

CHAPTER – VIII

SUMMARY, CONCLUSIONS & POLICY RECOMMENDATIONS

Although Special Economic Zones (SEZs) are playing an extraordinary role in the socio-economic development of the country, yet their contribution in the Indian Economy has always been a matter of discussion among the economists. In the light of this scenario, the present study is an endeavour to analyze the performance of SEZs in India with regard to their role in employment generation, export promotion, attracting investment, infrastructure development, technology upgradation and skill formation. It also examines the origin, growth and working environment of the SEZs in India.

A Special Economic Zone is a geographical region which has economic laws that are more liberal than other typical economic laws of the country. Such a zone is a specifically delineated duty free enclave and shall be deemed to be foreign territory for the purposes of trade operation and duties and tariffs. Goods and services going into the SEZ area from DTA shall be treated as

exports and same coming from the SEZ area into DTA shall be treated as if these are being imported. There is a processing and non-processing area in every SEZ. In processing area, there is a setting-up of units for production of goods and rendering of services; and in non-processing area there is a creation of supporting infrastructure.

There are large number of studies which have critically analyzed the performance of SEZs at the global level, but such type of studies are scarce in the Indian context. So, there is a need to have more research in the area to judge the performance of SEZs in India by assessing the SEZ scheme, and their origin and growth in India. The present study is an attempt in this direction. It evaluates the performance of SEZs according to the objectives set for them by the government. The study deals with Haryana's selected SEZs to examine their impact on infrastructure development, technology upgradation and skill formation, and to assess the working environment of SEZs in India. The following objectives have been set for the study:

1. To analyze the SEZ scheme as well as the origin and growth of SEZs in India.

- 2. To estimate the state-wise, sector-wise, type-wise and size-wise distribution and composition of SEZs in India.**
- 3. To study the impact of SEZs on employment generation.**
- 4. To judge the role of SEZs for promoting exports.**
- 5. To find out the role of SEZs in attracting the domestic as well as foreign direct investment (FDI).**
- 6. To examine the role of SEZs in infrastructure development.**
- 7. To evaluate the role of SEZs in technology upgradation and skill formation.**
- 8. To assess the working environment of SEZs.**
- 9. To make policy recommendations on the performance and the future of SEZs in India.**

In the light of above objectives and complexity of phenomenon, the following hypotheses are formulated for empirical testing:

- 1. SEZs are positively correlated with economic and human development.**
- 2. SEZs have a positive impact on employment generation.**
- 3. SEZs are directly related with promoting investment from domestic and foreign sources, and exports.**

- 4. Infrastructure development is directly linked with growth of SEZs.**
- 5. SEZs have a positive effect on technology upgradation and skill formation.**
- 6. SEZs have a positive impact on working environment.**

The period of the study relates to the year 2008-09. The study is based on both primary and secondary data. Secondary data has been drawn mainly from Ministry of Commerce and Industry, Government of India and offices of the Development Commissioners of SEZs through RTI Act, 2005. Primary data was collected from three selected SEZs in Haryana state, namely, DLF Cyber City Developer Ltd., Gurgaon Infospace Ltd., and Reliance Haryana SEZ Limited. Stratified random sampling method was used to collect the data. There were 5021 employees working in the three selected SEZs. According to the nature of economic activities, the employees were classified into four categories: 1. Managerial and administrative staff, 2. Skilled workers, 3. Semi-skilled workers, and 4. Unskilled workers. As many as 20 per cent employees from each SEZ were randomly selected for the collection of required information from each category of employees. Data was collected by means of two primary surveys; 1. Entrepreneurs'

survey, and 2. Employees' survey through a well-structured questionnaire by having personal interviews with the respondents. In the employees survey, while examining the working conditions of SEZs, 6-point scale (most satisfied, very satisfied, satisfied, somewhat satisfied, dissatisfied, totally dissatisfied) was used to measure the satisfaction level of employees. The conclusions are drawn by working out the percentages, simple averages, simple growth rates and compound growth rates.

8.1 Summary and Conclusions

The results obtained from analysis of data have been summarized briefly under the following heads.

8.1.1 Origin, Growth and Composition of SEZs

While analyzing the first objective of the study which pertains to the SEZ scheme as well as their origin and growth in India, it has been observed that;

- The concept of SEZ is not a new one for India and it is an improvement to the concept of Export Processing Zone (EPZ). India is one of the first countries in Asia to recognize the effectiveness of the EPZ model in promoting export.

Asia's first EPZ was set up in Kandla in 1965. Thereafter, seven more EPZs were set up in the country. But the EPZ model failed to emerge as an effective instrument for export promotion on account of multiplicity of controls and clearances, absence of world-class infrastructure and an unstable fiscal regime. In order to overcome these shortcomings and to attract large foreign investment, the SEZ policy was announced in April 2000 as a part of the export-import policy of India. This policy was intended to make SEZs an engine for economic growth by providing an attractive fiscal package, both at the centre and state level with minimum possible regulation and supported by quality infrastructure. To uplift this policy, the SEZ Act, 2005, supported by the 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.

- **After the enactment of SEZ Act, 2005, the number of formal approvals, approvals in principle and notified SEZs are increasing in India. Prior to SEZ Act, there were only 19**

SEZs in India. As on 29th April, 2009, there were 578 formally approved and 146 approved in principle SEZs in India. Out of 578 formal approvals, notifications have been issued to 335 SEZs. There were 57 notified SEZs in India in 2006. These increased to 187 in 2007, 275 in 2008, and 335 in 2009. This fast increase in number of SEZs has been due to the enactment of SEZ Act, 2005 which provides a number of incentives, facilities and single window clearance for the developers of the SEZs.

An examination of the second objective of the study pertaining to the state-wise, sector-wise, type-wise and size-wise distribution and composition of SEZs in India has proved that;

- The state-wise distribution of formally approved SEZs has shown that Maharashtra stands at the first position with 111 SEZs (19.20 per cent), followed by Andhra Pradesh with 103 SEZs (17.82 per cent), Tamil Nadu with 69 SEZs (11.94 per cent), Karnataka with 52 SEZs (9.0 per cent), Gujarat with 50 SEZs (8.65 per cent) and Haryana with 46 SEZs (7.96 per cent). These six states put together make about 75 per cent of the total formally approved SEZs. In**

the case of approved in principle SEZs, Maharashtra stands at the top with 36 SEZs (24.66 per cent) out of 146 SEZs approved in principle. Of the 322 notified SEZs, many of them are concentrated in Andhra Pradesh (68 SEZs), Maharashtra (55 SEZs), Tamil Nadu (49 SEZs), Haryana (30 SEZs) and Gujarat (27 SEZs). These five states put together constitute about 70 per cent of the notified SEZs. But there are no formally approved and notified SEZs in some of the states like Bihar, Jammu & Kashmir, Himachal Pradesh and Eastern States. Thus, there is a concentration of SEZs in few states like Maharashtra, Andhra Pradesh, Tamil Nadu, Karnataka, Gujarat and Haryana.

- Among the sector-wise composition of SEZs, the IT/ITES SEZs occupy the first position with 354 (61.25 per cent) formally approved SEZs. As far as approvals in principle are concerned, Multi-product SEZs stand at the top with 55 SEZs (37.67 per cent) and amongst notified SEZs again IT/ITES SEZs attracted the largest number of SEZs with 205 SEZs (63.66 per cent). Hence, there is high concentration of formally approved and notified SEZs in categories of IT/ITES.

- **Taking type-wise distribution of SEZs, these are classified into four broad categories (a) Existing strengths which includes Textile, Apparel, Pharmaceuticals/Chemicals, Gems & Jewellery, and Footwear/Leather; (b) IT/ITES/Electronic Hardware/Semi-conductor; (c) Multi-product; and (d) Others which include everything else. IT/ITES SEZs stand at the top with 354 SEZs (61.25 per cent) in the case of formally approved SEZs and 212 SEZs (63.28 per cent) in notified SEZs. On the other hand, in India about 687.41 sq. km. of land has been allocated for all types of formally approved SEZs. Out of this, a major proportion of land i.e., about 325.45 sq. km. (47.42 per cent) has been allocated to multi-product SEZs. Of the total land allocated to notified SEZs in the country (396.34 sq. km.), a major proportion of land (54.33 per cent) has been allocated to multi-product SEZs. Out of the 146 SEZs approved in principle in the country, many of them are concentrated in others category of SEZs which constitute about 41.10 per cent of the total approvals, but major share of land has been proposed to be allocated to multi-product SEZs (86.82 per cent) out of the total land (1252.73 sq.km.) proposed to be allocated to SEZs approved in principle.**

- Taking size as a parameter, SEZs have been divided into four categories, i.e., tiny (area less than 1 sq. km.), small (area 1 to 3 sq. km.), medium (area 3 to 10 sq. km.), and large (area more than 10 sq. km.)¹. Tiny SEZs are maximum in number with 406 SEZs (70.24 per cent) of the 578 formally approved SEZs, but maximal area is allocated to large SEZs, i.e., 353.49 sq. km. (51.42 per cent) of the total area (687.41 sq. km.) allocated to formally approved SEZs. In the case of notified SEZs, a large number of SEZs (235 SEZs) are tiny out of the 335 notified SEZs; and maximum area is allocated to large SEZs, i.e., 215.35 sq. km. (54.33 per cent) of the total 396.34 sq. km. area allocated to the notified SEZs. However, SEZs approved in principle present a different scene as topmost SEZs are small, i.e., 69 SEZs (47.26 per cent), while utmost area is proposed to be allocated to large SEZs, i.e., 1129.40 sq. km. (90.11 per cent) of the total area (1252.73 sq. km.) proposed to be allocated to SEZs approved in principle. The study also found that most of the tiny SEZs are for IT/ITES activities and almost all the large SEZs are for multi-product SEZs.

1 One hundred hectares is equivalent to a square kilometer.

8.1.2 Role of SEZs in Employment Generation, Export

Promotion and Attracting Investment

While evaluating the third objective, i.e., the contribution of SEZs in employment generation, it has been observed that;

- **SEZs are providing employment to the people in a direct as well as indirect way. The employment opportunities given to the women in these SEZs have made them self-reliant. There is still scope for more employment in the SEZs. The direct employment grew from 66 persons in 1966 to 81371 persons in 2000 and 100650 persons in 2005. But after the implementation of SEZ Act, 2005, the employment opportunities in SEZs increased at a rapid speed registering a total of 336235 employees in 2008, of which 33.1 per cent were women. Though the size of employment in SEZs is increasing but their share in total manufacturing employment is less than 3 per cent. No doubts, their contribution to national employment has been nominal, but they have contributed significantly to employment generation at the regional level as is reflected by the strength of over 85000 employees in SEEPZ SEZ. SEZs have also been catering indirect employment to 240506**

persons in India as on 31st March, 2008. The compound growth rate of employment generation in six central government SEZs (KSEZ, SSEZ, FSEZ, VSEZ, CSEZ, and NSEZ) was computed 16.96 per cent per annum from 2000-01 to 2007-08. In Haryana, 16 notified SEZs provided both direct and indirect employment to 1980 and 1802 persons in 2008 respectively. So, it is clear that SEZs have a positive impact on employment generation.

While examining the fourth objective, i.e., the impact of SEZs on export promotion it has been estimated that;

- Exports from SEZs are continuously increasing in India. These increased from Rs. 8582 crore in 2000-01 to Rs. 99689 crore during 2008-09, which were more than 11 times than those in 2000-01. The exports of SEZs increased during the period 2000-01 to 2008-09 at an annual compound growth rate of 36.36 per cent. India's total exports grew at the rate of 19.71 per cent per annum during the same period. During the period 2001-02 to 2008-09, average growth rate of SEZ exports was registered at 38.2 per cent over the previous years, while during the

same period the average growth rate of country's exports over previous year was estimated at 19.7 per cent. In the year 2007-08, there was a boost in exports from SEZs and the growth rate of SEZ exports was calculated 92.5 per cent over the previous year. The share of SEZ exports is also increasing in country's exports and it hiked from 4.2 per cent in 2000-01 to 11.9 per cent in 2008-09. It speaks about their significance in country's exports. Hence, it is evident that SEZs are promoting exports in the country.

While analyzing the fifth objective, i.e., the role of SEZs in attracting the domestic as well as foreign investment, it has been concluded that;

- SEZs have attracted investment from domestic as well as foreign sources. As on 31st March, 2008, Rs. 77839.22 crore investment took place in the Indian SEZs, out of which the share of FDI was only 9.4 per cent. Though the share of FDI in the total investment of central government SEZs increased from 11.0 per cent to 22.2 per cent during the period 1997 to 2008, but the share of FDI in total investment remained less which shows that SEZs failed to

attract FDI. It was against the expectation of the government. No doubt, the SEZs have been able to attract domestic investment, but FDI has been quite limited.

8.1.3 Role of SEZs in Infrastructure Development, Technology Upgradation and Skill Formation

While assessing the sixth objective, i.e., the role of SEZs in infrastructure development, it has been observed that;

- Only those infrastructure facilities are being developed by the selected SEZs (DLF Cyber City Developer Ltd., Gurgaon Infospace Ltd. and Reliance Haryana SEZ Ltd.) which are necessary for them to operate their units. These SEZs have no interest to develop infrastructure facilities like education, health, housing, sports, crèche, club, etc. Thus, they have not even established the minimum infrastructure facilities required under the law. So, the role of selected SEZs for infrastructure development is limited.

While analyzing the seventh objective, i.e., the role of SEZs in technology upgradation and skill formation, it is assessed that;

- **SEZs uplift their technology through three ways: (1) technology transfer, (2) technology creation, and (3) technology spillover. It has been observed during the field survey that no R & D activities took place in the selected SEZs and FDI was recorded nominal in these SEZs, which is the main source of technology transfer. Technology import, acquisition of capital goods and technology spillover are the major sources of technology upgradation in the selected SEZs. Thus, the role of selected SEZs in technology upgradation is rather limited.**
- **It is believed that SEZs contribute towards skill formation by providing training to the workers and opening up new education institutions in the country. It has been found during the field survey that all the selected SEZs under study impart on-the-job training to their employees and sometimes they send them to foreign countries also to acquire advanced skills. But no educational institution has been set up by these SEZs. So, the role of selected SEZs in skill formation has been limited.**

8.1.4 Working Environment in SEZs

While assessing the eighth objective pertaining to the working environment in SEZs, it has been perceived that;

- Maximum workforce (57.2 per cent) in selected SEZs (DLF Cyber City Developer Ltd., Gurgaon Infospace Ltd., and Reliance Haryana SEZ Ltd.) belong to the age group 20-29 year. As many as 64.9 per cent female and 37.6 male workers are unmarried. Thus, unmarried female workers are greater in number than the male counterpart.**
- While analyzing the migratory status of the workers in the selected SEZs, it is noticed that out of total 1004 workers, 370 (37.0 per cent) of them were found to be migratory. Among 370 migrated workers, 177 of them migrated within the state and 193 migrated from outside the state. Thus, SEZs provide employment not only to the local people, but also to the people from other regions. It is a general perception that wage rate in the SEZs is not fair. But the study brings out the fact that as per response of 37 per cent respondents, the wages paid in the SEZs are higher than DTA, while 47 per cent respondents opined that these are at par with DTA. However, the remaining 16 per cent of the respondents revealed that the wages paid in SEZs are**

lower than DTA. Thus the wages paid to the workers in SEZs are found to be satisfactory,

- This is also a general perception that working hours are long in the SEZs. But it has been found through the present study that majority of workers (58.5 per cent) are working 48 hours per week, 35.5 per cent over 50 hours per week, and only 6.2 per cent more than 60 hours per week in the selected SEZs.
- Another general perception is that working conditions are poor; and jobs are tedious and repetitive in nature in the SEZs. To examine the working conditions in SEZs, the satisfaction level of workers with regard to working conditions was measured on a 6-points scale, i.e., most satisfied, very satisfied, satisfied, somewhat satisfied, dissatisfied, totally dissatisfied. As many as 91.2 per cent respondents were found to be satisfied with the prevailing working conditions. Their response ranged from most satisfied to somewhat satisfied on the given scale. Overall these can be taken as satisfactory. Thus, there is a good working environment in selected SEZs.

8.2 Policy Recommendations

The following policy recommendations have emerged from the findings of the study:

- While analyzing the SEZ Scheme in India, it has been observed that due to the non-existence of any autonomous body for the development of SEZs, the government has not been able to provide them proper incentives and facilities, and single window clearance. So, the interests of the SEZs can be protected in a better way only through the establishment of an autonomous body by giving it vast powers.**
- An analysis of state-wise distribution of SEZs revealed that there is a concentration of formally approved, approved in principle and notified SEZs in few states only. These are mainly in the states of Maharashtra, Andhra Pradesh, Tamil Nadu, Karnataka, Gujarat, and Haryana. But there are some states like Bihar, Assam, Jammu & Kashmir, Himachal Pradesh and Eastern States, where not even a single formally approved SEZs exists. The central government in order to have an**

equitable distribution of SEZs and to harness the local resources must take appropriate measures to establish SEZs in all the states and UTs of India. This will improve the infrastructure and connectivity of the regions and bring about a balanced regional development.

- Sector-wise composition of SEZs indicates that there is a convergence of SEZs in the categories of IT/ITES in India. Therefore, the Ministry of Commerce & Industry should approve less number of SEZs in this sector, so as to give proper representation to other categories of SEZs in the Indian economy.**
- An analysis of size-wise and type-wise distribution of SEZs has provided that most of the SEZs are tiny (having area less than 1 sq. km.) and small (having area from 1 to 3 sq. km.). It has also been found examined that most of the tiny SEZs are in the IT/ITES sector. Hence, to exploit scale-related advantages the scheme should be designed to encourage large-sized and multi-product SEZs. Indian SEZs are**

comparatively smaller in size in comparison to China. The size of Shenzhen, Xiamen and Zhuhai SEZs are 32750, 13100, 12100 hectares respectively (Gauthier, 2004), much higher to the size of Indian SEZs.

- It has been observed from the study that SEZs in India provided both direct and indirect employment to the people. The women have also got the employment opportunities which helped them to be self-reliant. There is still more scope for employment opportunities in these SEZs. But the employment share of SEZs in the manufacturing sector is marginal. Their share in female employment is also less. In view of the findings of the study it is suggested that in order to increase the employment share of SEZs, in the manufacturing sector maximum number of approvals should be for the SEZs which prefer labour intensive technology and provide employment to women workers resulting in their empowerment.**
- It has been observed that SEZs have a significant role in export promotion of the country as their share in total**

exports of the country is increasing constantly. Keeping their important role in view, the government should go ahead establishing more and more number of such SEZs which would help to further strengthen the Indian economy.

- The study has brought out that maximum investment in SEZs comes from domestic investors and the share of FDI in the total investment of SEZs is very less. So, in order to increase the share of FDI in the total investment, it is required that the government should approve only those SEZs which assure atleast 50 per cent FDI in the total investment.**
- Further, the study provided that only those infrastructure facilities are developed by selected SEZs which are necessary to operate their units. Though training facilities do exist for the employees, but no social infrastructure like schools, hospitals, etc. are being developed by the selected SEZs. Therefore, the government must lay down detailed guidelines for the developers of SEZs to develop social infrastructure such as schools, hospitals, shopping area, recreational and sports facilities, airport, banks, etc. in the area**

earmarked for the SEZs. It will help to generate more employment opportunities for the people living in the vicinity. Those already in employment would feel satisfied and secure, contributing the maximum of their ability towards performance.

- The analysis revealed that due to lack of R&D activities in SEZs, there has been limited technology upgradation. So, effective measures need to be taken to create R&D infrastructure in the SEZs. For this purpose, the SEZs should establish links between institutions, universities and SEZs units and to promote R&D funding.
- The study found that a good working environment exists in selected SEZs. But the SEZ workers are unable to protect their interests due to limited trade unionism and the non-application of labour laws in their case. So, the government needs to ensure the implementation of labour standards, conditions of work and the creation of support infrastructure for education and training of workers.

- **On the whole, there is a lack of proper monitoring and reviewing the activities and performance of SEZs. The government can introduce a performance based exit policy for the SEZ developers.**
