

A study on Special Economic Zones (SEZ) in Tamilnadu State

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Abstract: *In India, the Special Economic Zones(SEZ) have been in existence for decades but has attracted renewed attention only in recent years. However the success in promoting the trade differs from state to state. The present Study aims at analyzing the factors that are crucial for success of the zones. The analysis covers state-wise approvals of SEZ. The fiscal support received from Tamilnadu state government in growth of TSEZ. It examines the determinants of investments and export performance empirically within the theoretical framework provided by new growth theories.*

I. Introduction

A Special Economic Zone (SEZ) is a geographical region that is designed to export goods and provide employment. SEZs are exempt from federal laws regarding taxes, quotas, FDI-bans, labour laws and other restrictive laws in order to make the goods manufactured in SEZ at a globally competitive price. The Category SEZ includes Free trade Zones (FTZ), Export Processing Zones (EPZ), Free Zones (FZ) Industrial Parks (IP), Industrial Estates (IE), Free Ports, Free Economic Zones and Urban Enterprise Zones

SEZ in Global Context

The term 'Special' literally means privileged economic system and policies. The invention of the term special zone was made by Spain in 1929 with the intention of improving the exports by value addition to the raw materials available in that country. Mr. Deng Xiaoping, the anchor man of SEZ, who made Chinese Economic miracle which has been proved in the past three decades. China has implemented SEZ policy in 1979, through which it opens the doors of domestic market for western capital and technology. They decided the measuring scale for the success of economic liberalisation policy is the trend of SEZ in that economy. After seeing the successful SEZ story of China, several other countries also opted Chinese path such as UAE, Malaysia, Jordan, Poland, Kazakhstan, Philippines, Russia and South Korea. Most of the countries in South Asia such as Nepal, Bangladesh, Sri Lanka and Pakistan have attempted to promote their exports and also create employment by establishing SEZs.

All the developing countries are concentrating on export promotion as it plays vital role in economic growth. Several measures are being adopted to improve export competitiveness by the government of the respective countries. In this context, Export Processing Zones gains its importance due to their catalytic role in promoting the export by imparting outward orientation to the economies. In 1986, there were 176 zones across 47 countries which have been increased to more than 3000 zones across 116 countries. Presently, there are more than 4000 zones across 130 countries.

SEZ in Indian Context

India also adopted the export promotion measures through Export Processing Zones (EPZ). In fact India is the first country of Asia to have started an EPZ in Kandla, in 1965. It was followed by the Santacruz Export Processing Zone (SEZ) which came into operation in 1973. Later, the Government Of India (GOI) started five more EPZ during 1980s in five different states Uttar Pradesh, West Bengal, Kerala, Tamil Nadu and Andhra Pradesh in the following cities Noida, Falta, Cochin, Madras and Visakhapatnam respectively. In 1998, one more EPZ came into operation in Surat.

However, EPZs have faced several limitations and bureaucratic bottlenecks in the promotion of exports. 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. Based in this, the EXIM policy, 2000 of GOI has launched a new scheme of Special Economic Zones (SEZs). Under this scheme, the EPZs at four places, Kandla, Santa Cruz, Cochin and Surat were converted into SEZs. Further, in 2003, the other existing operational EPZs at Noida, Falta, Madras and Visakhapatnam were also converted to SEZs. In addition to that, approvals has been given to set up 26 SEZs in various regions of the country, which include SEZs at Nanguneri (Tamil Nadu), Positra (Gujarat), Kulpi (West Bengal), Paradeep (Orissa), Bhadohi and Kanpur (Uttar Pradesh), Kakinada (Andhra Pradesh), Dornagiri (Maharashtra) and Indore (Madhya Pradesh).

The 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. SEZs in India functioned from 1.11.2000 to 09.02.2006 under the provisions of the Foreign Trade Policy and fiscal incentives were made effective through the provisions of relevant statutes. 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 main objectives of the SEZ Act are:

- (a) generation of additional economic activity
- (b) promotion of exports of goods and services;
- (c) promotion of investment from domestic and foreign sources;
- (d) creation of employment opportunities;
- (e) development of infrastructure facilities;
- (f) maintenance of sovereignty and integrity of India, the security of the State and friendly relations with foreign states

It is expected that this will trigger a large flow of foreign and domestic investment in SEZs, in infrastructure and productive capacity, leading to generation of additional economic activity and creation of employment opportunities. The SEZ Act 2005 envisages key role for the State Governments in Export Promotion and creation of related infrastructure. A Single Window SEZ approval mechanism has been provided through a 19 member inter-ministerial SEZ Board of Approval (BoA). The applications duly recommended by the respective State Governments/ UT Administration are considered by this BoA periodically. All decisions of the Board of approvals are with consensus. The SEZ Rules provide for different minimum land requirement for different class of SEZs. Every SEZ is divided into a processing area where alone the SEZ units would come up and the non-processing area where the supporting infrastructure is to be created. The SEZ Rules provide for

- Simplified procedures for development, operation, and maintenance of the Special Economic Zones and for setting up units and conducting business in SEZs;
- Single window clearance for setting up of an SEZ;
- Single window clearance for setting up a unit in a Special Economic Zone;
- Single Window clearance on matters relating to Central as well as State Governments;
- Simplified compliance procedures and documentation with an emphasis on self certification
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II. Review of Literature

1. "Quality practices are investment in competitive resources and capabilities which bring competitiveness to the firm, by enhancing reliability, in the eye of customers through superior firm performance" Krajewski and Ritzman (1996), Khalil (2000)
2. "Management capacity as an investment in resources and capabilities makes progress towards competitiveness of a firm". Priyanto (2006), Verma (2002)
3. "The production capacity and utilisation is an investment in competitive resources that provide competitiveness to the firm by superior performance." Bavani (2006)
4. "Firms benefit from local production externalities, which exist when a firm's production possibilities depend on the actions of other firms located in the same region." Hanson (2001), Henderson (2003), and Agarwal (2004).
5. "Vision is one of the abilities of the entrepreneur to steer the firm ahead in the competitions" Vasant Desai (2006)
6. "Providing hassle free environment to run business is one of the objectives of SEZ exim policy." Madani (1999) and Exim policy (2002-2007), SEZ Act, Ministry of Commerce, India
7. "Ability to procure goods from outside is one of the principal benefits of creating export" Agarwal (2004) and Ministry of India.
8. "Special Economic Zones in India – An Introduction" ASIEN, 106, January 2008 JonaAravindDohrmann,
9. Location strategy for competitiveness of Special Economic Zones in India – A Generic Framework, by TarunDhingra, Dr. AmbalikaSinha, and Dr. Tripti Singh

III. Current Status of SEZ Approvals.

The SEZ approvals are expressed under four stages based on their level of processing such as Formal approvals, in-principle approvals, notified approvals and exporting SEZs.

1. Formal approval is awarded to those SEZs approved in-principle that can show that land has been assembled for the purpose.
2. In-principle approval is the first stage of approval process given to the person or the State Government concerned incorporating additional conditions, if any specified by the Board while approving the proposal.
3. Notified approval is the last stage of process after the Government is satisfied that the developer has legal possession and irrevocable rights over the proposed land to develop SEZ and has received all necessary approvals provided that leasehold right for the period of not less than twenty years and the identified lands is contiguous vacant land with no public thoroughfare.

The present existing SEZs were reported that they are improving and performing well. According to the latest report, export through SEZs rose almost 30 percent to \$ 88 billion in 2012-13, from \$68 billion in previous year 2011-12. These were rose up nearly 17 percent in 2011-12 compared with \$58 billion in a year before, i.e., 2010-11. The total country's export was \$300.6 billion in 2012-13. This implies that exports contributed from SEZs around 29 percent of total exports in 2012-13. The total investment in SEZs increased to \$44 billion, compared with \$43 billion in the previous year. As on 31st march 2013, SEZ had generated 1,074,904 jobs. As on 17th July 2013, the government has so far formally approved 576 SEZs, of which 392 are notified. At present, 173 SEZs operate across India.

The Tamilnadu state has the second place in India for having 33 operating SEZ including MEPZ Special Economic Zone, Chennai, established by the Central government, Four SEZ, prior to SEZ Act by state government and private SEZ. The remaining 28 SEZs are approved by SEZ Act which includes various sectors like IT/ITES, Engineering, Food processing, Multi product and Electronic hardware etc.

The following table extracted from Ministry of Commerce and Industry about the position of various levels of approvals in various States in India.

Table 1.State-wise Distribution of approved SEZs(As on 17.07.2013)

State	Formal approvals	In-principle approvals	Notified approvals	Exporting SEZs
Andhra Pradesh	109	6	78	39
Chandigarh	2	0	2	2
Chhattisgarh	2	1	1	1
Delhi	3	0	0	0
Dadra & Nagar Haveli	2	0	1	0
Goa	7	0	3	0
Gujarat	43	7	30	18
Haryana	46	3	35	5
Jharkhand	1	0	1	0
Karnataka	61	1	40	22
Kerala	29	0	24	8
Madhya Pradesh	19	2	9	2
Maharashtra	102	16	65	20
Manipur	1	0	0	0
Nagaland	2	0	2	0
Orissa	10	1	5	1
Pondicherry	1	1	0	0
Punjab	8	0	2	2
Rajasthan	10	1	10	5
Tamilnadu	67	6	53	33
Uttar Pradesh	31	1	21	9
Uttarakhand	2	0	1	0
West Bengal	18	3	9	6
Grand Total	576	49	392	173

Exporting SEZs (Central govt. + State govt.+notified SEZs under the SEZ Act 2005)

Source: Ministry of commerce and Industry, SEZ India, GOI

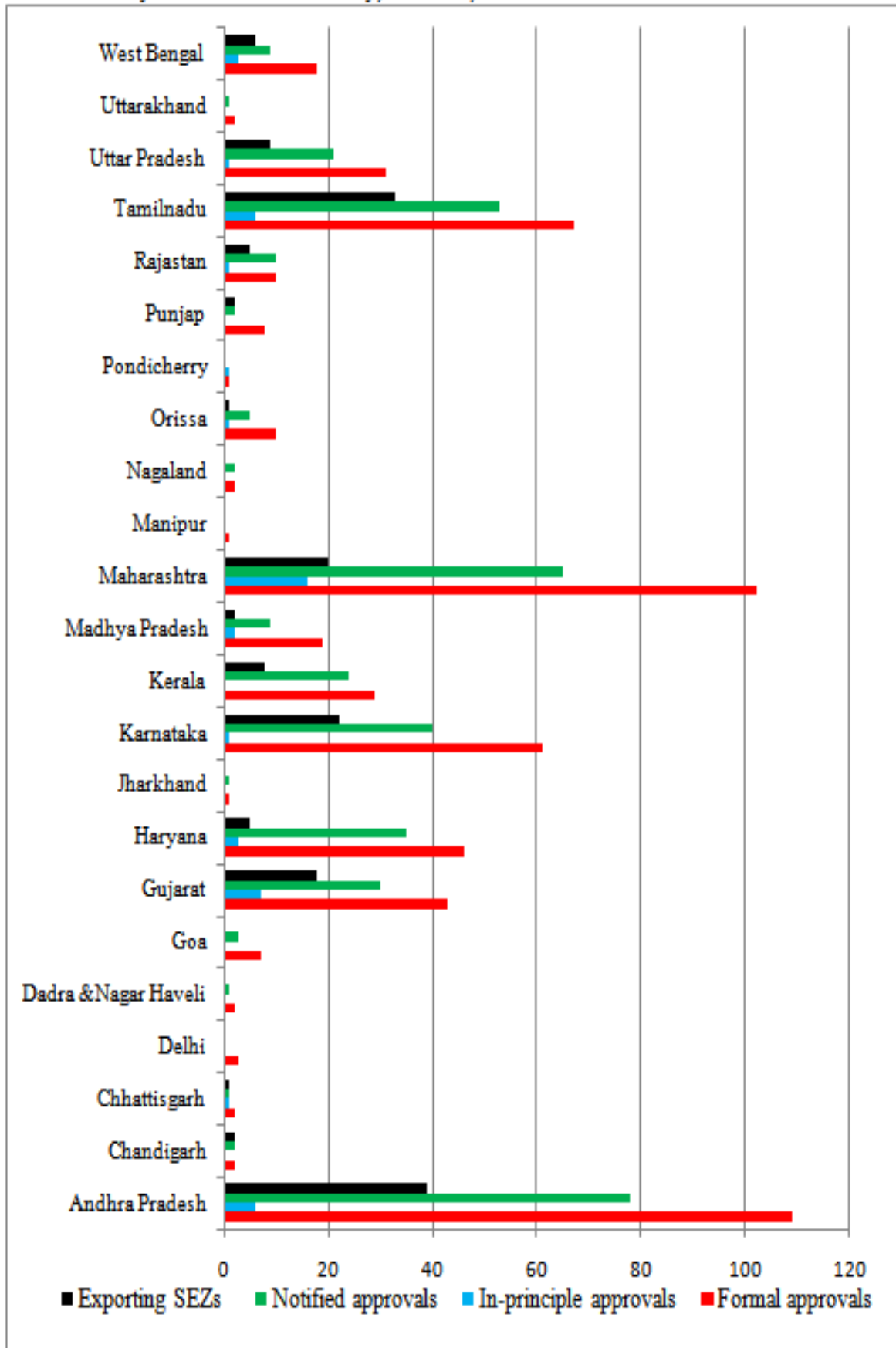


Figure : 1

IV. Current Status of SEZ in Tamilnadu

A Substantial growth of export performance has witnessed the success of Tamilnadu Special Economic Zone (TSEZ). Tamilnadu Special Economic Zone refers the specified area within the territory of the state of Tamilnadu where the prescribed norms and other regular regulatory practices and restrictions are not applicable. For the purpose of setting up of many Special Economic Zones (SEZs) in Tamilnadu, the state government has encouraged the SEZ Developer by means of exemption from federal laws, taxes, quotas, etc

The state government of Tamilnadu has extended their helping hands in setting up of SEZ in order to improve the economic growth, Industrial development and to generate more employment opportunities. The Special Economic Zones helps in bringing not only the domestic investment but also the foreign investment which in turn improve the infrastructure, rapid growth in export, creation of more employment opportunities, providing world class products and increased foreign earnings. As the central government open doors for liberalized cross national investment, the state government Tamilnadu has catalyzed the Foreign Direct Investment (FDI) for improved export performance. Tamilnadu has various SEZ in Chennai and Kanchipuram district and many other places where SEZs are being set up in the state of Tamilnadu, are Coimbatore, Hosur, Tuticorin, Ennore, Thirunelveli and Vandalur.

The Tamilnadu SEZs which are being set up in the state would accommodate companies from various sectors, such as Information technology, Electronic Hardware, Pharmaceuticals, leather industries, Engineering industries, Textiles industry, food processing industry, Bio technology, mutliproducts, multi services, transport equipments, footwear industry and automobiles.

There are various incentives that the Tamilnadu government provides to TSEZ are that the SEZ is cleared through Single Window Clearance (SWC), the developers of SEZ and the industrial units with the SEZ are exempted from taxes such as Turnover Tax, Sales Tax and Value Added Tax (VAT). In addition to that all the industrial units in SEZ will not have to pay registration charges and stamp duty towards land Transaction. Further there are many other incentives given to TSEZ by the Tamilnadu state government are, the labour rules will be simplified for the SEZ, the government may provide additional facilities like Post Office, Police Station and Fire services but the cost of such facilities will have to be incurred by the develop of the SEZ and all the industrial units that are located within the SEZ will be declared as Public Utility Services. The state electricity board ensures the continuous supply of power to all the units within the state, sufficient supply of water and maintenance of law and order within the SEZ.

V. Fiscal benefits to TSEZ

The fiscal policy with respect to TSEZ refers that the government has formulated rules and regulations for SEZ that relates to economic activity, income distribution and resource allocation. The Tamilnadu government has adopted a successful and beneficial policy for SEZ to enhance the growth of TSEZ in the state to go up. This is mainly due to that SEZ brings more money and employment opportunities in the state which results in economic growth and industrial development of the state.

The following fiscal support was provided in order to attract more companies to set up their units in the SEZ in the state.

- Import of goods for the purpose of operation, development and maintenance of the units in SEZ are duty free
- Exemption of 100% income tax on export income for the units that are within SEZ for the period of five years
- 50% income tax exemption for next five years
- Exemption from all other kinds of taxes – Sales tax, Excise duty, Customs duty, Mandi tax, Purchase tax and Electricity cess
- All the units within the SEZ are exempted from paying the Minimum Alternate Tax (MAT)
- Industrial units in the SEZ can receive 100% Foreign Direct Investment (FDI)
- VAT and Sales Tax is applicable for the goods produced in SEZ when they are sold in local market.

The fiscal support provided by the State government of Tamilnadu has encouraged the developer to set up more and more SEZ in the state. This has resulted in the number of SEZ in the state, increased in reaps and bounds in the last few years and many new SEZ has come up in the near future. It is necessary to continue such friendly Fiscal policy by state government for the effective performance of SEZ in order to get positive Net Foreign Earnings (NFE).

There are 33 operational SEZ in Tamilnadu including Central government approved, Prior to SEZ Act and under SEZ policy 2006.

VI. Conclusion

The most successful development area of Indian Industries is Special Economic Zones (SEZ). The SEZ Policy was implemented from 1.11.2000 to 9.2.2006 under the provisions of Foreign Trade Policy (FTP), provides fiscal incentives through the provisions of SEZ Acts and Rules. The Indian SEZ policy intends to make SEZs as a powerhouse and export engines for economic growth. These SEZ are supported with world class infrastructure along with attractive fiscal incentives and tax rebates, both the union and the state level. Further Indian SEZ attracts the FDI, results in foreign earnings. The present SEZ scenario proved that they are performing well. Therefore, both the central government and the state government have to continue the encouragement for more exports and constant support for the developer to reach the position of industrial sustainability in order to generate more employment opportunities.

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Appendix

S.No	Company Name	Location	Sector	D.O.C
SEZ Established by Central Government				
1	MEPZ Special Economic Zone	Chennai, TN	Multi Product	1.1.2003
Export from state government/ Private SEZ prior to SEZ Act				
2	Mahindra City SEZ (Textiles)	Tamilnadu	Apparel and Fashion accessories	26-12-2004
3	Mahindra City SEZ (Auto ancillary)	Tamilnadu	Automobile	26-12-2004
4	Mahindra City SEZ (IT)	Tamilnadu	IT/Hardware and Bio informatics	26-12-2004
5	Nokia SEZ	Sriperumbudur, TN	Telecom equipments / R&D services	17-8-2005
Export from SEZs notified under SEZ Act				
6	Tata Consultancy Service Ltd	Siruseri and Egattur, Chennai, TN	IT/ITES	17.7.2006
7	IG3 Infra Ltd (ETL Infrastructure Service Ltd)	Tambaram Taluk, Kanchipuram, TN	IT/ITES	11.8.2006
8	Hexaware Technologies Ltd	SOPCOT IT Park, Old Mahabalipuram Road, Siruseri, Chennai, TN	IT/ITES	31.8.2006
9	DLF Infocity Developers (Chennai) Ltd	Manapakkam & Mulivakkam village, Kanchipuram Dist. TN	IT/ITES	16.11.2006
10	Coimbatore Hitech Infrastructure Pvt. Ltd	Coimbatore, TN	IT/ITES	9.11.2006
11	SIPCOT	Sriperumbudur, Kanchipuram, TN	Electronics hardware and support services	22.12.2006
12	Flextronics Technologies (India) Pvt. Ltd	Sriperumbudur, Kanchipuram, TN	Electronic Hardware and related Services	25.4.2006
13	Syntel International Pvt. Ltd	Kanchipuram, TN	IT/ITES	11.8.2006
14	Shriram Properties and Infrastructure Pvt. Ltd	Perungalathur Village, Kanchipuram, TN	IT/ITES	28.9.2006
15	SIPCOT	Oragadam	Electronic Hardware	18.10.2007
16	New Chennai Township Private Ltd	Seekinakupam village, Cheyyartaluk, Kanchipuram Dist. TN	Multi Service	23.11.2007
17	State Industries Promotion Corporation of Tamilnadu	Ranipet, Vellore Dist. TN	Engineering	27.11.2007
18	Cognizant Technology Solution India Pvt. Ltd	SIPCOT IT Park, Siruseri and kazhipattur villages, Chennai, TN	IT/ITES	17.12.2007
19	Electronic Corporation of Tamilnadu	Coimbatore, TN	IT/ITES	11.4.2007
20	ELCOT	Sholinganallur, TN	IT/ITES	11.4.2007
21	Cheyyar SEZ	Cheyyar, TN	Footwear	13.4.2007
22	(L & T) ArunExcello Infrastructure Pvt. Ltd	Vallncherri and Potheri Villages, Chengalpattu, Kanchipuram, TN	IT/ITES	1.5.2007
23	Span Venture Pvt. Ltd	Kurichi Village, Eachanari, Coimbatore, TN	IT/ITES	10.7.2007
24	Synefra Construction Ltd. (Suzlon Infrastructure Ltd.)	Coimbatore, TN	Hitech Engineering Sector	10.8.2007
25	ETA Technopark Pvt. Ltd	Old Mahabalipuram Road, Navallur Village, Chengalpattu Taluk, Kanchipuram Dist. TN	IT/ITES	7.9.2007
26	AMRL International Tech City Ltd.	Nanguneri Taluk, Tirunelveli Dist. TN	Multi Product	18.11.2008
27	ELCOT	Trichy, Tamilnadu	IT/ITES	12.2.2008
28	SIPCOT	Perundurai, TN	Engineering	23.4.2008
29	SIPCOT	Gangaikondan, Tirunelveli, TN	Transport Equipments	15.5.2008
30	TrillInfopark Ltd	Chennai, TN	IT/ITES	23.1.2009
31	Pearl City (CCCL Infrastructure SEZ)	Tuticorn, TN	Food Processing	23.4.2009
32	Jee Matajee	Mannur	FTWZ	21.5.2009