and Bangladesh EPZs/SEZs.

Prabu (2009)\textsuperscript{35} in his research paper highlighted many issues related to SEZs such as land acquisition, the problem of rehabilitation, loss of tax revenue, incentives and facilities to the developers of the SEZs, etc. The researcher concluded that though theoretically, conceptually, economically, financially and operationally SEZs appear to be a blessing, actually it is not true. Throughout the country the creation of SEZs has created a big fever among politicians, economists, farming community, tax people and social workers. Specifically, the states in which the SEZs have been approved are facing intense protests from the farming communities accusing the government of forcibly snatching fertile land from them at heavily discounted prices as against the prevailing in the commercial real estate industry.

Reddy et al. (2009)\textsuperscript{36} made a detailed analysis on the need and evolution of SEZs in India and the performance of Indian SEZs. The study highlighted that the overwhelming response to the SEZ scheme is evident from the flow of investment, creation of additional employment, export performance and attracted FDI in the country. The study concluded that the SEZs is real growth engines for the economic development of the country.

S. Seethalakshmi (2009)\textsuperscript{37} found that almost all SEZs are located in close to huge metro cities and townships or parts. Land is acquired for setting up industrial parks and growth centers. There are several environmental and health aspects in the


establishment of SEZs especially in sectors like pharmaceuticals, leather, biotech, etc. Ramky SEZ in Parawada, Hetro drug SEZ in Nakkapalli, Apache SEZ in Nellore have their core concerns. The Pollution Control Board has little power to carry out seal or seizure operation in the SEZ without the prior permission of the Development Commissioner.

S. Khan (2010)\textsuperscript{38} analysed that SEZs are the need of today’s economy to support India’s target of becoming a developed nation. The physical exports done in year 2007-08 ₹ 666.37.68 billion from these SEZs. The creation of SEZ provided employment to around 0.35 billion persons. The manufacturing and research projects are set up in these SEZs. Many large MNCs as well as Indian MNCs set up state of the art plants in these SEZs. This all will continue to contribute India’s GDP. The study suggested that though, SEZ policy adopted by India to support economy in a big way, the conversion of fertile land into industrial land may create food crisis in near future. The use of waste land available in India (around 552692 sq. km.) for SEZ development will ensure that the farmers are not displaced from their farmland, the development not concentrated near cities and the fertile land will continue to be used for agriculture use.

Reddy et al. (2010)\textsuperscript{39} analysed employment generated by SEZs in southern India. The data has been drawn from the Ministry of Commerce and Industry, Government of India. The study is confined to notified SEZs only. The study found that of the total current employment generated by notifying SEZs in India (370700 persons), about 41 per cent employment has been generated by SEZs of the southern region. Among the states in the southern region, Tamil Nadu stands first with about 20 per cent, followed by Karnataka and Andhra Pradesh with about 10 per cent each in the total current employment in India as on 31\textsuperscript{st} March 2008.

Tantri (2011)\textsuperscript{40} in her study, she analyses the issue of efficiency of SEZs within the framework of stochastic production frontier technique. The efficiency scores of these enclaves have improved over the years, specifically with the introduction of the SEZ policy (2000-01). of the seven conventional SEZs, namely Kandla (KSEZ), Santa Cruz (SSEZ), Noida (NSEZ), Cochin (CSEZ), Madras/Chennai (MSEZ), Falta


(FSEZ), Vizag (VSEZ). Santa Cruz SEZ fares better than others operating on the same production frontier in terms of performance. The author observed the emerging contradiction between better export earning zones and efficient zones, which might as well prove a challenge to the policymakers. On the determinants side, besides policy intervention large geographical area accompanied by clustering of units is found to affect positively the efficiency scores of these enclaves. This paper, while covering the period from 1986-87 to 2007-08. The required data have been obtained from the Development Commissioner (DC) Office of the respective zones. The present data relate to a panel of seven zones spread over 22 years. We have evaluated the efficiency of the zones by constructing a frontier function for SEZs at the national level by using data across zones as production units. The analysis carried out above in respect of the seven conventional SEZs indicates that policy changes effected in the year 2000-01 have had a significant impact on the output. She found that the area of a zone is positively related to efficiency scores. Export efficiency of SEZs the clustering of units contribute positively Santa Cruz and Noida SEZs show high Technical Efficient score as compared to Kandla and Vizag SEZs which are relatively bigger in size. This is in line with a higher growth rate observed in respect of exporting units of Santa Cruz and Noida SEZs as compared to other 15 zones. Government investment, as a developer has been found positive and statistically insignificant. This, in turn, encourages investment from other actors involved in the process.

Ramananda and Pandian (2012) have pointed out the Indian policy framework for an SEZ. The study discusses the various incentives available to an SEZ and an SEZ unit. It also studied the recent legal and regulatory developments pertaining to SEZs in India. They concluded that India has the right mix of factors such as the availability of large and skilled workforce, intrinsic comparative advantage in several industries, a strong policy framework, availability of complementing & supporting ancillary industry, an already buoyant export sector and vast local markets. SEZs can combine these factors to power investment creation. Unless remedies can be found out to loosen prevalent rigid labour laws, SEZs cannot be looked at as a panacea for all economic diseases. However, the study is limited to only SEZ policy and framework in India.

The review of literature brings out that most studies relating to the Indian experience of SEZs analysed the SEZ scheme in India and incentives and facilities provided to SEZ developers. Many studies have been undertaken in India on the distribution of SEZs (formally approved, approved in principle and notified) by sector, state and region. Some other studies have taken up issues such as land acquisition, problem of displacement and rehabilitation of farmers and agricultural labourers, the effect of SEZs on the agriculture sector, labour laws, concentration of SEZs and revenue loss to the government.