CHAPTER I

REVIEW OF LITERATURE AND METHODOLOGY OF THE STUDY

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CHAPTER I

REVIEW OF LITERATURE AND METHODOLOGY OF THE STUDY

I.1 - INTRODUCTION:

According to World Bank and the United Nations Industrial Development Organization “Special Economic Zone (SEZ) or Export Processing Zone (EPZ) is an industrial area that constitutes an enclave with regard to customs tariffs and the commercial code in force in the host country and are intended to provide an internationally competitive duty-free environment and quality infrastructure for the promotion of exports at a low cost”

During the period 1950 to 1980 this concept has evolved in order to counter the anti-export bias created by the import substitution industrial policy regime, which was prevalent in many countries. Over-valued exchange rate coupled with high tariffs and quantitative restrictions makes production for import substitution significantly profitable relative to production for exports. Attempts to promote export-oriented industries within an import-substituting regime, therefore, require countervailing fiscal measures such as duty drawbacks, cash compensation or import replenishment licenses. Thus, SEZs/EPZs are considered as a second-best policy choice consisting of compensating for one distortion (import duties) by introducing another (a subsidy).¹ Many in the economics literature, such as Baldwin and Krugman (1989), Dixit (1989), have argued that costs involved in production and marketing of exports are likely to be significant. In order to export successfully, therefore, firms need to possess a competitive advantage to overcome the advantages typically enjoyed by rival firms located in the country into which they export (for instance greater familiarity with local laws, customs and local tastes and lower transport costs).² The concept of SEZs/EPZs gathered momentum during 1980s within the realm of new

¹ - Athukorala, 1997), Foreign Direct Investment and Manufacturing for Exports, in W. D. Laxman (ed.), Dilemmas of Development Fifty years of Economic Change in Sri Lanka, p386-422
growth theory incorporating the features of neo-institutionalism and the role of a developmental state. The new growth theory argues that institutions all play a vital role in the developmental process of a society. Since developing countries lack efficient institutions, therefore, the state should play an active role in promoting new institutions. In other words, it asserts that the state should be a facilitator and be proactive in promoting private sector led industrialisation. EPZ/SEZ is one such state-led policy for industrial development. EPZs/SEZs are benefited, from location advantage, modern efficient infrastructure, and better governance through single window facility ensuring less transaction costs of doing business. In general, trade-related infrastructure and institutions are poor in developing countries. The cost of doing business is high, as argued in numerous studies. Since country-wide development of infrastructure is expensive and implementation of structural reforms require time due to socio-economic and political realities, SEZs/EPZs are considered as a strategic tool for the promotion of exports, especially from developing countries. However, given the limited technological and marketing capabilities of developing countries, these zones may not affect exports substantially unless they attract foreign direct investment as well. The new theories also stress on possible external effects generated by SEZs/EPZs and that may take the form of learning, human capital development, demonstration effects and so on, and can accelerate the process of industrialization of developing countries. The concept of SEZ/EPZ is, thus, a catalyst for fast learning for all major stakeholders of the process of industrialization (policy makers, entrepreneurs and labor) and also a pioneer for attracting export-oriented FDI, which promotes exports. SEZ is a specifically delineated duty free enclave and shall be deemed to be foreign territory for the purposes of trade operations and duties and tariffs. India was one of the first in Asia to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting exports, with Asia’s first EPZ set up in Kandla in 1965. With a view to overcome the shortcomings experienced on account of the multiplicity of controls and clearances; absence of world-class infrastructure, and an unstable fiscal

regime and with a view to attract larger foreign investments in India, the Special Economic Zones (SEZs) Policy was announced in April 2000. This policy intended to make SEZs an engine for economic growth supported by quality infrastructure complemented by an attractive fiscal package, both at the Centre and the State level, with the minimum possible regulations. To instill confidence in investors and signal the Government’s commitment to a stable SEZ policy regime and with a view to impart stability to the SEZ regime thereby generating greater economic activity and employment through the establishment of SEZs, a comprehensive draft SEZ Bill prepared after extensive discussions with the stakeholders. A number of meetings were held in various parts of the country both by the Minister for Commerce and Industry as well as senior officials for this purpose.

The Special Economic Zones Act, 2005, was passed by Parliament in May, 2005 which received Presidential assent on the 23rd of June, 2005. The draft SEZ Rules were widely discussed and put on the website of the Department of Commerce offering suggestions/comments. Around 800 suggestions were received on the draft rules. 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 History of SEZs in India suggests that the seeds of the basic concept of Special Economic Zone (SEZ) were sown in the mid sixties. Further, the History of SEZs in India suggests that the basic model of the present day Indian Special Economic Zone was structured with the establishment of the first Export Processing Zone (EPZ) at Kandla in the year 1965. Several other Export Processing Zones were set up at various parts of India in the subsequent years. The lack of good Government of India economic policy and inefficient management soon became the detrimental factors for the success of these Export Processing Zones. Thus, the performance of these Export Processing Zones of India fell short of expectations. The modern day Special Economic Zone came in to existence because the economic reforms incorporated in the early 1990s did not resulted in the overall growth of the Indian economy. The SEZ policy of India was devised to act as a
catalyst to promote the economic growth attained in the early 1990. The economic reforms incorporated during the 1990s did not produce the desired results. The Indian manufacturing sector witnessed a sudden dip in the overall growth of the industry, during the second-half of 1990s. The History of SEZs in India suggests that red tape, lengthy administrative procedures, rigid labor laws and poor physical infrastructural facilities were the main cause of deterioration of Foreign Direct Investments (FDI) inflow in to India. Further, the Indian markets were not mature enough to facilitate easy entry of Foreign Institutional Investors (FIIs) in to the Indian economic system. Furthermore, the legal framework of Indian economy was not strong enough to prevent misuse of Indian markets by the foreign investors. Thus, the lack of investor friendly environment in India prevented growth of Indian industry, in spite of implementation of liberal economic policy by the central government. This resulted in the formation of a much larger and more efficient form of their predecessors with world-class infrastructural facility.

The Special Economic Zones Act, 2005:

A number of meetings were held across India for the formulation of – ‘The Special Economic Zones Act, 2005’, which was subsequently passed by Parliament in May 2005. The SEZ Act, 2005 and SEZ Rules became effective on and from 10th February 2006. The SEZ Act 2005 defines the key role for the State Governments in Export Promotion and creation of infrastructural facilities. A Single Window SEZ approval mechanism has been facilitated through a 19 member inter-ministerial SEZ Board of Approval or BOA. And the decision of the SEZ Board of Approval is binding and final.

In India, Special Economic Zones are being established in an attempt to deal with infrastructural deficiencies, procedural complexities, bureaucratic hassles and barriers raised by monetary, trade, fiscal, taxation, tariff and labour policies. Since country-wide development of the infrastructure is expensive and implementation of structural reforms would require time, Special Economic Zones/Export Processing Zones are being established as industrial enclaves for expediting the process of industrialization.
The **Special Economic Zone Act 2005** came into force with effect from 10th February 2006, with SEZs Rules legally vetted and approved for notification. The SEZs Rules, inter-alia, provide for drastic simplification of procedures and for single window clearance on matters relating to central as well as state governments. Investment of the order of Rs.100,000 crores over the next 3 years with an employment potential of over 5 lakh is expected from the new SEZs apart from indirect employment during the construction period of the SEZs. Heavy investments are expected in sectors like IT, Pharma, Bio-technology, Textiles, Petro-chemicals, Auto-components, etc. The SEZ Rules provides the simplification of procedures for development, operation, and maintenance of the Special Economic Zones and for setting up and conducting business in SEZs. This includes simplified compliance procedures and documentation with an emphasis on self-certification; single window clearance for setting up of an SEZ, setting up a unit in SEZs and clearance on matters relating to Central as well as State Governments; no requirement for providing bank guarantees; contract manufacturing for foreign principals with option to obtain sub-contracting permission at the initial approval stage; and Import-Export of all items through personal baggage.

**I.2 - REVIEW OF LITERATURE:**

Research methodology is a way to systematically solve the research problem. It may be understand as a science of studying how research is done scientifically. To review the performance of SEZ the work done by various researchers are reviewed. The Review of Various research articles, books and literature published on SEZ is taken for the purpose of understanding the concept in the first chapter of the study. The main aim of this study is to analyze the SEZ scheme in India, performance of SEZs in India and problems and prospective of SEZ 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)** analyzed the central idea behind the setting up of EPZs in underdeveloped countries to motivate Multinational Corporations (MNCs). In their paper the authors studied the Santa Cruz Electronics Export Processing Zone (SEEPEZ) and brought out that operations of the 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 the MNCs.

**Litwack and Qian, 1997** – have concluded in their research that due to special fiscal preferences given in China’s four SEZs i.e. Shenzen, Zhuhai, Shantou (all three in Guangdong province) and Xiamen (in Fujian province), foreign private investment poured in heavily. Thus Guangdong ranked first among all the provinces in China in terms of GDP. The researchers have taken foreign private investment as a single parameter for the purpose to study SEZs in China. But they have studied on the basis of growth of GDP only.

**Johansson and Nilson (1997)** pointed out that the success of SEZs/EPZs in terms of employment generation, export growth, linkages to the host economy, foreign exchange and GDP growth. Several of these studies have used a cost-benefit analysis to compare the benefits arising from SEZs with the cost of establishing them in the form of subsidies, administrative costs, social costs and infrastructure costs.

**Athukorala (1997)** has studied the job opportunities in SEZs in Bangladesh. The researcher has concluded and SEZ units contributed in the significantly to a rise in the labour participation rates especially the entry of young women into the labour force in Bangladesh. So the researcher has focused on the issue of Job Opportunities in SEZs in Bangladesh.

**Zheng (1999),** has also pointed out in their issues that development zones have been successful in attaining the economic goals for which they were initially established, there are doubts over the sustainability of these zones due to the growing developmental imbalances among the regions. So the economic goals of like GDP and other element are considered by the author in his studies. He focused on sustainable development of SEZ but it is need to study the prospectus and problems of the SEZ.
Jauch, (2002) has studied on export processing zones in southern Africa concludes that EPZs are not really successful in achieving self-sufficiency and sustainable development of the region. The issue of sustainable development is focused in his study. But the researchers have not touched the employment and investment.

Grandos (2003) in his findings has pointed out that due to SEZs, the countries have adopted growth models based on export promotion instead of import substitution. He further suggested that SEZs’ contribution towards regional development is arguable in the context of integration of countries into the global economy. So the researcher is agreed that the SEZ is a way to change the policy of Export and Import. So this research is limited to the parameter of export and import only.

Bhatta (2003) highlighted the importance of SEZs, provided an overview of the rules, regulations and incentives, the possible implications for the environment of the region, and the importance of ensuring transparency in conducting an environmental impact analysis. The study emphasized that maintenance of ecological balance along with industrial development is required.

Aggarwal (2004) analyzed the export performance of Indian EPZs since their inception. The growth rates of aggregate exports, foreign exchange earnings and employment showed a steep jump when new EPZs were created in the early eighties. The share of EPZ export to total export showed a very gradual rising trend during the last twenty years. This is due to the rising trend in electronics exports. However, lack of single window clearance facilities, the attitude of the officials, centralized governance, stringent labour laws and poor physical and financial infrastructure resulted in relatively poor investment climate in the zones.

Aggarwal (2005), in his research paper revealed that the SEZ scheme introduced by the Government of India in April 2000 has its genesis in the EPZ scheme which was introduced
way back in 1965 when the first zone was set up in Kandla. The SEZ Act is a major step in the direction of providing a long-term comprehensive policy framework and fiscal incentives are very important in determining the attractiveness of the zones. The Act has reinforced the authority of the central government. She further stated that the problem of co-ordination between the centre, states and zones will remain and may perhaps aggravate with the creation of different authorities looking after approval and management. The study conducted by Confederation of Indian Industry, Northern Region (2006) analyzed the export performance of SEZs in India. Export from SEZs grew by 16.4 per cent during the period 2000-01 to 2004-05. In the same period, total export in India grew by 12.1 per cent. Electronics and gems & jewellery contributed more than 75 per cent of the exports from SEZs during the year 2002.

Curtis (2006) 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 only succeed in countries with a strong central government, geographic ties and cultural ties to developed markets and competitively low-wage labour.

Jain (2006) analyzed the SEZ scheme in India. The author examined the need of SEZs, 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, viz. foreign investment, technological and know-how advancement, development of backward regions, employment generation etc.

Desai Associates (2006) concluded that the establishment of the SEZs has, undoubtedly, helped to increase the volume of international trade. Further, a large amount of foreign investment has found its way not only into the export trade, but also into infrastructure construction and commerce. Foreign companies have been encouraged to establish their
presence in the territories and the export industry has grown. Advanced foreign technology has been brought in with the inflow of foreign investment. All these factors have contributed to the growth of the Indian economy. The enactment of the SEZ Act and its implementation would enable the GOI to fulfill its agenda of economic reforms as the multiplier effect on the economic activities triggered by SEZ materializes.

**Viswanadhan (2006)** analyzed 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 Rs. 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 the primary as well as 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)** analyzed 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 Special Economic Zones. Due to this, net foreign direct investment (FDI) flows into India reached at $ 15.7 billion in 2006-07.
Datt (2007), in his article titled, “Development, Displacement and Rehabilitation” stated that the Central government should formulate a socially balanced policy on SEZs. It is no use blindly following China which has only five such Special Economic Zones, 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.

Dogra (2007), in his article, criticized the SEZ policy in India. He 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 to 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.

Gopalakrishnan (2007a) attempted to examine SEZs as a part of larger pattern of change in the Indian policy and economy. SEZ should not be seen and evaluated on the basis of their stated policy goods alone; these goals have little relationship to the actual structure of SEZ policy. Rather, the approach will be to examine some of the more unusual features of the SEZ policy, using them as indicators to explore the policy from other angles. The conclusion that emerges is that SEZs can be seen as a response to constraints that have arisen on capital in the recent Indian context, aimed at allowing super-profits and rapid accumulation to continue. However, the consequences are likely to be complex and very dangerous.

Grasset and Landy (2007) studied and compared the evolution of the Indian economic policy vis-a-vis the adoption of the SEZ policy, and found that the SEZs as a peculiar device wherein a segregated territory within a country is meant to be a part of the globalization process. Such a measure represents on a part, two evolving tendencies in the industrial and export scenario of post-independence India. First, the individual states more as a critical factor in spending up the industrialization process and second, multinational corporations
are acquiring a greater role to play in India’s overall economy. For that matter, the success of SEZs is contingent upon the favourable policies and investment climate of individual states and their impact would be more regional than national.

Krishan (2007) examined the extent and concentration of SEZs in India. He found that as on 3 October, 2007 there were 173 notified SEZs in India. 19 among them were operational prior to SEZ Act, 2005. Among the various states, Andhra Pradesh takes the lead with 47 SEZs followed by Tamil Nadu, Maharashtra, Karnataka, Haryana, Uttar Pradesh and Punjab. He also found that there is a tendency of clustering the SEZs in a particular district, adjoining Hyderabad in Andhra Pradesh accommodates 24 SEZs, Bangalore in Karnataka 13 SEZs, Kancheepuram in Tamil Nadu 11 SEZs and Pune in Maharashtra 10 SEZs; and other concentration of SEZs is observed in Gurgaon district in Haryana and Gautam Buddha Nagar district of Uttar Pradesh. At least 54 districts have only one SEZ each.

Kumar (2007) analyzed some of the key features relevant to the creation of SEZs. In the article, it is argued that the SEZ policy is a part of the policy of ‘growth at any cost’ with the cost falling on the already marginalized 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) examined 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 be offset through gains accrued in terms of higher export earnings, flow of investments, employment creation and technology upgradation. The study suggests that
the policy should be designed to encourage large-sized SEZs, so that they can exploit scale-related advantages.

**Mitra (2007a)**, in his paper titled “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 exports promotion, employment generation and maintenance of the tempo of economic growth. On the basis of economic theory and history he concluded that absorption of agriculture 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.

**Mitra (2007b)** examined the rationale behind SEZs and pitfalls in the implementation of the SEZ strategy with special reference to India. The study highlighted that SEZs can generate several benefits. The clustering of industries, resulting from the benefits provided to SEZs leads to better utilization of infrastructure and therefore lower infrastructure costs per unit of output. However, there are several deficiencies in the implementations of SEZ policy in India. The inability of the state to provide a country-wide network of infrastructure facilities implies that SEZs are still being located close to the major cities and are thereby adding to the congestion of these cities and generating diseconomies of agglomeration. The study suggested that the section of SEZs should not only take into account the economic impact generated from within the SEZs through higher production or employment but also the impact of SEZ on other areas through its effect on the resource base and environment. It is also recommended that the government should not act as an intermediary in acquisition of land

**Aggarwal (2007)** – has studied the Impact of Special Economic Zones (SEZs) on human development and poverty reduction in India. The researcher concluded that there is positive impact of SEZ on Huaman development and Poverty reduction. But he has not
given any model to develop SEZ units.

Swaminathan (2007) has focused on the issues of land acquisition. Land derives value from its use. An ordinary tract of agricultural land derives value from its present use. However, following acquisition and in the light of the knowledge that the land will henceforth be a part of a modern industrial zone, the value of the land will multiply overnight. Section 24 prevents the enhanced value (from a different use) from figuring in the determination of compensation for erstwhile owners. This is identified as a distinct ‘anti-farmer’ bias in the extant process of acquisition and awarding of compensation.

Muchlinski (2007) has studied of geographical aspects of SEZ. The SEZ is a subset within the geographical boundaries of the state. The rest of the host state is legally referred to as the Domestic Tariff Area or the DTA. Effectively, the SEZ is “outside” the territory of the host state with respect to trade and investment.

Pillai (2007) in his study on SEZs highlighted that in India, the SEZs that were set up prior to the SEZ Act, are providing employment to about 1.85 lakh persons of whom about 40 per cent are women. Export from the existing SEZs increased from Rs. 13854 crore in 2003-04 to Rs. 34789 crore in 2006-07, an increase of about 151 per cent in the last three years and expected investment of Rs. 100000 crore including foreign direct investment of US$ 5-6 billion by the end of December, 2007. He concluded that SEZ scheme will act as a catalyst in the development process of the country.

Ramachandran and Biswas (2007), in their study focused on the possible locations of SEZs, and developed a set of criteria and methodology for identifying such locations. The most critical consideration in their case pertains to proximity to the national highways, broad gauge railing lines and large cities. Only the wasteland is related for the establishment of SEZs instead of productive agricultural land. Applying such criteria, they found 64 districts in 16 states as most suitable for setting up of SEZs. The authors warn that the politicians
may be in a hurry to implant such zones anywhere but it does require care and patience for not only finding desirable location but also working for their impact on mankind.

**Roychowdhury (2007)** in his study analyzed 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 the stock of present barren and infertile land in the states and the land available under the sick units and closed factories. In no circumstances, a very fertile land should be acquired as that will dampen the growth and productivity of agriculture which is dangerous for economy as that will endanger food security.

**Sanyal et al. (2007),** in their research study criticized the SEZ policy in India and stated that the claim of creating lakhs of jobs in SEZs is a complete hoax. The corporate who will establish production units in SEZs, will also seek jobless growth and only a small number of jobs for a highly skilled workforce can be expected in sectors like IT. Acquisition of cultivable land will not only make millions of farmers and agricultural labourers lose their livelihood but also will definitely have adverse effect on production of agriculture and environmental resources such as water and forest resources. In the SEZs, there will be exploitation of labourers as labour law does not applicable within these zones and there will also be a possibility of sex harassment of women labourers.

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

Sengupta et al. (2007), in their study, concluded that the SEZs policy has run into a public debate on the logic of special concessions being granted to already well-entrenched and well-performing capital and the manner in which the required land is being acquired with state intervention. It has also brought into sharp public focus the resistance of local residents facing the prospect of displacement and their plight in the absence of viable alternative livelihood system. Although the need for accelerating infrastructure development for industrialization and taking advantage of agglomeration economies within these zones is acceptable but the way in which they are being sought to be created and their overall implications for industrial growth and economic development need to be thoroughly examined. It is, therefore, necessary to analyze SEZ Policy and orient it to a justifiable economic programme. The National Commission for Enterprises in the Unorganized Sector (NCEUS) suggests “Growth Pole” as an alternative form of SEZs utilizing their potential benefits but avoiding the pitfalls into which unrestricted expansion of SEZs may fall in our country. Instead of creating ‘special enclaves’ for the big and the strong on freshly acquired land, the authors feel that a hard look is warranted towards areas that have spawned clusters of single products or multi-products and services.

Palit and Bhattacharjee, (2008) pointed out that the relationship between the use of land and the value derived from such use has also drawn attention to the extant restrictions on the conversion of agricultural land to non-agricultural Risk weight on loans extended by commercial banks to SEZ developers is as high as that for commercial real estate.

Pradhan (2008) Special Economic Zone and pointed out that SEZs have the potential to enhance human capabilities. But for this potential to be realized, the government must
devise strategies to strengthen the opportunities that are likely to emerge, protect interests of the SEZ workers, and forge linkages between SEZs and the domestic economy.

**Ahmed (2008)** in his article stated 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 to workers, fiscal health and a balanced development of the economy. There is an urgent need the government seriously revisit and rethink these two anti–people and undemocratic legislations and 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.

**Avhad and Chintamani (2008),** in their article concluded that when IMF and the World Bank picked up the idea of SEZs, the world scenario changed. In 1990 there were 847 SEZs in the world. At present, there are about 4000 SEZs in 120 countries in the world. In India, SEZs can be set up in public sector, private sector or joint sector or even by state governments. The central government encouraged the state governments to pursue the policy of SEZ rigorously. The largest number of SEZs is sanctioned in the developed states like Maharashtra. Out of 75 SEZs in Maharashtra, 08 SEZs are in Marathwada, 07 in Vidharbha and remaining SEZs are in Pune-Raigad-Thane-Mumbai belt.

**Bharati and Khedkar (2008)** made a detailed analysis on the concept and meaning of SEZ, characteristics of SEZ Act 2005, tax exemptions and concessions available under the scheme of SEZ and progress and performance of SEZ. The study is based on the secondary data. The authors found that 404 valid formal approvals were received by Government of India. Out of this, number of notified SEZs (as on 9th Jan., 2008) were 193. The notified SEZ as on 30th September, 2007, provided an investment and employment of Rs. 285279 crore and created over 2230277 additional job opportunities respectively. The exports in 2006-07 were Rs. 34787 crore. The study concludes that SEZ, no doubt, would act as a catalyst in
bringing a progressive change in the economic growth and development of our country. The study suggested that the economic development should be a win-win process for all sections the society. The government should consider the public opinion in respect of SEZs.

**Chatterjee (2008),** in his research study analyzed the conceptual framework, incentives and facilities to SEZ developers, SEZ policy and economic aspects of SEZs in India. Exports from SEZs grew by 16.4 per cent during the period 2000-01 to 2004-05. During the same period, total exports from India grew by 12.1 per cent. Employment generation, both direct and indirect, has been the most important channel, through which SEZs have impacted on human development and poverty reduction in India. Even though their contribution to national employment has been rather limited, they have contributed significantly to employment generation at the regional level. Due to stagnation, their ability to absorb surplus labour has been declining. It can only be reversed if fresh investment is attracted to SEZs. With the SEZ Act in place, there has been a surge in the establishment of new zones, which is likely to generate huge employment potential in the economy. Most of this will be a net addition to employment as investment relocation in export-oriented production is likely to be limited.

**Govilkar (2008)** analyzed SEZ Act, 2005 and SEZ Rules, 2006. The study found that policy of SEZ has been adopted and implemented with the objective that it will develop sufficient and high quality infrastructure by 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 engine of growth. India, to get better share in world trade, must undertake special efforts, when the global export opportunities are increasing, SEZ could be a prominent policy for the same.

**Guha (2008)** examined the evolution of the new development enclaves– SEZs– in India in the light of the space relation of capital. The process of establishing SEZs in India is essentially a classic unfolding of the process of “accumulation by dispossession” which is a
part of recent strategy of global capital to overcome the chronic problem of over accumulation. The paper also throws light on the ongoing reorganizations of the space relation of capital in India.

**Kumar (2008),** in his article, emphasized that SEZ area will develop substantially at the expense of non-SEZ area. This is likely to accentuate the already rising regional disparities. There is likely to be diversion of resources from non–SEZ area to the SEZs. SEZs will usher in enclave development. Migration to urban areas will rise and urban infrastructure will face enormous pressure. The excess land being allotted to SEZs will result in the creation of new landlords. If the overall gains from SEZs are so unclear and government is still going ahead with the scheme, then it can only be because it wants to give concessions to certain sections. He further suggested that for the sake of accountability, land should be acquired in phases as the project is set up. Thus, it is necessary that the party interested in setting up an SEZ or any other project should give a time bound plan and if that is not adhered to, more land should not be acquired and what was acquired should be returned. A fine should be imposed on the party involved and distributed to those whose land has been acquired.

**Mistry (2008),** in his article observed that the SEZs seem to be a phenomenon which will become a bane in the Indian development experience. Further, the cost of SEZs in terms of human rights violation, lose a livelihood, slack rehabilitation and environment degradation will in the long run, prove to very high. Therefore, government should rethink its policy of SEZs and should implement it only on an experimental basis with caution in the backward areas where no development has taken place.

**Sampat (2008)** explored some stand in the political schema of SEZs in India with specific reference to one immediate fall out of serious concern and contestation the imminent displacement of thousands of people livelihoods in countrywide where these SEZs are stated to come up. A factsheet on SEZs on the Government of India website gives details of the number of approved and proposed SEZs, their land requirements as well as export and
employment potential. However, there is no mention of the number of people to be displaced by these zones and it is not clear, how the government intends to attend the issues of displaced.

Shankar (2008) analyzed that the SEZ Act and Rules have evoked considerable interest and a large number of applications for approvals continue to receive almost on daily basis, especially from the private sector. The anticipated exports, investment and employment send positive signals. Another positive development is that the SEZ scheme is being overseen by an Empowered Group of Ministers. At the same time an effort should be made to see that the scheme parameters are not changed frequently since certainty and stability of Government policy is necessary for investment.

Sikidar and Hazarika (2008), in their study highlighted that the SEZ is being increasingly seen as an alternative way of economic growth through exports and duty exemption. As a part of SEZ policy, the government offers several incentives to investors like tax holiday for up to 10 years, duty free imports and exports, world class infrastructure, strategic locations and market access. The article provides an overview of SEZs evolution and global growth besides focusing on several operational aspects of the SEZs, related constitutional requirements and relief and exemption from income tax. The authors suggested that there is an urgent need to pay attention to some key issues to ensure a transparent and effective SEZ management.

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, who are being forcibly displaced for the implementation of these projects. The Act promotes large scale privatization and monopolization of resources into the hands of a few private developers at huge costs to the state exchequer as well as the economy and environment of this country. In their case study 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 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.

**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 of 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.

**Gope and Ghosh (2009)** analyzed the SEZ environment in India and the contribution of SEZs to economy. Prior to SEZ Act 2005, there were 19 SEZ projects in operation throughout the country. Under SEZ Act, 222 projects had been notified. Out of 462 formally approved SEZs as on 15.05.2008 and the number of valid in principle approvals is 135. These had proposed to acquire 1855 sq. km. (for both FA+PA) area of land which is only 0.112 per cent of the total agricultural land. SEZs established prior to the Act coming into force, there were 1122 units providing direct employment to over 1.93 lakh persons, about 37 per cent of whom were women.

**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. But 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 (2009) examined the structure of fiscal concession, the compensation policy adopted and the credibility of the project figures, based on the variation across different projects of the similar type and finds them lacking. Based on data available from Ministry of Commerce, the study finds that most of the SEZs are in the IT/ITES sector and a large share of projected employment is also expected to come from this sector. Furthermore, the SEZs also appear to be concentrated in few relatively developed districts, near urban centers. This will mean that the additional economic activity engendered by the fiscal concessions for SEZs will be in the sector that is already doing well, as in the Information Technology Enabled Service (ITES). Further, regional imbalances will worsen as a result of the concentration of SEZs in a few locations.

Prabu (2009) 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, but 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.

Sharma (2009) in the report of Conference held at the Indian Institute of Advanced Study on SEZs raises doubts about their desirability on different counts: It is centered around three themes: (1) SEZs and economic development; (2) SEZs and distributed implications;
and (3) SEZs and legal issues. The study found that SEZs can lead to some serious consequences. Struggles on the land issues are already surfacing in different parts of the country. The SEZ policy can lead to serious and adverse consequences including social conflict, civil strife and breakdown of democratic institutions. It is also likely to lead to increased inequalities: and there is possibility of shrinking of economic space for the ordinary people by making their production more unremunerative.

**Sivaramakrishnan (2009)** focused on implication of SEZ policy for urban growth and the governance of the SEZs. It has been argued in the paper that the SEZ is conceptual not only as a production centre but it is also an urban centre. However, the existing policy is unclear about both urban growth implications and their management. The emerging model of governance promoted by different states and also encouraged by the center appears to be ‘non-municipal’. The paper presents the views of various stakeholders such as government departments and individuals expressed in the hearings of the Parliament’s Committee on SEZs. Nevertheless, the ‘non-municipal’ approach, enabling an SEZ to become a private ‘fiefdom’ rather than a part of the country subject to the Constitution and the laws of the land appears to be prevailing. The paper also critically examines how a constitutional loophole, namely, the Proviso to Article 243Q, is being exploited for this purpose.

**Reddy (2009)** 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 are real growth engines for the economic development of the country.

**Kannan (2009)** is focused on the issues of the centre and the Goa government’s discussions on scrapping the zones. Compensating developers is a key issue with the former having opted for legal recourse. Nonetheless, the centre’s refusal to accede to the state
government’s demand in the first place reveals its sympathies for the developer as opposed to public concerns. Such apparent disregard of public sentiment is somewhat surprising.

Mukhopadhyay and Pradhan (2009) has concluded in their study that a majority of the SEZs in India are concentrated within a few states; and within these states, they are located in districts with industrialization and urbanization levels higher than the median for the country. The findings reveal that 74 per cent of notified SEZs are located in 43 districts where the urbanization level is more than the median. The results further reveal that of the 183 SEZs located in highly urbanized districts, 172 are in districts where the industrialization level is also more than the median. Thus the researchers concluded with their suggestion that there is need to reduce the gap of regional imbalanced development though SEZ. Regional balanced development is the main issues in their study.

Balasubramanian (2010) has concluded that approved SEZs are to consume 95,000 hectares of land, the Ministry of Commerce stated that as of 2008, the land allocated to SEZs was about 0.070% of the total land area and 0.128% of the total agricultural area of the country. While this may seem low, it is has proven to be problematic because of the high population density in some of these areas.

Khan (2010) analyzed that SEZ is the need of today’s economy to support India’s target of becoming developed nation. The physical exports done in year 2007-08 were Rs. 66637.68 crore from these SEZs. The creation of SEZ provided employment to around 3.5 lakh 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.

**Oskarrsson (2010)** An illustration of the flawed acquisition mechanism by the government would be the case of the state of Andhra Pradesh, where land is being acquired from the poorest people who had been earlier allocated land by the government in “land-for-the-poor schemes”. Legally, this land belongs to the government, so the government takes it back often without compensation on the behalf of SEZ developers.

**Ramananda and Pandian (2012)** - has pointed out in their study the Indian policy framework for an SEZ, it further 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 in fact, the right mix of factors such as availability of large & skilled workforce, intrinsic comparative advantage in several industries, a strong policy framework, availability of complementing & supporting ancillary industry, an already buoyant export sector & vast local markets. SEZs can combine these factors into a powerful alchemy to power investment creation. Unless remedies can be found out to loosen prevalent rigid labour laws, the SEZs cannot be looked at as a panacea for all economic diseases. But the study is limited to only policy and framework of the SEZ in India

The review of literature brings out that most of the studies relating to Indian experience of SEZs analyzed the SEZ scheme in India, incentives and facilities provided to the developers of the SEZs. The sector-wise, state-wise and region-wise distribution of formally approved, approved in principle, and notified SEZs in India has been undertaken in many studies. On the other hand, some studies have taken up the issues such as land acquisition, problem of displacement and rehabilitation of farmers and agricultural labourers, effect of SEZ on agriculture sector, labour laws, concentration of SEZs, revenue losses to government, effects of SEZs on environment etc. The studies relating to global experience of SEZs
examined the performance of SEZs in terms of employment generation, export promotion, attracting investment (both domestic and foreign), technology upgradation and skill formation. But in India, there are very few studies which examined the performance of SEZs and these studies are narrow in scope. So, there is a need of comprehensive analysis on the performance of SEZs in India. The present study is a modest attempt to fill the gap in SEZ literature.

I.3 Significance of the Study:

Governments is playing very important role in the establishment of SEZ. Representative of the Government, who is a member of the Inter-Ministerial Committee on private SEZ, is consulted while considering the proposal. Before recommending any proposals to the Ministry of Commerce & Industry (Department of Commerce), the States must satisfy themselves that they are in a position to supply basic inputs like water, electricity, etc. SEZ’s, the statutory functions are controlled by the Government. Government also controls the operation and maintenance function in the Central Government controlled SEZs. In rest of the operation and maintenance are privatized. The overwhelming response to the SEZ scheme is evident from the flow of investment and creation of additional employment in the Indian. The SEZ scheme has generated response amongst the investors in India.

I.4 Statement of the Problem:

India’s Special Economic Zones (SEZs) have been shrouded by controversies. There are number of issues like the acquisition of land and the process for determining compensations, financial viabilities of SEZs have been under the scanner with certain zone developers contemplating exits due to poor economic prospects, criticism for having a myopic vision on urban management and constitutional identities of the zones etc. and on the other side there is increasing share of export, employment and investment through SEZ
in India. In this twofold impact it is need to examine Problems and prospectus SEZ in India. And also find the answer of Can SEZ continue as a part of Industrial and economic development?

I.5 OBJECTIVES OF THE STUDY:

The main objectives of the study are follows

1. To review the origin and development of SEZ policy in India
2. To evaluate the performance of SEZs in India
3. To assess the impact of SEZ on Export and Employment
4. To examine the problems and prospectus of SEZ policy in India.
5. In the light of the findings of the study, to suggest future steps that helps to amend the SEZ policy.

I.6 METHODOLOGY OF STUDY

The methodology included following stages:

Exploratory Research Design - An appropriate design is required for any investigation. The viability of such a correct design depends on its suitable use. Exploratory study is used in this research that helped to formulate a research problem for a precise and structured investigation.

Sampling Method:

Random sampling method is used. As we know that the concept and policy of SEZ introduced in India and implanted since 2005 after 15 years of the economic reforms. It was challenge to promote development zones through the Free Trade Zones (FTZ)/Export Processing Zones (EPZs) in India. The present SEZs policy came into existence as a part of the recommendations of the Export Import (EXIM) Policy 1997-2002. And it is executed by converted existing EPZs into SEZs. This helps to build the SEZs network in the country. The main aim of the policy is to promote exports and to give priorities to economic reforms. To study the variations in performance across the zones and to analyze the impact of the SEZ
policy the researcher has selected the seven conventional zones (EPZs) for the study. On the basis of conventional EPZs and Geographical locations following seven EPZs which are converted into SEZs are randomly selected.

Table – I.6.1
List of Sample SEZs Selected for the Study

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of SEZ</th>
<th>State</th>
<th>Representative Sample Region</th>
<th>Notification</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Kandla Special Economic Zone, Kandla,</td>
<td>Gujarat</td>
<td>Western</td>
<td>1.11.2000</td>
</tr>
<tr>
<td>2</td>
<td>SEEPZ Special Economic Zone, Mumbai,</td>
<td>Maharashtra</td>
<td>Central</td>
<td>1.11.2000</td>
</tr>
<tr>
<td>3</td>
<td>Noida Special Economic Zone, Noida</td>
<td>Uttar Pradesh</td>
<td>North</td>
<td>1.1.2003</td>
</tr>
<tr>
<td>4</td>
<td>MEPZ Special Economic Zone, Chennai,</td>
<td>Tamil Nadu</td>
<td>South</td>
<td>1.1.2003</td>
</tr>
<tr>
<td>5</td>
<td>Cochin Special Economic Zone, Cochin.</td>
<td>Kerala</td>
<td>South Western</td>
<td>1.11.2000</td>
</tr>
<tr>
<td>6</td>
<td>Falta Special Economic Zone Falta, West Bengal</td>
<td>West Bengal</td>
<td>Eastern and North Eastern</td>
<td>1.1.2003</td>
</tr>
<tr>
<td>7</td>
<td>Visakhapatnam SEZ Visakhapatnam,</td>
<td>Andhra Pradesh</td>
<td>South Central</td>
<td>15.3.1989</td>
</tr>
</tbody>
</table>

**Data Collection**- The data related to the above selected zones is collected through informal interviews with the government officials and SEZ developers and tenants by using facilities of Internet / Phone/Facebook etc. Secondary data is collected from the published data from the various publications of the books, Journals, and report of central, state and local governments and various organizational institutions etc.

**Tools and Techniques of the Study**- The data analyzed by using simple statistical tools and techniques such as Averages, Percentage, Ratio, Growth rate, Trends etc.
I.7 LIMITATIONS OF THE STUDY:
In making and presenting this study, some limitations are not ignored such as the study is confined for the period 2005-2013. The performance of the institutional agencies will study for this period only. But in case of the responses received most of the information is related to concern year and most of the figure were the estimates made by the respondents which may be consider as major limitation of the study.

I.8 Chapter Scheme of the Study
The entire work of the study is coached in to six chapters such as under

**Chapter I- Review of Literature and Methodology of the Study:**
The Review of Various books and literature published on SEZ is taken for the purpose of understanding the concept in the first chapter of the study. The methodology used in this study is discussed in this chapter.

**Chapter II- History and Growth of SEZ Policy in India:**
The history and origin and growth of SEZ are explained in this chapter. That helped us to further study.

**Chapter III- Performance of EPZ/SEZs in India**
The performance of EPZ/SEZs in India (EPZ before 2005 and after SEZ 2005) is analyzed in the third chapter of the study

**Chapter IV- Analysis of Performance Variations across the Zones**
The variations in performance across the zones and the impact of the SEZ policy is analyzed in the third chapter of the study

**Chapter V- Review of Problems and Prospectus of SEZ**
After overall study and analysis of the facts figures regarding the SEZ, the Problems before SEZ and Prospectus of the SEZ is given in the fifth chapter of the study.

**Chapter VI - Observations and Suggestions of the study:**
Observations made on the basis of the above five chapters we suggested the future steps that helps to amend the SEZ policy in the last chapter.

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