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PERFORMANCE EVALUATION OF SPECIAL ECONOMIC ZONES IN INDIA

SHAHAZADI BEGUM SHAIK
ASST. PROFESSOR
MBA DEPARTMENT
GVP COLLEGE FOR PG COURSES
VISAKHAPATNAM

R. VIJAYA
DIRECTOR
AQJ CENTRE FOR PG STUDIES
VISAKHAPATNAM

A. NARASIMHA RAO
PROFESSOR
DEPARTMENT OF COMMERCE & MANAGEMENT STUDIES
ANDHRA UNIVERSITY
VISAKHAPATNAM


ABSTRACT

The first Special Economic Zone (SEZ) in India was established in 1965. Four decades later, the SEZ Act was introduced to add impetus and clarity to the concept. The zones, projected as engines of economic growth, were envisioned to boost the export performance of the country apart from creating employment opportunities, generating additional economic activity, and developing infrastructure, among many others. As expected, the policy initiative received a tremendous response, ultimately resulting in the establishment of hundreds of SEZs across the length and breadth of the country, with several more in the pipeline. Over a period of time, the SEZ concept has attracted appreciation as well as criticisms on several fronts from varied quarters. In addition to this, SEZs are a part of a larger and dynamically changing environment. Therefore, it becomes imminent to continuously update and evaluate the performance of these zones. Hence, this paper aims to study the overall performance of Indian SEZs in terms of exports, investment and employment, and assess their contribution to the country's total exports during 2001-2010.

KEYWORDS

SEZ, Performance Evaluation, Exports, NFE, Employment.

INTRODUCTION

 SEZs are specific geographical regions that have economic laws different from and more liberal than a country's normal economic laws (Wu, 2009). They can also be considered as industrial zones with special incentives set up to attract foreign investors, in which imported materials or data, undergo some degree of processing before being (re)-exported again (ILO, 2003). More specifically, an SEZ is a fenced-in industrial estate that offers firms, free trade conditions and a liberal regulatory environment and specializes in manufacturing for export (World Bank, 1992).

Of late, SEZs have come to constitute an important aspect of the industrialisation strategy of the developing economies for increasing their competitiveness and international trade flows. They are meant to serve the host nation through export earnings and increased employment opportunities. Further, SEZs are also expected to contribute to the overall development of domestic economy by activating backward and forward linkages and facilitating diversification of the export basket of the host country.

The term 'SEZ' is synonymous with EPZs (Export Processing Zones), FTZs (Free Trade Zones), Maquiladoras, etc., which have been established by countries worldwide to serve as tools for accomplishing different economic purposes and objectives. In India, SEZs were set up with the aim of generating foreign exchange, developing export-oriented industries, stimulating investment and generating employment opportunities besides creating an internationally competitive environment of export production at low cost. The zones were also meant to be safe havens for eliminating constraints imposed by India's trade and industrial policy on exporters.

The first SEZ in India (as well as in Asia) was set up at Kandla in Gujarat in 1965. Thus India became a pioneer among Asian countries to have recognized the effectiveness of the EPZ model in the promotion of exports. This was followed by Santacruz Electronic EPZ (SEEPZ) near Bombay in 1973 followed by the Madras EPZ (now Chennai) in South (1984), Falta EPZ near Kolkata in the East (1984) and Noida EPZ near New Delhi in the North (1984) Cochin EPZ on the West Coast (1984) and Visakhapatnam EPZ on the East Coast (1989).

After 1990s, the liberalization, privatization and globalization (LPG) policies of GOI led to the need for drastic changes in the erstwhile policies relating to industrialization and EPZs. This led to the introduction of SEZ Policy in 2000 to permit the establishment of SEZs in the public, private, joint sector or by the State Governments. This policy also converted the erstwhile established EPZs into SEZs. To encourage private participation the SEZ Act was enforced in 2005 followed by SEZ Rules in 2006 and this resulted in an overwhelming response leading to 600 formal approvals of SEZs in the country. The number of operational SEZs has also gone up from seven in the year 2000 to 111 SEZs in 2010, with the notified SEZs rising to 372 in number.

Ever since their introduction, SEZs have attracted a lot of attention from varied quarters, especially with respect to their performance (Kumar, 1989; Aggarwal, 2004). However, it is identified that little research has been conducted on SEZ performance in India during the period 2000-2010. Incidentally, the aforesaid period has witnessed the most dynamic happenings on the SEZ front (introduction of SEZ Policy in 2000 that led to conversion of EPZs into SEZs, private participation in SEZ establishment, SEZ Act in 2005, SEZ Rules in 2006). It is therefore considered appropriate to evaluate the performance of Indian SEZs (ISEZs) during this period. The objective is to understand the progress made by the zones and the extent of fulfilment of their objectives. The variables of performance chosen for evaluation are exports, employment and investment.

On these aspects, the performance evaluation is carried out under the following heads:

- i. ISEZ Exports Growth during 1965-2010
- ii. Share of ISEZ Exports in India's Total Exports during 2001-2010
- iii. Employment Generation of ISEZs during 1965-2010
- iv. Investment in ISEZs during 2001-2010

ISEZ EXPORTS GROWTH DURING 1965-2010

From an annual average of ₹ 32.6 lakhs between 1965 and 1970, the ISEZ exports reached an annual average of approximately ₹ 89,000 crores during 2005-2010 (Table- 1). They fared well in comparison with the country's total exports which have grown at a nominal rate. While the country's total exports have registered the highest average annual growth rate of 25 % during the period 1990 – 95, ISEZs have not only maintained a higher average annual growth rate of 27 per cent during the same period, but they have also registered very high growth rates throughout the 45 years of their existence, the highest being in the initial five year period and again during 1975 – 80, following the establishment of SEEPZ SEZ in 1974. The average annual growth rate of ISEZ exports is also commendable at 68 per cent during 2005-10, when the SEZ Act led to the establishment of over 300 SEZs in the country.

The growth in exports has been exceptionally phenomenal after the year 2000 which is evidently due to the establishment of 12 SEZs (in the State Government and private sector) between the years 2000 and 2005 (shown in Table- 1). The years following SEZ Act in 2005 which have witnessed the establishment of many private SEZs in the country, have experienced a considerably high annual growth rate in SEZ exports as well. This is clearly reflected in the year-wise growth in ISEZ exports shown in Table- 2. The highest annual growth rate in ISEZ exports during the period of study has been registered in 2009-10 with a growth of 121 per cent over the previous year. The consistently high export growth rates registered in this period since 2002 can therefore be considered as indicators of SEZ success in India.

SHARE OF ISEZ EXPORTS IN INDIA'S TOTAL EXPORTS DURING 2001-2010

It is a known fact that one of the main objectives behind SEZ establishment is to promote exports. During 2001-2010, the share of ISEZ exports in India's total exports increased considerably from just four percent in 2000 – 01 to 26 percent in 2009-10. As can be observed from Table- 2, the spurt in growth is especially observed during the period after the enforcement of SEZ Act in 2005.

TABLE – 1: ISEZ EXPORTS AND INDIA'S TOTAL EXPORTS DURING 1965 – 2010 (₹ in crores)

Year	Establishment of SEZs in India	Average annual ISEZ exports	Average annual ISEZ export growth rate	Average annual total Indian Exports	Average annual total export growth rate of India
1965–1966 to 1969–1970	Kandla SEZ in 1965	0.3261	94.65 %	1187	12.66 %
1970–1971 to 1974–1975	SEEPZ SEZ in 1974	1.7358	58.34 %	2194	19.2 %
1975–1976 to 1979–1980	Nil	18.6766	79.27 %	5356	14.5 %
1980–1981 to 1984–1985	FSEZ in 1984 MEPZ SEZ in 1984	231.724	57.54 %	8967	12.84 %
1985–1986 to 1989–1990	NSEZ in 1985 CSEZ in 1986 VSEZ in 1989	582.91	27.11 %	17,382	19.76 %
1990–1991 to 1994–1995	Nil	2084.874	27.19 %	56,543	24.66 %
1995–1996 to 1999–2000	Nil	5918.479	21.68 %	1,30,917	14.28 %
2000–2001 to 2004–2005	12 State Government/ Private Sector SEZs set up	11,993.4	22.86 %	2,67,286	19.05 %
2005–2006 to 2009–2010	348 new SEZs notified	88,898.668	67.95 %	6,74,070	18.07 %

Source: www.sezindia.nic.in accessed on 10th September 2010; Aggarwal, (2004); RBI Bulletins

TABLE – 2: SHARE OF ISEZ EXPORTS IN INDIA'S TOTAL EXPORTS AND THEIR GROWTH DURING 2001-2010 (₹ In crores)

Year	India's Total Exports*	ISEZ Exports**	Share of SEZ Exports in India's Total exports (%)	Annual growth rate of India's Total Exports (%)	Annual growth of ISEZ exports (%)
2000 – 01	2,03,571	8552	4.2	27.58 [@]	27.48 [#]
2001 – 02	2,09,018	9190	4.4	2.68	7.45
2002 – 03	2,55,137	10,057	3.9	22.06	9.44
2003 – 04	2,93,367	13,854	4.7	14.98	37.75
2004 – 05	3,75,340	18,314	4.9	27.94	32.19
2005 – 06	4,56,418	22,840	5	21.6	24.71
2006 – 07	5,71,779	34,615	6.1	25.28	51.55
2007 – 08	6,55,864	66,638	10.2	14.71	92.51
2008 – 09	8,40,755	99,689	11.9	28.19	49.6
2009 – 10	8,45,534	2,20,711	26.1	0.57	121.4

Source: * RBI Bulletins (2006; 2011)

** www.sezindia.nic.in accessed on 10th September, 2010

STATISTICAL APPLICATIONS RELATING TO TABLE- 2

2001- 2010	India's Total Exports	ISEZ Exports
Compound Annual Growth Rate (CAGR)	19.67 %	42.56 %
Coefficient of Variation (CV)	52.47 %	132.4 %
Correlation Coefficient between India's Total Exports and ISEZ Exports=0.8358		

Source: Calculations based on data available in Table- 2

The erstwhile target of ISEZs contributing five percent share to India's total exports by the end of Eighth Five Year Plan could ultimately be accomplished in 2005 – 06. The SEZ contribution of 26 per cent to the country's overall exports in 2009-10, nourishes the hope of achieving the objectives behind SEZ establishment, especially of contributing significantly to country's total exports.

Even in comparison with India's total exports, ISEZ exports have exhibited a superior growth rate during 2001-10. While the total exports of the country increased 4.15 times from ₹ 2,03,571 crores in 2000-01 to ₹ 8,45,533 crores in 2009-10, thereby registering an annual average growth rate of 18.6 per cent, the ISEZ exports increased more than 25.2 times from ₹ 8552 crores to ₹ 2,20,711 crores during the same period, registering an annual average growth rate of 45.4

[@] This growth rate is calculated by taking India's total exports during 1999-2000, which is ₹ 1,59,561 crores.

[#] The growth rate is calculated by taking ISEZ exports during 1999-2000, which is ₹ 6709 crores.

per cent. Except for one year, SEZs have maintained a higher growth rate in exports in comparison with India's total exports during the period of study, with exceptionally high growth rates during the period especially after the enforcement of SEZ Act, 2005. The growth in SEZ exports in comparison with the country's total exports is a positive indicator which can therefore be considered in order to justify the establishment of SEZs in the country.

Further, from the statistical applications relating to Table- 2 it is observed that the Correlation Coefficient between India's total exports and ISEZ exports during 2001-10 is highly positive at 0.8358 indicating a highly positive correlation between the two. Moreover, while the Coefficient of Variation (CV) of the country's total exports works out to be 52.5 per cent the CV of ISEZ exports arrives at 132 per cent thereby indicating the highly positive growth of the latter during the period.

EMPLOYMENT GENERATION OF INDIAN SEZs DURING 1965-2010

In order to evaluate the performance of ISEZs, their total employment since the year of their inception has been considered as it enables a clear picture. From an employment level of 70 persons in 1965, SEZs have reached an employment level of over five lakh persons in 2010 (shown in Table- 3), which is due for further expansion given the number of SEZs that have been approved during 2001-10 by the Government of India. It is worth noting that after the enforcement of SEZ Act in 2005, the new-generation SEZs provided more employment. The total employment in SEZs between the years 2000 and 2006 increased from 81,371 persons to 1,34,704, thereby registering an increase of 1.6 times. The average zone employment has also increased considerably from just 450 in 1970 to 4537 in 2010. However, the average zone employment decreased in 2006 evidently due to the rise in the number of newly-approved SEZs which was very high compared to operational SEZs.

TABLE – 3: EMPLOYMENT IN INDIAN SEZs DURING 1965-2010

Year*	No. of operational SEZs (a)	Total SEZ Employment (persons)(b)	Average SEZ Employment (persons) (c=b/a)
1966	1	70	70
1970	1	450	450
1975	2	1450	725
1980	2	6000	3000
1985	4	16,200	4050
1990	6	35,205	5868
1995	6	61,431	10,239
2000	7	81,371	11,624
2006	19	1,34,704	7090
2010	111	5,03,611	4537

Source: www.sezindia.nic.in (Official website of MOC, GOI) accessed on 24th September, 2010

INVESTMENT IN INDIAN SEZs DURING 2000-2010

Government of India invested a substantial amount in providing physical and trade-related infrastructure and for meeting the development expenditure of the SEZs in the country. The respective State Governments have also earmarked some investment for laying roads in the Zones. Private investment is being increasingly made after the enforcement of SEZ Act in 2005.

At the beginning of the period 2000-2010, the SEZs existing in India belonged only to the Central Government of the country and the cumulative investment which included from all the three parties namely, Central Government, respective State Governments and private firms, amounted to ₹ 2193.9 crores. By the year 2006, the SEZ scenario in the country had changed as 12 new SEZs belonging to State Governments and private entities (both domestic and foreign) had been established between 2000 and 2005. The total investment then had totalled to ₹ 4035.51 crores which included cumulative investment of ₹2279.2 crores in Central Government SEZs and an investment of ₹ 1756.31 crores in the SEZs established by State Governments and private SEZs (see Table- 4).

The investments attracted by SEZs established between the years 2000 and 2005 were of the order of 77 per cent of the total investments made in Central Government SEZs over 40 years (i.e. from the inception of first SEZ in 1965 to 2005). The scenario had turned much more dynamic with the advent of the year 2006 when the Government of India passed the SEZ Act formulated in the previous year and released the SEZ Rules, 2006 to attract large private investments into the arena of SEZs.

As evident from the table, the total investments made in the newly notified SEZs has reached a mammoth figure of ₹ 1,34,494.76 crores which constitutes more than 90 per cent of the total investment made in all the SEZs in the country as of March 2010. However, the total investments made in all the SEZs in India totalled to ₹ 1,48,488.62 crores which is incomparable with the corresponding figure just a decade back in March 2000. Quite explicitly, the Central Government SEZs and other Zones established erstwhile also seem to have benefited from the new order, as the investments in these have grown by over three times and four times respectively in a relatively short span of four years.

One may therefore, assess the impact of these investments on the generation of additional economic activity in the country, which is yet another objective outlined by the Government of India in the SEZ Act, 2005. The infusion of industrial dynamism into the country's economy, as anticipated by the planners, appears to be achievable looking at the enthralling investment figures given in the table.

TABLE – 4: INVESTMENT, EXPORTS AND EMPLOYMENT IN INDIAN SEZs DURING 2000 – 2010 (₹ in crores)

Year	Total Investment*	Total Exports	Total Employment (number)
March 2000	2193.9 (2193.9a+0b+0c)	6709	84,545
February 2006	4035.51 (2279.2a+1756.31b+0c)	22,840	1,34,704
March, 2010	1,48,488.6 (6986.95a+7006.91b+1,34,494.76c)	2,20,711.3	5,03,611

Source: www.sezindia.nic.in (Official website of Ministry of Commerce, GOI) accessed on 25th December, 2010.

Note:

* 'a' indicates cumulative investment made in Central Government SEZs established during 1965-1990;

'b' indicates cumulative investment made in State Government and private SEZs established during 2000-2005; and

'c' indicates cumulative investment made in private SEZs notified after Feb, 2006.

STATISTICAL APPLICATIONS RELATING TO TABLE- 4

Variables	Correlation Coefficient
Between Total Investment and Total Exports	0.99839
Between Total Investment and Total Employment	0.99512
Between Total Exports and Total Employment	0.99912

* Figures of the year 2006 are, as of 10th February in that year, after which SEZs were notified under the SEZ Act.

Statistical applications relating to Table – 4 show that a very high correlation exists between any two of the three performance variables viz., Total Investments, Total Exports and Total Employment during the period 2000 – 2010. The correlation coefficient was found to be above 0.995 among the three variables. The inference is quite encouraging as the three variables are closely associated with SEZ growth and are of strategic importance to the country.

CONCLUSION

It is clear from the foregoing analysis that the SEZ Policy which was evolved in the year 2000 led to the establishment of several SEZs in the country. This quantum jump in the number of SEZs resulted in the establishment of hundreds of units within the zones. As a result of this, the exports in this sector grew phenomenally during the period 2001-2010, thereby attempting to accomplish one of the prime objectives behind their establishment. Further, the other associated variables of SEZ performance namely, investment and employment, registered an equally appreciable growth during the given study period. Hence, with respect to the growth in investment, exports and employment, and the number of SEZs established in the country during the study period, it is understood that the SEZ establishment has contributed positively to the nation.

DECLARATION

This article is a part of the Research Thesis submitted to Andhra University for the award of Ph. D. Degree by Shahazadi Begum Shaik under the guidance of Prof. R. Vijaya & Prof. A. Narasimha Rao.

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