

## Aspects and Pitfalls of Sez on Rural Economy of Maharashtra

Anant Bapurao Mane<sup>\*1</sup>, Prashant S. Salave<sup>2</sup>

<sup>1</sup>Research Scholar, Shri jagdish prasad jhabarmal tibrewala university, vidyanagari, Jhunjhunu, Rajasthan – 333001.

<sup>2</sup>Department of Commerce, Shri jagdish prasad jhabarmal tibrewala university, vidyanagari, Jhunjhunu, Rajasthan – 333001.

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**Abstract:** The objectives of the study in a nutshell are as follows (1) To analyze the basic concept of SEZ in Indian Economy, (2) To analyze the impact of SEZ on Indian Economy, as a whole. (3) To find the impact of SEZ on Rural India. (4) To find the drawbacks, if there, of implementing SEZ in India. This study aims at examining the impact of Special Economic Zones (SEZs) on human development and poverty reduction in India. It identifies three channels through which SEZs address these issues: employment generation, skill formation (human capital development), and technology and knowledge upgradation. the relationship between poverty and employment lies in the extent to which income generated from employment permits workers and their dependants to obtain goods and services necessary to meet minimum needs. Poverty reduction thus calls for the creation of remunerative, regular and good-quality jobs in the labour market. SEZs, if promoted vigorously can therefore act as an initiator in the process of human development and poverty alleviation in India. The role of SEZs in human capital formation appears to be relatively limited. Most SEZ units impart on-the-job training to their workers.

**Keywords:** Special Economic Zone (SEZ), local employment, Land ownership, Economic impacts.

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### I. Introduction

A Special Economic Zone (SEZ) is a geographical region that has economic laws that are more liberal than a country's typical economic laws. The category 'SEZ' covers a broad range of more specific zone types, including Free Trade Zones (FTZ), Export Processing Zones (EPZ), Free Zones (FZ), Industrial Estates (IE), Free Ports, Urban Enterprise Zones and others. Special Economic Zone (SEZ) is a duty free area which is meant for the purposes of trade operations, duties and tariffs for investors. SEZs are specifically demarcated areas within the country where raw materials and capital goods can be imported duty free from abroad or the domestic market and a special package of tax holiday and incentives are given with a view to boost exports from the country.

The Special Economic Zone Act was passed by the Indian parliament in 2005 and it became an Act on June 23rd, 2005. The main aim of the SEZ Act is to accelerate the economic growth of the country through increasing export. To attract foreign investment, SEZs provide an extensive range of incentives and tax exemptions for all those who invest in these Zones. SEZs are promoted as eco-friendly zones that will generate huge employment for the 'newly urbanized India'. It is important to understand what exactly government means by SEZ and what are the special features of it<sup>1</sup>.

Bethany Anne Zimmerman et al. (2013)<sup>2</sup>, studied Sustainable Operation of Special Economic Zones in India: A Comparative Study of Maharashtra and Goa. In 2005, the Government of India (GoI) introduced the Special Economic Zone (SEZ) Act, which changed the way India attracted foreign investors who wanted to utilize the country's natural and human capital. Sourav Mukherjee et al. (2014)<sup>3</sup>, studied Special Economic Zone (SEZ)- Problems, Promises and Prospects. We have used the primary as well as secondary data for conducting the study and analysis of our project work. Aradhna Aggarwal (2007)<sup>4</sup>, worked on Impact of Special Economic Zones on Employment, Poverty and Human Development, The number of Special Economic Zones (SEZs) globally continues to expand. SEZs account for an increasing share of international trade flows and employ a growing number of workers world-wide. In the global economy, EPZs are viewed as an important if a second best policy instrument to promote industrialisation, generate employment, and for regional development.

### II. Methodology Study

#### ASPECTS OF SEZ ON RURAL ECONOMY

##### Direct employment generation

In so far as SEZs comprise labour-intensive activities, enterprises in SEZs constitute, a priori, a significant source of new employment. Due to the availability of labour at low wages, developing countries generally attract investment into simple processing labour intensive industries. This increases the demand for unskilled labour within the zone. Shift towards higher value added activities as SEZs grow, might increase demand for skilled labour also.

**Indirect employment generation**

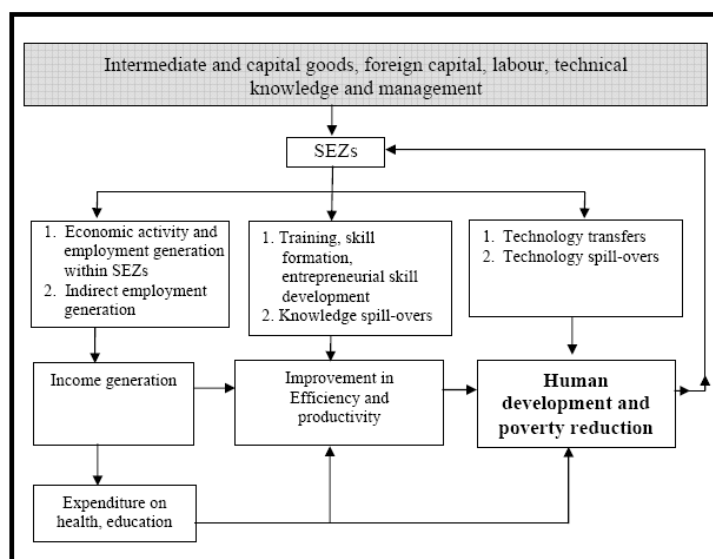
The indirect effect is manifested as ancillary employment opportunities generated in sectors of the economy affected by the operations of the SEZ. These include, transport, communication, automobile, civil aviation, shipping, tourism, hospitality, packaging, banking, and insurance. Employment opportunities are, thus generated for both unskilled and skilled labour.

**Employment for Women**

Evidence suggests that women’s share to total employment in SEZs is substantially higher than both the economy as a whole as well as the manufacturing sector outside the SEZs<sup>5</sup>. Women workers are considered more disciplined and hard working. It is found that employers prefer female workers to male workers in the belief that manual dexterity, greater discipline and patience make women more suitable for the unskilled and semi-skilled activities carried out in the zones.

**Technology Upgrading Effects**

SEZs attract export-oriented FDI and promote other forms of collaboration between local firms and MNCs. For instance, SEZs facilitate the insertion of domestic SMEs (small and medium enterprises) into global value chains by offering them an enabling investment climate<sup>6</sup>. Global standards, low-cost competition, and advances in technology raise challenges for the SEZ units competing in global value chains. This stimulates learning and innovation which are crucial aspects of human development.



**Figure 1: Linkages between SEZs and human development.**

**Living conditions:** Improvement in living conditions of labour is an important aspect of human development and poverty reduction. It is likely that firms take measures that are directly targeted at improving living conditions of labour to improve their productivity. The main areas of firm intervention concern transport facilities, housing, health and education of children of labourers<sup>7</sup>.

**III. Results And Discussion**

For analysing the impact of SEZs on employment, human development and poverty, collected data by means of two primary surveys: one for the entrepreneurs in the zones and the other of labour employed in the zones through appropriately structured questionnaires.

**Table 1: Distribution of workers by the nature of economic activity.**

	Male	Female	Total
Managerial/ administrative (No.)	29	13	42
<b>Per cent of total</b>	<b>18.3</b>	<b>18.5</b>	<b>18.4</b>
Skilled labour	19	5	24
<b>Per cent of total</b>	<b>12.0</b>	<b>7.1</b>	<b>10.5</b>
Semi skilled	51	34	85
Unskilled	60	18	77
<b>Per cent of total</b>	<b>69.6</b>	<b>72.2</b>	<b>71.0</b>
Total	159	70	229

Despite an impressive increase in employment in SEZs, their share in manufacturing employment remains modest, as of now (**Table 1**). Since their establishment in 1966 and until 1998 Indian SEZs contributed less than 1 per cent of total manufacturing employment. Since 1999, their share in total manufacturing sector has been slightly above 1 per cent. One may therefore argue that employment creation in SEZs relative to the rest of the economy is marginal in India<sup>8</sup>.

**Table 2:** Total SEZ employment and share in the manufacturing sector employment in India in selected years between 1966 and 2006.

Year	Employment (No.)	Share in manufacturing employment (per cent)
1966	70	-
1973	300	0.01
1980	6000	0.09
1990	35205	0.48
1998	77795	0.91
1999	84545	1.04
2000	81371	1.03
2001	95041	1.23
2005	1,00,650	1.05
Nov. 2006	1,780,00	NA

*Sources: Ministry of Commerce, Government of India; Annual Survey of Industries, various issues.*

### **Impact on local employment**

Generation of jobs for the region's population, both direct and indirect employment, is seen as one of the major spillover effects of establishing SEZs in the developing and transition economies. Quantitatively, generation of direct jobs in SEZs in India is on the rise post-SEZ Act, 2005. The structure of employment generation also reveals that an appreciable number of job opportunities in SEZs have been realized for the female population<sup>9</sup>.

According to the *Economic Survey, 2010–11*, out of the total employment of 6,44,073 persons in SEZs, an incremental employment of 5,09,369 persons was generated after February 2006 when the SEZ Act came into force. The survey further states that (i) at least double this number obtains indirect employment outside the SEZs as a result of the operations of SEZ units and that (ii) this is in addition to the employment created by the developer for infrastructure activities. However, the employment generated by SEZs is not uniform across sectors and regions. Besides, the jobs so created by SEZs may have come at the expense of jobs in the agricultural sector. These issues are discussed in a subsequent section<sup>10</sup>.

### **Investment in SEZs**

In the case of most economies, SEZs are intended to attract foreign multinational enterprises. This is regarded as a catalyst effect by many studies. The intention is to attract foreign capital by means of leveraging incentives and to use foreign technology and management skills to have an increased export base. A study advocated that in case of Mauritius, EPZs played a crucial role in the country's development by attracting new ideas and knowledge (Romer, 1993). In the case of India, it is observed that the Indian government's flexibility towards SEZ reform (SEZ Act, 2005) as part of its economic strategy has resulted in increased investment in the sector. Total investment in SEZs till 31 December 2010 was approximately Rs. 1,95,348 crore.13 Figs. 5 and 6 suggest that (i) there is a wide gap between the amount of FDI proposed and that actually received by SEZs in India; and (ii) most of the investment in SEZs was made in the two subsequent years following the enactment of the SEZ Act in 2005<sup>11</sup>.

### **Regional Development**

While SEZs are conceptualized to achieve balanced growth across all the regions of the country, ironically, statistics reveal that out of the 322 notified SEZs in India, 211 are in the most developed states of the country.14 Table 3 provides the details on the state-wise distribution of the SEZs. The numbers are themselves testimony to the persisting imbalance in the locational preferences of SEZs in India. In China, SEZs have been established in coastal areas to encourage the growth of relatively underdeveloped regions along the country's coast. The Chinese government's policy on SEZs was initially designed to give a fillip to industrial development in the less developed parts of the country. All the major Chinese SEZs are located along the coastline, in contrast to Indian SEZs—a majority of which are located near major urban agglomerates<sup>12</sup>.

### **Displacement, Compensation and Rehabilitation**

An in-depth look at the displacement impact of various development projects over the last few decades is beyond the scope of this paper. However, Devinder Sharma and Bhaskar Goswami (2006) have estimated that

close to 1.14 lakh farming households (each household on an average comprising five members) and an additional 82,000 farm worker families who are dependent upon these farms for their livelihoods, will be displaced by notified SEZs in India. The total loss of income to the farming and the farm worker families, then, is an astounding Rs. 212 crore a year. These were the estimates in 2006 after approvals were granted to the initial SEZs<sup>13</sup>.

**Land Acquisition and Corruption**

There are concerns that SEZs have sometimes amounted to little more than disguised real estate ventures, and that vested economic and political interests have been favouring a few companies for land allocation, irrespective of the intended use. It has been suggested that the share of the top 13 SEZs in the country is a whopping 42 per cent of the total land allocated to SEZs<sup>14</sup>.

**Direct Tax Code (DTC) Impact:** The issue is related to deadlines for profit-linked deductions: As per the DTC, SEZ developers will be allowed profit-linked deductions for all SEZs notified on or before 31 March 2012. Units in SEZs that will commence commercial operations by 31 March 2014 too will be allowed profit-linked exemptions. Developers and units notified after these dates will only have investment-linked exemptions and not profit-linked exemptions. There is concern about these dates among developers and units particularly in the big SEZs with long gestation time<sup>15</sup>.

**Goods and Services Tax (GST):** As per the GST model being considered, GST will be on imports with necessary constitutional amendments. Though full and complete set-off would be available on the GST paid on import of goods and services, after the introduction of the GST, tax exemptions, remissions, etc. Related to industrial incentives should be converted, if at all needed, into cash refund schemes after collection of tax, so that the GST scheme on the basis of a continuous chain of set-offs is not disturbed. Regarding Special Industrial Area Schemes, such exemptions, remissions would continue up to legitimate expiry time both for the Centre and the States. However, any new exemption, remission, or continuation of an earlier one would not be allowed. In such cases, the Central and State Government could provide reimbursement after collecting the GST<sup>16</sup>.

**Issue of power generation and distribution:** Another area of concerns is the generation and distribution of power by the SEZ developers/units. While one opinion is that it should be left to the entrepreneur to decide whether he would like to provide power as an infrastructure, as defined in the SEZ Act, or set up a unit to sell power as a good, another view is that power cannot be an infrastructure and can be only a good to be generated and distributed by the unit. It may be worth considering appropriate policy to encourage power generation and distribution<sup>17</sup>.

**Coordination issues:** The Directors, STPI, have been declared Development Commissioners (DCs) for the IT SEZs under their respective jurisdiction. An STPI is under administrative control of the Department of Information Technology. Other multi-product and sector-specific SEZs are under the charge of DCs appointed by the Department of Commerce. However a number of issues, for example processing of notification of IT SEZs, coordination with state governments etc., relating to IT SEZs are also looked after by the DCs appointed by the Department of Commerce. This leads to a situation of dual control adversely impacting effective coordination and needs to be resolved<sup>18</sup>.

**Disinvestment:** The new SEZs have come up mainly in the private sector with no funding from the government. Now the time has possibly come to see whether some of the established SEZs which are state owned could also be privatized. Disinvestment in these SEZs could not only add to the kitty of the government and release more money for social-sector development but could also make these SEZs more efficient<sup>19</sup>.

**Table 3: Multi-Product SEZs with Land Allotment of Over 1,000 ha**

S.No.	SEZ	Ha	State
1	Maharashtra Industrial Development Corporation	1,008	Maharashtra
2	India Bulls Industrial Infrastructure Ltd.	1,006	Maharashtra
3	Khed Economic Infrastructure Pvt. Ltd.	1,000	Maharashtra

**SEZs and Fiscal Costs**

The Central Board of Excise and Customs (CBEC) recommended an overhaul of the Special Economic Zones (SEZ) Act, 2005, as it had detected gross violations of the duty and tax concessions, causing it to suffer a revenue loss of Rs. 175,000 crore till January 2010.<sup>27</sup> It is widely known that the central government could stand to lose significant tax revenue because of the special concessions given to firms that will operate in the

SEZs. Though there are counter-arguments, like the benefits of the new economic activity generated by the zones will more than compensate the government for the revenue lost from tax breaks, it is now increasingly becoming evident that the argument is waning<sup>20</sup>.

### ***SEZs and Employment Generation***

The Committee on State Agrarian Relations and Unfinished Task in Land Reforms in its 2009 Report noted: In comparison to the claims of a 'new avenue of employment generation' of the Minister of Commerce, the information available about proposed direct employment is available for 110 SEZs, projecting a total of 2.14 million employees. Of this, 61 per cent is in IT/ITES and another 15 per cent is in existing strengths with a further 21 per cent in multi-product SEZ, amounting to 97 per cent. It is interesting to note that the 1.25 million direct employment proposed to be created by the IT/ITES SEZs alone exceeds the current employment in that sector. Further, 85 per cent of this proposed employment is in the five states, with 40 per cent in Andhra Pradesh alone, of which two-thirds is from IT/ITES SEZs<sup>21</sup>.

### ***Legal Violations in Labour laws***

In a developing country like India, labour has poor bargaining power. Most processing firms in (and outside) SEZs tend to employ women and, to a lesser extent, men with low education from poor families and marginalized groups, and on a temporary basis, without appointment letters, under conditions of insecure employment. Exporters prefer labour that is easier to control and cheap in order to keep the costs low.

## **IV. Summary And Conclusion**

India was the first country in Asia to set up an EPZ and has keenly pursued the policy of establishing EPZs/SEZs to further its economic policy objectives. The present study shows that the policy has yielded only modest results in terms of exports, employment and investments. The social costs of human displacement and the economic costs of land acquisition have been observed to far outweigh the benefits that have accrued from the policy. Indeed, an Expert Group Report released by the Planning Commission<sup>28</sup> appears to call into question the benefits of SEZs: Land acquisition for Special Economic Zones (SEZ) has given rise to widespread protest in various parts of the country. Large tracts of land are being acquired across the country for this purpose.

The central point this paper seeks to make is that the SEZ policy should be reviewed and re-visited keeping in view the following factors: (i) land under use for livelihoods should not be acquired for the purpose of establishing SEZs, and that the question of livelihoods of communities facing displacement be looked at holistically and not in a narrow cash/one job-for-land framework; (ii) state governments should neither acquire land for establishing SEZs, nor should they use the Land Acquisition Act for this purpose; (iii) there has to be a thorough review of the existing tax and other incentives being offered to the units in SEZs and to the promoters of SEZs; (iv) the real estate and corruption dimensions of SEZs require to be urgently addressed; and (v) there ought to be re-thinking on the location of SEZs in the context of prevailing regional imbalances and sector bias.

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