SPECIAL ECONOMIC ZONES (SEZs) IN INDIA: REVISITING SOME POLICIES AND THE WAY FORWARD

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By

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Chandra Kant Parmar

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List of Abbreviations

Abbreviations	Full Form
BoA	Board of Approval
C&AG	Comptroller and Auditor General
CEZ	Coastal Economic Zone
CST	Central Sales Tax
CPLCDS	Comprehensive Power Loom Cluster Development Scheme
DC	Development Commissioner
DDT	Dividend Distribution Tax
DGFT	Directorate General of Foreign Trade
DTA	Domestic Tariff Area
EPZ	Export Processing Zone
EU	European Union
FDI	Foreign Direct Investment
FIZ	Foreign Investment Zone
FTWZ	Foreign Trade Warehousing Zone
FTZ	Free Trade Zone
GDP	Gross Domestic Product
GIFT	Gujarat International Finance Tec-City
GIZ	General Industrial Zone
GNI	Gross National Income
GDP	Gross Domestic Product
GSDP	Gross Sate Domestic Product
GST	Goods & Service Tax
GVA	Gross Value Added
IFSC	International Financial Service Centre
ILO	International Labour Organisation
IT/ITeS	Information Technology / Information Technology enabled Services
IT-BPM	Information Technology – Business Process Management
LDC	Least Developed Countries
MAT	Minimum Alternative Tax
MFN	Most Favoured Nation
MTEZ	Medical Tourism Economic Zone
NASSCOM	National Association of Software and Services Companies
NFE	Net Foreign Exchange
OECD	Organisation for Economic Co-operation and Development
PCPIR	Petroleum, Chemicals and Petrochemicals Investment Region
PEZA	Philippine Economic Zone Authority
RFCTLARR	Right to Fair Compensation and Transparency in Land Acquisition, Resettlement and Rehabilitation

Abbreviations	Full Form
SCM	Subsidies and Countervailing Measures
SEZ	Special Economic Zone
SITP	Scheme for Integrated Textile Park
SSEPZ	Santacruz Electronics Export Processing Zone
STP	Software Technology Park
STT	Securities Transaction Tax
UAC	Unit Approval Committee
UNCTAD	United Nations Conference on Trade and Development
VAT	Value Added Tax
WTO	World Trade Organisation

Abstract

Special Economic Zones (SEZs) are considered as a model for economic growth. The primary objective of SEZs is to enhance export, bring investment and generate employment. The rules of business inside the SEZs are different from rules of rest of the country. Present study has primarily focused on three different aspects of SEZs. First, since the introduction of SEZ Act, 2005, India has experiences mushrooming of SEZs and more particularly in Information Technology/Information Technology enabled Services (IT/ITeS) sector. However, a large number of IT/ITeS SEZs could not take-off in the last decade even after passing of considerable time. Secondly, it is noted that not all states which have received SEZ investment has formulated State SEZ Act/Policy. State-wise investments in SEZs are found having variations within the state and among the states. Thirdly, the employment generated by SEZs are found regionally concentrated and that too mostly in IT/ITeS sector. In this context the study is conducted with 3 different objectives. These are to identify the factors which act as constraint to make operational of IT/ITeS SEZ in India, to study the impact of State SEZ Act/Policy on investment in state(s); and lastly to study the employment generation by SEZs in India. On obtaining surveyed data from identified SEZ developers, confirmatory factor analysis has been carried out to obtain the first objective. Panel data regression analysis is done on investment being dependent variable and other microeconomic variables for second objective. For third objective, state-wise and sector-wise employment have been analyzed. The study identifies six factors which are acting as constraint to make operational of IT/ITeS SEZs in India. These factors cumulatively contribute 79% of the variations. For second objective, it is found that State SEZ Act/Policy has a very significant role in bringing investment in SEZs in that state. In recent years, SEZs have created a large number of job opportunities. However, not all sectors have generated equal number of employments. It is very high in the IT/ITeS sector and that too concentrated in few SEZs.

Practical Implications: *Findings of the study may be used by Central/State government(s) to make operational of large number of IT/ITeS SEZs which are presently lying non-operational since a long period of time. In turn this will increase export and generate more employment. The states which are yet to come out with SEZ Act/Policy should consider the same with fiscal and non-fiscal stimulus to bring investment. Additionally, states may focus on brining investment in large employment-oriented service industry to augment employment.*

CHAPTER - 1

Introduction

Chapter – 1: Introduction

1.1. Background

The introduction of globalization era made countries around the world to realize the importance of cross border transaction, foreign exchange reserve and competitive advantage theory. To achieve this broader objective, countries have started making many sustainable long-term schemes and projects. Special Economic Zone (SEZ) is one such concept which remains highly successful in many countries. It is demarcated geographical area within a country's national boundary where the business rules are different from those prevails in rest of the national territory. The basic objective of establishing SEZ is to make export of goods and services and attract foreign and domestic investment. This economic activity generates employment and creates regional development. Basically, the business rules of SEZ are in favour of developers of SEZs and business units in those areas in the form of fiscal and non-fiscal incentives.

In order to increase exports, Spain[1] created the first SEZ in 1929. However, the modern SEZ of its kind was first introduced in 1959 in Ireland (Elangovan, A. & and Palanisamy, SKP., 2013). As an Export Processing Zone (EPZ), India's first SEZ was established at Kandla, Gujarat, in the year 1965 followed by Santacruz Electronic Export Processing Zone (SEEPZ), Mumbai in 1971. However, these EPZs did not achieve much of its objectives. The concept of SEZ was given a big boost in China in the year 1979 (Zeng, D.Z., 2015). Following the success story of China, India established another five EPZs in different parts of the country during the period 1981-1989. As a matter of policy, these EPZs were set up only by the Central Government. In order to allow the State Government, autonomous agencies, and private sectors to provide infrastructure for new zones, the policy was updated in 1994. As a result, 11 new EPZs were set up in different parts of India till the year 2000. To gain more competitive advantage and enhance the growth rate, the Government of India announced the introduction of SEZ Policy in April, 2000 through its Export-Import Policy. All the existing EPZs in 2000 were converted to SEZs. Additionally, the SEZ Act, 2005 was passed in 2005 in order to provide a stable policy and inspire investment trust with the objective of promotion of export

[1] M.V. Shruthi (2014), 'Role of incentives and concessions in promotion of Special Economic Zone in Karnataka' – A Study, Ph.D. Thesis under Kuvempu University, pp. 3

of goods and service, generate employment opportunities and promote investments. This Act became effective from 10th of February, 2006 along with SEZ Rules, 2006.

After the enactment of SEZ Act, mainly private corporates lined up to develop SEZ in different parts of the country. Accordingly, approvals were given across the sectors and many of them started functioning in early days. Large number of SEZ were approved between 2007 to 2014 in different parts of the country and in different sectors. Sector specific SEZ (e.g., Chemical, Power, Argo-Product, Gems & Jewellery, Information Technology/Informational Technology enabled Services[2] (IT/ITeS)) becomes first choice for many developers. Among these sectors IT/ITeS sector started mushrooming specially in IT-hub states like Haryana, Tamil Nadu, Karnataka and Andhra Pradesh. Majority of SEZs were notified with large parcel of lands which in many cases subsequently de-notified because of non-utilisation of land (Tewari, S., 2020). Indian SEZs also could not achieve much of Foreign Direct Investment (FDI) as proposed in initial years (Mukherjee. A. *et. al.*, 2016). During 2012-2013, some of the income tax exemptions were withdrawn which were provided while passing the SEZ Act. This move has severally affected foreign investors. Lack of internal control, non-monitoring of SEZ development and lack of clear policy by states remained some of the highly criticising issues in SEZ's progress in India.

Over the years, SEZs have contributed significantly in export of goods and services. IT/ITeS sector remained on top in terms of number of operational SEZs in the country. Also, this sector contributed remarkably towards employment generation and export. However, Indian SEZs have also witnessed sizeable number of non-operational SEZs in IT/ITeS sector. Finding root cause of being non-operational of these SEZs for a substantial period shall be noteworthy for contribution of this sector in overall SEZ development.

Bringing private investment for any economic development has always remained a challenge in India[3] and SEZ model is not an exception. Though Indian SEZs have attracted investment, most of investments have come from domestic sources. SEZ investment remained highly regionally concentrated. Given the same central fiscal incentives (mainly direct and indirect tax exemptions), different states bring different amount of investments. In this context significance of State SEZ Act/Policy and other factors in bringing investment remains relevant. The SEZ model has also generated large number of employments till date. However, majority

[2] IT/ITeS includes both electronic hardware and software. (Instruction No. 52, 20th April, 2010, SEZ Division)
[3] Bringing private investment across India the real challenge: Survey - The Economic Times (indiatimes.com)

of employment is generated from IT/ITeS sector. Sectoral concentration and dependence in employment generations remains a challenge for policy makers to include other sectors too.

Even after passage of one and half decades of SEZ Act in India, the entire form of economic development remained controversial for various issues. Parcelling of land to private developers[4], subsequent withdrawn of income tax benefits i.e., withdrawn of exemption from minimum alternative tax and dividend distribution tax (Mukherjee, A. & Bhardwaj, B. 2013) and large parcel of unused land[5] are among others. Very recently the government has announced a relook to the entire SEZ Act[6]. The need for revisiting the entire Act indicates policy inconsistency and lack of understanding of industry demand. Nevertheless, SEZs have contributed a large towards export and employment generation.

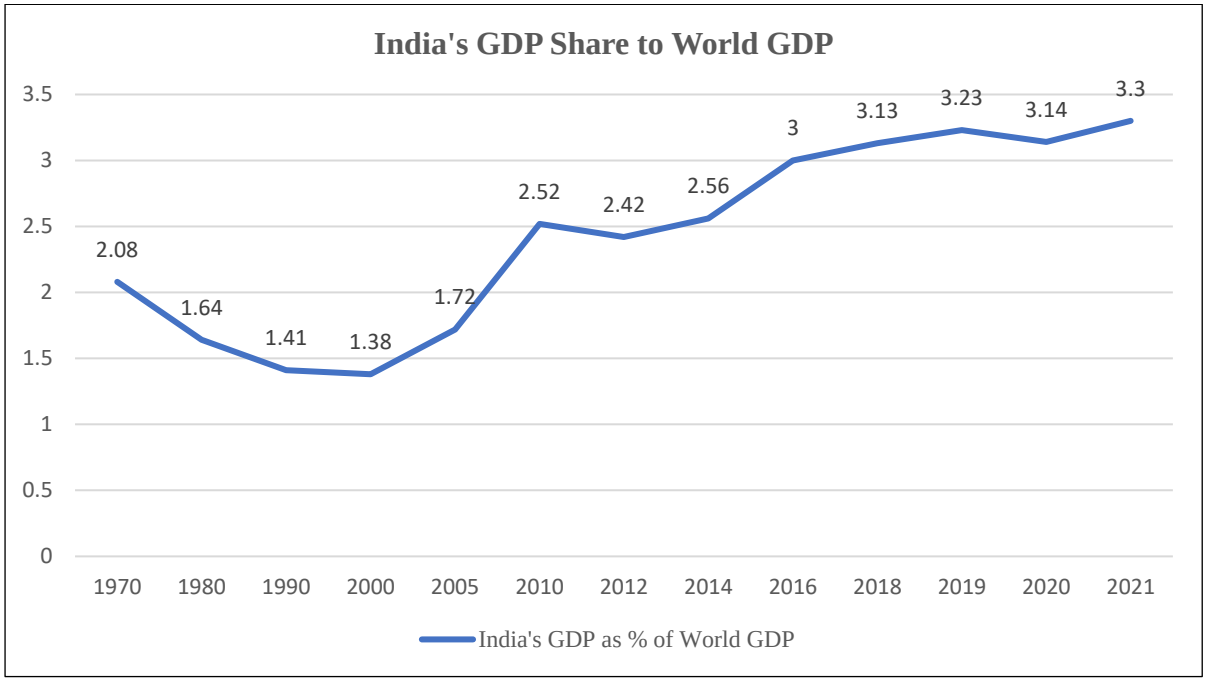
1.2. Role of SEZs in Economic Development

India, being a developing country, needs to foster its development pace constantly. The country has witnessed an enormous change in its economic profile in the last three decades. Since the opening of Indian economy in 1991, the country has seen infrastructure and social development to accommodate broader objective of economic development. In spite of the physical and technical progress of the country rapidly, India's share to world Gross Domestic Product (GDP) has marginally increased from 1.41% in 1990 to 3.14% in 2020. This is depicted in **Figure 1.1**. In comparison, China's share grew from 3.09% to 17.30% in the same period. India's export as percent of GDP increases from 3.8% in 1970 to 20.8% in 2021. Though India has surpassed this rate compared to south Asian countries in ~ 2005, it is still far below than Organisation for Economic Co-operation and Development (OECD) countries whose export constituted 28.5 % of GDP in 2021. This is shown in **Figure 1.2**. India ranked 8th in terms of the merchandise exports among the developing countries in 2020[7]. Though India's number increase is noteworthy but not significant. To bridge this gap, SEZs may play a significant role. Several studies have shown that properly designed and executed SEZ can enhance export manifold.

[4] https://www.thehindu.com/opinion/columns/Chandrasekhar/cp-chandrasekhar-column-on-sezs/article7067787.ece
[5] 'Over 50% of land acquired for SEZs between 2006 and 2013 lie unused' - Times of India (indiatimes.com)
[6] https://www.livemint.com/budget/news/budget-2022-sez-act-to-be-replaced-with-new-legislation-says-fm-11643709031829.html
[7] https://www.business-standard.com/article/economy-policy/india-s-share-of-exports-declines-among-developing-countries-in-2020-121110600912_1.html

A SEZ not only makes export but also develops a particular geographical region. Not only the inside boundary of SEZ but also outside SEZ area gets developed because of demand and supply integration. These activities help to develop the region. In broader view the entire area develops in terms of physical and social infrastructure. Hence, SEZ may help to uplift backward areas by providing infrastructural support and creating employment.

Figure 1. 1: India's share of GDP to World GDP



(Source: World Bank national accounts data and OECD National Accounts data files)

Figure 1. 2: Share of Export of Goods and Services as per cent of GDP

(Source: World Bank national accounts data and OECD National Accounts data files)

Even in 2021, India's per capita GDP is far less than many developing countries in the world and OECD member countries. It stood at US$ 2,277. This is shown in **Figure 1.3**. These shows India's lack of vision in policy formulation and more particularly implementing those formulated policy in early years. Thus, there is strong need to augment economic activity. India has already reacted on this by making various export promotion schemes and providing world class infrastructure hubs. Here the SEZ can play a vital role in achieving sustainable economic growth.

As a developing country, the largest share of India's Gross Value Added (GVA) comes from service sector followed by industries and agriculture and allied sector. More than 50% of GVA comes from service sector. India, being a populist country and having large number of skilled professionals, the service sector has grown rapidly in the last two decades. However, service sector has not generated employment in proportion to its contribution to GVA. On the other hand, manufacturing sectors contribution has come down from 18.4% in 1990-91 to 15.49% in 2021-22. The agriculture and allied industry's share have come down from 29.81% to 18.64% in the same period. For other developing countries, the manufacturing activity's share to GDP stands at 27.4% for China, 22% for Turkey, 25% for Korea Republic, 23% for Malaysia.[8] The manufacturing sector generated only ~8% employment in India for the year 2021-22.[9] Economic activity wise share in GVA is shown in **Figure 1.4**. Service sector, which accounts 52% share in GVA generates only ~36% employment in organised sector. Hence there is utmost need to increase manufacturing activity and at the same time increase export of those manufactured goods. SEZs can bridge this gap and enhance manufacturing activity if properly implemented. 'Make in India' initiative has also been taken up by the present government to boost manufacturing activities in India.

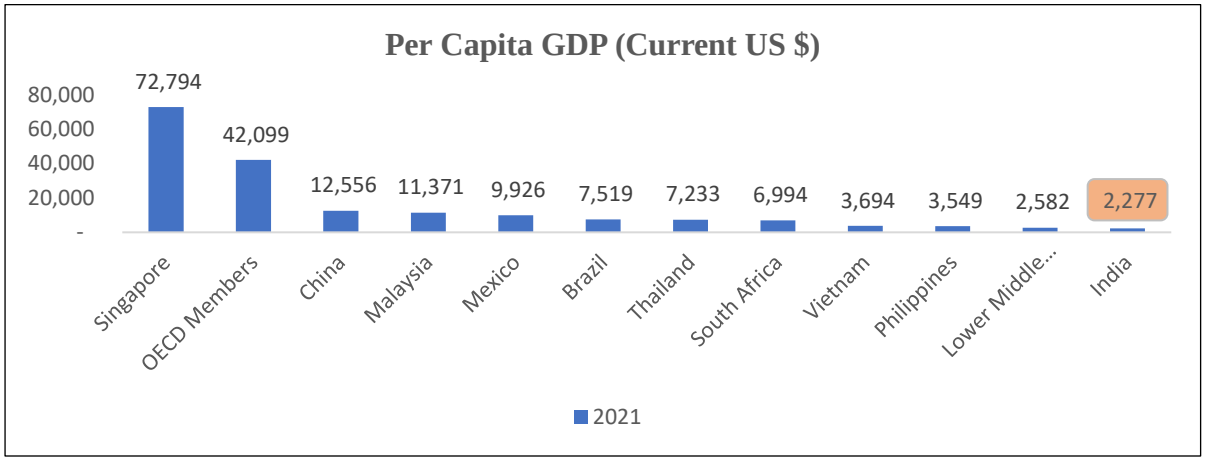
SEZ might play an important role in creating social infrastructure. Given the fiscal constraints faced by India (shown in **Figure 1.5**), SEZs may play an important role to build social infrastructure through public private partnership model. In aligning the social objectives, the government has allowed private sector to build, operate and maintain SEZs. This in turn shall invite large amount of investment in different parts of the country from domestic as well as abroad. Hence, SEZ development model may be helpful to build physical and social infrastructure which are restrictive for government for fiscal constraints. Here it must be noted

[8] All values for the year 2021.
[9] CMIE, Economic Outlook.

that, to attract private investment, government must provide some sort of incentives, be it fiscal or non-fiscal.

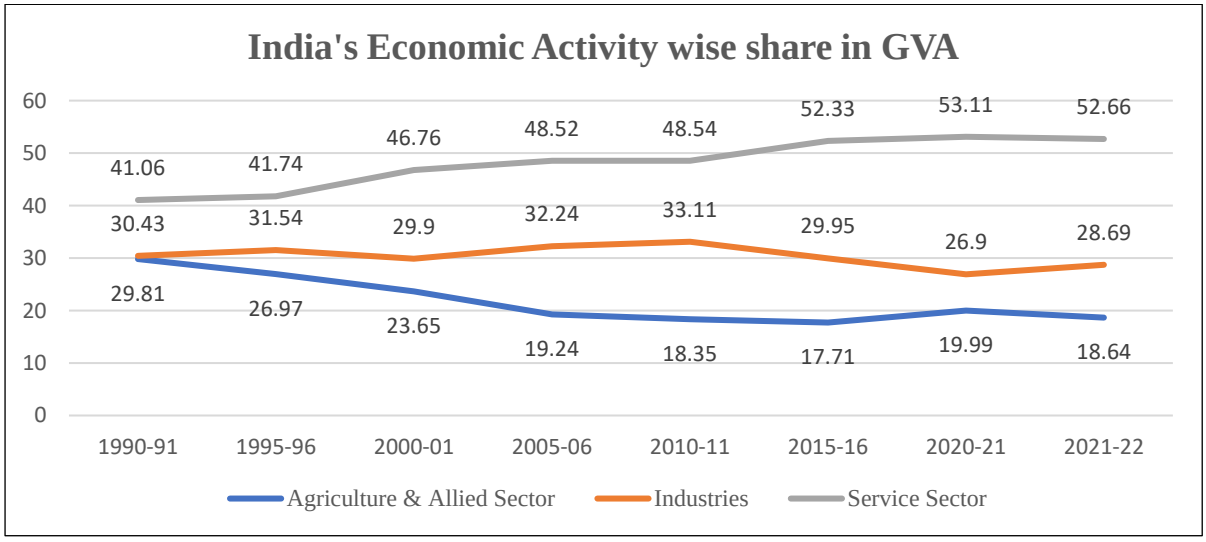
Creation of job is another reason of establishment of SEZ. Several studies shows that SEZs have created a large number of employments in different parts of the country. India is no exception. Government fact sheet shows employment created by SEZs in February 2006 was 1,34,704 persons which gradually increased to 26,96,180 persons as of 31st March 2022. Most of the employment is in service industry and in particular IT/ITeS sector. The Central government developed SEZ have also contributed large number of employments. Considering India's large skilled labour force, SEZs can play vital role in further generating employment in the coming days. There is another area where SEZs have contribute to a large extent for the past few years is minimising the trade deficit by increasing export.

Figure 1. 3: Per Capita GDP of some developing countries and OECD Members



(Source: World Bank National Accounts Data)

Figure 1. 4: Share of Different Economic Activity in Gross Value Added

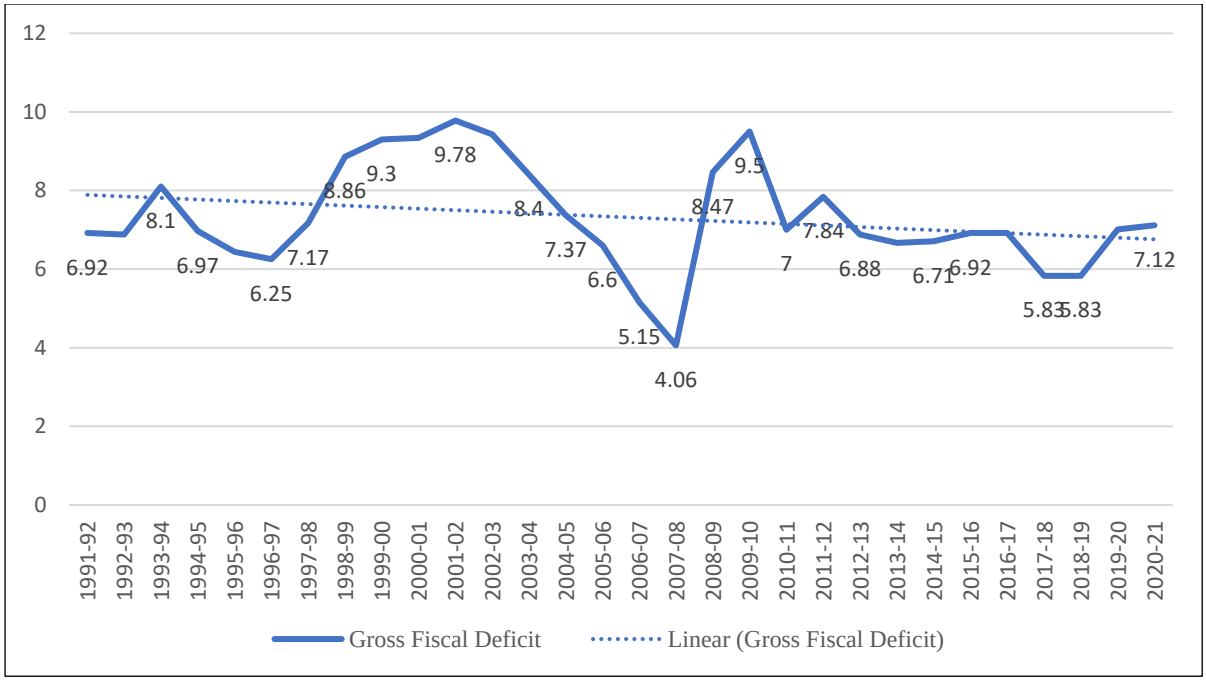


(Source: CMIE, Economic Outlook)

Properly design SEZ policy along with monitoring, evaluation and actual implementation can give a positive impact to the nation's export profile. SEZs not only increases export and brings investment from foreign but also brings new technology, innovations etc. to achieve the broader goals.

Considering all the above-mentioned points, it may be concluded that the role of SEZ in economic development is quite significant. However, the government may have to forego certain revenue in order to have all these benefits. Like, in our country the government has foregone revenue by way of giving exemption in income tax, goods and service tax, export duty etc. Similarly, various state governments have given exemption in accordance with state laws. In SEZ model, the revenue foregone today may bring more revenue tomorrow in addition to infrastructure, human and technical build-up.

Figure 1. 5: India's Gross Fiscal Deficit (% of GDP)



(Source: CMIE, Economic Outlook, Data on Public Finance)

1.3. Global SEZs and its Comparison with Indian

Traditionally all zones were developed either in the form of Free Trade Zone (FTZ), EPZ or manufacturing zone. In the early days the basic thrust was to make physical export. Among the developed countries, USA first developed FTZ with legislation in 1934 followed by Poland in 1994. In the Asia-Pacific region the first zone was developed by India as early as in 1965 in Kandla. However, India did not move further until 1975 when it established second

EPZ in Santacruz, Mumbai. China developed many provincial level zones in between 1984 to 1992. The Chinese zones were much bigger in terms of geographical size with all modern infrastructure and facilities. In early years most of these processing zones were for multi-product and not sector specific. Though India converted all its EPZs to SEZs only in 2000, it realised the importance of sector specific zone much earlier. A dedicated Gems & Jewellery SEZ was set up at Kolkata in 1994.

As compared to other developing countries in Asia-Pacific, India's manufacturing sector has a relatively small share. Because of this, India faces stiff competition from other growing nations in Asia. In the recent past, countries like China, Malaysia, Vietnam have promoted their export base by developing export zones. Further, many countries in Asia are giving a tough competition to India in respect of service export and particularly in IT/ITeS sector. Countries like Philippians and Vietnam have excelled in this regard in the last couple of years.

Philippians offer sector specific fiscal incentives to Philippines Economic Zone Authority (PEZA) registered economic zone enterprise. Like 'Information Technology Enterprise' offers income tax holiday for 4 years in case of non-pioneer project and 6 years in case of pioneer project. In addition, it offers, exemption from payment of any and all local government imposts, fees, licenses or taxes, exemption from wharfage dues on import shipments of equipment. Similarly, Medical Tourism Economic Zone (MTEZ) developer are exempted from VAT, expanded withholding tax and special 5% tax on Gross Income and exemption from all national and local taxes, except real property tax on land owned by MTEZ.[10]

Vietnam has focus on attracting FDI, with only two main objectives for the short term, employment and technology transfer. Country's location and low labour cost are comparative advantage. Vietnam's key incentives include long and short-term credit at preferential rates, remission of taxes and duties, low-cost land / rents, subsidized tariffs for water and electricity, among others.[11]

Thailand also offers some unique incentives in addition to traditional incentive scheme for its 13 specialised industries located in any of the SEZs. Some of these are double deductions for expenses related to transportations, electricity and power supplies for 10 years; permission

[10] Revitalizing SEZs: From Island of Exports to catalysts of economic and employment growth (November, 2018). Committee Report headed by Baba Kalyani.
[11] Ibid.

to bring foreign experts and technical staff together with their spouses and dependents into Thailand.

India may get significant insights from China since they have diversified their goods export profile primarily by focusing on SEZ policy. The majority of the nations in the Asia-Pacific area are also members to several existing trade agreements. This allows to freely flow of capital and technology. India too, has signed many regional trade agreements and acting on these to enhance export base.

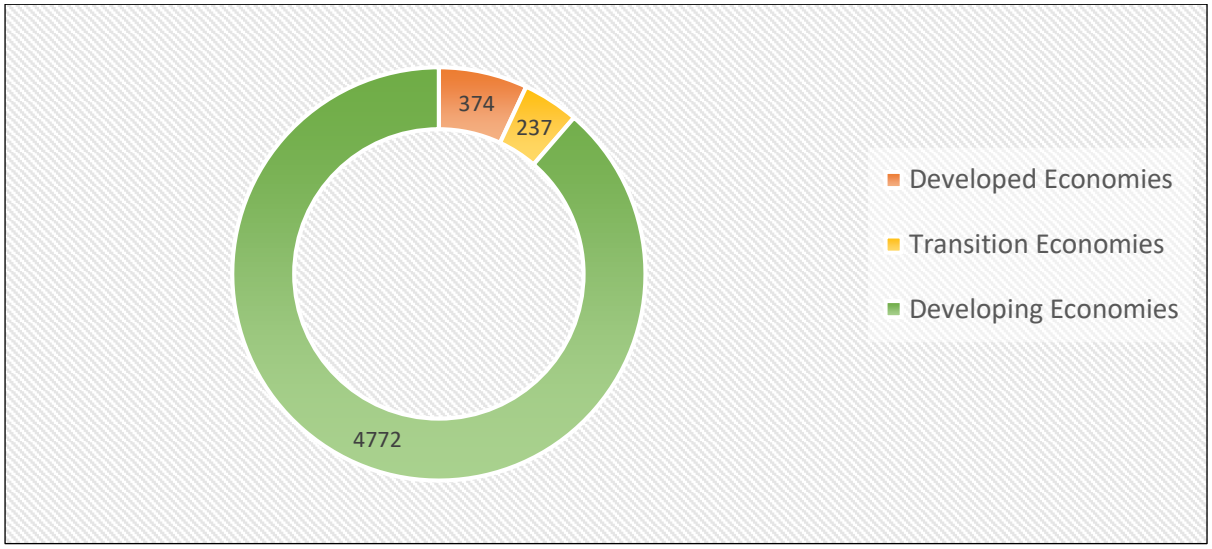
As per the United Nations Conference on Trade and Development (UNCTAD), World Investment Report, 2019, there are ~5383 SEZ present in the world in 2018. More or less 90% of these zones are located in developing countries. This is shown in **Figure 1.6**. These zones are known by different name in different countries. Like in USA, it is known as Free Trade Zone (FTZ), in Republic of Korea it is known as Foreign Investment Zone (FIZ), in Thailand known as General Industrial Zone (GIZ) etc. China alone has 2,543 number of SEZ which is more than 50% of world SEZs, followed by Philippines with 528 SEZs.

India has third highest number of SEZs with 373 after China and Philippines. The country wise number of SEZs in developing countries are given in **Figure 1.7**. India has got various benefits and generated endless opportunities by establishing SEZs. India's SEZ export constitutes 35% of total export in 2020-21. Since the inception of SEZ Act, in 2006, India generated 18,42,512 employments[12] till 31st March, 2018. The investment in these SEZs increased to INR 4,74,917 crore. However, India adopted a balanced policy to promote its SEZ. Sector specific SEZs become the majority SEZs and in particular IT/ITeS SEZs. Though many IT/ITeS remains non-operational even after many years of approval. Thereby, again manufacturing thrust took a back seat and service export become major from these SEZs. However, the present government has taken many policies including 'Make in India' to boost the manufacturing growth which has eventually aligned with SEZ policy of the country. The fundamental difference of SEZs in India and its comparison with some of the developing countries are made shown in **Table 1.1**.

[12] SEZ Fact-sheet as on 31.07.2018

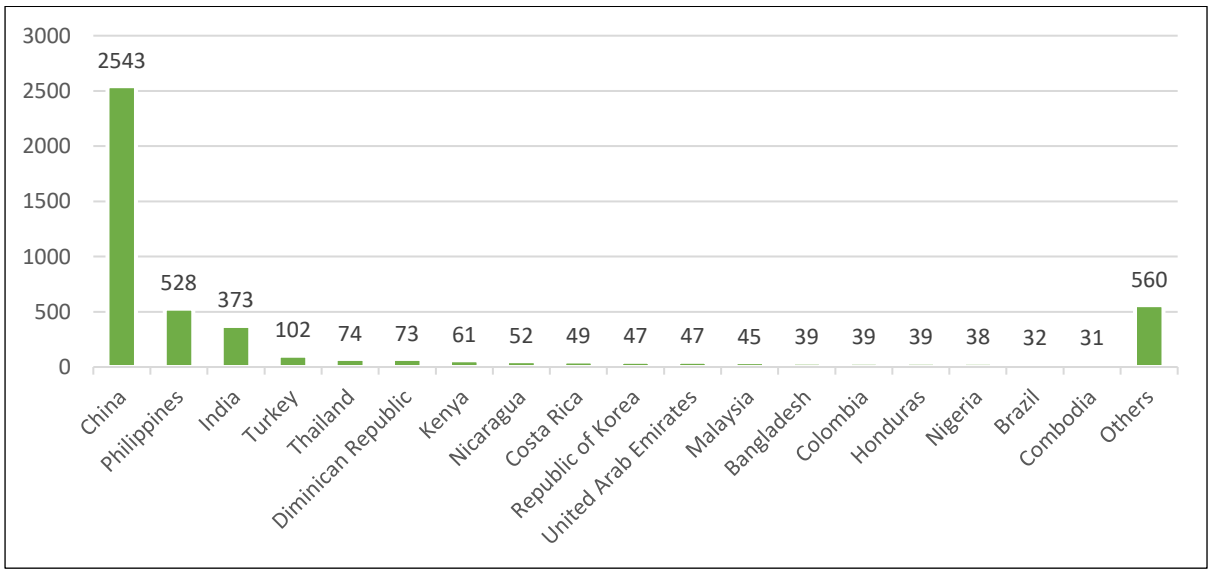
As said earlier, China is a major player in SEZs. In 2017, the 156 High-Tech Development Zones (HTDZ) in China contributed 11.5 % of the economy[13]. SEZs in China has also contributed 45% of Foreign Direct Investment and 60% of Export[14].

Figure 1. 6: Economy-wise Number of SEZs in World



(Source: UNCTAD; World Investment Report, 2019, Web Table 21: The Universe of Special Economic Zone (SEZs), 2018)

Figure 1. 7: Country-wise Number of SEZs in Developing Economies



(Source: UNCTAD; World Investment Report, 2019, Web Table 21: The Universe of Special Economic Zone (SEZs), 2018. Note: 1) The number represents number of SEZs established by law. The number includes 451 SEZs under development. 2) In different country SEZs are known by different name. 3) Countries having 30 or more SEZs have been shown separately in chart.)

[13] World Investment Report, 2019, United Nations Conference on Trade & Development, pp. 145. https://unctad.org/system/files/official-document/wir2019_en.pdf

[14] China's SEZ; Accessed at - https://www.worldbank.org/content/dam/Worldbank/Event/Africa/Investing%20in%20Africa%20Forum/2015/investing-in-africa-forum-chinas-special-economic-zone.pdf

Table 1. 1: Comparison of some of the developing countries' SEZ with India

Country	Number of SEZs	National SEZ Law or other legal Framework	Size[15]						Functionality[16]				Major items of export[17]	Total Investment
			0-20 ha.	20.1-100 ha.	100.1-500 ha.	500.1-1000 ha.	More than 1000 ha.	Not Available	Logistics Hubs	Multi-activity or unspecified	Specialised	Innovation Driven		
India	373	Special Economic Zones Act, 2005	176	98	62	8	11	18	4	33	316	20	Computer & Electronics Software; Electronics Hardware; Chemicals & Pharmaceuticals (Crude Petroleum Refinery)	INR 4,74,917 crore as on 31.03.2018
Philippines	528	Special Economic Zone Act of 1995, Republic Act No. 7916	396	98	30	1	3	0	0	0	528	0	IT/ITeS (Product and Services)	PHP 3.967 trillion up to 2020[18]
Bangladesh	39	Bangladesh Special Economic Zones Act, 2010; Bangladesh Export Processing Zones Authority Act, 1980	2	15	18	1	2	1	0	11	28	0	Apparel & Textile	USD 4 billion in EPZs[19]

(Contd.)

[15] Web Table 21, The Universe of Special Economic Zones (SEZs), 2018, World Investment Report, 2019, UNCTAD
[16] Ibid.
[17] Compiled by author from various sources.
[18] https://events.development.asia/system/files/materials/2021/03/202103-case-study-philippines-one-stop-shop-sezs-and-role-global-value-chain-english-translation_0.pdf, pp.12
[19] Promoting inclusive growth in Bangladesh through Special Economic Zones, A research paper on Economic Dialogue on Inclusive Growth in Bangladesh, pp.22. Available at https://asiafoundation.org/wp-content/uploads/2018/11/EDIG-Promoting-inclusive-growth-in-Bangladesh-through-special-economic-zones.pdf

Country	Number of SEZs	National SEZ Law or other legal Framework	Size[15]						Functionality[16]				Major items of export[17]	Total Investment
			0-20 ha.	20.1-100 ha.	100.1-500 ha.	500.1-1000 ha.	More than 1000 ha.	Not Available	Logistics Hubs	Multi-activity or unspecified	Specialised	Innovation Driven		
South Africa	8	Special Economic Zones Act, 2014	0	0	0	0	0	8	0	8	0	0	Not Available	ZAR 17 billion as of 2021[20]
China	2,543	Administrative Decree of the State Council; Local regulation issued by the provincial government.	5	118	1191	759	470	15	2361	11	156		Electronics and electrical products, LCDs, high technology, etc.	Not Available
Republic of Korea	47	Act on Designating and Operating Free Economic Zones (recent amendment made in 2009); Act on Designation and Operations of Free Trade Zones (last amended in 2017); Foreign Investment Promotion Act.	1	3	5	1	5	32	6	5	33	3	ICT (Information and Communication Technology), electronics products and services	Not Available

(Contd.)

[20] Learning from experiences: Special Economic Zones in South Africa by Neva Makgetla (July 2021), pp. 6 Available at https://www.wider.unu.edu/sites/default/files/Publications/Working-paper/PDF/wp2021-124-learning-from-experience-SEZs-Southern-Africa.pdf

Country	Number of SEZs	National SEZ Law or other legal Framework	Size[21]						Functionality[22]				Major items of export[23]	Total Investment
			0-20 ha.	20.1-100 ha.	100.1-500 ha.	500.1-1000 ha.	More than 1000 ha.	Not Available	Logistics Hubs	Multi-activity or unspecified	Specialised	Innovation Driven		
Thailand	74	Industrial Estate Authority of Thailand Act, BE 2522 (1979); Various Policies on SEZs announced by National Council for Peace & Order	1	6	39	11	11	6	0	62	12	0	Electronics, Metal working, electrical, semiconductors, automotive parts	8.31 billion Bhat in 2016[24]
Vietnam	19	Decree No. 82/2018/ND-CP (on management of industrial parks and EZs)	0	0	0	0	16	3	0	15	3	1	Consumer electronics, apparel, footwear, luggage, metal work, etc.	Not Available
Malaysia	45	Free Zones Act, 1990, Act 438	0	0	0	0	5	40	0	4	40	1	Electronics & electrical products, chemicals, petroleum products etc.	USD 188 billion up to 2018

[21] Web Table 21, The Universe of Special Economic Zones (SEZs), 2018, World Investment Report, 2019, UNCTAD
[22] Ibid.
[23] Compiled by author from various sources.
[24] http://www.boi.go.th/upload/content/Thailand_SEZ_34834.pdf

1.4. Incentives Offered to SEZs in India

SEZs enjoy many fiscal and non-fiscal benefits. Global practices shows that countries offer both fiscal and non-fiscal advantages to support SEZs and bring foreign investment. India too had offered many benefits since inception of EPZ regime. Earlier studies have argued that for developing countries, providing advantages in a limited geographical area is simpler than doing so for the entire nation (Palit and Bhattacharjee, 2008). The broader classification of incentive is fiscal and non-fiscal. Fiscal benefits are provided by both Central and State governments through the respective act. Non-fiscal benefits include better infrastructure development, ease of doing business etc. According to several research, if fiscal incentives are not offered, investors would avoid emerging nations with poor infrastructure and other issues. (Farole and Akinci 2011; Zeng 2015). Therefore, designing the right incentive is crucial for success of SEZ.

The income of SEZ developers and units is directly impacted by the fiscal incentives. However, the non-fiscal incentives help the business houses to stay ahead in terms of enjoying preferences and other benefits. From the government's perspective revenue foregone is equal to fiscal advantage provided in SEZ scheme. The cost-benefit analysis of SEZ model will show that foreign exchange income, employment generation, investment and development of SEZ location as some of the benefits that will reflect on benefit side.

The major thrust which was initially given to SEZ developer and units in India was exemption from income tax. However, as time passed many changes have come in fiscal incentive structure. Also, the state-wise exemptions became lucrative in the initial days. The following paragraphs discuss the major fiscal and non-fiscal benefits enjoyed by SEZ developer and units in India.

1.4.1. Incentives to SEZ Developer

SEZ developers are the business houses which actually identifies the land and develops the physical infrastructure within the earmarked boundary of SEZ. In India, SEZ developers enjoys both fiscal and non-fiscal benefits. The major fiscal benefits incudes income tax exemption, import of material at zero duty fee, exemption from goods and service tax *inter alia.* **Table 1.2** lists the benefits in detail.

Table 1. 2: List of Major Incentives enjoyed by SEZ Developer in India

Incentives	Nature	Subsequent Amendment, if any
Exemption from excise and custom duties	Supports the creation of SEZs for permitted operations by the Board of Approval (BoA).	-
Income Tax exemption	On income obtained under Section 80-IAB of the Income Tax Act from the business of developing the SEZ over a period of 10 years in 15 years.	For Developers the sunset clause has become applicable from 01.04.2017.
Exemption from Central Sales Tax (CST)	For products carried inside SEZs for authorised activities.	Subsumed under GST laws. The sane benefits are continued.
Exemption from Service Tax (Section 7, 26 and Second Schedule of the SEZ Act).	In respect of goods brought into SEZ for authorised operations.	
No Goods & Service Tax (GST) for supplies to SEZ Developer	Supplies to SEZ are zero rated under IGST Act, 2017.	-
Dividend Distribution Tax[25] (DDT) exemption	Income Tax Act, 1961 (Sec. 115-O (6))	Exemption withheld w.e.f. 01.06.2011
Minimum Alternative Tax (MAT) exemption	Income Tax Act, 1961 Sec. (115-JB (6))	Exemption withheld w.e.f. 01.04.2012

(Source: Data compiled from www.sezindia.nic.in and SEZ Act, 2005)

Earlier study has identified that withdrawn of MAT & DDT was adversely affected the business condition in SEZ (Mukherjee & Bhardwaj, 2016). However, the effect of sunset clause in income tax holiday is yet to assess by any study. Nevertheless, while doing this research many SEZ developers expressed their concern on withdrawn of tax incentives. This has been discussed in detail in Chapter 2.

Another important point to note here is dovetailing of various central government scheme with SEZ policy. Some of the schemes are listed below.

- Scheme for Integrated Textile Parks (SITP) offered by Ministry of Textiles
- Comprehensive Power loom Cluster Development Scheme (SPCDC) offered by Ministry of Textiles

[25] In Budget 2020, the Finance Minister abolished the DDT. Now the incidence of dividend income taxation is shifted to investors from the companies.

- Software Technology Park (STP) Scheme offered by Department of Electronics and Information Technology
- Petroleum, Chemicals and Petrochemicals Investment Region (PCPIR) Scheme offered by Department of Chemicals and Petrochemicals
- Mega Food Parks Scheme offered by Ministry of Food Processing Industries.

In all the above-mentioned schemes direct cash grant is available. A developer can mix up these schemes with SEZ policy and can take the benefits.

Some of the fiscal benefits are actionable and prohibited under Subsidies and Countervailing Measures (SCM) agreement of WTO. In other words, some of the subsidies provided under Foreign Trade Policy and other acts are prohibited as per SCM agreement with WTO. This is discussed in detail in Chapter 2.

1.4.2. Incentives to SEZ Units

SEZ units are the actual business houses which makes export of goods and services. Once the infrastructure of a SEZ is developed, SEZ units come to make business. Broadly, SEZ units enjoy certain financial and non-financial benefits since the beginning of establishment of unit. Some of the benefits are embedded in the SEZ Act itself while others are given by different statues. These incentives can also be classified in two-way viz. benefits provided by Central government and benefits provided by respective State governments. Central government gives exemption/incentives through different central acts. While state government given exemption by way of forgiving taxes/duties which are otherwise leviable by giving notification. Different incentives/exemptions have been modified/amended by government from time to time. Like income tax incentives have been withdrawn by governments w.e.f. 1.4.2021. Likewise, recently government allowed half of employees of SEZs to work from home[26], which is an example of non-fiscal incentives. All major central incentives/exemptions available to SEZ units along with their subsequent amendment are given in **Table 1.3**.

[26] http://sezindia.nic.in/upload/uploadfiles/files/(Third%20Amendment)%20Rules%2C%202022.pdf

Table 1. 3: List of Fiscal Benefits Enjoyed by SEZ Units under Central Act

Sl. No.	Nature of Incentive/ Exemption	Statutory Act	Description	Subsequent Amendment, if any
1	Income Tax Holiday	Income Tax Act, 1961	For SEZ units, Section 10AA provides a 100% income tax exemption on export profits for the first five years, followed by a 50% exemption for the next five years and a 50% exemption on exported profits that are reinvested for the subsequent five years.	Exemption withdrawn w.e.f. 01.04.21
2	Exemption of Dividend Distribution Tax (DDT)	Income Tax Act, 1961	Exemption from payment of Dividend Distribution Tax (DDT) u/s 115-O (6)	Exemption withdrawn w.e.f. 01.06.2021
3	Exemption of Minimum Alternative Tax	Income Tax Act, 1961	Exemption from payment of Minimum Alternative Tax (MAT) u/s 115JB (6)	Exemption withdrawn w.e.f. 01.04.2012
4	Exemption from payment of taxes, duties or cess	Sec. 7 of SEZ Act, 2005	On export/import of any goods or services or procurement from the DTA under all enactments specified in Schedule I of SEZ Act, 2005. At the moment, the schedule calls for 21 enactments.	
5	Exemption from payment of customs/excise/service tax/STT	Sec. 26 of SEZ Act, 2005	Every unit within a SEZ is free from paying • any duties imposed by the Customs Act of 1962 on products or services brought into or exported from India, • any excise taxes imposed by the Central Excise Act of 1944. • The Finance Act of 1994's Service Tax • Taxes levied on the sale and purchase of non-newspaper commodities; • Securities Transaction Tax imposed under Section 98 of the Finance Act of 2004	All these taxes/cess/duties mentioned have been subsumed under GST law and similar exemptions have been provided[27].

(Source: Data compiled from www.sezindia.nic.in and SEZ Act, 2005)

[27] Any supply to SEZ Unit has been made exempt vide Notification No. 64/2017 – Customs dated 5th July, 2017 (IGST Exemption)

The incentives mentioned in **Table 1.3** are only those which provided under central act. Similarly different state governments also provide incentives to SEZ units. There is no standardization of incentives provided by State governments. It depends from state to state. Some of the state incentives are listed in **Table 1.4**.

Table 1. 4: List of Fiscal Benefits Enjoyed by SEZ Units under Different State Act/Policy

Sl. No.	State/UT	Nature of Incentive/ Exemption	Description	Subsequent Amendment, if any
1	Maharashtra	Absence of the requirement to pay stamp duty and registration fee	100% Exemption from payment of stamp duty and registration fee under Sec. 9 of Maharashtra Stamp Act, 1958	Exemption given up to 2022
2	Karnataka	- Do -	50% Exemption from payment of stamp duty and registration fee vide Government Order No. CI 114 SPI 2007 dated 28.02.2009	-
3	Gujarat	Exemption from payment of electricity duty	The Unit located in the processing area of the Zone shall be exempted from the electricity duty under the Bombay Electricity Duty Act, 1958, for a period of ten years from the date of production in the case of manufacturing unit and from the date of supply of services in case of service unit. (Sec. 15(2)) of Gujarat SEZ Act, 2004	-
		Exemption from payment of stamp duty and registration fees	Levy of Stamp duty and registration fees on loan agreements, credit deeds and mortgages executed by the Unit, industry or establishment set up in the processing area of the Zone. (Sec. 21(1)(b)) of Gujarat SEZ Act, 2004	-
4	Uttar Pradesh	Exemption from payment of electricity duty	For a period of ten years, power generated or purchased for use in the processing area of the SEZ shall be free from electricity duty and taxes. (U.P. SEZ (amended) Policy, 2007, Part – A)	-
5	West Bengal	Exemption from payment of stamp duty and registration fees	All transactions and transfers of immovable property or documents relating thereto within a Special Economic Zone shall be exempt from payment of stamp duty and registration fee.	-

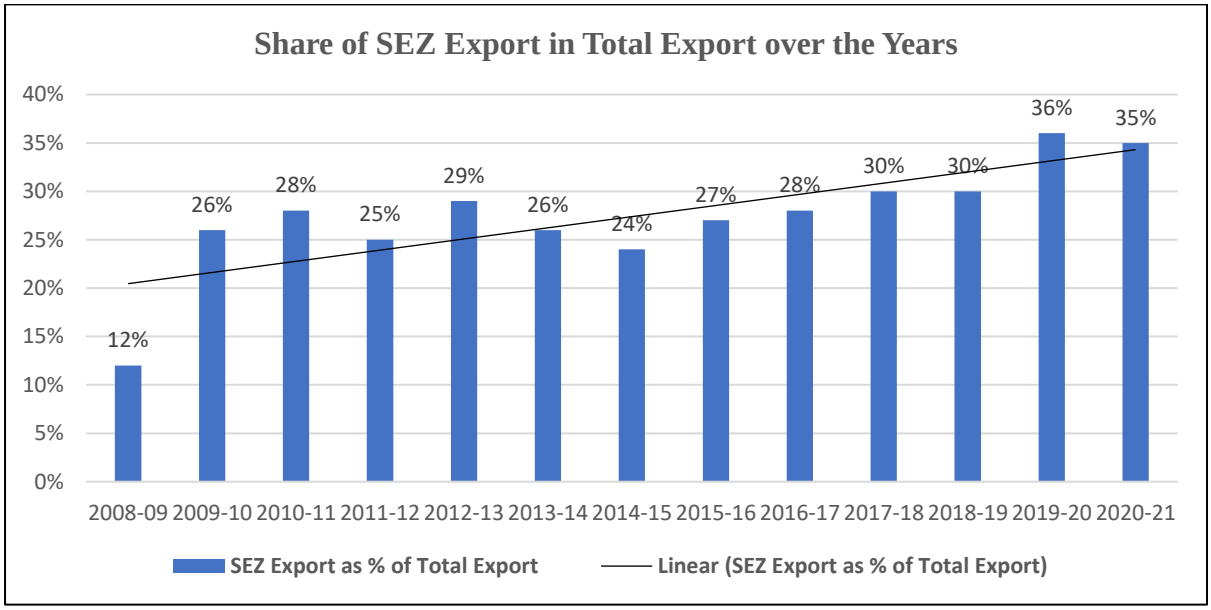
(Source: Compiled from various state SEZ Act/Policy available at www.sezindia.nic.in. Note: The above list is inclusive in nature. Almost all the states which have formulated state SEZ Act/Policy have exempted units from state levy of GST)

Among the non-fiscal incentives, majors are a) no routine examination by custom authorities of export / import cargo; b) dedicated custom wings for fast clearance; c) no licence required for import into SEZ etc.

1.5. Export Performance of SEZs in India

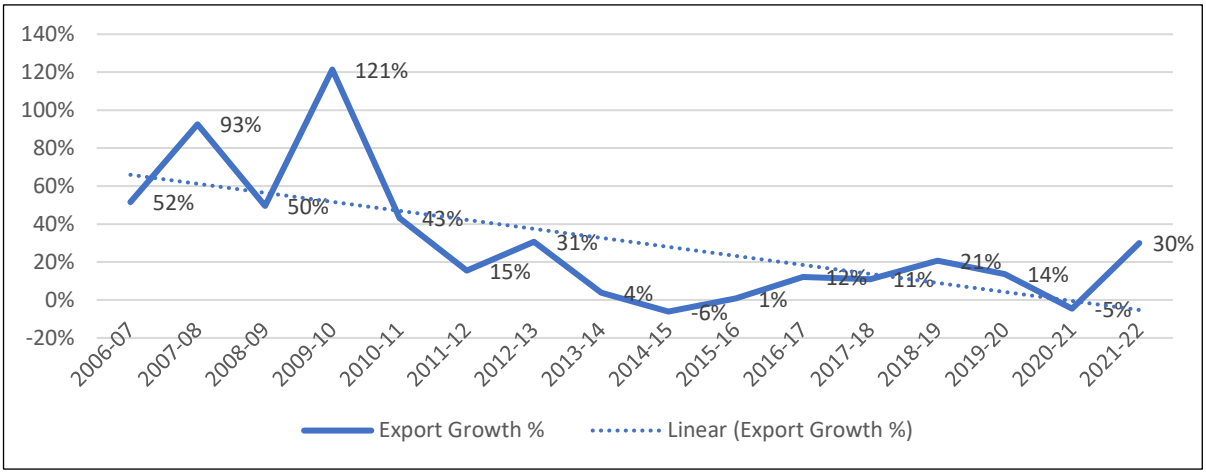
The primary objective of establishment of EPZ was to enhance the export of goods and services from India. Hence, the thrust remained on the export of goods and services since beginning. SEZ export constitutes an average of 27% of India's export for the period 2008-09 to 2020-21. The share of SEZ export is upward rising in India. SEZ export as percentage of total export in India is depicted in **Figure 1.8**. India is a bit late comer in the SEZ regime. India converted all the EPZs to SEZ only in the year 2000. The yearly export growth from SEZs remains highly volatile in the initial years registering 93% in the year 2007-08 and 121% in 2009-10. However, after the year 2010-11, volatility in the growth rate comes down and lied in the range of 31% to -6%. This shows a declining trend in export growth over the years. The year-on-year export growth rate is depicted in **Figure 1.9**.

Figure 1. 8: Share of SEZ Export in Total Export from 2008-09 to 2020-21



(Source: Reserve Bank of India – India's Foreign Trade in Rupee and SEZ India website www.sezindia.nic.in)

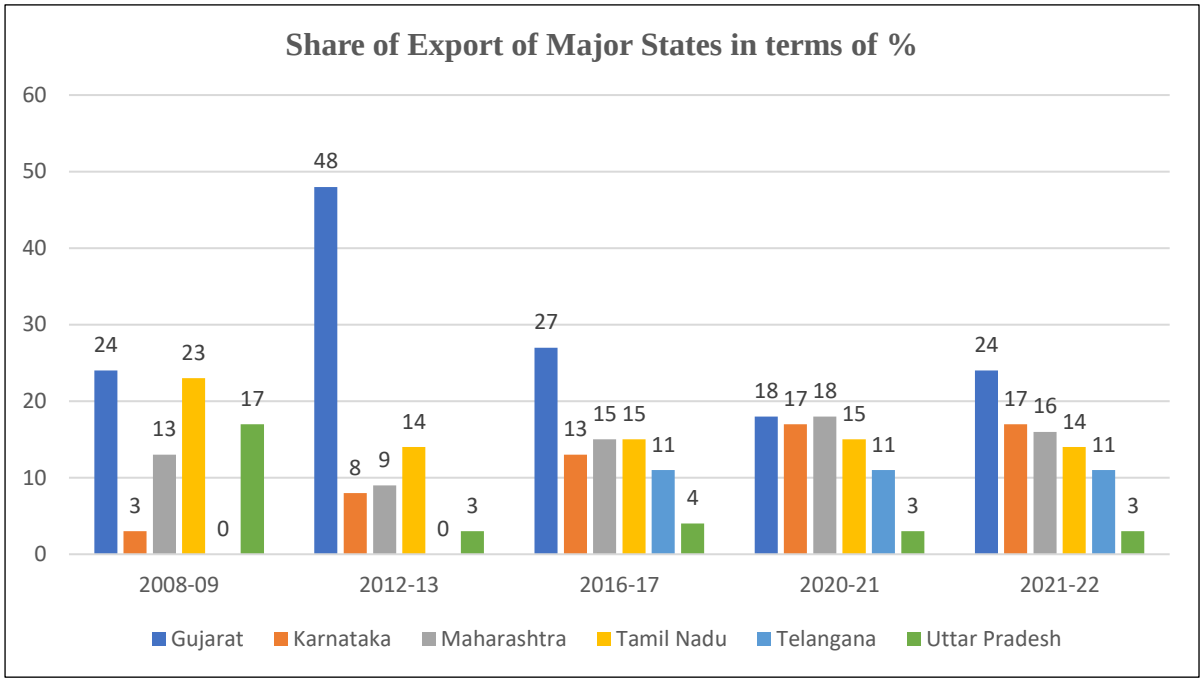
Figure 1. 9: Year-on-year export-growth from SEZ for the period 2006-07 to 2021-22



(Source: Data compiled from www.sezindia.nic.in and Lok Sabha Unstarred Question No. 2009, answered on 3rd July, 2019)

The state-wise export performance reveals some interesting facts. There are only handful states in India which makes major share of exports from India. This includes Gujarat, Karnataka, Maharashtra, Tamil Nadu and Telangana. These 5 states together made 82% of total SEZ export in the year 2021-22. This shows dependence of export on some limited states. Most of these states are either coastal states or technology hubs in India. Also, these states are better off than other states in terms of infrastructure and governance. Among the exporting states, Gujarat has the largest share of 24% in 2021-22. The SEZ export share of major states are given in **Figure 1.10**. When we check the disaggregated export data i.e., state-wise export of major states, we find high volatility in export growth rate in all the major exporting states. Even in many states we can see negative growth rate in some years. These are depicted in **Figure 1.11**.

Figure 1. 10: State-wise SEZ Export Share in Different Years

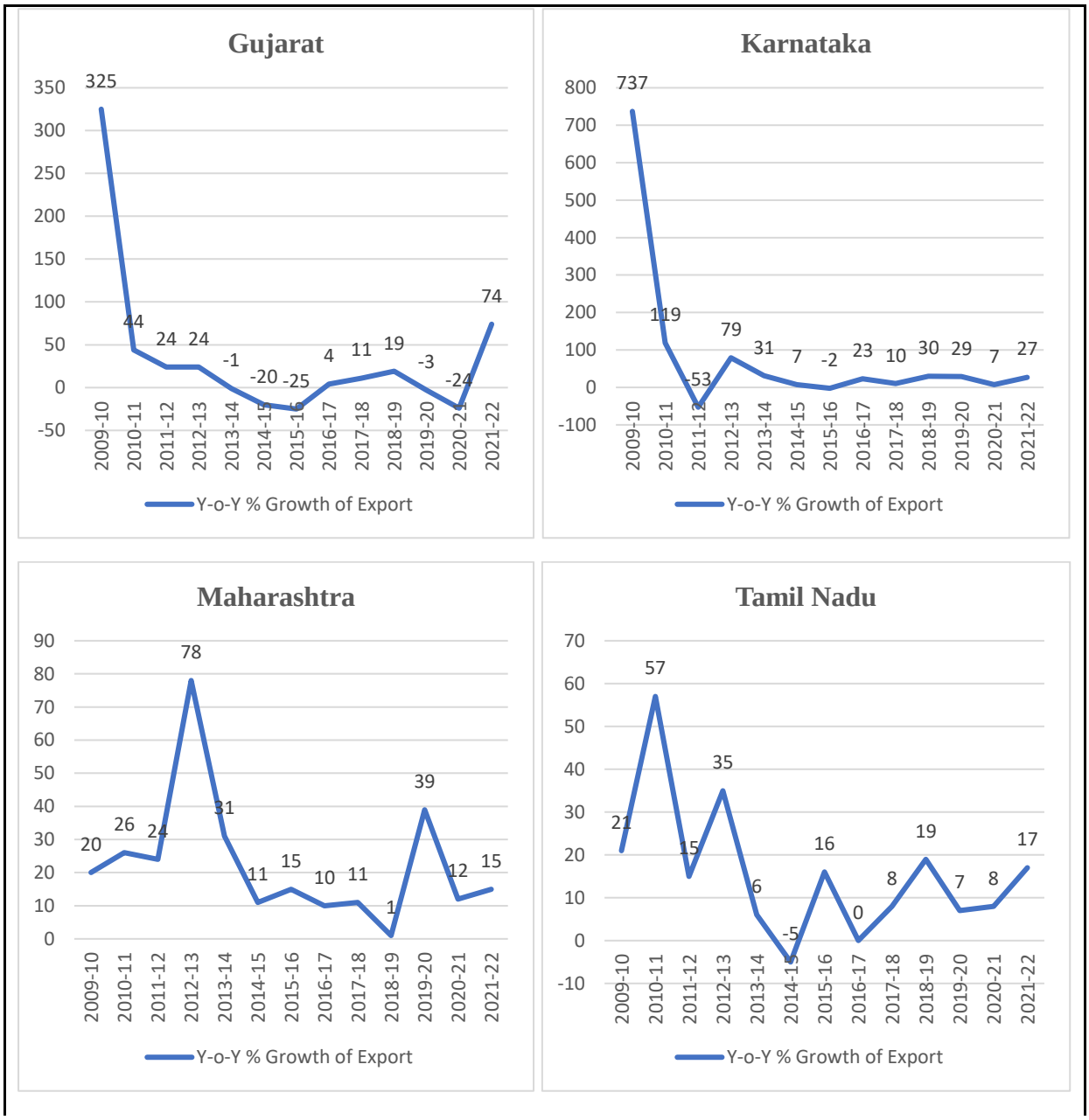


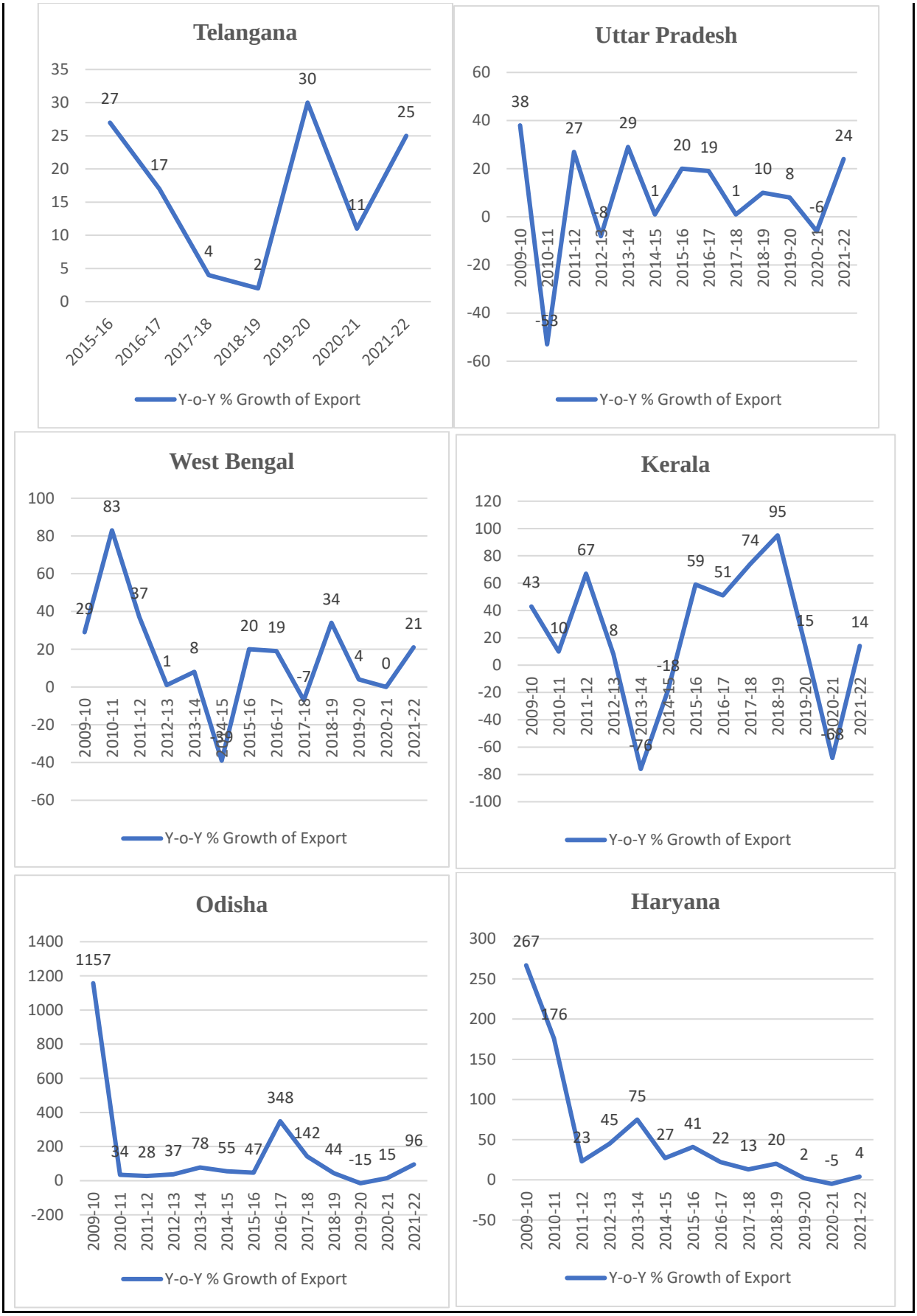
(Source: Data provided by SEZ Division, Department of Commerce, Ministry of Commerce & industry)

High growth in export rate were seen during the period 2008-09 to 2011-12. Thereafter the export growth came down, may be, because of government's policy change in respect of withdrawn of tax incentives. Mushrooming of SEZs also can be seen in this period. Consistency in growth rate cannot be seen in states which have low share of export like West Bengal (2%), Odisha (3%), Madhya Pradesh (1%), Uttar Pradesh (3%) and Andhra Pradesh[28] (3%)[29]. Most of the exporting states' growth rate have broadly stabilised after 2011-12 and in long run can be seen downward sloping. Overall, we can say the SEZs performance in terms of export is outstanding.

[28] The state Telangana is bifurcated from Andhra Pradesh in 2015-16 and bifurcated data is available since then.
[29] All the figure in parenthesis is share of Export in percentage terms for the year 2021-22.

Figure 1. 11: Year-on-Year Growth in SEZ Export in Major Indian States

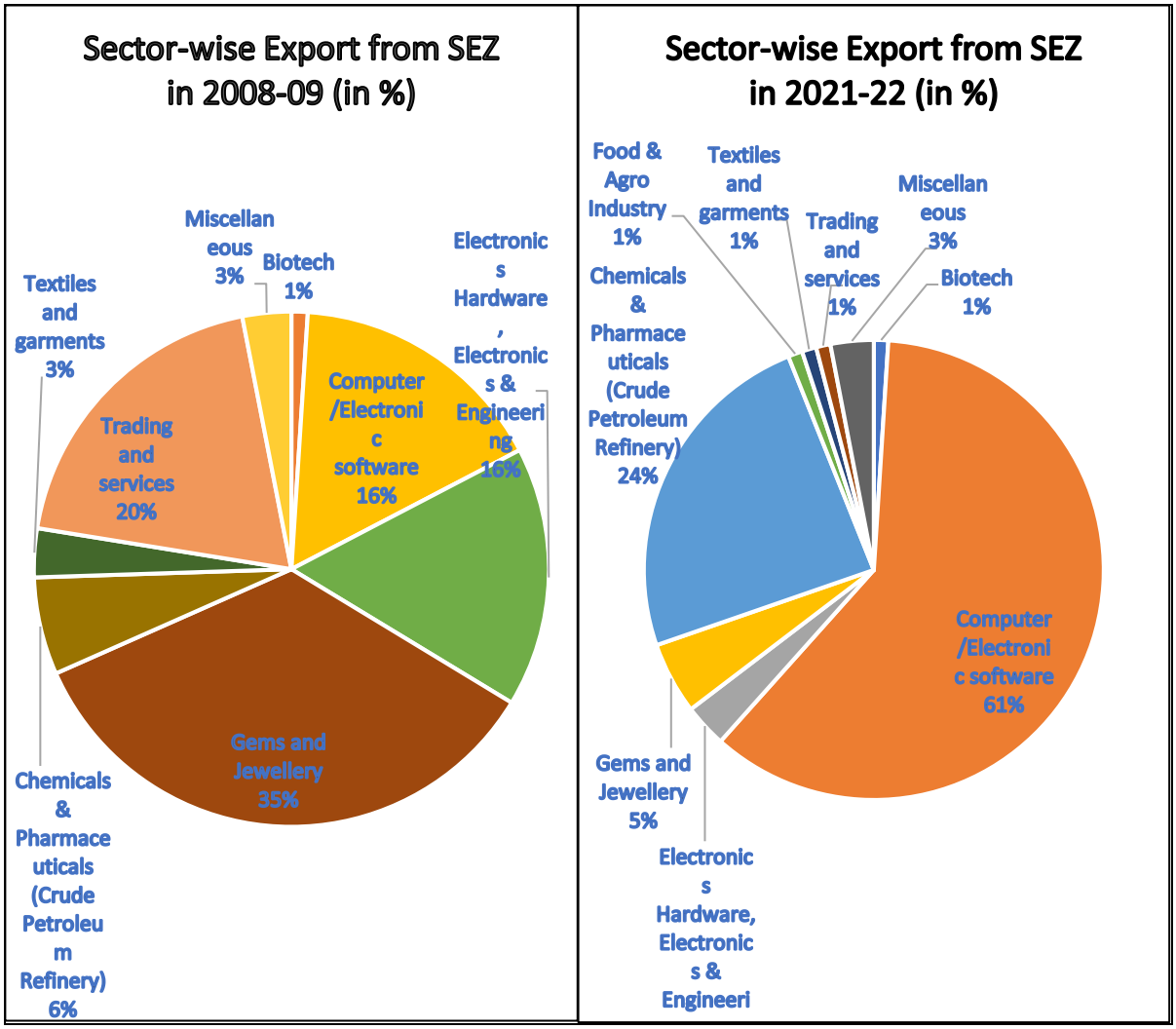




(Source: Data provided by SEZ Division, Department of Commerce, Ministry of Commerce & industry)

SEZ export data can again be classified in terms of sector-wise export. In India, SEZ export are highly concentrated to IT/ITeS sector, Chemical and Pharmaceuticals (Crude Petroleum Refinery) and Gems & Jewellery sector. Export from these three sectors account for 86% of total export in the year 2021-22. IT/ITeS sector alone accounts for 61% of total SEZ export. The share of IT/ITeS sector in export increased from 29% in 2009-10 to 61% in 2021-22. Gems & Jeweller sector's export increased from INR 33,436 crores in 2008-09 to INR 76,318 crore in 2019-20. Export growth increased by almost 37 times in Chemicals & Pharmaceuticals sector in between 2008-09 and 2021-22. Sector-wise export from SEZ in 2008-09 and 2021-22 is depicted in **Figure 1.12**.

Figure 1. 12: Sector-Wise share of Export from SEZ in 2008-09 and 2021-22

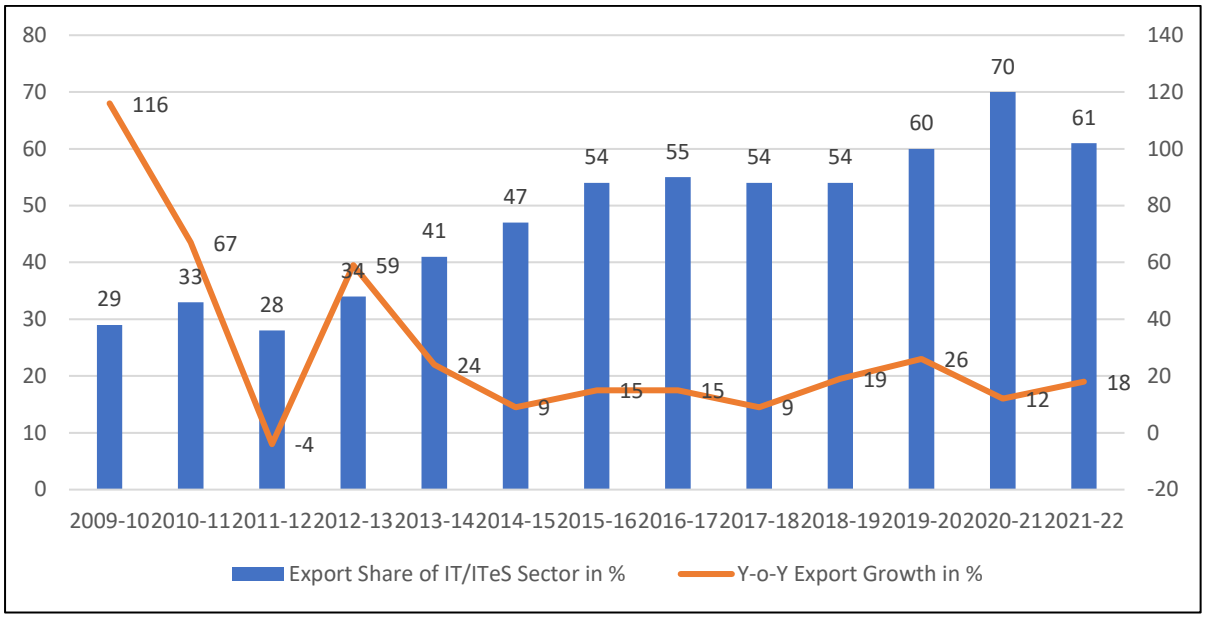


(Source: Data provided by SEZ Division, Department of Commerce, Ministry of Commerce & industry)

The dominance of the IT/ITeS industry in SEZ export is shown in **Figure 1.13**. Share of export from IT/ITeS sector increased by more than double from 29% in 2009-10 to 61% in

2021-22. Also, the growth rate of export remained highly volatile for IT/ITeS sector up to 2012-13 ranging 116% in 2009-10 to -4% in 2011-12. After 2011-12, volatility in growth rate to some extend stabilised and ranges in between 9%-34%. This can be seen in **Figure 1.13**.

Figure 1. 13: Share of Export and Year-on-Year Export Growth Rate of IT/ITeS Sector



(Source: Information provided by SEZ Division, Department of Commerce, Ministry of Commerce & industry)

1.6. Plan of Chapters

The entire study is divided into the following seven chapters. Chapters along with their brief description is given in following:

- Chapter 1 – *Introduction:* This chapter discusses about the concept of SEZ, its role in economic development, major comparison of Indian SEZs with other developing countries and export performance of Indian SEZs.
- Chapter 2 – *SEZs in India: Administrative Framework, Development Process, Distribution and Recent Development:* The administrative framework of SEZ, SEZ set-up process, state-wise and sector-wise SEZ distribution India and some recent issues like withdrawn of tax exemptions, reduction in land requirement, etc. have been discussed in this Chapter.
- Chapter 3 – *Review of Literature, Identification of Research Gap and Framing Research Objectives:* Review of literatures, identification of existing research areas and objectives of the study are framed in this chapter.

- Chapter 4 – *Non-operational Information Technology / Information Technology enabled Services (IT/ITeS) SEZ in India:* This chapter discusses first objective of the study. An effort has been made to identify factors for non-operative condition of large number of IT/ITeS sector SEZ.
- Chapter 5 – *SEZ Investment and State SEZ Act / Policy in India:* This chapter discusses second objective of the study. The impact of State SEZ Act / Policy on SEZ investment has been assessed in this chapter.
- Chapter 6 – *Employment Generation by SEZs in India:* This chapter discusses the last objective of the study. The employment generation by SEZs have been studied from different perspective in this chapter.
- Chapter 7 – *Findings, Policy Recommendations and Conclusion of the Study:* This chapter shows overall major findings of the study, policy recommendations followed by concluding remarks and the way forward. It also lists limitations of the study and scope for further study.

An effort has been made to align different chapters with the overall objectives of the study.

CHAPTER - 2

SEZs in India: Administrative Framework, Development Process, Distribution and Recent Development

Chapter – 2: SEZs in India: Administrative Framework, Development Process, Distribution and Recent Development

2.1. Introduction

Before the introduction of SEZ Act in 2005, SEZs used to govern through export-import policy by the government since 1.4.2000. With the introduction of a dedicated law for SEZs, need for administrative framework arisen. A three-tier SEZ administration is introduced for better monitoring. However, the essence of SEZ scheme remains with single window system. As time passes, law changes as per the requirement. SEZs also wrapped up with different controversies. In spite of these, SEZs have generated significant export, employment and attracted investment.

This chapter discusses SEZ administrative framework in India, its development process followed by SEZ distribution in India, both state-wise and sector-wise. At the end some recent issues related to SEZ have been discussed like, minimum land area requirement, introduction of pure sector specific SEZs, withdrawal of tax exemption and World Trade Organisation (WTO) compliance in incentives. A thorough understanding of this chapter shall help to grasp the legal parameters of developing a SEZ and some recent issues it facing.

2.2. SEZ Administrative Framework

SEZs in India are administered in three-tier. At the apex level, there is SEZ Division which looks after all policy matters related to SEZs. SEZ Division works as nodal agency under the Department of Commerce, Government of India. A 19-member inter-ministerial body, known as the Board of Approval (BoA) supports SEZ Division to ensure orderly development and progress of SEZs in the country. At the state level, State government delegates its power and functions to the last level i.e., Zonal Development Commissioner (DC). Each zone is headed by a Zonal DC. Zonal DC has legislative, executive and judicial responsibilities to run SEZs in an effective and efficient manner (Jenkins *et. al.* 2015). The Zonal DC also facilitates and administers the developers, co-developers & units located within the respective SEZs.

2.3. SEZ Development Process

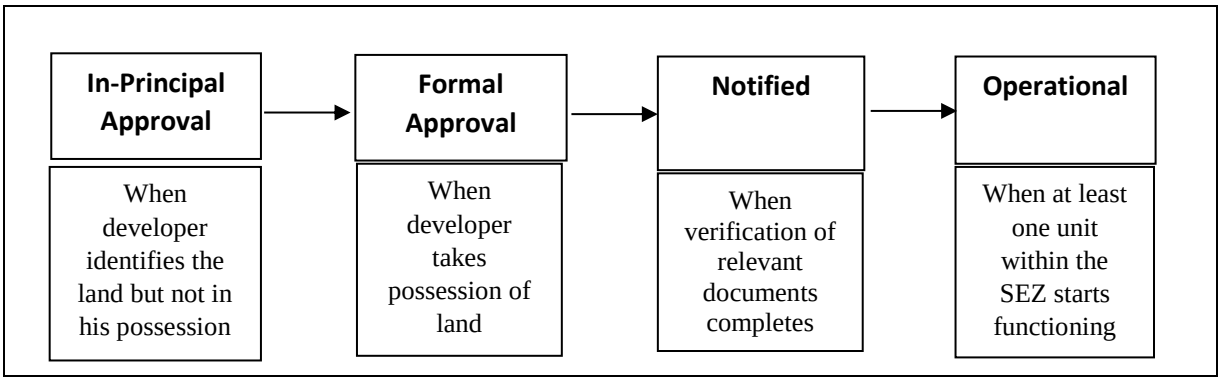
2.3.1. Setting up a SEZ

It is important to note how a SEZ is set up in our country. SEZ set up process is four-fold in India as shown in **Figure 2.1**. The entire process is specified in SEZ Act and Rules. SEZ can be developed by the Central government or State government or any private player, according to the Act. The developer, after identifying the land, submits the proposal to state government who shall forward the same with its recommendations to Board of Approval (BoA), the apex body of SEZ regulations. The BoA can accept/reject the proposals and may give in principal approval. In the second stage, the developer takes possession of the land and urges the BoA for providing formal approval. Next, on submission of all other required documents and verification, the SEZ is notified and last, when at least one unit starts function in the SEZ, SEZ becomes operational. However, at any stage, if the developer wants to exit, he can do so on making an application to BoA and upon payment of all taxes which has been exempted to developer being a SEZ.

Therefore, the SEZ developer develops the physical infrastructure within the demarcated area and SEZ units does the business within the developed area. There is no minimum investment or area criteria for SEZ units. Both the SEZ developers and units are eligible for certain fiscal and non-fiscal incentives as per the Central government and respective State government's prevailing laws in force from time to time. The tax exemptions and other concessions allowed to SEZs are inserted into the SEZ Act, 2005. Like, for the year 2018-19, deductions allowed for export profit to corporate units located in SEZs (u/s 10AA of Income Tax Act, 1961) was INR 23,261 crores and deductions allowed to undertakings for development of SEZs and industrial parks (u/s 80-IA of Income tax Act, 1961) was INR 1,099 crores[30]. There is upfront exemption from payment of GST on all types of goods or services required for authorised operations by SEZ units or developers. Many of the State governments provide exemption from stamp duty, exemption from electricity duty and other fiscal benefits.

[30] Statement of Revenue Impact of Tax Incentives under the Central Tax System: Financial Years 2018-19 and 2019-20, Union Receipt Budget, pp.32

Figure 2. 1: SEZ set-up process in India



(Source: Mukherjee, A. et. al. (2016) Special Economic Zones in India, Status, Issues & Potential. Springer, pp. 58)

2.3.2. Setting up a unit in SEZ

Procedures for establishing a unit in a SEZ are also outlined in the SEZ Act of 2005. According to SEZ Rule 11(9), developers may lease land for the construction of units but may not sell land. For the purpose of approving, amending, or rejecting applications to construct units for manufacturing, providing services, storage, or trading in the SEZ, each zone has a committee, namely Unit Approval Committee (UAC) designated for this purpose. The UAC, which is chaired by the DC, is made up of a number of delegates from State and Central government ministries. The approval committee has the power to approve imports or purchases of goods from the Domestic Tariff Area (DTA), as well as the outside service provider or DTA for authorised operations in the SEZ. A proposal must be submitted to the DC and properly reviewed in order to be submitted to the UAC for approval within 15 days of submission in order to create a unit in the SEZ. To establish a unit in the SEZ, a person must submit a proposal to the DC, who must review it thoroughly and then, within 15 days, submit it for approval to the Approval Committee. The DC must present to the BoA for approval any proposals for the establishment of a unit requiring an industrial licence or involving international collaboration or FDI. The BoA must inform the unit within 45 days whether the proposal has been approved or rejected. It is necessary for a unit established in the SEZ to generate positive net foreign exchange (NFE). This will be computed cumulatively starting five years after manufacturing starts. A Most-Favoured-Nation (MFN) tariff must be paid in order to sell products to the DTA. A unit may also choose to leave the SEZ with the DC's consent, provided that all necessary exempted duties earlier availed are paid.

2.4. Present Status of SEZs in India

As of 30th November 2021, 425 Formal Approvals for SEZ development have been granted to various developers. Among these, 376 SEZs have been notified (including 7 Central government and 12 State government/private sector SEZs set up prior to the passage of SEZ Act, 2005). Total notified SEZ area remains 41708.61 Ha. Till 30th September 2021, total investment made in these SEZs is INR 6,28,565.89 crore and these SEZs have generated 25.60 lakhs employment[31]. 267 SEZs remained operational in the country with 5,604 approved units in these SEZs[32].

2.4.1. State-Wise Distribution

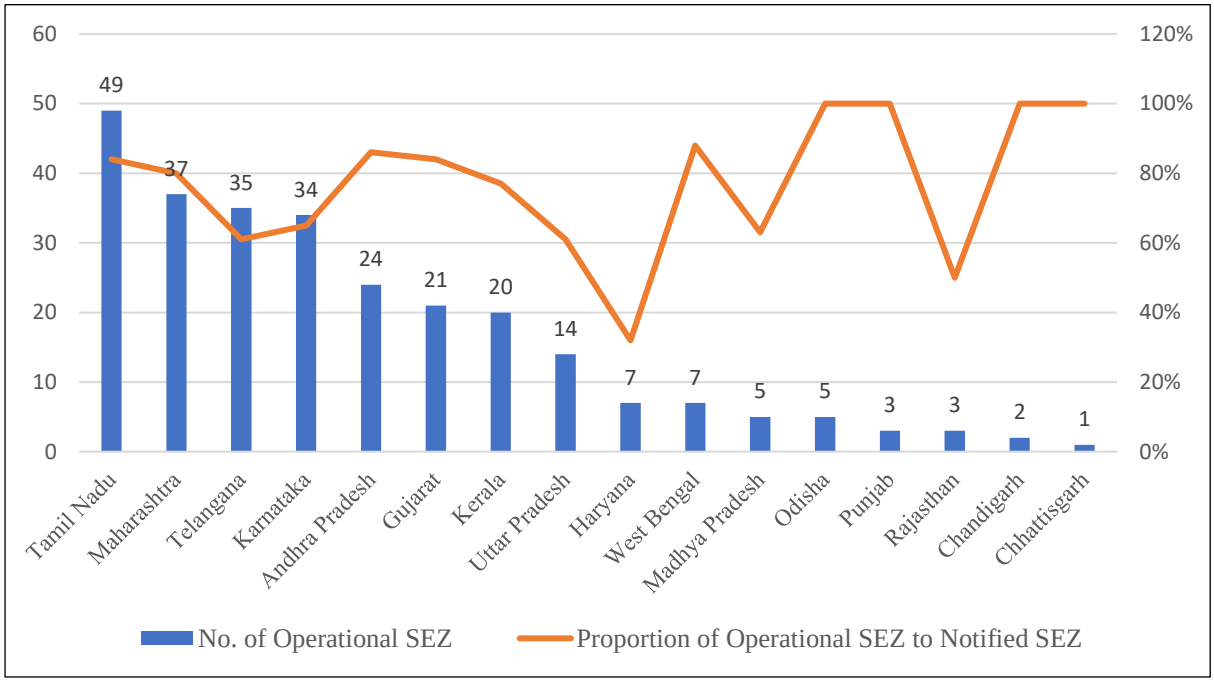
Most of operating SEZs in India are concentrated in coastal states making unequal distribution among states. The lists of States with number of operating SEZs are given in **Figure 2.2**. Though formal approvals are given to SEZs located across 21 states, operational SEZs are located only in 16 states. Only 5 States (Tamil Nadu, Maharashtra, Telangana, Karnataka and Andhra Pradesh) in India account for 67% of total number of operational SEZs. States like Goa, Delhi & Jharkhand does not have any operational SEZ as on date. Moreover, north eastern states do not have any operating SEZs. Through Manipur, Nagaland, Sikkim and Tripura have notified SEZs. States like, Punjab Rajasthan, West Bengal and Haryana though set up SEZs in early days could not come out with much numbers till date. Though increase in number of SEZ depends on many factors including business climate in a state, near port availability, ease of doing business in that state and skilled and unskilled workforce. Another reason for uneven distribution is state government's policy towards SEZs. Like, in West Bengal, even though there is active State SEZ Act and Policy, the government is reluctant to give SEZ status to industries. This result in loss of SEZ investment in the state[33].

Another interesting point to note is proportion of operational SEZ to notified SEZ in states. States like Odisha, Punjab, Chandigarh and Chhattisgarh have made all its notified SEZ to operational SEZ. It is to be noted that these states have handful number of SEZ. However, states with larger number of SEZs like Tamil Nadu, Maharashtra, Telangana and Karnataka

[31] https://static.pib.gov.in/WriteReadData/specificdocs/documents/2022/jan/doc2022153001.pdf
[32] http://sezindia.nic.in/upload/uploadfiles/files/State11.pdf
[33] https://www.thehindubusinessline.com/news/national/centre-rejects-infosys-proposal-to-set-up-it-sez-in-west-bengal/article9017189.ece

have 60-80% ratio of operational SEZ to notified SEZ. The average of this ratio comes to 77%. The state wise proportion of operational SEZ to notifies SEZ is shown in **Figure 2.2**.

Figure 2. 2: State-wise Number of Operational SEZ and its Proportion to Notified SEZs as on 27.09.2021



(Source: Data compiled from www.sezindia.nic.in (Accessed on 30th November, 2021))

2.4.2. Sector-Wise Distribution

There are also certain tendencies in India's sector-wise SEZ distribution. The recent growth of IT sector coupled with service export benefits led to establish more IT/ITeS SEZs in country. Out of 267 operating SEZs, 60% SEZs belongs to Information Technology / Information Technology enabled Services (IT/ITeS[34]) sector[35]. This shows sectoral concentration of SEZs. The multi-product SEZs account for ~10%.

Single product manufacturing SEZs have been established across a broad range of products like gems & jewellery, engineering products, textile, pharmaceuticals, food processing etc. So, the overall manufacturing SEZ taking multi-product and single product together accounts for almost ~30% of operational SEZs in the country. Despite the fact that IT/ITeS SEZs are more prevalent, manufacturing SEZs are just as important and should not be completely disregarded. The sector wise number of SEZs are given in **Table 2.1**.

[34] IT/ITeS includes both electronic hardware and software. (Instruction No. 52, 20th April, 2010, SEZ Division)
[35] Sec.pdf (sezindia.nic.in)

Again, if we look broadly the service sector SEZs in recent times, many new services have been come up in the list. Like, India's first finance SEZ has been established in Gandhinagar, Gujarat known as Gujarat International Finance Technology (GIFT) SEZ Ltd. It has been formed to provide multi services related to finance. More than 10,000 people are employed in 144 units in the SEZ[36]. SEZs for Aviation Maintenance, Repair and Overhaul (MRO) services is another type of new SEZs in India. With the increasing demand of air transport, the MRO services are increasing rapidly and India has the potential to excel in this area. Free Trade Warehousing Zone (FTWZ) is also enjoying all the benefits of SEZ. Of late, FTWZ have been emerged as trading and warehousing hub. India has at present 4 FTWZ. Power SEZ is another new type of SEZ in India. Many power generating companies in India, classified themselves as SEZ and taking benefit of SEZ policy[37]. However, being the highly competitive market and repetitive change in regulation, the power SEZs are losing their interest in India. Pharmaceutical SEZ is another single product manufacturing SEZ in India. There are 14 operational SEZs in India belonging to pharmaceuticals/chemicals sector. Pharmaceuticals sector coupled with technical innovation and technology transfer gives more scope for future expansion of this sector in SEZ regime. The prime example of this is Serum Institute of India (SII) Pvt. Ltd., the biggest producer of vaccines in the world in terms of doses produced and marketed internationally. SII has been accorded SEZ status in 2006 with Serum BioPharma Park located in Pune. Presently SII has six units. SEZ status of this park helped the company to ring world class hi-tech and advanced machinery at zero duty in addition to all other sez benefits[38].

India being a developing country with abundance of skilled labour, may focus on SEZs with high employment intensity like food processing, footwear, gems and jewellery, textile, financial services etc. At the same time, as SEZs prime objective is to export of goods and services, India should find its competitive advantage in such industries where it can excel. Hence, the right balance of service SEZ and manufacturing SEZ may provide the optimum output to achieve India's SEZ objectives.

[36] Evaluating impact of SEZs in India through sectoral analysis and case studies, *pwc* (July, 2021); Accessed at https://www.epces.in/uploads/circular/SEZ-impact-assessment-study-report_PwC_revised-final-version.pdf
[37] http://sezindia.nic.in/upload/uploadfiles/files/20_1111.pdf
[38] Ibid.

Table 2. 1: Sector wise Distribution of SEZs in India as on 27.09.2021

Sector	Total Notified SEZ	Total Operational SEZ	Operational SEZ/Notified SEZ (in %)
Agro Processing	5	2	40%
Alumina/Aluminium	2	1	50%
Auto/Automobile Ancillary	3	2	67%
Aviation/Aerospace/Copper	4	3	75%
Mineral Based Industries	2	1	50%
Biotechnology	16	7	44%
Building Products / Transport equipment	2	2	100%
Electronic product/ Semiconductor/ Telecom equipment	5	5	100%
Engineering/Metallurgical Engineering	13	12	92%
Footwear/Leather	4	4	100%
Food Processing	2	2	100%
FTWZ	6	4	67%
Gems and Jewellery	4	4	100%
Handicrafts & Carpets	2	1	50%
IT/ITES/Electronic Hardware and Software	242	161	67%
Multi-product	26	25	96%
Multi- services/sector	4	2	50%
Non-Conventional Energy	2	2	100%
Pharmaceuticals/chemicals	17	14	82%
Port-Based Multi-Product	3	3	100%
Power/Solar	4	3	75%
Textiles/Apparel/Wool	9	7	78%
Writing and printing paper mills	1	0	-
Granite processing Industries and other allied machinery/ manufacturing	1	0	-
Total	**379**	**267**	**70%**

(Source: Sec.pdf (sezindia.nic.in))

The sector-wise classification also shows multi-product, pharmaceuticals and engineering sector SEZs are high in terms of number of operational SEZ to notified SEZs. However, IT/ITeS SEZs which are 60% of total operational SEZs in India, has 67% operational SEZs to Notified SEZs. Thus, policy must be designed so that these large number of non-operational SEZs can become operational at the earliest. Here, the sector wise policy must be clear and unambiguous.

In recent time, the government has issued a notification wherein all the existing notified SEZs have been deemed to be a multi-sector SEZ[39]. This move shall allow many sectors specific SEZ developer to lease out land to units which belongs to other sectors. As a result, the vacant land within SEZ shall be reduced.

2.5. Recent Development

The model of SEZ has seen many controversies in recent past. Critics have raised question of loss of national revenue in the name of zone development. The Central government projected that there would be revenue loss of INR 23,664 crores in 2020-21 as deduction of export profits of units located in SEZs u/s 10AA of Income Tax Act, 1961. Similarly, for SEZ developers the expected revenue loss was estimated at INR 440 crores in the same period[40]. Another controversy was parcelling of land for purposes other than SEZ. Comptroller & Auditor General (C&AG) in its performance report on SEZ has also mentioned about diversion of land for private industries[41]. Even after these controversies, there is no doubt that SEZs have contributed a lot to Indian economy in terms of export, employment, foreign direct investment, technology transfer etc. Since the very beginning of SEZ Act, the government has tried to make SEZ model as centre of excellence for export. The following sections shall point on some of the recent issues on SEZ administration and its present status.

2.5.1. Land Requirements and Unused Land

Land, being the most crucial and important component for SEZ development, needs to be identified by the SEZ developer only. As per the Ministry of Commerce & Industry, land is a state subject[42]. Thus, SEZ Act and rules have taken its hands completely off from land provisioning for development of SEZ. However, SEZ rules says that land must be contiguous,

[39] Vide Notification No. 940(E) dated 17.12.2019 by Ministry of Commerce & Industry (department of Commerce), a "multi-sector Special Economic Zone" means a Special Economic Zone for more than one sector where units may be setup for manufacture of goods falling in two or more sectors or rendering of services falling in two or more sectors or any combination thereof including trading and warehousing.

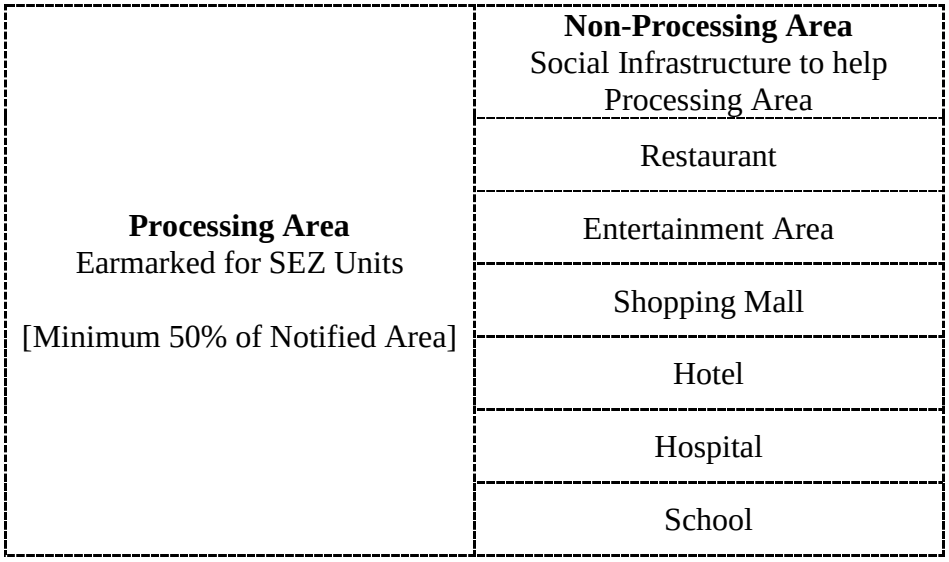
[40] Receipt Budget 2022-23, Statement of Revenue Impact of Tax Incentives under the Central Tax System: Financial Years 2019-20 and 2020-21, Annex – 7, pp.32-33

[41] C&AG Performance Audit Report No. 21 of 2014, pp.41

[42] Lok Sabha Unstarred Question No. 4035(H), Answered on 18th March, 2020. It must be noted that according to central government land is a state subject and hence neither Ministry of Commerce & Industries nor central government gets into acquisition of land for SEZ purpose. However, C&AG in their SEZ performance audit have stated that although, the acquisition of land is on the Concurrent List, land and its development are State matters. They continued by saying that MOC&I must oversee land purchase and denotification since both take place under the auspices of SEZs, which is a Central Scheme, and require the use of the Land Acquisition Act, which is another Central Act. (Page 35 of C&AG Report on Performance of SEZ)

vacant and without any throughfare. Land for SEZs is acquired in accordance with State government policies and processes. The Land Acquisition Act (LAA), 1984, controlled land acquisition in India until 2013. But in 2013, the government approved the Land Acquisition, Resettlement, and Rehabilitation Fair Compensation and Transparency Act (RFCTLARR) Act to replace the earlier LAA. In the new Act, the government mandates on adequate compensation on land acquisition so that minimum protest comes while acquiring land (Parwez S. & S. Vinod, 2016). The SEZ Act also requires minimum land area which varies on the nature of industry/sector and location of SEZ, and a registered lease deed[43]. The developer of SEZ either have to take land on lease from government or have to own it. The state government must give clearance certificate in respect of land. The developer is prohibited to sale the land by Rule 11(9) of the SEZ Rules, 2006. The developer can allot the land to units only on lease basis. According to the SEZ Act, at least 50% of the declared land must be set aside as a processing area where units must be placed. The remaining space will be classified as a non-processing area and used to house support facilities for the processing area (See **Figure 2.3**). Rule 11A of the SEZ Rules governs the use of the non-processing area such as residential facility, hospital, school, canteen, convention centre etc.

Figure 2. 3: Processing & Non-Processing Area in a SEZ



(Source: Compiled from SEZ Rules, 2006)

[43] Earlier there was a bar on maximum period of lease deed which was 30 years. However, the Department of Commerce, SEZ Section relax the period by issuing instruction no. 98 dated 29th August, 2019. Accordingly, now the developer can enter for even a long-term lease agreement based on the maximum tenure allowed under the State / Local Government law / regulations.

The minimum land area requirement as stated above is different for different industries and also varies based on the location of SEZ. In the initial days land requirement for SEZ development was very high for many sectors which was a cumbersome and major drawback for many developers. The department reviewed the situation and reduces the land area requirement for certain types of SEZs in September, 2013. Again, in December, 2019, the department further reduces land area requirement for SEZ development. These moves shall boost many SEZ developers to come up with new SEZ with small land area requirement. The **Table 2.2.** provides a detailed view of minimum land area requirement in different time period for different SEZs. It may be noted that for multi-product SEZ, the initial land area requirement was 1,000 ha. which was subsequently reduced to 500 ha. in 2013 and further reduced to 50 ha. only in 2019. Similarly, the minimum land area requirement was reduced for multi-service

Table 2. 2: Minimum land area requirement for SEZs in different time period

Type of SEZ	Minimum Land Area requirements for SEZs								
	For other than special states / UTs (in ha.)			For special states / UTs[44] (in ha.)			Minimum built-up area		
	Before 12.08.2013	Before 17.12.2019	After 17.12.2019	Before 12.08.2013	Before 17.12.2019	After 17.12.2019	Before 12.08.2013	Before 17.12.2019	After 17.12.2019
Multi-Product	1,000	500	50	200	100	25	50%	50%	Nil
Multi-service	100	50	50	50	25	25	50%	50%	
Sector-specific/ Port/Airport	100	50	50	50	25	25	50%	50%	
Electronics hardware and software	10	10	50	10	10	25	1,00,000 sq.m	Required minimum built-up processing space[45]	
Handicrafts	10	10	50	10	10	25	Nil	Nil	
Bio-technology, non- conventional energy, including solar energy equipment /cell[46]	10	10	50[47]	10	10	25[48]	40,000 sq.m	40,000 sq.m.	

[44] States of Assam, Meghalaya, Nagaland, Arunachal Pradesh, Mizoram, Manipur, Tripura, Himachal Pradesh, Uttarakhand, Sikkim, Goa or in a Union territory

[45] Category A cities – 1,00,000 sq.mtr., Category B cities – 50,000 sq.mtr. & Category C cities – 25,000 sq.mtr.

Cities by Category (Annexure IV A, as per Amendment to Rules 2013)

- Greater Mumbai, Delhi NCR, Kolkata, Chennai, Bengaluru, Hyderabad and Pune are under Category A.
- Ahmedabad, Bhubaneswar, Chandigarh, Coimbatore, Indore, Jaipur, Kochi, Lucknow, Madurai, Mangalore, Nagpur, Thiruvanathapuram, Tiruchirapalli, Vadodara, Visakhapatnam are included in Category B
- Category C: Additional cities

[46] Excluding the manufacturing and production of non-conventional energy.

[47] Other than Bio-tech services

[48] Ibid.

Type of SEZ	Minimum Land Area requirements for SEZs								
	For other than special states / UTs (in ha.)			For special states / UTs[44] (in ha.)			Minimum built-up area		
	Before 12.08.2013	Before 17.12.2019	After 17.12.2019	Before 12.08.2013	Before 17.12.2019	After 17.12.2019	Before 12.08.2013	Before 17.12.2019	After 17.12.2019
Gem and jewellery sector	10	10	50	10	10	25	50,000 sq.m.	50,000 sq.m.	
FTWZ	40	40	50	40	25	25	1,00,000 sq.m.	1,00,000 sq.m.	
IT/ITeS	10	Nil	Nil	10	Nil	Nil	1,00,000 sq.m.	Required minimum built-up processing space [49]	Required minimum built-up processing space [50]
Bio-tech or Health (other than Hospital) service	10	10	Nil	10	10	Nil	-	-	Required minimum built-up processing space [51]

[49] Category A cities – 1,00,000 sq.mtr., Category B cities – 50,000 sq.mtr. & Category C cities – 25,000 sq.mtr.
Category Cities (Annexure IV A, as per Amendment to Rules 2013)
Category A: Greater Mumbai, Delhi NCR, Kolkata, Chennai, Bengaluru, Hyderabad, Pune
Category B: Ahmedabad, Bhubaneswar, Chandigarh, Coimbatore, Indore, Jaipur, Kochi, Lucknow, Madurai, Mangalore, Nagpur, Thiruvanathapuram, Tiruchirapalli, Vadodara, Visakhapatnam
Category C: Other cities
[50] Category A cities – 50,000 sq.mtr., Category B cities – 25,000 sq.mtr. & Category C cities – 15,000 sq.mtr.; The category of cities remains same.
[51] Ibid.

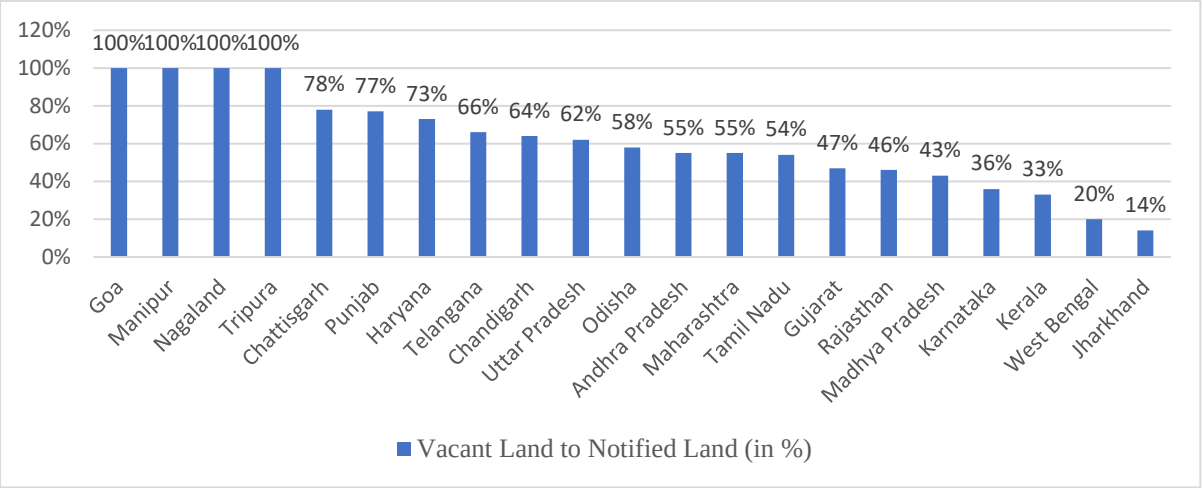
SEZ and sector specific SEZ/port/airport SEZ to 50 ha. For IT/ITeS SEZ, initially there was a land requirement of minimum 10 ha. which was withdrawn since 2013. However, IT/ITeS SEZ need to built-up minimum area according to the location it is proposed to be set-up. SEZ set up for bio-tech or health (other than hospital) are also not required to have minimum land area. However, the location-specific minimum built-up area must be adhered to. Getting a large parcel of contiguous vacant land for as per the SEZ rule was really difficult issue in most of the states. The reduction in land area requirement shall mitigate the hardship faced by developers since long.

Another issue remains with SEZ development is unused land or vacant land. Many a time, developers thinks that once SEZ becomes successful, the land value appreciates in surrounding area and thus it may become costlier to acquire land later on. On this logic, many developers acquire large area of land than their present requirement and subsequently most of the land remains vacant and unutilised. Data reveals a large number of SEZs could not use their notified land for SEZ over a long period. This results in non-utilisation of industrial / farming land for long. Almost 52% of notified land remains vacant in India as on 31.12.2012[52]. The state-wise vacant land to notified land is depicted in **Figure 2.4**. Of the total vacant land, Gujarat state accounts for 37%[53]. Even within processing area ~45% of land remains vacant (Tewari. S., 2020). These indicates non requirement of large parcel of land for SEZ. Accordingly, the government reduces the minimum land area requirement, as mentioned earlier. In addition to this, many SEZs also have been de-notified in the last decade. Overall, it may be said that minimum land requirement and effective utilisation of the notified land must be balanced.

Very recently, a modification has been carried out by Notification No. G.S.R. 940(E) dated 17th December, 2019 for use of the unoccupied areas in SEZs and elimination of difference between sector specific and multi sector requirement. This will encourage additional investment and development in exports.

[52] Lok Sabha Unstarred Question No. 2318 answered on dated 16th March, 2022. Accessed at http://164.100.24.220/loksabhaquestions/annex/178/AU2318.pdf
[53] Ibid.

Figure 2. 4: State-wise total vacant land to total notified land in SEZs (in %)



(Source: Lok Sabha Unstarred Question No. 2318 answered on dated 16th March, 2022.)

2.5.2. Sector-Specific SEZ

In the initial days, all the EPZs were set-up as multi-product EPZ. That means within an SEZ, different units from different sectors are allowed to do their manufacturing or trading activity. Later on, many service providing units also started setting up their units in EPZ. So, manufacturing, trading and service, all three activities come under one SEZ. This model of zone has the main benefit of easy to entry and exit. However, the major drawback is that it is not customised for any particular sector's requirement. In other words, the type of infrastructure or environment that is required to set up a business of any particular sector was not exactly available in multi-product zone. To overcome this problem, the concept of sector-specific SEZ has come in. Another reason for rapid increase of sector specific SEZ is captive SEZ units. There are many business houses who wants to get SEZ benefits by developing their own SEZ. That means here the SEZ developer and SEZ units are from same group companies. Accordingly, the developer wants to build up the SEZ as per their business requirement which is known very well before developing SEZ. This reduces the unnecessary construction cost and makes the SEZ site as per requirement of the particular industry. IT/ITeS is one sector where large business houses set up captive units and makes the SEZ sector specific. Companies like Wipro, TCS, Infosys etc. are doing their business from SEZ which is developed by their group company as per their needs. This helps them to focus only on their business as the infrastructure and environment is meant for them.

One more reason for sector specific SEZ set-up is locational advantage. As the product specific SEZ shall have a trend of locating near the port for easy import of raw material and

export of finished goods. This also saves them a lot in terms of transportation cost[54]. However, for service SEZs like IT/ITeS, financial etc. does not have any such requirement of locating near port. Rather, these type of SEZs prefer to locate within or near cities where skilled workforce, easy connectivity, education and medical facility are easily available.

SEZs account for ~35% of India's export in FY 2020. Service sector comprises 60% and manufacturing sector 40% of SEZ's export profile. Petrochemicals and gems and jewellery make up around 62% of the manufacturing sector. Thus, it is needless to say the importance of sector specific SEZ, and more particularly manufacturing sector SEZs, to excel export performance. Pharmaceutical, metal-based, automobile, and rubber and plastic sector are some of the sectors which have enabled higher value-addition in SEZs as compared to rest of India. This is shown in **Figure 2.5**. Hence, India must understand its potential in manufacturing sector and accordingly develop SEZs where it has great potential.

So far, some of Indian SEZs have excelled in their respective field. All of these SEZs have been established as sector-specific SEZ. We must take a lesson to understand these SEZ's competitive advantage and their success strategy. In the following paragraphs I shall discuss some of the sector-specific SEZs in India where ample opportunities awaiting to explore as SEZ scheme.

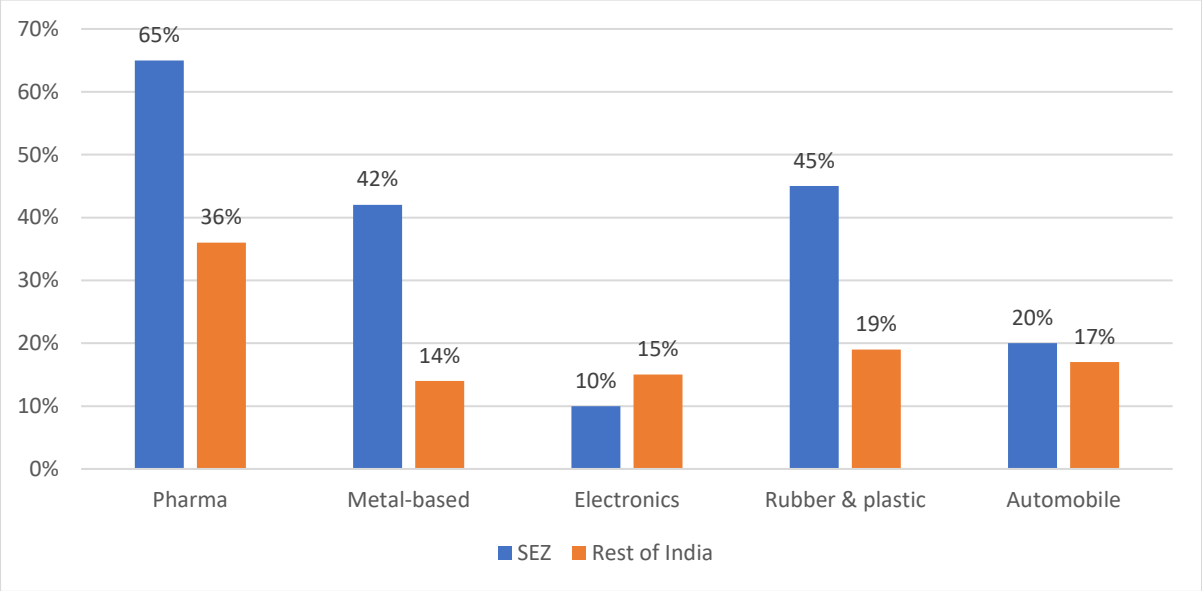
A SEZ unit has been established in Coimbatore by the joint venture (JV) between Larsen & Toubro (L&T) and the European business MBDA. In Aspen SEZ, the unit is situated. L&T MBDA engages in the production and distribution of highly sophisticated missiles as well as the assembling and integration of missile subsystems. The joint venture has resulted technology transfer between the companies. MBDA has provided all the machineries and tools which are not available in the open market. The employees of the JV were all sent to headquarter of MBDA, in France, to uplift the skill and understand newer technology. Constant support on new technology and back-end issues are provided to make the SEZ unit a success. This type of Sector specific SEZ may bring new technology, innovation and can develop skills which India need the most at present.

The largest vaccine maker in the world in terms of the quantity of doses produced and distributed internationally is Serum Institute of India (SII) Pvt. Ltd. In 2006, SII established Serum BioPharma Park, the largest biotech SEZ in India. This is sector specific SEZ located in Hadapsar, Pune and spread across 31 acres. The SEZ is home to SII's captive units. The high-tech production facility for medicines and vaccines is located next to the manufacturing

[54] This is the reason all the EPZs in India were set up initially near the sea-port.

plant currently used by SII. In addition, it also engages in R&D facility. SII is a major vaccine exporter to USA & EU market. The entire facility in the SEZ is of international standards and has been granted US FDA certification, which is a sign of high standards being included into the production process, infrastructure, and quality, among other things. SII remained one of the largest exporters of COVID-19 vaccine to the world. Being the SEZ unit, the major advantage enjoyed by SII are tax holiday, single window clearance system, among others. This SEZ shows hi-tech manufacturing may bring excellence if coupled with SEZ benefits.

Figure 2. 5: Value Addition (%) in manufacturing product in SEZs and Rest of India



(Source: Evaluating impact of SEZs in India through sectoral analysis and case studies by PwC, July, 2021[55])

Next comes to, the Gujarat International Financial Tech (GIFT) city which is located between Ahmedabad and Gandhinagar in Gujarat. Gift city is spread across 886 acres. Within GIFT city a SEZ namely, International Financial Service Centre (IFSC) has been set-up in an area of 261 acres. IFSC provides multi-services including offshore asset management, capital markets, offshore insurance, IT/ITeS and many auxiliary services. In order to streamline processes and improve Ease of Doing Business, the International Financial Services Centres Authority Act, which was approved in 2019, established a single authority to oversee all financial services in the IFSC. The export from IFSC is also increasing steadily. In 2019-20,

[55] The report can be accessed at https://www.epces.in/uploads/circular/SEZ-impact-assessment-study-report_PwC_revised-final-version.pdf

the total exports from IFSC stood at Rs.4,298 crores. It recorded a CAGR of ~260% between 2015-20. This kind of finance SEZ is first in India.

2.5.3. Withdrawal of Tax Incentives

Tax incentives were one of the most attractive components for doing business in SEZ scheme. Before introduction of SEZ Act, 2005, income tax incentives were provided under Section 10A & Sec. 80-IA of Income Tax Act 1961, for free trade zone and EPZ developer and units respectively. However, with enactment of SEZ Act, 2005, to have confidence among the investors, income tax benefits were embedded in SEZ Act and also corresponding provisions were inserted in Income Tax Act. Mainly, exemption from payment of export profit to SEZ Units, business profit to SEZ Developers, MAT Exemption and DDT exemption were allowed under Income Tax Act. Due to tax exemption, the government's revenue foregone in recent past is shown in **Table 2.3**.

Table 2. 3: Income Tax foregone over the years for SEZ Developers and Units

Figures in ₹ crores.

Financial Year	Deduction of profits of undertakings engaged in development of SEZs in pursuance to SEZ Act, 2005 (section 80-IAB)[56]		Deduction of export profits of units located in SEZs (section 10AA)		Total
	Corporate Entity	Others	Corporate Entity	Others	
2020-21[57]	1,015.04	247.00	23,664.81	1,263.55	**26,190.40**
2019-20	924.87	225.06	21,562.47	1,151.30	**23,863.70**
2018-19	1,097.76	44.97	22,889.65	740.15	**24,772.53**
2017-18	1,198.14	50.59	20,917.63	463.64	**22,630.00**
2016-17	1,676.62	30.56	19,695.99	360.59	**21,763.76**
2015-16	1,949.80	26.30	18,864.30	387.60	**21,228.00**
2014-15	1,548.30	20.39	16,685.53	337.74	**18,591.96**
2013-14	1,381.90	3.30	17,036.00	369.30	**18,790.50**
2012-13	1,253.30	8.60	13,535.20	383.80	**15,180.90**

(Source: Data compiled from various Union Receipt Budget, Government of India)

The data in **Table 2.3** shows that the government has foregone large amount of revenue over the years in SEZ policy. However, the benefit received has not been measures in monetary

[56] This does not include deduction of profits of undertakings engaged in development of SEZs and Industrial Parks u/s 80-IA of Income Tax Act, 1961.
[57] Projected

terms. Major benefit includes increase in export, large amount of domestic and FDI, employment generation and physical infrastructure development of these small enclaves.

Even with this income tax exemption along with other fiscal and non-fiscal benefits SEZs in India has not achieved much compared to other developing countries like China. It is also true that if income tax exemption is not given, then business houses shall not come to do business in SEZs. Because in SEZ, the some 'Special' element has to be there. This may be tax benefits or any other benefits. Most of the developing countries have given income tax exemption linked with some other conditions like, investment or minimum export linked or employment generation etc. However, in India, no such condition is linked to get income tax exemption.

The first income tax withdrawn was effected by finance department by withdrawing DDT vide Finance Act, 2011 w.e.f 1st June, 2011. Secondly, MAT was withdrawn for SEZ developers and units vide Finance Act, 2011. This has been made applicable from 01.04.2012. The department of commerce was pressing hard to restore the income tax exemptions originally envisaged in the SEZ Act, 2005. However, the finance department has not restored any withdrawal of exemptions.

Next, the government withdrawn income tax holiday available to SEZ developer u/s 80-IAB of Income Tax Act, 1961 w.e.f. 01.04.2017. This exemption was available for on income derived from the business of development of the SEZ in a block of 10 years in 15 years. Further, the government withdrawn Income Tax exemption on export income for SEZ units under Section 10AA of the Income Tax Act w.e.f. 01.04.2021.

So, the government slowly withdrawn all the income tax exemptions over a period of 15 years from the date of its applicability. These moves by the government may affect the sentiment of SEZ developer and units in a negative way. The government's argument that every business houses in the country must pay to the exchequer is fine but to run an economic development scheme the government must provide some sort of benefits to invite business houses for investment. Those of developers who have already invested a significant amount of money for SEZ development and could not make the SEZ operational on or before 01.04.2017, shall not get any income tax holiday benefit. These moves by the government shows lack of policy stability.

To compensate the 'Special' in SEZ, the government must work on something which can regain the lucrativeness of SEZ model. Because, if there is no tax concession, then there is

not much difference to do business within these SEZs and DTA. Hence, the government must work out how the SEZs can be made attractive by providing other benefits. One such way may be the world class infrastructure in the correct geographical location.

The current "Sagarmala Project," which the cabinet authorised in 2016, would now include coastal economic zones (CEZs), coastal economic units (CEUs), and port-led industry growth and exports. SEZs should have started off like this, much like the initial EPZs.

2.5.4. Synchronization of WTO Rules and SEZ Subsidies

In a report by World Trade Organisation in 2019, it ruled against India in a dispute filed by the USA related to SEZ's export promotion initiatives that are being provided by India. USA alleged that India is violating WTO's Subsidies and Countervailing Measures (SCM) agreement, by providing export subsidies through SEZ scheme. Export subsidies are prohibited under SCM agreement. There are limited exceptions to this rule for specified domestic countries (listed in Annexure VII of the WTO agreement) which –

- are least developed countries (LDC) designated as such by the United Nations and member of the WTO; and
- Have Gross National Income (GNI) below US$ 1,000 per capita (at constant 1990 dollars) for three consecutive years.

Further, export subsidy needs to be phased out in eight years when a country reaches at least 3.25% share in global exports of a certain product for two consecutive years.

According to SEZ Rule, SEZ Units are only required to achieve Positive NFE to be calculated cumulatively for a period of five years from the commencement of production. On achieving this NFE status, certain benefits are available to units through exemption; like income tax exemption, sales tax exemptions and customs duty on import. These conditionality of tax exemption and other subsidies on NFE earning is the main problem that USA has raised. According to USA, SCM agreement prohibits any subsidies which are contingent upon export performance.

The WTO asked India to withdraw all these subsidies which are violating SCM agreement within 180 days. However, India has preferred an appeal against the WTO's decision to its appellate body. The verdict from the appellate body is pending. However, India must be clear about SCM agreement and in particular, withdrawn of these prohibited subsidies. However, the developed countries used the same mechanism to transit themself

from developing to developed. In the words of Prof. Chang, the situation may be described as 'Kicking Away the Ladder'.[58]

In this context it is worth mentioning that most of the developing countries listed in Annexure VII are continuing with incentives for their SEZ/EPZ/FTZ etc. Amongst these only Pakistan has lower per capita GNI compared to India in Asia-Pacific region. Countries, such as, Indonesia, Philippines, Bolivia, Sri Lanka, Egypt, etc. are at much higher GNI levels compared to India. These countries are continuing to provide incentives without any phased-out planes (as of June, 2018). Despite the lower per capita GNI status of India than other countries as per Annexure VII, USA has alleged against India and no other country[59].

In order to create WTO-compliant alternatives to the current contested export subsidies under its SEZ plan, the Ministry of Commerce has already established a committee. The expansion of the new bonded manufacturing spaces concept and its connection with SEZs is one of the potential options being considered. Manufacturers are excluded from paying import tariffs on inputs and capital items used to generate export goods under this scheme, which was initially put into place by the Customs department in 2019. Unlike the previous system, which only allowed NFE earners to get these benefits, the new approach does not tie tax exemptions on imported capital goods and raw materials to export performance.

A number of other nations, like China and Vietnam, have adopted "smart" WTO-compliant subsidies; India could also think about doing the same. Instead of being tied to foreign exchange profits, incentives might be tied to spending on research and development projects and creating jobs in SEZs. Such subsidies are seen as "smart" because, despite the possibility of WTO action, they are unlikely to be challenged because it is very difficult to demonstrate that they violate the SCM agreement or have hurt another country's ability to compete. Subsidies administered by the Department of Commerce rather than specifically trade-oriented entities like the Directorate General of Foreign Trade (DGFT) may also serve to lessen the apparent trade connection of such programmes, making them more transparent.

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[58] http://www.personal.ceu.hu/corliss/CDST_Course_Site/Readings_old_2012_files/Ha-Joon%20Chang%20-%20Kicking%20Away%20the%20LadderThe%20%E2%80%9CReal%E2%80%9D%20History%20of%20Free%20Trade.pdf

[59] Revitalizing SEZs: From Islands of exports to catalyst of economic and employment growth. A report submitted by the Committee under the chairmanship of Shri Baba Kalyani.

The government may continue export subsidies on service as this is not falling under SCM agreement. This subsidy may be on research and development, more job employment or subsidies on indirect cost. Like Philippines and Vietnam provide subsidy on cost of transportation of employees. Similarly, China provides cost on branding SEZs in different world forum. Another way may be to integrate employment creation with incentives. Though at present Income Tax Act provides some deductions on new employment, but for exclusive SEZ no other provisions there. The government's ambitious 'Skill India' programme may be integrated with SEZ scheme.

Since July 2018, another 9 appeals have been submitted to WTO appellate committee and are presently waiting. India's appeal against the WTO ruling has been added to that list. Before the WTO's appellate committee takes India's case into consideration, all of these earlier appeals that are still unresolved must be settled. Therefore, India is not required to follow the WTO panel's ruling until then. The WTO's appellate body has been vacant since December 2019 as a result of the USA's obstruction of the admission of new members, thus it does not appear that this will happen anytime soon. This might be a part of an effort by the US to increase its direct influence over trade negotiations and erode the WTO's regulatory authority. Nevertheless, India must start working to shift export-linked incentives to other ways keeping in mind the future challenges it may face including SCM compliance.

CHAPTER - 3

Review of Literature, Identification of Research Gap and Framing Research Objectives

Chapter – 3: Review of Literature, Identification of Research Gap and Framing Research Objectives

3.1. Introduction

Review of existing literatures help to identify the research gap when read with statement of problem. This chapter reviews various existing literatures, both at national and international level, discusses in detail the statement of problem to identify research gap. The identified research gaps are framed to suitable research objectives.

3.2. Review of Literature

Several studies have been undertaken with respect to SEZs covering areas of economic development, rural development, impact on society and economy, pros and cons, problems and prospects, political issues, policies and others. This review of literature is undertaken to understand better the rationale and the practically manifest details about SEZs. The purpose of this literature is to glean a background relevant to the topic, to know about the theoretical concepts related to SEZs, and to get an idea of past research with a view to prioritize and structure the present research. An attempt is made to compile the available literature from different articles in journals, books, government reports, websites, etc. The review and the inferences drawn from different studies are summarized below:

Edy L. Wong (1987), in his study titled 'Recent Developments in China's Special Economic Zones: Problems and Prognosis'. It discusses about Shenzhen controversy in China primarily focusing foreign exchange leakages, cost ineffectiveness in attracting foreign investment, failure to achieve stated objectives and economic crimes and related social problems. The study analysed the inconsistencies in the SEZ policy, detailing China's goal to isolate its SEZs, the SEZs' reliance on market forces, and the predisposition of the SEZs toward capitalism. However, with the widespread promotion of SEZs and as a proving ground for China's new financial policies, the future of SEZs is bright. The study's conclusions state that, despite the controversy's limited effects on the nation's SEZ policy, SEZs are expected to continue to dominate economic discourse going forward.

Paul Krugman (1991) in his research article titled 'The Move Toward Free Trade Zones (FTZs)' has examined the impact of entering FTZs. Following a discussion of trade blocs and trade diversification vs. trade creation, the status of the economic system globally and the multilateral trade agreements of the WTO are covered. The idea that these SEZs were created based on commercial blocs may be more strongly supported as a result of the increased discussion around commercial blocs. Two significant ideas covered in the paper are the 'beggar-thy-neighbor effect' and the 'innocent bystander dilemma'. The origin of trade conflicts is attributed to trade blocs, and their role in fostering world prosperity is further discussed. Additionally, the report emphasised how successful free trade agreements are in fostering stronger economic growth.

Karen I. Mckenney (1993)[60] in his research titled 'An Assessment of China's Special Economic Zones' has attempted to determine whether or not the SEZs had achieved their intended objectives. The research started with an examination of the development of SEZs in China as seen via the many zones that have been set up all around the country. The SEZ's location evaluation was made for all the four zones and the improvement of the electronics enterprise has been given to factor out the increase withinside the employment possibilities and the gross output fee of the SEZs. The whole nation has been categorized into 6 areas and the percentage rate of growth has been calculated and the flow of FDI across the four SEZs has been documented. The stability of change has been measured and additionally the go with the drift of up-to-date generation has additionally been differentiated earlier than the creation of the SEZs. The end of the have a look at found out that the operationalisation of the SEZs withinside the country had executed the goals for which installed as of now. However, the destiny of the SEZs lies withinside the arms of Chinese leadership.

Hooshang Amirahmadi and Weiping Wu (1995) in their study titled 'Export Processing Zones in Asia' discusses about the performance of the EPZs in Asia. The study has described EPZ as a policy should be located at the intersection of three sectoral /spatial policies viz. free trade zone, industrial policy and growth centre strategy. The study has utilized the EPZ employment, exports and FDI to study the effectiveness of the EPZs that operate in the Asian countries. It revealed that the performance of the Asian EPZs in promoting exports is impressive, especially net exports. On the employment front there have been mixed performances and EPZs operating from these areas also managed to attain only limited amounts

[60] Karen I. McKenny (1993), An Assessment of China's Special Economic Zones. Retrieved at https://apps.dtic.mil/sti/pdfs/ADA276611.pdf

of FDI. Most EPZs in Asia generated very limited linkage effects on domestic economies except for zones in rather advanced developing economies. The conceptual pitfalls behind such performances are due to poor location choices, insufficient infrastructure and bureaucratic administrative procedures. The study concluded emphasizing the simplified rules and regulations and training of the local workforce and in addition, extension of privileges to firms producing exports irrespective of their locations for enhancing trade performance vastly.

Larry Willmore (1995), in his research paper titled 'Export Processing Zones in the Dominican Republic: A comment on Kaplinsky' examined the operation of EPZs in the country of Dominican Republic. The study identifies that EPZs as an unqualified success by describing as second-best policy. EPZs have created a greater number of jobs, transferred technology at a very low cost. The study also finds that EPZs are not the optimal policy for industrial development because it ignores the development throughout economy. The study suggests extension of incentives to all non-traditional exports with reforms such as simplifies customs procedure, access to material inputs at international prices, access to foreign exchanges etc. It raises concerns for transiting the Dominican Republic from EPZ to export processing country. The study concludes that country's unemployment, low wage rate and limited industrial skills are not desirable to transform the country from simple manufacturer to manufacturer with sophisticated technology.

John M. Litwack and Yingyi Qian (1998) in their study titled 'Balanced or Unbalanced Development: Special Economic Zones as Catalysts for Transition' viewed that SEZs can be used to make the advancement of convergence of the assets and furthermore give overflow impacts in light of FDI. These elements will empower the progress economies to deal with two basic issues to meet social consumption prerequisites and furthermore compel the state from confiscation. The study has constructed a hypothetical model to achieve harmony under the reasonable venture system. The study examined Chinese involvement in SEZs. The study point that how the Chinese economy has used the techniques to make an effective start with the activity of the SEZs. The concentration likewise examined the progressing economy of Russia, incapable to make such a positive effect that has been made by the Chinese economy. The explanations for such downsides are high, unsteady tax collection, ongoing assessment income emergencies, restricted assets of the state, and political tensions. The review uncovered that the Russian economy needs to concoct more special assessment rates and adaptable principles on a piece of drawing in FDI that will help the progressing economy to run the SEZs effectively.

Takayoshi Kusago and Zafiris Tzannatos (1998)[61] in their study titled 'Export Processing Zones: A Review in Need of Update' has brought out the need for the review in the existing EPZs system. The study began with the definitions and the growth trends of EPZ in the world countries. The investment and the types of industries that operate in the SEZs are given. The five issues that need to be addressed are incentive schemes, foreign ownership, types of ownership, technology transfers and working conditions in SEZs. There are overall positive economic impacts caused due to the operation of the SEZs but the costs of hosting a SEZ such as infrastructure costs, transportation cost, and provision of utilities are to be addressed through the review in the existing Policy. These policy implications must be carried out to enhance the performance of the existing SEZs and also to bring out a new trend in the operation of SEZs in the world countries that will provide the base for economic development of the world.

Xie Wei (2000), in his study titled 'Acquisition of Technological Capability through SEZs: The Case of Shenzhen SEZ' has put light on Shenzhen SEZ in China. The paper explores how Shenzhen SEZ has outnumber almost all other SEZs in the world in terms of technological upgrading, infrastructure enhancement, building on resources and shift towards higher value-added activities. The paper has identified four key characteristics of acquisition of technological capability in Shenzhen SEZ. These are –

a) Inward and outward market orientation,
b) Labour intensive phase for competitive advantage,
c) FDI as capital source and
d) Clear guidance from government.

The study concludes that economic growth does not necessarily lead to structural transformation in a SEZ. Technological learning and its absorption with rapid growth can bring newer heights of development.

Jean-Pierre Cling & Gaëlle Letilly, (2001)[62] in their study titled 'Export Processing Zones: A Threatened Instrument for Global Economy Insertion?' analyses EPZs growth strategy, its capability of employment creation etc. It makes an empirical cost-benefit analysis of three Asian EPZs which reveals infrastructure cost is a determinant criterion for the overall

[61] Social Protection discussion Paper No. 9802 (January, 1998), Social Protection Group, Human Development Network, The World Bank. Accessed at - http://www2.itc.kansai-u.ac.jp/~tkusago/pdf/japdf/reseach/export_processing_zones.pdf

[62] Jean-Pierre Cling & Gaëlle Letilly, (2001). "Export processing zones : A threatened instrument for global economy insertion ?," Working Papers DT/2001/17, DIAL (Développement, Institutions et Mondialisation). Accessed at - https://dial.ird.fr/wp-content/uploads/2021/12/2001-17.pdf

economic impact that may be derived from the creation of an EPZ within an economy, EPZs contribute to job creation and the use of locally sourced primary materials remains limited in EPZs. The paper also analyses impact of WTO & ILO agreement an EPZs incentive strategy and its attractiveness for inviting capital. The study concludes with saying that e flourishing of EPZs has not been accompanied by international efforts to better assess their significance in the global economy.

Enrique Blanco De Armas & Mustapha Sadni Jallab (2002)[63], in their study titled 'A Review of the Role and Impact of Export Processing Zones in World Trade: the Case of Mexico' has talked about the possible consequences of EPZs on host country economies, particularly with regard to the potential for foreign exchange profits, FDI, technology transfer, and employment effects on the local and global economies. The study describes the case of Mexico in EPZ. It concludes that EPZs (popularly known as 'Maquila Industry' in Mexico) successful in its aim of creating and alleviating unemployment. But EPZ model is less successful for earning foreign exchange. The study stressed the need for changes in the labour policies to make them more skilled to create forward linkages.

Herbert Jauch (2002), in his research article titled 'Export processing zones and the quest for sustainable development: a Southern African perspective' discusses about why EPZs provide little prospect for addressing South Africa's economic problems. It also discusses how EPZs' threatened not only labour standards but also greater regional co-operation. The research identifies that in the South African region, the government is so desperate to get foreign capital that sometime it offers lucrative incentives and exploits its labour. The paper discusses cost-benefit analysis of Namibia's EPZs which generated only 400 employment compares to 25,000 expected. It also argues that these regional governments erode its precious revenue by providing EPZ status to rich petrochemical and mining companies and threatned the same for textile industry.

Kankesu Jayanthakumaran (2002)[64], in his study titled 'An overview of Export Processing Zones: Selected Asian Countries' has measured the working of the EPZs in selected Asian Countries with the help of Benefit-Cost Framework. The study has built the framework based on the survey of the literature. This resulted in the enclave model for the EPZ which utilized four variables to measure the operational efficiency of the EPZs. Based on the enclave

[63] Enrique Blanco de Armas, Mustapha Sadni Jallab. A Review of the Role and Impact of Export Processing Zones in World Trade: the Case of Mexico. 2002. ⟨halshs-00178444⟩

[64] Jayanthakumaran, Kankesu: An overview of export processing zones: selected Asian countries 2002, 1-25. https://ro.uow.edu.au/commpapers/800

model, anticipated benefits and anticipated costs are calculated on hosting EPZs. The economic performance of the selected Asian Countries were measured using the profile, EPZs Exports to National exports, EPZs FDI to National FDI and EPZs employment to National employment. The results of the conventional benefit-cost analysis by quantifying cost and computation of the net benefits showed that Indonesia, South Korea and Malaysia had positive NPV whereas the Philippines had negative NPV. The study provided a list of WTO measures which will have an impact on the working of the EPZs in the selected Asian countries. The study found that there is a strong correlation among the EPZs and the Multi-Fibre Agreement (MFA) of WTO. The WTO has currently involved in the reduction of MFA which will result in absence of guaranteed markets and lower rates return which will be a possible threat to the existing and new EPZs is the conclusion of the study.

Mauricio Jenkins (2005)[65], in his research study titled 'Economic and Social Effects of Export Processing Zones in Costa Rica' provided the origin and development of the EPZ in Costa Rica followed by the test for backward linkages from firms in these zones to the local economy. The study identifies that EPZs have played an important role in a) reducing dependence on traditional exports; b) providing export revenues c) providing jobs, particularly low skilled hobs to women in Costa Rica. For policy makers the paper suggests to build back-ward linkages for capital intensive sectors so that dependence on raw materials becomes lower. Further the author suggests that service EPZs like back office, call centre, software production, data production etc. can bring more employment. Lastly, the author recommended not to make differentiate for domestic investor when investment is being considered within the boundary.

Robert J. Rolfe, Douglas P. Woodward and Bernard Kagira (2004) in their study titled 'Footloose and Tax Free: Incentive Preferences in Kenyan Export Processing Zones' had given the role of investor incentive preferences for investing in a EPZs. The research outlined the advantages of EPZs, and the literature review lists comparable studies done in emerging nations. The study's introductory statement indicates that Kenya's EPZs programme has only had little success. The advantages offered in African Special Economic Zones (SEZs) were profit taxes, high infrastructure standards, local market sales, and zone location. The study categorises and creates four incentives to measure how receptive investors are to investing in EPZs. According to the empirical findings, investors prioritised infrastructure quality and profit

[65] Jenkins. (2005). Economic and social effects of export processing zones in Costa Rica. Working Paper No. 97, ILO. Accessed at – https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---multi/documents/publication/wcms_101038.pdf

taxes. According to the report, regional free trade agreements would contribute more to long-term growth than EPZs by creating new market possibilities for investment in Kenya.

Chang Woon Nam and Doina Maria Radulescu (2004)[66] in their research titled 'Types of Tax Concessions for Attracting Foreign Direct Investment in Free Economic Zones (FEZs)' illustrates the significance of and advantages that result from the functioning of FEZs. The study uses a review of the literature to demonstrate how FEZs function as a tool for economic growth and change. Using the Net Present Value (NPV) approach, the impacts of different tax incentives on investment decisions are examined. Concepts like accelerated depreciation, false profits, and inflation losses are carefully removed from the model simulation. The quantitative research allowed for the conclusion that, among the analysed range of statutory corporation taxes, the ranking of investment promotion impacts distinguished one measure from another.

Aradhna Aggarwal, Mombert Hoppe and Peter Walkenhorst (2004)[67], in their research paper titled 'Special Economic Zones in South Asia: Industrial Islands or Vehicles for Diversification?'. The significance of SEZs on the routes to export diversification and building beneficial connections is explained in the study's introduction. According to a review of the literature, FDI is attracted to SEZs, which serve as catalysts for the start of the process of economic growth and product diversification. India, Sri Lanka, and Bangladesh have been chosen by the study as the chosen nations to experimentally test the theoretical framework. The elements of General and Specific Sector Incentives, Treatment of Profits and Dividends, Infrastructure Regime, Regulatory Regime, and Labor Regulations were the subjects of comparative analysis for these nations. The study's findings indicate how helpful a role the EPZs play in the nation's export success. The study's conclusion noted that the EPZs' value in promoting diversity differs by industry and type of activity undertaken.

Edward M. Graham (2004) conducted a study on 'Do Export Processing Zones attract FDI and its benefits: Experience from China and Lessons for Russia'. It explains the history of SEZs and provides a review of foreign investment in the 1980s. The report has provided an explanation of the changes made by the Chinese government in 1991 and their consequences. Only after this time period were the many constraints that prevent FDI from flowing into SEZs reduced. China has had great success luring FDI for a variety of reasons. One of these is the SEZs' initial success, albeit this does not account for the country's ongoing FDI inflow. The

[66] CESifo Working Paper No. 1175, April, 2004.
Accessed at https://www.cesifo.org/en/publikationen/2004/working-paper/types-tax-concessions-attracting-foreign-direct-investment-free
[67] Accessed at http://aradhnaaggarwal.com/wp-content/uploads/2005/03/wb_2016.pdf

study's final observations were that SEZs may, in fact, have catalytic effects in countries other than China, but only if the other pre-requisites are satisfied.

Steven C. Mckay (2004), has conducted a study titled 'Zones of Regulation: Restructuring Labor Control in Privatised Export Zones'. The article explored the work organisation in advanced electronics manufacturing in Philippine EPZ. The study involves three multinational electronics firms located both in public and privatized EPZs. The analysis demonstrated that the complex demands of high-tech production have led to diverse forms of work organisation and an extension of labor control outside the factory, making local conditions more important. The study concluded that the national government should provide improved training and education, better housing and more community investment for the welfare of the labors if this do not happen there is considerable threat that the labors might relocate themselves to China.

Aradhna Aggarwal (2005) in her research titled 'Performance of Export Processing Zones: A Comparative Analysis of India, Sri Lanka and Bangladesh' has used a comparative study to demonstrate how the governance, incentive structure, and availability of infrastructure differ across the three countries. According to her, nations that put together a coordinated combination of incentives, infrastructure, and excellent governance may reap the most benefits.

Changwon Lee (2005)[68] in his research paper titled 'Development of Free Economic Zones and Labor Standards: A Case Study of Free Economic Zones in Korea' delivers introductory observations concerning the growth of EPZs in all nations throughout the world. It is followed by a list of legal requirements for labour standards that must be implemented in Korea's working industries and Free Economic Zones. The research has made several recommendations that would improve labour performance in terms of productivity and standards. Additionally, it has underlined the necessity of creative solutions to improve labour market flexibility and stable labour relations.

Siu-Wai Wong and Bo-sin Tang (2005) in their study titled 'Challenges to the Sustainability of Development Zones: A Case Study of Guangzhou Development District, China' examined how the creation of SEZs affected the growth of the Guangzhou district. The SEZs' qualities are revealed in the introduction, along with the difficulties that must be overcome for them to operate successfully. The report gives a thorough description of the many zones that have been set up throughout China. This research solely uses Guangzhou as a case study, which presents a timeline of the district's growth starting in the 1980s. The study

[68] Accessed at - https://core.ac.uk/download/pdf/5131231.pdf

highlights the fact that there are development issues in the form of subpar urban facilities, subpar investments in infrastructure, and subpar land use management. The study found that many development zones around the nation lack the administrative framework and foundation to address the issues related to rapid urbanisation. Allocation of land resources, environmental deterioration, and the inability to offer social welfare and security are the causes of the issues. The study has introduced a fresh perspective that the goals of designing and managing the development zones should not only be to draw in foreign investment, but also to deal with the growing dynamics and uncertainties brought on by the societal and geographical changes occurring within the zones.

Kalim U. Shah and Jorge E. Rivera (2007), in their research article titled 'Export Processing Zones and Corporate Environmental Performance in Emerging Economies: In the case of Trinidad and Tobago's Oil, Gas, and Chemical Sectors', it is discovered that companies operating inside the EPZ are more likely to have superior corporate environmental performance than those outside. Additionally, companies based in zones under state management appear to do better in terms of corporate environmental performance than those based in zones under private management. These changes may be brought on by increased institutional pressure from the state, the public, and neighbouring tenant businesses. These results show that institutional limitations that are enhanced within the enclave and are associated with higher corporate environmental performance may be encouraged by using EPZs that have already been established by environmental policy makers and environmentalists.

Mayumi Murayama and Nobuko Yokota (2009) in their article titled 'Revisiting Labor and Gender Issues in Export Processing Zones: The Cases of South Korea, Bangladesh and India' re-evaluates the historical trajectories and unresolved labour and gender concerns of Export Processing Zones/Special Economic Zones. The results point to the need for broadening the scope of analytical study of EPZS/SEZs, which are intimately linked to external employment systems. The report also urges an urgent and thorough evaluation of the labour and gender circumstances in Indian SEZs, where employees are at a disadvantage not just to capital but also to those in South Korean and Bangladeshi EPZS/SEZs.

William Milberg and Matthew Amengual (2008) conducted a study titled 'Economic Development and Working Conditions in Export Processing Zones: A Survey Trends'. The factors that stressed the need for establishment of EPZs are given followed by the industrial up-gradation and employment provided by the EPZs in the world countries. The EPZ intensity and the foreign exchange accumulation due to the operation of EPZs are also given. A Static Cost benefit analysis is utilized to measure the impact of export, FDI and employment. The

study also provides hawk –eye view of the backward linkages, structural challenges to EPZs, Implication of WTO in the form of regional trade agreements, Export subsidies. The labor standards and the working conditions are measured on the basis of working time, health, safety, wages and benefits. There are seven countries selected for the study i.e., Bangladesh, Cambodia, Costa Rica, Dominican Republic, Honduras, Madagascar and Sri Lanka. Even though the economic goals have been achieved to an extent, the variables that measured the working conditions did have some deficiencies. The analysis on working conditions reveal that workers tend to work more hours, worse health and safety conditions and violations of freedom of associations. The EPZs have to look forward to leverage the global and local resources to address the working conditions and compliance with labors standards of the EPZs worldwide.

Kari Liuhto (2009), delved in his research article titled 'Russia's Innovation Reform – The Current State of the Special Economic Zones' about the current working status of the twenty SEZs established in Russia. The study provided the detailed account about the places of establishment, Nature of these SEZs and the number of operational SEZs. The SWOT analysis has been utilized to bring out the areas like weak innovation system, low-tech image, lack of R&D related finance and immaterial rights that are to be concentrated more to increase the number of SEZs operating in the country. The study suggested that the operation of SEZ will be questioned in 2025 if there is no innovation –related activities are carried out.

Stephen Creskoff and Peter Walkenhorst (2009)[69], in their working paper titled 'Implications of WTO Disciplines for Special Economic Zones in Developing Countries' have made an attempt to bring out the impacts of the WTO on SEZs.

The report provides information on the fundamentals of the WTO as well as the type and frequency of SEZs around the globe. The global legal frameworks established by the WTO, including as those governing subsidies, countervailing duties, dispute resolution, special treatment for poor nations, and most-favorable-nation treatment The functioning of SEZs is significantly impacted by transparency, the removal of quantitative limits, the General Agreement on Trade-Related Investment Measures (TRIMs), and the General Agreement on Trade in Services. Using the SEZs measures that are Green light measures, that is, in compliance with the WTO measures, and Red light measures, that is, against or forbidden by the WTO measures, a matrix has been created. The study came to the conclusion that the

[69] Policy Research Working Paper 4892, Implications of WTO Disciplines for Special Economic Zones in Developing Countries', The World Bank, Poverty Reduction and Economic Management Network, International Trade Department, April 2009.
https://openknowledge.worldbank.org/bitstream/handle/10986/4089/WPS4892.pdf?sequence=1&isAllowed=y

measures that are forbidden must be determined, quickly notified to the WTO, preparation of a strategy to phase out WTO inconsistent measures, and implementation of the plan would further lessen the impact of WTO sanctions on the operation of the SEZs.

Takao Tsuneishi (2009)[70], has carried out a study titled 'Border Trade and Economic Zones on North-South Economic Corridor: Focussing on the Connecting Points between Four Countries'. The study has chosen four countries i.e., China, Myanmar, Laos and Thailand. The study also clarified five nodal border points and over three routes across these countries where the border trade takes place. The study attempts to measure the impact on trade due to the working of these border economic zones. The major finding is the border trade and investments in the four countries are increasing steadily with China and Thailand acting as the core. The study also points out some of the bottlenecks that can be addressed in the form of environmental degradation and the lack of infrastructural facilities. The study concluded with the note that the intention of each country differs concerning the North-South Economic Corridor but these countries carry on to achieve mutual benefits due to cross border trade across these routes.

Andrew Lang (2010)[71], made an attempt in his study titled 'Trade Agreements, Business and Human rights: The Case of Export Processing Zones' about the relationship between the business and the human rights set forth by the United Nations Human rights Council. Taking the necessary action to stop corporate interference with human rights is the idea behind state duty. The policy goals driving the creation of EPZs and its relationship to trade law and policy are developed in the study's introduction. The report details the expansion of EPZs through time and demonstrates how commercial activities affect human rights in EPZs. The study has called into question the different labour rights and employment concerns that occurred as a result of the operation of EPZs, which are not in conformity with international labour standards. The report examines the evidence of new human rights concerns associated with the tendency toward the management and operation of EPZs by the private sector. It emphasised the need for further monitoring and evaluation to protect both the interests of the workers in the EPZs and their rights. To handle the numerous additional types of labour and non-labour human rights challenges, appropriate legislative laws should be created. The study came to the conclusion that, in order to safeguard the impacted people, the public administration's governance and supervision capabilities needed to be strengthened.

[70] Institute of Developing Economics, Japan External Trade Organization, IDE Discussion Paper No. 205, Accessed at https://ideas.repec.org/p/jet/dpaper/dpaper205.html

[71] Lang, A. (2010). 'Trade Agreements, Business and Human Rights: The case of export processing zones.' Working Paper No. 57, Corporate Social Responsibility Initiative, Cambridge, MA: John F. Kennedy School of Government, Harvard University. Accessed at https://www.hks.harvard.edu/sites/default/files/centers/mrcbg/programs/cri/files/workingpaper_57_lang%20FINAL%20APRIL%202010.pdf

Mukhopadhyay and Pradhan (2009) in their study has raised concern about regional development through SEZ policy. Their study points that most of the SEZs have been located in industrially developed regions making an imbalance economic development.

Liu, Bih Jane and Yu-Yin Wu (2011) in their research titled 'Development Zones in China: Are STIPs a Substitute for or a Complement to ETDZs?' finds the relationship between STIP and ETDZ between 2001 and 2005. The study shows ETDZ with STIP attracts more FDI which is an indication of complimentary relationship. The study concluded that this spill over effect is more in coastal region than other inland regions.

Bräutigam, Deborah, and Tang Xiaoyang. (2011), in their study titled 'African Shenzhen: China's Special Economic Zones in Africa' examined how Chinese Special Economic Zones operate in Africa. For mutual benefit of both the countries, these SEZs were established. The study examines the Chinese efforts to establish a greater number of SEZs in Africa. The study has given an overview of the Chinese Economic Cooperation Zones in Africa. It has selected seven countries i.e., Algeria, Egypt, Ethiopia, Mauritius, Nigeria (Two) and Zambia that have expressed interest in hosting zones. The study suggests Zambia and Nigeria SEZ has become operational and all the other has been under construction during the study period. The mutual understanding is clearly laid down in the form of rules and regulations that are to be followed by both the countries in-order to reap mutual benefits due to the operation of SEZs. Additionally, it uncovers significant political, economic, and societal problems. African industrialization may be negatively impacted by inadequate local engagement and learning. The study shows synergies flow when Chinese enterprises, Chinese Government and African Government evolved through practise. A case study of Egypt is provided in the study.

Michael Levien (2012) in his research article titled 'Special Economic Zones and Accumulation by Dispossession in India' has made an ethnographic study on the village of Rajpura where majority of the land were acquired for the establishment of SEZ. It has utilized an important concept namely "Accumulation by Dispossession" introduced by David Harvey. The concept explained the dispossession of public wealth in a strategic manner that results in the centralization of power and wealth which were utilized by the capitalist people. This enabled the capitalist to accumulate more of public wealth into their portfolio which increased the private ownership. This study made an account of all the elements that are involved in the land acquisition for SEZ in India in general and particularly in the village of Rajpura.

Jin Wang (2013) conducted a study on the topic 'The Economic Impact of Special Economic Zones: Evidence from Chinese Municipalities". The study has three hypotheses that

are being tested empirically and based on which a conceptual framework has been made. The three hypotheses were based on the ability of the SEZs to attract the FDI, domestic capital formation and total factor productivity growth. The data set used to test the hypothesis was collected from Chinese municipalities for a period from 1978 to 2007. The empirical results of the study were:

a) SEZ have attracted FDI, increased exports and industrial output.

b) The SEZ do not have any influence on the domestically owned capital stock.

c) The Total Factor productivity growth has been increased by 23% due to the working of SEZ.

The operational SEZ acts as an effective apparatus in enhancing the regional Development is the conclusion of the study.

A. Elangovan and S. K. P. Palanisamy (2013) conducted a study titled 'Performance Evaluation of Special Economic Zones (SEZs)'. It is a case study which is related to the performance of MEPZ, Chennai. The major findings of the study are steady increase in exports, electronics and software topping the sector-wise exports and MEPZ contribution towards State's balance of trade. Some of the suggestions of the study highlights tariff concessions on the problems faced and stiff rules regarding FDI to avoid decline in exports.

Kanwar Singh (2013), investigated in his research article titled 'Overview of Special Economic Zones (SEZs) with a Special Reference to Haryana' about the state of SEZs in Haryana. The notified SEZs in Haryana account to 124. It has listed out the various operational SEZs and projects involved with it. The state has also 67 approved SEZs that are to become operational in the state in near future. The study concluded by saying that the SEZs promoted global commerce and attracted foreign investment, both of which aided in the expansion of the Indian economy.

Falguni H. Pandya and Yogesh C. Joshi (2015) in their article titled 'Impact of Fiscal Incentives on SEZs' Performance in Gujarat' has shown that present structure of various fiscal incentives given to SEZ units need to modify to tap its full benefit.

Tamali Chakraborty, Haripriya Gundimeda and Vinish Kathuria (2017) in their article titled 'Have the Special Economic Zones Succeeded in Attracting FDI? — Analysis for India' has shown that a state's operating SEZs and the adoption of SEZ policies both increase FDI flow. The outcomes have been validated using panel data regression analysis. They have come to the conclusion that states that wish to gain from FDI inflows need to implement the policies at the earliest based on the findings. This paper uses FDI data as dependent variables.

However, instead of taking FDI in SEZs data, the paper uses aggregate FDI data. Hence the study seems irrelevant in the context of SEZs.

3.3. Identification of Research Gap

The existing review of literature narrated above has enabled to narrow down on the research gap. There are many research studies carried out in the field of SEZ at the world level and in India. There are studies conducted on the performance evaluation of EPZ.

Studies conducted predominantly have their focus on the theoretical aspects of the SEZ which involves introduction and the features of the SEZs. The process involved in establishment of the SEZs is explained by many studies. While some studies focus on reviewing the policies of SEZ and performance evaluation of SEZ at aggregate level. Many studies have been made on the role of Foreign Direct Investment (FDI) and factors determining FDI for SEZ. However, three distinct areas, as mentioned in following sections, have not yet been explored. These are detailed in research gap.

Three different research gaps in different areas of SEZ have been identified from the existing review of literatures. These are discussed subsequently one by one.

3.3.1. Non-operational IT/ITeS SEZ

In India, out of 223 operational SEZs as on 31st March 2018, 129[72] SEZs (i.e., 58%) were in the IT/ITeS sector and of these 93 SEZs (i.e., 72%) were located only in 5 States; namely Telangana, Karnataka, Kerala, Maharashtra and Tamil Nadu. Export from this sector accounts 37% (annual average) of SEZ export for the period 2011-12 to 2015-16[73]. This sector also accounts highest number of employments among all sectors[74]. These shows significance and dominance of IT/ITeS sector in Indian SEZ.

In spite of dominance of IT/ITeS sector, large number IT/ITeS SEZs are also found notified but non-operational. As on 31st March, 2018, out of 150 non-operational SEZs, 109 (i.e., 73%) belongs to IT/ITeS sector. State-wise number of non-operational SEZs are given in **Table 3.1**. As IT/ITeS sector is dominating sector in SEZs and majority of notified but non-

[72] This includes 2 Private Sector SEZ, developed before the enactment of SEZ Act, 2005 and 127 SEZs notified under the SEZ Act, 2005. http://sezindia.nic.in/upload/uploadfiles/files/Sector-wise-distribution-of-SEZs.pdf
[73] Lok Sabha Unstarred Question No. 162, Answered on 25.04.2016.
[74] Office of the Development Commissioners.

operational SEZs also belongs to IT/ITeS sector, I have narrowed down my research gap in this area.

In terms of Rule 6(2)(a) of SEZ Rule, 2006 'Formal Approval/Letter of Approval' (LoA) which is issued by Board of Approval (BoA), remains valid for three years within which time the developer should take sufficient steps to make the SEZ operational[75]. Most of these non-operational SEZs were notified in between the period 2008 to 2013 and has been granted extension of validity quiet a number of times to complete their SEZ development work. A few of the justifications given for the extension of validity include the unstable fiscal incentive regime for SEZs, the unfavourable business climate brought on by the global recession, the delay in receiving approvals from the required State Government bodies, the lack of environmental clearance, the lack of demand for space in SEZs, etc. In the last couple of years there are large number of cancellation of IT/ITeS SEZ by BoA. **Table 3.2.** illustrates some of the cancellation decision by BoA.

September 2013 onwards, there is no minimum land area requirement to develop IT/ITeS SEZ[76]. However, there is minimum build up area requirement. Hence it may be said that land acquisition problem should not come in the way to develop notified SEZ because a SEZ is notified only when land is in the possession of the developer (detailed discussion made in Chapter 2.3.1). Thus, question comes why these large number of proposed IT/ITeS SEZs could not completed their project on time and still remains non-operational for such a long period of time[77]?

[75] However, the BoA has power to extend the validity of LoA beyond 3 years. BoA in its meeting held on 14th September, 2012 noted that extension of formal approval beyond 5th year can be made only on justifiable reason and not as routine matter. Presently BoA extends validity of formal approval beyond fifth year for a period of one year and beyond sixth year for a period of six months from the date of expiry of the last extension.

[76] Before September 2013, for IT/ITeS SEZ the minimum land area requirement was 10 Ha.

[77] Parmar, C.K., & Ghosh, P.P. (2021). Performance Evaluation of Developers of Special Economic Zones in IT/ITeS Sector: A Study with Reference to the State of Haryana. *PRAGATI: Journal of Indian Economy*, *8* (2), 43-61. Retrieved from https://doi.org/10.17492/jpi.pragati.v8i2.822103

Table 3. 1: State-wise number of notified but non-operational IT/ITeS SEZ

State	No. of IT/ITeS SEZs Notifies but remains Non-Operational	Period during SEZs Notified/ Status as on 31.03.2018
Telengana	25	12 SEZs were notified before 31st March, 2012
Karnataka	23	10 SEZs were notified before 31st March, 2012
Kerala	7	All SEZs were notified in between 2009 and 2013
Maharashtra	12	Most of these SEZs were notified in between 2008 and 2013
Tamil Nadu	9	- Do-
Uttar Pradesh	9	Except for 3 SEZs, all SEZs were notified during the period 2007 to 2010
Haryana	12	Except one, all SEZs were notified before 31st March, 2012
Gujarat	4	All these SEZs were notified before 31st March, 2012
Madhya Pradesh	2	These SEZs were notified in 2009 & 2013
West Bengal	1	This SEZ was notified on 24th April, 2009
Rajasthan	2	These SEZs were notified on November 2007 and September 2010
Goa	1	This SEZ was notified on 6th November, 2007
Manipur	1	This SEZ was notified on 24th February, 2014
Andhra Pradesh	1	This SEZ was notified on 7th July, 2017
Total	**109**	

(Source: Lok Sabha Starred Question No. 78, dated on 23.07.2018 and Author's own compilation from the available data at www.sezindia.nic.in)

Table 3. 2: Details of Cancellation of Formal Approval of IT/ITeS SEZ

BoA Meeting Date	No. of IT/ITeS SEZs Cancelled	Status at the time of Cancellation	Reason given by BoA
3rd July, 2017 (78th Meeting)	36	Formal approvals were given to most of these SEZs in the period 2006 to 2009	Non-interest in the project by the developers.
8th March, 2017 (75th Meeting)	8	Formal approvals were given.	No significant progress by the developers.
19th May, 2015 (65th Meeting)	19	14 were notified SEZs and for 5 SEZs the Formal Approvals were granted.	Progress made by the developer is not satisfactory.
20th February, 2015 (64th Meeting)	35	2 were notified SEZs; in 10 cases SEZs were expired and in 23 cases Formal Approvals were given.	Progress made by the developer is not satisfactory.

(Source: Data compiled by author from minutes of various BoA meetings. Note: The list is an illustrative and not exhaustive.)

From the above discussion, the importance of IT/ITeS SEZ in achieving the objectives of SEZ Act, 2005 is well understood. However, significant number of cancellation (at various stages viz. after in-principal approval or formal approval or notification) and presence of large number of non-operational IT/ITeS SEZ raises question regarding provision of adequate support for this sector. Among the non-operational SEZs, there are many SEZs whose validity of formal approval has been extended beyond 5 years. Details of some of IT/ITeS SEZ which have been granted 5 or more extensions are given in **Appendix A**.

Moreover, data provided by SEZ section, Dept. of Commerce reveals that 29 SEZs in IT/ITeS sector have been de-notified during the period 2009 to 2018. The possible reasons given for cancellation and extension include economic slowdown, lack of market response, poor demand for SEZ space and change in the fiscal incentive regime for SEZs among others.

In this background, no studies have been made to identify the reason/factors for non-operational condition of large number of IT/ITeS SEZs for a long time. **Hence, there is a research gap and this research gap is addressed by making first research objective which is presented in following section.**

3.3.2. State SEZ Act/Policy and Investment

Now, I shall discuss the ***second research gap***. One of the major objectives of SEZ Act is to bring investment from domestic and foreign sources. The government was predictable that the SEZ Act will trigger a large flow of foreign and domestic investment in infrastructure and productive capacity, leading to generation of additional economic activity and creation of employment opportunities. State Governments also intended to take most of the benefits of SEZ scheme for enhancement of state's socio-economic condition through increased employment prospects and industrial development. Many State governments have developed State SEZ Policies in accordance with Government of India (GoI) recommendations for SEZs to offer a thorough framework for the development, operation, and sustainability of the SEZ in the State. Previous studies have shown that private investment depends upon physical infrastructure (Krishna, M. J., & Venugopal, J., 2003), quality of governance (Aysan, A.F. *et. al.*, 2006), government expenditure (Idown, O.F. *et. al.*, 2020), economic uncertainty (Öge Güney, P., 2020), labour productivity (Stundziene, A. & Saboniene, A., 2019), low production cost and low labour wage (Nackhavong, K. & Thanitbenjasith, P., 2020) among others. Studies has also shown political stability (Kurecic, P. & Kokotovic, F., 2017) and fiscal reforms (Hasan, M.A. *et. al.*, 1996) are the two most important factors determining investment inflows

across states. It is worth to mention that factors like easy availability of port, natural resources, suitable weather conditions etc., also play a vital role in determining investment proposals. So, some factors are man-made and controllable while others are non-controllable. Disparities in investments in SEZs, among states and regions within the state, have been steadily increasing in past few years, in spite of high growth rates. The benefits of high growth rates did not reach to backward regions/states. As on 30.09.2020, Tamil Nadu (46) has highest number of operational SEZs followed by Maharashtra (37), Telangana & Karnataka (34 each), Andhra Pradesh (24), Gujarat (21) & Kerala (20). These states account for 82% of total operating SEZs in country[78].

Though various studies have already established the determinants of investment among states, no study has been found on investment determinants among states in relation to SEZs and the importance of SEZ Act/Policy thereof. **Table 3.3** shows states having SEZ Act/policy with their year of enactment or implementation. While states like Maharashtra, Kerala, Karnataka, and Uttar Pradesh have SEZ policies, no particular Acts or Rules relevant to SEZ have been passed in those states, which is an important point to note. These states account for 40% of operating SEZs in the country. On the other hand, despite having a decade old SEZ Act/Rules, states like West Bengal, Madhya Pradesh and Haryana, could not bring in much investment as expected. The state of West Bengal even after having an active SEZ Act and Policy did not give recommendation for set up SEZ[79] in recent past.

Table 3. 3: State-wise enactment details of SEZ Act and / or SEZ Policy

States	Year in which SEZ Policy was passed	Year in which SEZ Act was passed
Chandigarh	2005	No
Gujarat	No	2004
Haryana	2006	2006
Jharkhand	2003	No
Karnataka	2009	No
Kerala	2008	No
Madhya Pradesh	2001	2003
Maharashtra	2001	No
Punjab	2005	2009
Tamil Nadu	2003	2005
Uttar Pradesh	2007	No
West Bengal	2001	2003

(Source: Compiled from available data at http://www.sezindia.nic.in/ and Lok Sabha Starred Question No. 483, for answer on 2nd April, 2018; Note: The word "No" above indicates that the state has not yet passed a separate SEZ Act. / Policy)

[78] http://www.sezindia.nic.in/upload/uploadfiles/files/b.pdf
[79] https://www.thehindu.com/business/Govt-rejects-Infosys-proposal-to-set-up-IT-SEZ-in-West-Bengal/article14585131.ece

Only 16 states in the country had operational SEZs as on 31st March, 2020[80]. State-wise investment made in SEZs in India are given in **Table 3.4**. From the given table, it is seen that only three states (Gujarat, Maharashtra and Karnataka) account for almost 63% of total investment in SEZs as on 31.03.2020.

There are 17 states in India which have received SEZ investment as on 31st March, 2020. Out of these 17 states, only 11 states[81] have either SEZ Act or Policy. It implies there are some states that has not formulated any SEZ Act or Policy but has received SEZ investment over a period of time. This is depicted in **Figure 3.1.**

Figure 3. 1: SEZ Act/Policy and SEZ Investment Matrix

		Investment Received	
		Yes	No
SEZ Act and/or Policy	Yes	**11 States/UT[82]** Investment value Rs.4,84,888 crores as on 31.03.2020	**1 State[83]**
	No	**6 States[84]** Investment value Rs.86,847 crores as on 31.03.2020	

(Source: Author's own compilation from state-wise investment data provided by SEZ Section, Dept. of Commerce, Govt. of India)

It is seen from the above figure that around 15% of SEZ investment as on 31st March, 2020 is in those 6 states which have not formulated any SEZ Act and/or Policy. These 6 states also comprise 26% and 25% of notified SEZs and Operational SEZs of the country as on 30.09.2019[85]. Thus, it is evident that even if there is no state SEZ Act and/or Policy, some states are receiving investment in SEZs and that is quite significant. So having state SEZ Act and/or Policy is not the sole factor to attract investment in any state. This statement can again be validated by looking at the state of Jharkhand where even after having a SEZ Policy since 2003 no investment has been attracted. Thus, it can be said that there are some other factors, other than SEZ Act/Policy, which attracts investment in SEZs.

[80] State-wise distribution of approved SEZ list as on 31.12.2019 and 30.09.2020 shows same states which have operational SEZs. Thus, it is assumed the status quo as on 31.03.2020.
[81] In addition to 11 states, the state of Jharkhand has also enacted SEZ Policy in 2003, but no investment has been received till 31st March, 2020.
[82] UT of Chandigarh, State of Gujarat, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Punjab, Tamil Nadu, Uttar Pradesh and West Bengal
[83] State of Jharkhand
[84] State of Andhra Pradesh, Chhattisgarh, Goa, Odisha, Rajasthan and Telangana
[85] Annual Report 2019-20, Department of Commerce, pp. 110-111

Table 3. 4: State-wise Investment Made in Special Economic Zone (SEZs) in India (2011-12 to 2019-20)

State/UT	Investments[#] (in Rupees Crore)								
	2011-12	**2012-13**	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**
Andhra Pradesh	17,941	25,425	31,275	20,149	25,555	23,881	24,721	25,656	27,842
Chandigarh	229	213	228	260	282	349	368	382	390
Chhattisgarh	0	617	218	864	1,076	1,470	1,741	1,741	1,635
Goa	297	297	297	297	297	297	297	297	297
Gujarat	91,520	98,529	1,03,600	1,22,702	1,35,135	1,50,302	1,69,335	1,81,986	1,93,174
Haryana	6,166	6,426	7,022	7,331	9,988	9,499	11,218	12,286	12,988
Karnataka	9,073	11,910	29,810	37,967	37,967	54,460	62,582	75,016	97,496
Kerala	5,557	5,536	6,158	6,003	6,114	7,174	13,539	13,591	16,553
Madhya Pradesh	2,821	3,119	3,884	3,980	3,995	4,307	6,022	6,205	6,363
Maharashtra	21,919	32,939	39,898	47,997	48,127	51,429	57,899	60,276	67,195
Odisha	6,537	3,118	21,978	21,981	24,124	17,165	17,713	18,792	20,119
Punjab	529	551	560	673	679	837	866	921	934
Rajasthan	762	1,105	1,115	1,216	1,387	1,537	1,637	1,822	2,248
Tamil Nadu	27,485	33,871	37,168	41,487	48,476	56,037	61,578	56,803	62,997
Telangana	0	0	0	12,457	17,416	26,160	24,448	28,024	34,706
Uttar Pradesh	8,426	10,012	10,664	10,778	12,555	14,804	16,470	18,636	20,825
Uttarakhand	23	23	0	0	0	0	0	0	0
West Bengal	2,590	3,026	2,788	2,651	3,032	3,483	4,485	5,210	5,974
India	**2,01,875**	**2,36,717**	**2,96,663**	**3,38,794**	**3,76,494**	**4,23,189**	**4,74,917**	**5,07,644**	**5,71,735**

(Source: Data Provided by SEZ Section, Dept. of Commerce)

[#] *Calculated on cumulative basis.*

Further to test whether state SEZ Act/Policy has the sole effect in attracting investment, year-on-year growth in investment is analysed for those states which have formulated state SEZ Act/Policy. The result of the same is depicted in **Table 3.5**.

Table 3. 5: Year-on-Year Percent growth in investment for the States having SEZ Act/Policy

States/UTs	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	Mean	S.D.
Chandigarh	(7%)	7%	14%	8%	24%	5%	4%	9%	***7%***	***0.09***
Gujarat	8%	5%	18%	10%	11%	13%	7%	6%	***10%***	***0.04***
Haryana	4%	9%	4%	36%	(5%)	18%	10%	6%	***10%***	***0.12***
Karnataka	31%	150%	27%	0%	43%	15%	20%	30%	***40%***	***0.47***
Kerala	0%	11%	(3%)	2%	17%	89%	0%	22%	***17%***	***0.30***
Madhya Pradesh	11%	25%	2%	0%	8%	40%	3%	3%	***11%***	***0.14***
Maharash-tra	50%	21%	20%	0%	7%	13%	4%	11%	***16%***	***0.17***
Punjab	4%	2%	20%	1%	23%	3%	6%	1%	***8%***	***0.09***
Tamil Nadu	23%	10%	12%	18%	15%	10%	(8%)	11%	***11%***	***0.10***
Uttar Pradesh	19%	7%	1%	16%	18%	11%	13%	12%	***12%***	***0.06***
West Bengal	17%	(8%)	(5%)	14%	15%	29%	16%	15%	***12%***	***0.13***

(Source: Author's own computation from state-wise investment data provided by SEZ Section, Dept. of Commerce, Govt. of India)

Data reveals that there is high volatility in year-on-year growth in investment. Even in some states, the investments have been withdrawn which is represented by negative figure in the table. While Karnataka recorded an average growth rate of 40%, Kerala and Maharashtra recorded 17% and 16% respectively. Except the state of Gujarat, the standard deviation in growth rates for all other states exceeds 6% and above; which indicates high uncertainty and volatility in investment. For the state of Karnataka and Kerala, the standard deviation remained 0.47 and 0.30 respectively. Hence within the state and among the states, there are deviations in respect of investment in SEZs. This again validates, having SEZ Act/Policy can't be sole variable to bring investment in any state. There are other factors which also plays an important role in investment decision.

Combining the above observations, it is clear that a thorough review of literature shall help to identify investment attracting variable(s). Nevertheless, an analyse of each state's SEZ Act/Policy shall be useful to check homogeneity among them and to check its effect on investment decision. [subsequently analysed].

Thus, it is noted that any investment in SEZ is made after taking into account many factors, including benefits provided by state government through state SEZ Act and/or Policy. **As no studies has yet covered this aspect, there exist a research gap. In this context, it is pertinent to check the impact of State SEZ Act/policy in bringing the investment to the State. This research gap is addressed by making second research objective.**

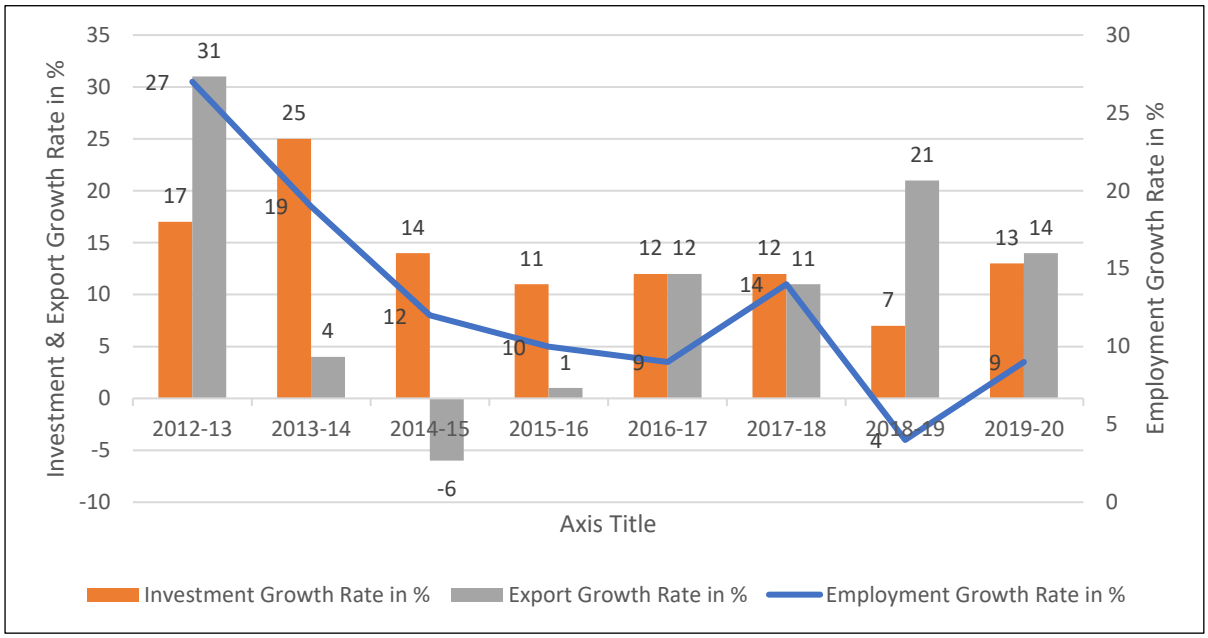
3.3.3. Employment Generation by SEZs

Now I shall discuss the ***third research gap***. Between 2005–06 and 2020–21, exports from SEZs increased 27 times but employment in SEZs increased only $17^{1}/_{2}$-fold during this period—from 1,34,704 in 2005–06 to 23,58,136 in 2020-21[86]. A plain look at **Figure 3.2** does not show any directional relationship between export growth rates and growth rate in employment in recent past. However, after 2013–14, the rates of employment growth were more consistent, primarily ranging between 10-15%, although the volatility of export growth was significantly higher. **Figure 3.2** also shows investment and employment growth rates from 2012-13 to 2019-20. It shows almost parallel growth rate during the stated period.

Table 3.6 shows direct employment generation from SEZs in various states from 31.03.2012 to 31.03.2021. The data shows only 4 states (Maharashtra, Tamil Nadu, Telangana and Karnataka) account for 72% of total employment generated by SEZ as on 31.03.2021.

[86] Source: SEZ Section, Dept. of Commerce, Govt. of India

Figure 3. 2: Year-on-year growth rate in investment and employment generations in SEZs for the period 2012-13 to 2019-20



(Source: Employment and Investment Data provided by SEZ Section, Dept. of Commerce, Govt. of India.)

When employment and investment patterns are looked state-wise, it reveals disparity between the percent of employment a state generates and investment that state receives. Like, as on 31st March, 2020, 33.78% of total SEZ investment came from Gujarat with only 4.09% of total SEZ employment. On the same day, Maharashtra accounted for 11.87% for SEZ - investment and 20.50% for employment generation. As generation of employment is one of the objectives for which SEZ Act, 2005 was passed; it is quite pertinent to study the employment generated by SEZs.

Table 3. 6: State-wise Employment Generation from Special Economic Zones (SEZs) in India(2011-12 to 2020-21)

State/UT	Employment* in Person as on									
	31.03.2012	**31.03.2013**	**31.03.2014**	**31.03.2015**	**31.03.2016**	**31.03.2017**	**31.03.2018**	**31.03.2019**	**31.03.2020**	**31.03.2021**
Andhra Pradesh	1,17,266	1,44,346	1,57,280	47,506	56,456	58,345	59,368	65,499	66,762	70,121
Chandigarh	7,620	6,140	5,927	7,279	8,295	8,597	8,404	8,366	7,978	7,883
Chhattisgarh	0	119	119	41	119	113	16	9	6	6
Goa	28	28	28	28	28	28	150	0	0	0
Gujarat	42,097	51,190	75,586	63,475	68,224	72,426	79,658	88,750	91,628	96,689
Haryana	29,220	38,497	50,208	55,256	84,812	97,295	1,02,513	1,15,413	1,22,848	1,35,092
Karnataka	85,055	1,41,366	1,93,686	2,37,138	2,37,138	2,74,637	3,03,857	3,22,873	3,59,747	3,74,890
Kerala	23,799	25,701	32,311	49,652	49,652	54,260	64,577	70,921	91,048	79,294
Madhya Pradesh	12,313	12,429	10,308	10,828	15,624	20,774	21,613	23,144	25,778	27,354
Maharashtra	1,94,469	2,71,134	3,39,919	3,60,543	3,63,760	3,82,456	4,96,287	4,42,120	4,58,784	4,74,690
Odisha	1,787	1,715	1,577	2,347	3,322	7,006	7,490	8,811	10,632	8,261
Punjab	299	369	1,299	1,993	2,283	2,724	3,214	4,572	6,326	8,187
Rajasthan	11,028	13,163	14,574	16,321	17,723	18,873	19,673	19,876	21,073	22,341
Tamil Nadu	2,19,989	2,37,950	2,68,405	2,87,275	3,26,569	3,57,067	3,81,233	4,07,498	4,36,032	4,79,674
Telangana	0	0	0	1,54,784	1,88,607	1,93,606	2,32,862	2,77,889	3,16,533	3,62,797
Uttar Pradesh	63,637	75,101	83,970	96,591	1,05,609	1,10,336	1,19,008	1,27,935	1,38,597	1,37480
West Bengal	36,309	55,656	48,112	51,241	63,160	73,098	77,293	77,379	84,533	73,377
India	**8,44,916**	**10,74,904**	**12,83,309**	**14,42,316**	**15,91,381**	**17,31,641**	**19,77,216**	**20,61,055**	**22,38,305**	**23,58,136**

(Source: Data provided by SEZ Section, Department of Commerce, Govt. of India)

* *Calculated on cumulative basis*

However, in reply to Rajya Sabha question No. 493 Dt. 07.02.2018 on targets fixed for employment generation and investment in SEZs during the last three years, it was answered that no such targets are fixed[87].

Though many existing literatures discusses about employment generation by SEZ and growth thereof, no study is found with sectoral analysis of employment generation by SEZs. Thus, state-wise and sector-wise study on employment generation can be done to understand zone-wise most employable sector in SEZs.

3.4. Objectives of the Study

From the discussions in research gap, the following objectives of the study are framed –

a) To identify the factors which act as constraint to start operation of notified IT/ITeS SEZs and the measures to overcome the same; (*Chapter – 4*)

b) To study the impact of State SEZ Act/Policy on investment made in SEZs in the concerned State; (*Chapter – 5*) and

c) To study the creation of employment opportunities by SEZs in India. (*Chapter – 6*)

These three objectives are discussed in detail in the following three chapter sequentially.

3.5. Brief of Sources of Data and Research Methodology

To achieve the objectives of the study, data has been collected from different primary and secondary sources. Primary sources include data collection through structured questionnaire from different SEZ developers (notified but non-operational and de-notified), and discussion with different SEZ developers. Secondary source includes official website of Development Commissioners, data collected through RTI Act from Department of Commerce and different offices of DC, answer of different questions in Lok Sabha and Rajya Sabha, the official website of the SEZ section, Department of Commerce, C&AG report, various published research papers in reputed journals, doctoral thesis in this area etc.

For three different objectives of the study, the period of study, source of data and the methodology used in each objective, in brief, are shown in the Table 3.7. The detailed discussion is made in the respective chapters.

[87] https://pqars.nic.in/annex/245/Au493.pdf

Table 3. 7: Brief of Period of Study, Source of Data and Methodology Used for Each Objective of the Study

Sl. No.	Objectives of the Study	Period of Study	Sources of Data	Methodology
1.	To identify the factors which act as constraint to start operation of notified IT/ITeS SEZs and the measures to overcome the same.	The study is made on the facts as was available on 31st March, 2018	The study is based on both primary data and secondary data. • Primary data is collected from different Notified but Non-Operation SEZ as on 31st March through a questionnaire. • Secondary Data is collected through RTI from the SEZ Section, Department of Commerce, Government of India and Lok Sabha Questions (Official Website of Lok Sabha)	The statistical method of Confirmatory Factor Analysis (using SPSS 20) is used to identify factors which act as constraint.
2.	To study the impact of State SEZ Act/Policy on investment made in SEZs in the concerned State.	The study is based on the period from 2011-12 to 2019-20	The study uses secondary data. • State-wise SEZ investment from 2011-12 to 2019-20 collected from SEZ Section, Department of Commerce in RTI Reply. • For other variables data collected from RBI Handbook of Statistics on Indian States 2020-21 and 2019-20, Employment Exchange Statistics 2019 and 2018, Lok Sabha Questions (Accessed through Lok Sabha official website) and official website of SEZ (www.sezindia.nic.in)	Panel Data regression analysis has been done to study the economic relationship using cross section series with a time dimension. SEZ investment is considered as dependent variable and State SEZ Act / Policy as independent variable, among others.
3.	To study the creation of employment opportunities by SEZs in India.	The study is based on the period from 2011-12 to 2020-21. However, sector-wise employment data are analysed only as was available on 31st March, 2018.	The study uses secondary data collected from - • SEZ Section, Department of Commerce through RTI; • Six different DCs' Office through RTI; and • Report of the C&AG, Performance of SEZs for the year 2010-11	• Year-on-Year Analysis • Multiple Regression Analysis

CHAPTER - 4

Non-operational Information Technology / Information Technology enabled Services (IT/ITeS) SEZ in India

Chapter – 4: Non-operational Information Technology / Information Technology enabled Services (IT/ITeS) SEZ in India

4.1. Introduction

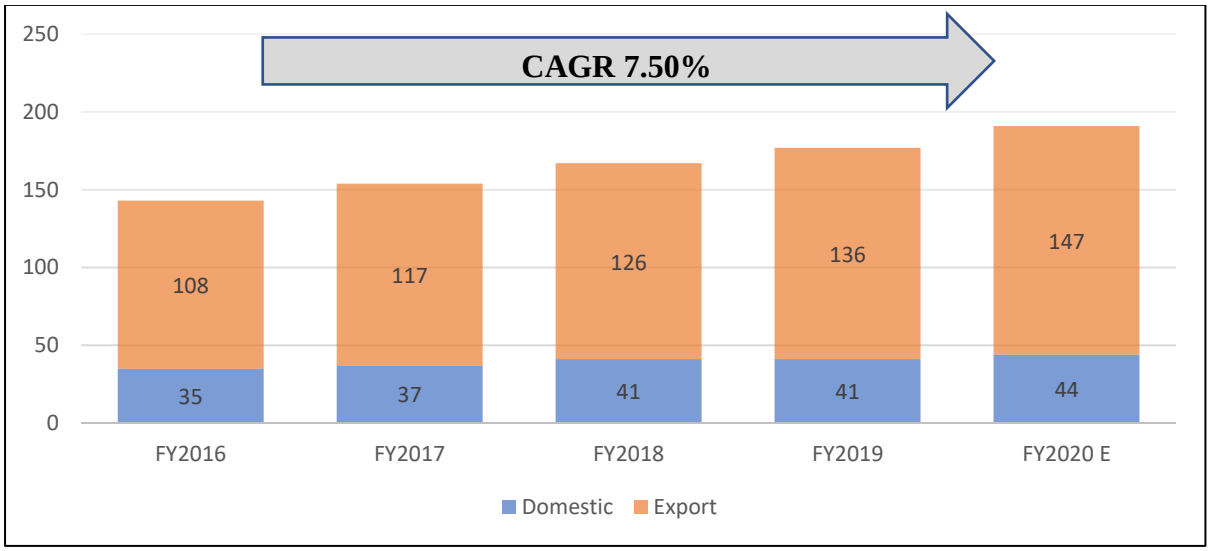
IT / ITeS sector SEZ is dominating in India SEZ. As on 31st March, 2018, ~60% of operational SEZs were in IT /ITeS sector. IT / ITeS sector's share of export to all SEZ export is also near about 60%. Hence, undoubtedly, Indian IT / ITeS sector is leading among all other sector in terms of number of SEZs (be it formal approval, notified or operational SEZ). The cheap and skilled labour force in India with skilled education has rippled effect in Indian IT industry. SEZs play a vital role proving infrastructure and support to companies located in IT / ITeS industry. Big names in Indian IT industry like TCS, Wipro, Infosys all have availed SEZ benefits to augment their business in the last decade. Most of the IT SEZs have been located within or near cities for want of skilled workforce. In spite of continued support to IT/ITeS sector, large number of SEZs have remain non-operational even after considerable time period. The exact lacuna among these SEZs need to find out and continuous support from government may turn these SEZs operational in coming days. As IT / ITeS SEZs also generate maximum employment among all SEZs, the government must understand the hindrances faced by these non-operational SEZs.

The first objective of the study i.e., ***to identify the factors which act as constraint to start operation of notified IT/ITeS SEZs and the measures to overcome the same*** has been discussed in this chapter. This chapter is designed as follows: The chapter starts with discussion about the present status, trends and contribution of IT / ITeS industry in Indian economy. It analyses why SEZs become the first choice for this sector to set-up. Further this chapter focus on number of IT / ITeS SEZs which remain notified but non-operational followed by identification of factors that hindrance these SEZs to become operational with factor analysis method and at last the analysis and interpretation of the result is made.

4.2. Indian IT/ITeS Industry: Growth and Trends

India's IT industry contributed nearly 8% of country's GDP in 2020 and it is expected to reach 10% by FY 2025[88]. By the end of FY 2019, IT industry employed approx. 4.1 million people. The Information Technology – Business Process Management (IT- BPM)[89] sector is a major segment of India's service sector. The market size of India's IT-BPM sector is expected to grow to US $350 billion by 2025 and BPM is expected to account for US $ 50-55 billion out of the total revenue. The market size of India's IT-BPM industry in terms of domestic and export is shown in **Figure 4.1**. According to National Association of Software and Services Companies' (NASSCOM) preliminary projection, IT-BPM sales (excluding e-commerce) reached US$194 billion in 2020–21, increasing by 2.26% Year-on Year and hiring 1.38 lakh new workers. The major portion (> 51%) of the IT-BPM industry is made up of IT services (See **Figure 4.2**). Over the past many years, its proportion has remained stable. The IT-BPM sector's proportion of Software & Engineering services, which had been steadily increasing every year, suffered a minor dip to 20.78% in 2020–21. BPM service share remained constant at 19.8%, while hardware service share marginally increased to 8.3%. A total of US$ 99.1 billion, US$ 40.3 billion, US$ 38.5 billion, and US$ 16.1 billion were made by IT services, software & engineering services, BPM services, and hardware services, respectively, in 2020–21. The exports by IT/ITeS units in SEZs for the year 2020-21 were INR 5.1 lakh crore[90].

Figure 4. 1: Market size of IT-Industry in India (US $ billion)

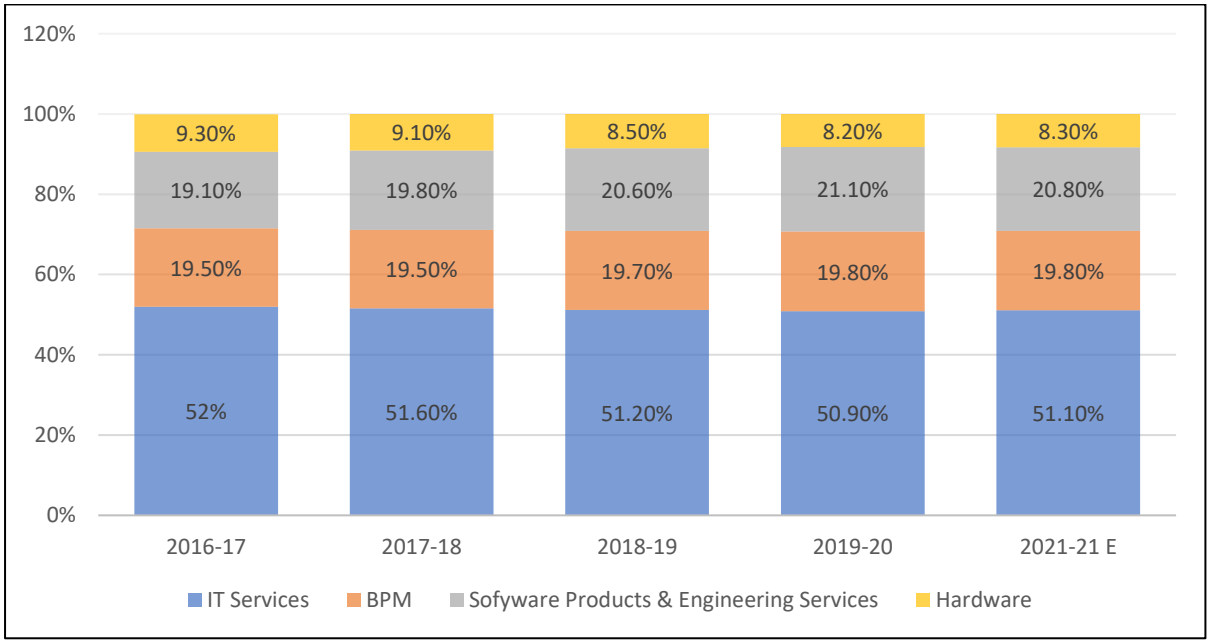


(Source:IT / ITeS, IBEF[91], May 2020, Page – 9; E: Estimate)

[88] IT & BPM Industry Report, June, 2022, IBEF.
[89] IT/ITeS sector and IT-BPM sector is same.
[90] https://pib.gov.in/PressReleasePage.aspx?PRID=1797593
[91] Accessed at https://www.ibef.org/download/IT-ITeS-May-2020.pdf

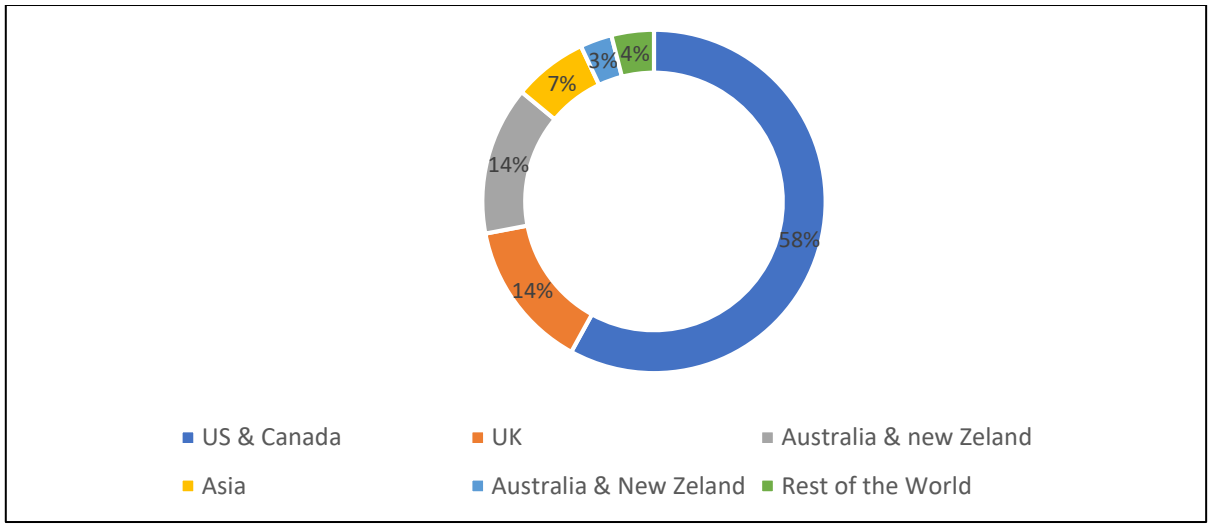
US has traditionally been the biggest importer of Indian IT exports as it absorbed over 58% of Indian IT-BPM export during FY2020. Share of countries other than US & UK account for just 29% of the total export during FY2020. Very recently India has started getting strong demand from Asia Pacific, Latin America and Middle East Asian Regions. Being the low-cost service provider, India is expected to tap more markets just like it did the US market since early 2000. The share of IT-BPM export by countries for FY2020 is shown in **Figure 4.3**.

Figure 4. 2: Share of Sub-sectors in IT-BPM Revenue (excluding hardware & e-commerce)



(Source: Economic survey, 2021-22, Chapter – 9, Services, pp. 327-328; E: Estimate)

Figure 4. 3: Destination wise Export of IT/ITeS during FY2020.



(Source: Survey on Computer Software and Information Technology-Enabled Services Exports: 2020-21, Table 5, Reserve Bank of India)

The industry has seen a number of governmental measures over the last year, including the loosening of Other Service Provider rules, Telecom Sector Reforms, and Consumer Protection (e-commerce) Rules, 2020, to promote innovation and technology adoption. This would greatly increase the sector's access to talent, spur the creation of more jobs, and propel it to the next level of development and innovation.

4.3. Advantage SEZ for IT/ITeS Sector

Since the very beginning of introduction of SEZ laws in India, SEZs remain the preferred destination for IT/ITeS companies mainly because of the following reasons.

a) Income tax exemption for long period of 15 years for SEZ developers as well as SEZ units. This tax holiday was available on becoming SEZ operational to SEZ developer and on making export profit to SEZ units. (This exemption has been withdrawn for developer w.e.f. 01.04.17 and for units w.e.f. 01.04.2021).
b) There was no requirement for minimum land area for IT/ITeS SEZ.[92]
c) Various fiscal and non-fiscal incentives by the state governments like exemption in stamp duty, electricity duty etc.
d) Single window clearance for all the administrative approval.

Because of the above-mentioned reasons, the country saw mushrooming of SEZs post 2006. However, many of the SEZs could not take off and declared de-notified SEZ. Some of the IT/ITeS SEZ done exceptionally well and has become the big employment generator or exporter. As stated earlier many SEZ in this sector, even after notified and passing of considerable time period, could not become operational. The following discussion shall follow in identifying the factors for such reason.

4.4. Period of Study

The study is based on the notified but non-operational IT/ITeS SEZ as on 31st March, 2018 and de-notified IT/ITeS SEZs in India up to 31st March, 2018.

[92] This provision came only in 2013. Before that the minimum land area requirement was 10 acres.

4.5. Methodology Used for the Study

As stated earlier, 73% of notified but non-operational SEZs as on 31.03.2018 belongs to IT/ITeS sector. Any SEZ is notified only after land comes in the possession of the developer. Rule 6(2) of SEZ Rules 2006, provides validity of formal approval for 3 years. Hence, it is reasonably assumed that IT/ITeS SEZ takes 3 years of time to become operational after its notification. To become operational means to start at least one unit in that SEZ. Thus, in the present study only those notified but non-operational IT/ITeS SEZ which has elapsed 3 years, as on 31st March 2018, from the date of its notification is considered. A total of 72 IT/ITeS SEZs are identified in the process. The List of 72 SEZs are given in **Appendix B**. The state-wise number of SEZs notified, operational, non-operational etc. are shown in **Table 4.1**. In addition, there were many IT/ITeS SEZs which have been de-notified in last decade. The probable reason for their denotification may match present reason of large number of non-operational IT/ITeS SEZ. Hence it is decided to obtain the list of de-notified SEZs from SEZ Section, Department of Commerce. A total 29 IT/ITeS SEZs found to have been de-notified since January, 2009. The list of such de-notified SEZs is given in **Appendix C**.

Table 4. 1: State/UT wise Distribution of Notified, Operational & Non-Operational SEZ as on 31st March, 2018

State/UT	Notified SEZ[93]	Operational SEZ[94]	Notified but Non-Operational SEZs	Notified but Non-Operational IT/ITES SEZs	Non-Operational IT/ITES SEZs for More than 3 Years from the date of Notification[95]
Andhra Pradesh	27	19	8	1	0
Chandigarh	2	2	0	0	0
Chhattisgarh	1	1	0	0	0
Delhi	0	0	0	0	0
Goa	3	0	3	1	1
Gujarat	27	19	8	4	4
Haryana	21	6	15	12	11
Jharkhand	1	0	1	0	0
Karnataka	51	28	23	23	10
Kerala	26	19	7	7	7
Madhya Pradesh	6	4	2	2	2

(Contd.)

[93] It includes 7 Central SEZs & 11 State/Private SEZs which were set-up prior to the enactment of the SEZ Act, 2005.
[94] Ibid.
[95] As on 31st March, 2018

State/UT	Notified SEZ[96]	Operational SEZ[97]	Notified but Non-Operational SEZs	Notified but Non-Operational IT/ITES SEZs	Non-Operational IT/ITES SEZs for More than 3 Years from the date of Notification[98]
Maharashtra	51	29	22	12	8
Manipur	1	0	1	1	1
Nagaland	2	0	2	0	0
Odisha	5	4	1	0	0
Puducherry	0	0	0	0	0
Punjab	3	3	0	0	0
Rajasthan	5	2	3	2	2
Tamil Nadu	52	38	14	9	8
Telangana	58	30	28	25	10
Uttar Pradesh	23	12	11	9	7
West Bengal	8	7	1	1	1
Total	**373**	**223**	**150**	**109**	**72**

(Source: Data compiled from Fact Sheet on SEZ as on 31.07.2018 & Lok Sabha Starred question No. 78, for answer on 23rd July, 2018 regarding SEZ)

Next, a thorough review of existing literature reveals some variables which are acting as constraint in some way or other to start operation of SEZs. A total of 22 variables are identified in this process. The list of variables along with their source are given in **Table 4.2.** These variables are surveyed from 72 'notified but non-operational SEZ developers' and 29 'de-notified SEZ developers' in a five-point Likert scale method through a structured questionnaire. The questionnaire is given in **Appendix D**. Hence a total 101 (72+29) response obtained. Despite the fact that all of the variables are statistically independent, many of them appear to be interrelated. In order to find factors that might be extrapolated from these variables, it is chosen to conduct ***confirmatory factor analysis***. Finally, the significant factors are defined based on the types of variables included.

Tools Used

Confirmatory factor Analysis has been performed using IBM SPSS 20.0 statistical software.

[96] It includes 7 Central SEZs & 11 State/Private SEZs which were set-up prior to the enactment of the SEZ Act, 2005.
[97] Ibid.
[98] As on 31st March, 2018

Table 4. 2: List of Variables identified which act as constraint to start operation of SEZs

Sl. No.	Source of Journal/Articles	Identified Variable	Variable Name
1.	*IT-ITeS Industry: Rising gap between policy and implementation by Som Mittal, President, NASSCOM* https://economictimes.indiatimes.com/opinion/et-commentary/it-ites-industry-rising-gap-between-policy-and implementation/articleshow/11201091.cms?from=mdr	Policy Uncertainty [Laws & Regulation]	A
2.	Patcharee Pakdeenurit, P. *et al.* (2017). Location and key success factors of special economic zone in Thailand. *Marketing and Branding Research*, 4(2), 169-178. DOI: 10.33844/mbr.2017.60355	Location of SEZ Sites	B
3.	Pandya., Falguni H., & Joshi, Yogesh C. (2015) 'Impact of Fiscal Incentives on SEZs' Performance in Gujarat', *Foreign Trade Review*, 50(3), pp. 190-218.	Withdrawal of Income Tax Incentives	C
4.	Mukherjee, A., and Bhardwaj, B (2016): Imposition of MAT on SEZ: Concerns and the Way Forward. Working Paper No. 314, *Indian Council for Research on International Economic Relations* (ICRIER), New Delhi.	Imposition of MAT & DDT	D
5.	SEZs: Risks of Investing in Goa https://economictimes.indiatimes.com/sezs-risks-of-investing-in-goa/articleshow/2673007.cms?from=mdr	High Investment/Borrowing Cost	E
6.	Sharma, S.P., Taneja, R. & Munjal, A. Current State and Performance Review of SEZs in India: A Survey. PHD Chamber http://phdcci.in/live_backup/image/data/Research%20Bureau2014/Economic%20Developments/paper/Current%20State.pdf	Non-Availability of Skilled Labour/Professionals	F
7.	The Role of Special Economic Zones in Improving Effectiveness of GMS Economic Corridors. Mandaluyong City, Philippines: Asian Development Bank, 2016. pp. 18. https://www.adb.org/sites/default/files/institutional-document/214316/role-sez-gms.pdf	Stability and Consistency of the Government	G
8.	Report of the Comptroller and Auditor General (CAG) of India, Report No. 21 of 2014 – Performance of Special Economic Zones SEZs. Page No. 124	Unsatisfactory Single Window Clearance	H
9.	Pandya., Falguni H., & Joshi, Yogesh C. (2015) 'Impact of Fiscal Incentives on SEZs' Performance in Gujarat', *Foreign Trade Review* 50(3), pp. 190-218.	High competition with neighbouring SEZs	I

Sl. No.	Source of Journal/Articles	Identified Variable	Variable Name
10.	Mukherjee, A., and Bhardwaj, B (2016): *Imposition of MAT on SEZ: Concerns and the Way Forward.* Working Paper No. 314, Indian Council for Research on International Economic Relations (ICRIER), New Delhi.	Economy Slowdown/Recession in IT/ITeS Industry	J
11.	Report of the Comptroller and Auditor General (CAG) of India, Report No. 21 of 2014 – Performance of Special Economic Zones SEZs.	Local Issues with the Proposed Site [Illegal Parking of Oil Tanker, Water Logging]	K
12.	Jalagat, R.C. (2016). The Impact of Change and Change Management in Achieving Corporate Goals and Objectives: Organizational Perspective. *International Journal of Science and Research*, 5(11), 1233-1239.	Change in Management Decision	L
13.	Report of the Comptroller and Auditor General (CAG) of India, Report No. 21 of 2014 – Performance of Special Economic Zones SEZs.	Absence of State SEZ Act/Policy	M
14.	States eye SEZ social infrastructure https://economictimes.indiatimes.com/news/economy/infrastructure/states-eye-sez-social-infrastructure/articleshow/2063309.cms	Non-availability of Social Infrastructure	N
15.	Teething GST issues in Special Economic Zones; delayed refunds still haunt taxpayers. https://www.financialexpress.com/economy/teething-gst-issues-in-special-economic-zones-delayed-refunds-still-haunt-taxpayers/2147958/	Delay in getting refund of indirect taxes	O
16.	Mukherjee, A., Pal, P., Deb, S. & Goyal, T.M (2016*): Special Economic Zones in India: Status, Issues and Potential, Springer Publication.*	Absence of captive units	P
17.	Tyson, J.E. (2018) Financing Special Economic Zones; Different Models of Financing and Public Policy Support. *Supporting Economic Transformation*. https://set.odi.org/wp-content/uploads/2018/09/SET_Financing-Models-for-SEZs_Final.pdf	Non willingness to invest by Private Equity (PE) investors, Venture Capitalist, Hedge Fund etc.	Q
18.	Report of the Comptroller and Auditor General (CAG) of India, Report No. 21 of 2014 – Performance of Special Economic Zones SEZs.	Non-cooperation from DC's office	R
19.	World Investment Report, 2019, SEZ https://unctad.org/system/files/official-document/wir2019_en.pdf#page=143	Non-availability of basic facilities	S
20.	Procedural delays bog down SEZs https://www.businesstoday.in/latest/policy/story/procedural-delays-bog-down-sezs-20870-2011-01-05	Delay in getting clearances from State Government	T

Sl. No.	Source of Journal/Articles	Identified Variable	Variable Name
21.	Tyson, J.E. (2018) Financing Special Economic Zones; Different Models of Financing and Public Policy Support. *Supporting Economic Transformation*. https://set.odi.org/wp-content/uploads/2018/09/SET_Financing-Models-for-SEZs_Final.pdf	Difficulty in getting long term finance from Bank	U
22.	Report of the Comptroller and Auditor General (CAG) of India, Report No. 21 of 2014 – Performance of Special Economic Zones SEZs. Page No. 124	Lack of coordination between the Central Govt. and State Govt. departments	V

(Notes: In the subsequent reference, these variables as mentioned in column 3 has been referred as their representative variable letter in column 4)

4.6. Source and Collection of Data

Required Data	Source of Data
Reply in structured questionnaire on 22 variables with 5-point Likert Scale	• Primary data collected from 72 'Notified & Non-operational SEZ Developers' and 29 'De-notified SEZ Developers' as on 31.03.2018. • Identification of 72 Non-operational SEZs - Lok Sabha Starred Question No. 78 (Answered on 23rd July, 2018); • Data in respect of 'De-notified SEZs' are provided by SEZ Section, Department of Commerce in RTI Reply.

4.7. Analysis and Interpretation of Result

On obtaining primary data from 101 respondents (72 Notified but Non-operational SEZ developers and 29 De-notified SEZ developers), all data are arranged according to variables. The obtained data was subjected to Kaiser–Meyer–Olkin (KMO) test to determine acceptability of the obtained reduction.

Table 4.3 shows the results of KMO and Bartlett's sphericity test. It confirms the significance of factor analysis with 22 variables. By using the principal component analysis method and varimax rotation method (which is commonly used method), a total 6 factors are extracted with Kaiser normalization and eigenvalue greater than one. **Table 4.4** displays the result of factor analysis.

Table 4. 3: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.708
Bartlett's Test of Sphericity	Approx. Chi-Square	1779.101
	df	231
	Sig.	.000

(Source: Author's own computation using SPSS 20)

79.056% of the variation is explained by these six variables. **Table 4.4** also displays the extraction sum of squared scale loadings (without rotation) to assess the construct level that meets the requirement of an eigenvalue larger than one. Careful inspection of extracted sum of squared loadings (without rotation) indicates that the variation of 79.056% is not distributed uniformly among all components. 19.623% of the variation is explained by the first component. Thus, the components matrix must be rotated in order for the variance to be dispersed evenly over all of the components. **Table 4.5** shows rotated component matrix**.** After the rotation (applying varimax method), the percent variance among the components decreases and falls between 9.809% and 17.478%. This is an acceptable percentage of variation to explain in order to determine whether the factor analysis is appropriate. Thus, extracting six factors from a total of 22 variables to identify the various constraint to making IT/ITeS SEZ operational is fair by all means.

The variables with the highest loadings on a single factor are used to choose the factors. The variables that weigh heavily on it can be used to interpret these factors. Based on factor loadings, the variables are grouped (shown in **Table 4.6**). Factor loadings show how the newly created factors and the observed variables relate to one another. The importance of factor is indicated by the coefficients in the matrix. These loading have a –1.0 lower limit and a +1.0 upper limit. To improve data reduction, variables with factor loadings greater than 0.50 have been considered under each factor.

Suitable Name of the Factors

Factor I: Non-Availability of Labour and Basic Amenities in SEZ Location

This factor includes five variable such as non-availability of labour, erroneous locational selection, local issues with the proposed sites, non-availability of social infrastructure and non-availability of basic facilities at the SEZ site.

Broadly, it indicates that the chosen location of SEZ site is neither investor friendly nor work-friendly. During my visit to many SEZs, it was observed that outside that SEZ no public

transportation is available. In terms of security, it appears the chosen location is less secure. No public utility like, hospital, bus stand, ATM facility was seen outside many SEZ. In many SEZs drinking water facility could not be seen. Availability of electricity round the clock is another issue faces by the SEZ. Hence, even if the developer takes care of inside infrastructure, who will take care of outside infrastructure? If outside infrastructure is not well furnished, then there may chances that proposed SEZ will lose out the race. For IT /ITeS SEZ the ideal SEZ site shall be within or near the city, where there is already established infrastructure and public utilities are present. Another issue is non-availability of labour for construction of SEZ site. During my visit to some SEZs in Tamil Nadu and Kerala, it was informed that the location of SEZ is so odd that availability of even construction labour become one of the issues. Thus, it can be said that choosing correct location and having basic amenities inside and outside the site can play a crucial role in making the SEZ operational.

Factor II: Unsatisfactory Single Window System & Delayed Government Clearance

This factor includes variables like unsatisfactory Single Window Clearance, non-cooperation from DC's office in respect of administrative work / sanction / information about recent development, delay in getting clearances from State Government especially building sanction plan clearance, fire clearance, environment clearance among others, lack of coordination between the Central Govt. and State Govt. departments to minimize the ambiguity, overlapping procedure and expenses.

This factor indicates smooth services are required from government's end to provide project clearance. The Board of Approval, at apex level, for SEZ Developer and Unit Approval Committee at DC level are considered the highest sanctioning authority for every proposal and central and state level. However, it was seen in many cases, SEZ development remains stalled for lack of approval like, building plan sanction, fire safety, environmental clearance etc. These clearances must be given under one roof and within pre-defined time period. This shall ease of doing business in SEZ. In many cases I was informed that no administrative co-operation was made by DC's office to SEZ developer for understanding new rules / amendments in rules or understanding procedural implications for the existing rule. These hindrances the developer to make up concrete mind about going in full fledge in the project. It is also informed that there is overlapping procedures by many departments of the same government be it central or state. Also, lack of co-ordination between the departments have also been informed while collecting data from SEZ developers.

These small corrective steps if taken care of can make a big difference to the SEZ developer and overall SEZ scheme.

Factor III: Absence of Captive Units and Competition among SEZs to Lease Out Space

This factor includes High competition with neighbouring SEZs to lease out the space at a competitive price, lack of interest of units due to economy slowdown/recession in IT/ITeS industry/withdrawn of Income Tax benefits in the last couple of years and Absence of captive units (i.e., the developer constructs units for its own business purpose) by the developer.

It is seen that those SEZ developers which are in IT/ITeS business are in better-off position than the developers which are developing to lease out space to outsiders. In case of developers having captive units need not to worry about lease out of space to others and whether its space shall be taken by others or not.

Table 4. 4: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.317	19.623	19.623	4.317	19.623	19.623	3.845	17.478	17.478
2	3.472	15.782	35.405	3.472	15.782	35.405	3.416	15.526	33.004
3	2.912	13.237	48.642	2.912	13.237	48.642	2.743	12.468	45.472
4	2.707	12.304	60.946	2.707	12.304	60.946	2.666	12.117	57.589
5	2.398	10.901	71.847	2.398	10.901	71.847	2.565	11.657	69.246
6	1.586	7.208	79.056	1.586	7.208	79.056	2.158	9.809	79.056
7	.971	4.412	83.467						
8	.672	3.055	86.522						
9	.575	2.614	89.136						
10	.372	1.693	90.828						
11	.336	1.528	92.356						
12	.297	1.350	93.706						
13	.294	1.337	95.043						
14	.212	.963	96.006						
15	.177	.806	96.812						
16	.165	.748	97.560						
17	.144	.653	98.213						
18	.127	.578	98.791						
19	.084	.380	99.170						
20	.069	.313	99.483						
21	.059	.269	99.752						
22	.055	.248	100.000						

Extraction Method: Principal Component Analysis.
Source: Author's own computation using SPSS 20.

Table 4. 5: Rotated Component Matrix

Variables	Component					
	1	2	3	4	5	6
A	.103	.063	.066	**.875**	-.014	-.049
B	**.964**	.023	.057	.017	.081	-.012
C	-.138	.010	.188	.131	.171	**.650**
D	.020	-.063	.086	-.057	-.020	**.931**
E	.028	.019	.039	-.030	**.938**	-.035
F	**.900**	-.025	.024	.036	.089	.013
G	.065	.022	.043	**.911**	-.010	-.168
H	-.030	**.959**	.000	-.069	.035	-.040
I	.113	.041	**.960**	.053	.018	.085
J	.066	.034	**.937**	.065	.038	.115
K	**.833**	.019	.078	.023	.145	-.101
L	.030	.151	-.001	-.299	.032	-.083
M	.057	-.043	.146	**.940**	-.006	-.016
N	**.714**	-.112	.100	.109	-.086	-.058
O	.069	-.041	.023	-.161	-.138	**.872**
P	.111	.029	**.912**	.124	.018	.091
Q	.037	.012	.053	-.018	**.884**	.066
R	-.041	**.881**	.051	.019	.023	-.026
S	**.892**	.005	.053	-.009	.038	.111
T	-.063	**.906**	.088	-.049	-.025	-.071
U	.157	-.028	-.025	-.032	**.897**	-.031
V	.032	**.918**	-.030	-.063	-.033	.041

Extraction Method: Principal Component Analysis.
Rotation Method: Varimax with Kaiser Normalization.

[a] *Rotation converged in 6 iterations.*
Source: Author's own computation using SPSS 20.

Table 4. 6: Grouping of Variables Based on Factor Loadings

Variables	Component					
	1	2	3	4	5	6
B	0.964					
F	0.900					
K	0.833					
N	0.714					
S	0.892					
H		0.959				
R		0.881				
T		0.906				
V		0.918				
I			0.960			
J			0.937			
P			0.912			
A				0.875		
G				0.911		
M				0.940		
E					0.938	
Q					0.884	
U					0.897	
C						0.650
D						0.931
O						0.872

(Source: Author's own computation using SPSS 20.)

Factor IV: Absence/Uncertain SEZ Governance Policy

This factor incorporates uncertain IT/ITeS SEZ policy (Laws & Regulations) in India which changes very frequently, non-stability and inconsistency of Government (Local government and State Government) and absence/ineffectiveness of State SEZ Act/Policy resulting lack of State Government support for SEZ and non-willingness to set up SEZ units by entrepreneur.

Any development policy if changes frequently, the essence of the policy is lost; and SEZ policy is not an exemption. In last-decade, minimum land area requirement for IT/ITeS

SEZ changed twice. Political stability and willingness also play a major role to kick off SEZs in any state. Like, the West Bengal government did not allow SEZ status to Infosys for political ideology[99]. Another major reason is absence of State SEZ Act / Policy. Many states are yet to come up with their policy for better support from government's end.

Factor V: High Cost of Investment

Variables included in this factor are cost of borrowing/investment which remains very high in SEZ development, non-willingness to invest by Private Equity (PE) investors, venture capitalist, hedge fund etc. and difficulty in getting long term finance from bank as SEZ is considered as a risky project by bank.

SEZ development project, being time taking and risky, do not get finance easily. Also, loans and advances to SEZ project does not fall under any of the priority sector lending as per RBI. Hence,

Factor VI: Withdrawn of Tax Incentives

This factor includes withdrawal of Income Tax incentives (tax holiday w.e.f 01/04/2017) for SEZ developer and for SEZ units w.e.f 01/04/2021, imposition of Dividend Distribution Tax (DDT)[100] and Minimum Alternative Tax (MAT) w.e.f. 01/06/2011 and 01/04/2012 respectively and delay in getting refund of indirect taxes (GST/earlier Sate VAT, Customs etc.).

Initially, when SEZ Act was introduced, there were no MAT and DDT. In addition, income tax exemption (popularly known as tax holiday) was also there for SEZ developers and units. These tax exemptions were inserted in SEZ Act (corresponding provision was made applicable in Income Tax Act, 1961) since beginning. Business houses invested a handsome money with long-term tax planning. However, the government withdrawn all these tax exemption over the period. With drawn of tax incentive have definitely impacted business sentiments and is reflected in primary survey. 75% of respondents says withdrawn of income tax holidays is one of the major reasons for non-operation of SEZs while 82% makes responsible to withdrawal of DDT & MAT exemption. This show policy inconsistency by the government. In addition, SEZ developers also confirms that government makes delay in

[99] https://www.thehindubusinessline.com/news/national/centre-rejects-infosys-proposal-to-set-up-it-sez-in-west-bengal/article9017189.ece

[100] Finance Act, 2020 has introduced abolition of Dividend Distribution Tax (DDT) for companies. Hence, presently all the dividends are taxable in the hands of shareholders.

refunding tax component. This is another reason why SEZs take time to become operational. 35% of respondents agrees that this is a barrier while 22% strongly agrees with this.

Almost all developing countries provide income tax exemption for some years to attract business houses for investment. However, if no tax concession remains then doing business in DTA and in SEZ makes no difference.

The list of six factor and their corresponding variable are shown in **Table 4.7**. To conclude, the six identified factors taken together are the major hindrances of making an IT / ITeS SEZ operational. The government must work on these factors and provide a practical solution at the earliest.

Table 4. 7: List of Factors and their inclusive Variables

Sl. No.	List of Factors	Inclusive Variables
1.	Non-Availability of Labour and Basic Amenities in SEZ Location	a) Non-availability of labour; b) Erroneous locational selection; c) Local issues with the proposed sites; d) Availability of social infrastructure; and e) Non-availability of basic facilities at the SEZ site.
2.	Unsatisfactory Single Window System & Delayed Government Clearance	a) Unsatisfactory Single Window Clearance; b) Non-cooperation from DC's office in respect of administrative work / sanction / information about recent development; c) Delay in getting clearances from State Government especially building sanction plan clearance, fire clearance, environment clearance among others; and d) Lack of coordination between the Central Govt. and State Govt. departments to minimize the ambiguity, overlapping procedure and expenses.
3.	Absence of Captive Units and Competition among SEZs to Lease Out Space	a) High competition with neighbouring SEZs to lease out the space at a competitive price; b) Lack of interest of units due to economy slowdown/recession in IT/ITeS industry/withdrawn of Income Tax benefits in the last couple of years; and c) Absence of captive units (i.e., the developer constructs units for its own business purpose) by the developer.

(Contd.)

Sl. No.	List of Factors	Inclusive Variables
4.	Absence/Uncertain SEZ Governance Policy	a) Uncertain IT/ITeS SEZ policy (Laws & Regulations) in India which changes very frequently; b) Non-stability and inconsistency of Government (Local government and State Government); and c) Absence/ineffectiveness of State SEZ Act/Policy resulting lack of State Government support for SEZ and non-willingness to set up SEZ units by entrepreneur.
5.	High Cost of Investment	a) Cost of borrowing/investment which remains very high in SEZ development; b) Non-willingness to invest by Private Equity (PE) investors, venture capitalist, hedge fund etc; and c) Difficulty in getting long term finance from bank as SEZ is considered as a risky project by bank.
6.	Withdrawn of Tax Incentives	a) Withdrawal of Income Tax incentives (tax holiday w.e.f 01/04/2017) for SEZ developer and for SEZ units w.e.f 01/04/2021; b) Imposition of Minimum Alternative Tax (MAT) and Dividend Distribution Tax (DDT)[101] w.e.f. 01/04/2012; and c) Delay in getting refund of indirect taxes (GST/earlier Sate VAT, Customs etc.).

The consolidated response of primary survey for each of the variables in per cent terms are shown in **Appendix E**.

In the next chapter, second objective of the study has been discussed.

[101] Finance Act, 2020 has abolished Dividend Distribution Tax (DDT) for companies. Hence, presently all the dividends are taxable in the hands of shareholders.

CHAPTER - 5

SEZ Investment and State SEZ Act / Policy in India

Chapter – 5: SEZ Investment and State SEZ Act / Policy in India

5.1. Introduction

One of the objectives of enactment of SEZ Act, 2005 is to bring investment from domestic as well as from foreign sources. The central government invested heavily on EPZs in the early days. However, after the introduction of SEZ Act, no SEZs has been developed by central government. SEZ Act very explicitly stated that SEZs can be developed either by central government or state governments or private sectors or any combinations thereof. Between February 2006 and March 2020, investment in SEZ surged by about 142 times, reaching from INR 4,036 crores to INR 5,71,735 crores. This increase is mainly made by private players after the enactment of SEZ Act in 2006. However, when we see the state-wise investment data, we find asymmetric SEZ investment among the states. Only 17 states in India have attracted SEZ investment as on 31st March, 2020. Among these, only 3 states account for 63% of total investment. These states are Gujarat, Karnataka and Maharashtra. Likewise, none of the north eastern states or Himalayan states have received any investment in SEZ scheme. Now the obvious questions come, that if central government benefit in respect of SEZ is same to all states, then why there is difference in investment among states?

One probable reason is the state's willingness to attract investment in SEZ scheme. This willingness may be made by making dedicated State SEZ Act / Policy which many states have already made. This helps investor to understand state's exact stance on any particular matter. The states which have not formulate policy may have similar willingness but absence of written document makes it difficult to let investor know the government's thinking and policy stability. It may be noted that, in addition to central SEZ Act, 2005 which has been given effect from 2006, many state governments have their own set of SEZ Act / Policy. Some of the state made policy even before the central SEZ Act was passed. Like, the state of West Bengal made the SEZ policy in 2001 and SEZ Act in 2003. The list of states with state SEZ Act and /or policy is already given in **Table 3.3**

Another reason may be geographical location of state. Coastal states will have better investment opportunity for export of goods. Similarly states with availability of particular mineral may attract investment. As SEZs primary thrust is to export, manufacturing SEZs shall tend to locate near port for easy transportation facility. However, service SEZs like, IT/ITeS

SEZ, Engineering service SEZ will not be located near port. These SEZs will locate where skilled labour and easy connectivity is established.

The third reason may be infrastructure facility. A state with higher infrastructure facility will have better likelihood to attract investment. Infrastructure facility includes, road connectivity, availability of port, power, banking services etc. Hence, taking all discussions together, it can be said that ability of a state to get investment in SEZ shall depend in more than one factor.

This chapter elaborates second objective of the study i.e., ***to study the impact of State SEZ Act/Policy on investment made in SEZs in the concerned State.*** The chapter states about the study period, methodology of research followed by the analysis and interpretation of result. The findings of the chapter shall be helpful to policy maker to understand the significant factors to attract SEZ investment in a state.

5.2. Period of Study

The study is based on the period from 2011-12 to 2019-20[102]. Data for earlier periods were not available and thus could not be used. Data for subsequent period i.e., 2020-21 though made available could not be used because of non-availability of data relating to other used variables.

5.3. Methodology Used for the Study

Existing literature shows that there are broadly four factors which directly or indirectly affect the locational decision of investment. These are state of economy, labour, infrastructure and government policy[103]. Each of these factors can be measured by a single or many variables. For the purpose of present study, the representative variables as shown in **Table 5.1** have been taken against their factor. The reason for choosing these representative variables against their factor are given below.

[102] Data in respect of state-wise investment in SEZ was asked through RTI to SEZ section, Department of Commerce since 2006-07 to 2019-20. However, investment data since FY12 has been provide. Hence the study has been made since 2011-12 onwards.

[103] These factors have been identified following N-SIPI 18. N-SIPI 18 is the NCAER State Investment Potential Index released in 2018 by National Council of Applied economic Research (NCAER). The N-SIPI has been constructed using six pillars. These are land, labour, infrastructure, economic climate, political stability and governance and business perceptions. From these six pillars, five factors have been identified for the present study. These are land, labour, infrastructure, economy of the state and government policy. However, time series data on availability of land for industrial purpose for each state could not be obtained. Hence, this variable has been dropped from present study.

Table 5. 1: Investment attracting factors and their representative variables

Sl. No.	Factors	Representative Variables
1	Economy of the State	Per capita Net State Domestic Product (NSDP)
2	Labour	Availability of labour
3	Infrastructure	Availability of power
4	Government Policy	State specific SEZ Act/Policy

Per Capita Net State Domestic Product (NSDP): The net book value of all the finished products and services produced geographically inside a state over a specific time period is measured by the NSDP. When we divide the NSDP by the total population of the state we get per capita NSDP. NSDP is considered a better economic indicator than GSDP since the former also reveals the amount of investment spent improving the obsolete equipment to maintain the production level. An increase in depreciation alone can push up the GDP level, but it does not indicate improvements in that country's social and economic well-being. Thus, NSDP represent the economic well-being of a state in terms of production.

Availability of Labour: Industry location decisions are significantly influenced by the availability of an educated, competent workforce at competitive cost in a supportive labour environment *(Parmar, C. K. & Ghosh, P. P., 2021)*. Hence, availability of labour represents the entire labour factor.

Availability of Power: A state's infrastructure is represented by many variables like road density, power shortage and average power production, rail network in state, number of bank branches in a state, cargo handled in port etc. Among these, for the present study, availability of power has been chosen. It is accepted that SEZs are mainly established for export of goods after manufacturing. Being a manufacturing unit, requirement of power is essential. Hence higher the power consumption, higher the production (may be assumed). Thus, availability of power represents the business infrastructure in that state.

State Specific SEZ Act/Policy: For the purpose of present study, State SEZ Act / Policy is the best representative of government policy. To attract investment in a state, if state makes a policy it indicates, there exist government policy and *vice-versa.* To understand the effect of State SEZ Act / Policy, only those states which have formulated any Act and/or Policy are being considered in the present study.

Decomposing State SEZ Act/Policy:

Next, to understand the degree of effectiveness of state SEZ Act / Policy, each of the policy have been decomposed. For this purpose, for every state, state SEZ Act/Policy has been analysed. After going through the Act/Policy, major components which work as stimulus to

developer or unit to make investment, have been identified. These components vary from state to state. It is assumed that more the number of components in an Act/Policy, more the Act/policy is 'investment friendly'. As these components are qualitative sub-variables and to measure the impact of entire Act/Policy as a whole, an equal weight has been assigned to each component. Thus, the summation of components has been recognized as total score for that particular Act/Policy. The identified components of each state along with total score have been depicted in **Table 5.2**.

The present study is conducted with state SEZ investment, being dependent variable and other considered variables as independent variables (as shown in **Table 5.1)**. The study is based on 11 states[104] which has formulated state SEZ Act/Policy and also received SEZ investment. ***Panel Data regression analysis method*** has been done to study the economic relationship using cross section series with a time dimension. The group of independent variables has been combined which represent investment potential. Thus, the model is given as follows:

Investment in SEZ = f (State Economy, Labour Measure, Infrastructure, State SEZ Act/Policy)

The estimated equation of the form is given by -

$$Y_{it} = \alpha_i + \beta x_{it} + \varepsilon_{it} \ldots \quad \ldots \quad \ldots \quad \ldots (1)$$

Where *i* represent the state and *t* represent the time for the dependent variable *Y* and independent variable *x*. α is the parameter specific to each state and does not vary with time. Taking following variables, after testing linearity, the regression equation is represented below:

$$INVT_{i,t} = \alpha + \beta_1 NSDP_{i,t} + \beta_2 AVALLB_{i,t} + \beta_3 ENERGY_{i,t} + \beta_4 SEZAP_{i,t} + \varepsilon_{i,t} \ldots \quad \ldots (2)$$

Where *INVT* represents SEZ investment, *NSDP* represents Net State Domestic Product (Current Price), *AVALLB* represents availability of labour, *ENERGY* represents availability of power (Net crore units), *SEZAP* represents score in State SEZ Act/Policy and β_1 to β_4 are the parameters to be estimated.

Tools Used

The stated research method has been used using the Eviews-11 statistical programme. The following procedures have been applied sequentially to select the appropriate technique of panel data regression.

[104] UT of Chandigarh, State of Gujarat, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Punjab, Tamil Nadu, Uttar Pradesh and West Bengal. The state of Jharkhand has not been included in our study as the state has not received any SEZ investment even having SEZ Policy in 2003.

Table 5. 2: Decomposing State SEZ Act/Policy and Identification of Score

States/UT	State SEZ Act/Policy Parameters									Score
	Single Point Clearance	Provision for collection of User Charges by the Developer or Co-developer	Exemption of Stamp Duty and Registration fees for Registration of Land and Loan/Credit Documents	Exemption of Electricity Duty	Exemption of 1% Labour Welfare Cess	One time capital subsidy	Consolidated Return under various laws	Delegation of Power of Labour Commissioner to Development Commissioner	Interest Subsidy to MSME	
Chandigarh	×	×	✓	✓	×	×	×	×	×	2
Gujarat	✓	✓	✓	✓	×	×	✓	✓	×	6
Haryana	✓	×	✓	✓	×	×	×	×	×	3
Jharkhand	✓	×	✓	✓	×	×	×	×	×	3
Karnataka	✓	✓	✓	✓	✓	✓	✓	✓	×	8
Kerala	✓	×	✓	✓	×	×	×	×	×	3
Madhya Pradesh	✓	×	✓	✓	×	×	×	✓	×	4
Maharashtra	×	×	×	✓	×	×	×	×	×	1
Punjab	✓	✓	✓	✓	×	×	×	✓	×	5
Tamil Nadu	✓	×	×	×	×	×	×	×	×	1
Uttar Pradesh	✓	×	✓	✓	×	×	×	✓	✓	5
West Bengal	×	×	✓	✓	×	×	×	✓	×	3

(Source: Author's own compilation from various States' SEZ Act/Policy obtained from www.sezindia.nic.in

i) First, I have run Panel of Least Squares (POLS) or Panel Least Square;

ii) Then I have applied Breusch-Pagan (BP) test.

Null hypothesis of BP test is "POLS is appropriate than Fixed Effect Model (FEM)/Random Effect Model (REM)" or "No effect (of different cross sections on intercept)".

If p-value is greater than 0.05 then accept the null hypothesis and go for POLS.

If p-value is less than 0.05 then reject the null hypothesis and go for FEM/REM.

iii) Apply REM.

iv) Apply Hausman Test.

Null hypothesis of Hausman Test is "REM is appropriate than FEM".

If p-value is greater than 0.05 then accept the null hypothesis and go for REM.

If p-value is less than 0.05 then reject the null hypothesis and go for FEM.

v) Apply FEM to estimate regression.

It is assumed that intercept is different for different states. Also, it is considered that time period does not have different intercept. Thus, the present study has only one-way effect.

5.4. Source and Collection of Data

Required Data	Source of Data
State-wise investment in SEZs	Data in respect of state-wise investment in SEZ provided by SEZ Section, Department of Commerce in RTI Reply for the period 2011-12 to 2019-20.
State-wise NSDP & availability of power	RBI Handbook of Statistics on Indian States 2020-21 and 2019-20.
State-wise availability of labour	Lok Sabha unstarred question No. 2366 answered on 8th July, 2019 and Employment Exchange Statistics 2019 & 2018, Directorate General of Employment.
State SEZ Act/Policy	• Official website of SEZ, Govt. of India www.sezindia.nic.in [Accessed between May, 2020 to November, 2020] • Lok Sabha Starred Question No. 483, answered on 2nd April, 2018[105]

[105] Available at http://164.100.24.220/loksabhaquestions/annex/14/AS483.pdf

5.5. Analysis & Interpretation of Result

Before moving for panel regression analysis, among all the explanatory variables, pair wise correlation test is conducted to check whether there exists any multicollinearity or not. The result of correlation is given in **Table 5.3**. Pair wise correlation matrix shows, investment in SEZ is positively related with state of the economy (12%), labour availability (8%), availability of energy (43%) and existence of SEZ Act/Policy (41%). As none of the pair among any of the variables is highly correlated (0.80 <), it may be said that the problem of multi-collinearity does not exists[106].

Table 5. 3: Correlation Matrix

	INVT	NSDP	AVALLB	ENERGY	SEZAP
INVT	1.00				
NSDP	0.12	1.00			
AVALLB	0.08	-0.30**	1.00		
ENERGY	0.43**	-0.24*	0.27*	1.00	
SEZAP	0.41**	-0.16	-0.21	0.06	1.00

*(Source: Author's own computation using SPSS 20; Notes: ** and * indicates correlation is significant at the 1% and 5% (2-tailed) respectively)*

However, to check the severity of multicollinearity, Variance Inflation Factor (VIF) is computed as shown in **Table 5.4**. The VIF value for all variables is less than 10, and the tolerance value (1/VIF) is more than 0.10. This demonstrates that although multicollinearity exists, is not significant.[107]

Table 5. 4: VIF Computation

Variable	VIF	1/VIF
NSDP	5.39	0.186
AVALLB	1.16	0.860
ENERGY	5.60	0.179
SEZAP	1.07	0.936

(Source: Author's own computation using SPSS 20)

Next, the equation (2) is regressed in pooled model (OLS). The result of OLS model is shown in **Table 5.5**. The results validate that state of the economy, availability of labour in that state and infrastructure of the state does not have significant impact on investment made in

[106] If the pair-wise correlation coefficient between two regressors is high (0.80), then multicollinearity is a serious problem. (Gujarati, D.N. & Porter, D.C. Basic Econometrics. McGraw-Hill Irwin. Fifth Edition, pp.338)
[107] Hair et al., 1998; Field, 2003

SEZs in any state. However, it is significantly dependent on State SEZ Act/Policy. The effect of cross-section and time has also been tested through Breusch Pagan (BP) test and the results are reported in **Table 5.6**. The result of the test indicates that there exists only cross-section effect (p-value is less than 5%) and time has no effect. The p-value of combined effect comes to less than 5% and hence null hypothesis of BP test is rejected. Next the equation (2) is again estimated with Random Effect Model (REM). The result of REM is also shown in **Table 5.5**.

Table 5. 5: Panel Data Regression Result

Dependent Variable = INVT			
Variables	**OLS**	**Random Effect**	**Fixed Effect**
NSDP	0.00 (0.00)	4.14 (0.00)	7.46 (0.00)
AVALLB	0.60 (0.82)	0.91 (0.81)	0.74 (0.92)
ENERGY	0.41 (0.12)	0.54 (0.47)	0.16 (1.08)
SEZAP	1144.88*** (223.64)	1130.15 *** (522.95)	-
Constant	-4988.38*** (1921.90)	-4410.11 *** (2804.76)	1905.88 (4528.96)
Observations	77	77	77
R squared	0.35	0.37	0.13

*(Source: Author's own computation using Eviews 11. Notes: The symbols ***, **, and * denote significance at minimum 1%, 5%, and 10%, respectively. Standard errors are shown by figures in brackets.)*

Table 5. 6: Result of Breusch Pagan (BP) Test

Cross Section	**Time**	**Both**
27.45 (0.000)	0.766 (0.381)	28.22 ***(0.000)***

(Source: Author's own computation using Eviews 11. Note: Figures in parenthesis are probability values.)

The REM confirms no significant influence is there of all the regressors, except SEZ Act/policy of state, on dependent variable. The coefficients of all the variables are positive; thus indicates, the positive effect of variables in bringing the investment in SEZs. The fixed effect model shows no significant impact of any of the regressors on investment. However, all the variables have a positive value. To check the suitability of model, Hausman Test is carried out with the null hypothesis that REM is appropriate than Fixed Effect Model (FEM). As the p-value of Hausman Test comes to more than 5%, null hypothesis is accepted and confirms that **REM is appropriate techniques in the present case**. The result of Hausman Test is given in **Table 5.7**.

Table 5. 7: Result of Hausman Test

Chi-Sq. Statistic	Chi-Sq. d.f.	Prob
1.11	3	***0.918***

(Source: Author's own computation using Eviews 11)

Thus, to conclude, State SEZ Act/Policy has significant impact to bring SEZ investment in any state. However, state of the economy, infrastructure of the state and availability of labour though have positive impact in bringing SEZ investment, are not significant variables.

CHAPTER - 6

Employment Generation by SEZs in India

Chapter – 6: Employment Generation by SEZs in India

6.1. Introduction

As employment generations is one of the objectives for which SEZ Act was passed in parliament, it is worthwhile to study the employment generation by SEZs in India. In this chapter, third objective of the study is addressed. Before introduction of SEZ Act, total employment generation by all central SEZs and state SEZs taken together was 1,34,704 persons in February, 2006. This increased by 17½ times to 23,58,136 persons as on 31st March, 2021. Only four states (Tamil Nadu, Maharashtra, Telangana and Karnataka) taken together account 71% of total employment in SEZs. Sector-wise employment data reveals high dependence on only a sector for employment generation. It must be noted that SEZ section of Department of Commerce (DoC) does not make any target of employment creation through SEZ[108]. However, when a proposal is given for BoA's approval, the developer states the expected number of employment that SEZ may create. It was informed by many SEZ developer and units that no such monitoring or review is made by DC's office for enhancement of employment except annual performance appraisal made by units.

SEZs have remain controversial since very beginning of the scheme. Many states have seen protest for forceful land acquisition by government. In all the protest, it was mention that SEZ shows how much employment shall be made, if becomes successful; however, it never shows how much immediate employment is lost for development of SEZ.

This chapter studies the employment generated by SEZs over the year. Also, analyses are made for state-wise growth of employment for a specific period. For lack of time series data, sector-wise employment generation has been analysed as on 31st march, 2018. The chapter concludes with analysis and interpretation of result.

It was learned that the SEZ section, DoC, does not keep record of SEZ wise number of employments generated. Hence, sector-wise employment data was asked to the six different DC's office for the period 2008-09 to 2017-18. However, no uniformity in sector classification is seen among different DC's office. Like MEPZ and Falta SEZ, keeps a sectoral classification of Multi-product and IT/ITeS. However, other SEZs don't make any such classification. Hence to the extent possible, data has been group based on classification and then analysed.

[108] Rajya Sabha question No. 493 Dt. 07.02.2018. Accessed at https://pqars.nic.in/annex/245/Au493.pdf

6.2. Period of Study

The study is based on the period from 2011-12 to 2020-21. As state-wise employment data was not made available for earlier period, the study uses the stated period only. However, sector-wise employment data are analysed only till 31.03.2018.

6.3. Methodology Used for the Study

To study the state-wise employment generation by SEZs, percentage method and year-on-year growth in employment are computed on cross-sectional data. Sector-wise employment generation has also been discussed state-wise / group of state-wise[109]. In addition, multiple linear regression is carried out with two independent variables (investment in SEZs and export from SEZs) on time series data to check whether there exists any directional relation or not. Further, to understand sectoral concentration of employment, per cent point has also been computed.

Tool(s) Used

All the methods mentioned above have been performed using spreadsheet software.

6.4. Source and Collection of Data

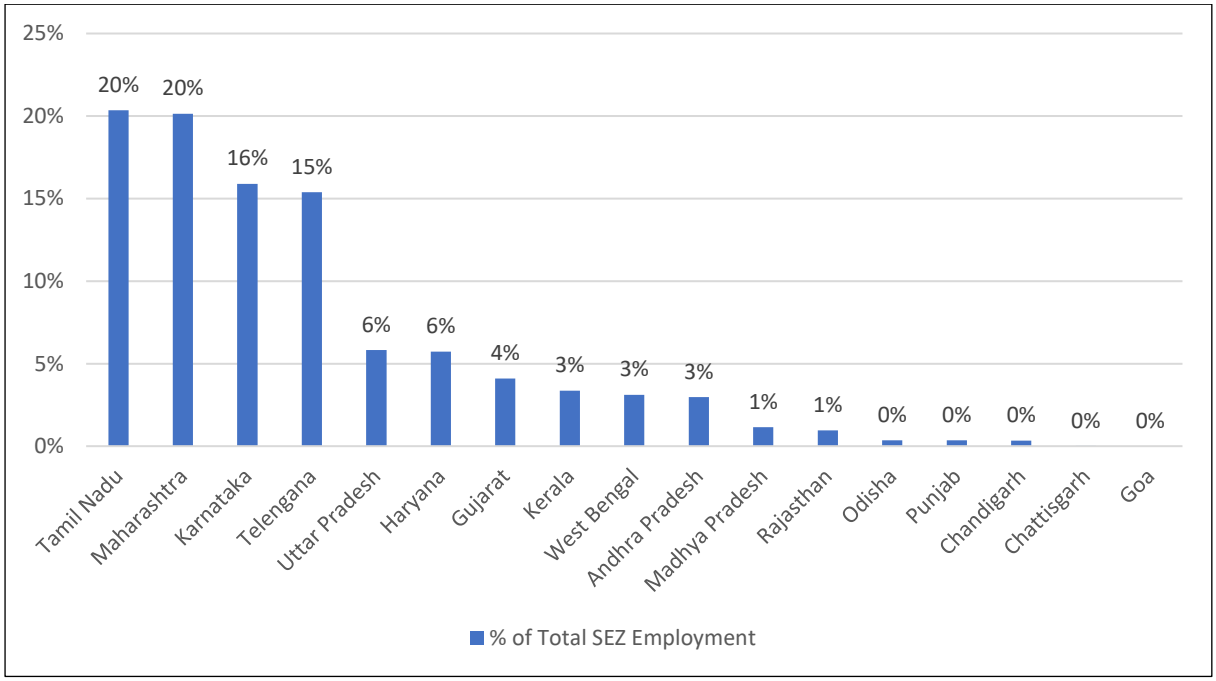
Required Data	Data Source
State-wise employment generation by SEZs	• Data in respect of state-wise employment generation by SEZs provided by SEZ Section, Department of Commerce in RTI Reply for the period 2011-12 to 2020-21. • Consolidated employment generation data for the period February, 2006 to 2010-11 obtained from Report of the C&AG, Performance of SEZs for the year 2010-11
Sector-wise employment generation by SEZs	• Data in respect of sector-wise employment generation by SEZs provided by office of the Development Commissioners of Falta, Kandla, Chennai, Noida, Cochin and Visakhapatnam as on 31.03.2018 in reply to RTI.
Year-wise export from SEZs for the period February 2006 to 31.03.2021	Official website of SEZ, Govt. of India www.sezindia.nic.in [Accessed between July, 2020 to September, 2021]

[109] Based on availability of data.

6.5. Analysis & Interpretation of Result

Employment data provided by the SEZ Section, Dept. of Commerce shows only state-wise consolidated employment figure for the year 2011-12 to 2020-21. Sate-wise employment as per cent of total employment is shown in **Figure 6.1**. Only four states (Tamil Nadu, Maharashtra, Karnataka & Telangana) taken together contribute 71% of employment as on 31.03.2021. State-wise growth in year-on-year employment is shown in **Table 6.1**.

Figure 6. 1: State-wise share of employment in SEZs as on 31.03.2021



(Source: Data provided by SEZ Section, Dept. of Commerce, Govt. of India; Notes: Computations are based on cumulation figures as on 31.03.2021)

Table 6. 1: Year-on-Year percent growth in Employment in different States from 2012-13 to 2020-21

States/UTs	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21	Average
Andhra Pradesh	23	9	-70	19	3	2	10	2	5	***0***
Chandigarh	-19	-3	23	14	4	-2	0	-5	-1	***1***
Chhattisgarh	NA	0	-66	190	-5	-86	-44	-33	0	***-5***
Goa	0	0	0	0	0	436	-100	NA	NA	**-**
Gujarat	22	48	-16	7	6	10	11	3	6	***11***
Haryana	32	30	10	53	15	5	13	6	10	***19***
Karnataka	66	37	22	0	16	11	6	11	4	***19***
Kerala	8	26	54	0	9	19	10	28	-13	***16***
Madhya Pradesh	1	-17	5	44	33	4	7	11	6	***11***
Maharashtra	39	25	6	1	5	30	-11	4	3	***11***
Odisha	-4	-8	49	42	111	7	18	21	-22	***24***
Punjab	23	252	53	15	19	18	42	38	29	***55***
Rajasthan	19	11	12	9	6	4	1	6	6	***8***
Tamil Nadu	8	13	7	14	9	7	7	7	10	***9***
Telangana	NA	NA	NA	22	3	20	19	14	15	***15***
Uttar Pradesh	18	12	15	9	4	8	8	8	-1	***9***
West Bengal	53	-14	7	23	16	6	0	9	-13	***10***
Total	***27***	***19***	***12***	***10***	***9***	***14***	***4***	***9***	***5***	***12***

(Source: Author's own computation from data provided by SEZ Section, Dept. of Commerce, Govt. of India; NA-Not Available)

The above table shows the average year-on-year growth of employment from 2012-13 to 2020-21 was 12%. The highest average growth was seen in the state of Punjab at 55% and negative average growth was seen in Chhattisgarh at -5%. For most of the states the average growth falls in the rage of 10-20%.

As stated earlier, consolidated data on sector-wise employment was not available at SEZ Section, Department of Commerce. Therefore, this data was obtained from different offices of the DC[110]. The sector-wise employment data (consolidated for group of state(s) which falls under the jurisdiction of DC) was made available for the year ended 31st March, 2018. It is noted that all the offices of DC do not maintain the sector wise employment data in same format and hence some sector-wise classification variation noticed among the data. Like office of the DC of NSEZ, KSEZ, CSEZ & VSEZ make two separate classifications for Biotech

[110] States which fall under the jurisdiction of different DC are given in Instruction No. 64, Department of Commerce, dated 11th August, 2010.

and Chemical & Pharmaceutical sector. However, office of DC of SEEPZ SEZ combines these two sectors and makes one sector as Pharmaceuticals & Biotechnology. Similarly, office of the DC of MEPSEZ, Falta SEZ and SEEPZ SEZ makes a sector classification as multi-product. However, other offices of DCs do not make any such sector classification. Hence it is decided to discuss sector-wise employment generation in two group based on similarity of sectoral classification. The first group combines data received from DC's office of NSEZ, KSEZ, CSEZ and VSEZ. Second group combines data received from DC's office of MEPSEZ, Falta SEZ and SEEPZ SEZ. **Table 6.2** shows sector-wise employment for former group & **Table 6.3** shows the sector-wise employment details for later group.

Table 6. 2: Sector wise employment generated by SEZs in different states as on 31.03.2018 - I

Sector	Rajasthan, Haryana, Punjab, Uttar Pradesh, Madhya Pradesh and UT of Chandigarh (NSEZ)	Gujarat (KSEZ)	Karnataka & Kerala (CSEZ)	Andhra Pradesh, Telangana & Chhattisgarh [111] (VSEZ)
Biotech	8	-	5,870	450
Computer/Electronic Software	2,20,898	10,439	3,48,538	2,26,367
Electronics & Hardware	440	731	3,532	13
Electronics	413	-	-	155
Engineering	9,239	3,849	5,175	4,989
Gems & Jewellery	13,874	6,722	363	1,620
Chemicals & Pharmaceuticals (Crude Petroleum Refinery)	11,850	17,129	986	18,372
Handicrafts	2,131	11	-	90
Plastic & Rubber	6,893	2,881	575	-
Leather, Footwear & Sports Goods	647	1,517	-	11,059
Food & Agro. Industry	623	1,124	52	104
Non - Conventional & Solar energy	506	1,656	52	535
Trading & Service	90	5,160	146	86
Textiles & Garments	2,946	12,461	1,646	17,940
Tobacco related products	149	977	-	-
Others	3,718	15,001	1,499	10,466
Total	**2,74,425**	**79,658**	**3,68,434**	**2,92,246**

(Source: Data provided by respective offices of the DCs)

[111] Chhattisgarh has total employment of only 16 persons as on 31st March, 2018. This employment was with Lanco Solar Pvt. Ltd. which is sector specific SEZ in solar energy.

All the group of state(s) mentioned in **Table 6.2** (except Gujarat) shows very high employment concentration in IT/ITeS sector. Andhra Pradesh, Telangana and Gujarat also show significant employment in Textiles & Garments and Chemicals & Pharmaceuticals sector. Labour intensive industry like gems & jewellery, handicrafts, footwear etc. has not achieved significant employment in these states. **Table 6.3** also shows dominance of IT/ITeS sector in Tamil Nadu, West Bengal and Maharashtra in respect of employment generation. Footwear sector has created a significant percent (6.66%) employment creation in Tamil Nadu. Similarly, gems & jewellery (including electronics) sector has created 23.39% employment in Maharashtra.

Table 6. 3: Sector wise employment generated by SEZs in different states as on 31.03.2018 - II

Sector	Tamil Nadu (MEPSEZ)	Odisha & West Bengal (Falta SEZ)	Maharashtra & Goa (SEEPZ SEZ)[112]
Multi Product	42,333	17,987	6,533
IT/ITeS	2,95,255	64,955	2,94,896
Auto	3,533	-	-
Apparel	3,091	-	-
Telecom Equipment	2,097	-	-
Electric Hardware	3,468	-	-
FTWZ	293	-	2,836
Engineering	3,146	-	1,122
Transport Engg.	2,952	-	-
Multi Services	245	-	162
Food Processing	140	-	-
Footwear	25,448	-	-
Textile	106	-	-
Pharmaceuticals & Biotechnology	-	-	2,447
Power	-	-	211
Aluminium	-	2,270	-
Mineral Based Industries	-	221	-
Gems & Jewellery	-	350	94,118 (Including Electronics)
Total	**3,82,107**	**85,783**	**4,02,325**

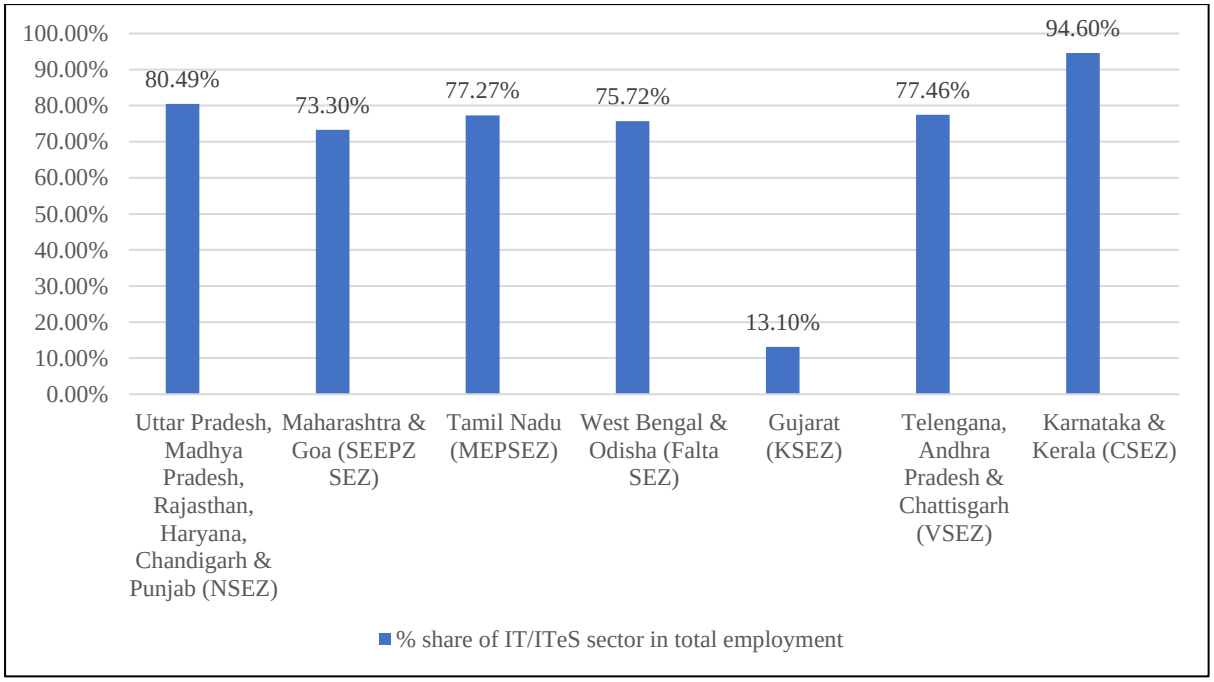
(Source: Data provided by respective offices of the DCs)

[112] Employment Data provided by Office of the DC, SEEPZ, Mumbai, and Employment data provided by the SEZ Section, Dept. of Commerce, Govt. of India does not tally in respect of state of Maharashtra. However, for sector wise classification of the employment, data provided by Office of the DC, SEEPZ, Mumbai has been considered. Similarly, a minor mismatch also found in respect of employment data provided by Office of the DC of MEPZ SEZ and Falta SEZ.

It is noted that across the IT/ITeS sector is the major employment generator across the group of states, except the State of Gujarat. This sector alone has contributed nearly 75% of total employment in a state / group of state, except Gujarat, as on 31.03.2018. For the state of Karnataka and Kerala this per cent goes up to 94%. The state/group of state-wise dominance of IT/ITeS sector in employment generation as on 31.03.2018 is shown in **Figure 6.2**.

However, the data reveals that all IT/ITeS SEZ do not contribute equally to employment generation. Like, in the state of Maharashtra only 5 IT/ITeS SEZ contribute 62.05% of total employment from IT/ITeS sector. In West Bengal, only 2 IT/ITeS SEZ contribute 61.38% of total employment generated from this sector. For some of the states, where state and sector wise data becomes available, employment share of some of top IT/ITeS sector in shown in Table 6.4. This analysis cannot be made for states falling under NSEZ for lack of data.

Figure 6. 2: Employment share of IT/ITeS sector in SEZ of different states / group of states as on 31st March, 2018



(Source: Compiled by author from data provided by office of the Development Commissioner (DC)

Table 6. 4: Share of employment of top IT/ITeS SEZs to total employment by IT/ITeS sector as on 31.03.2018

States	No. of Top IT/ITeS SEZs (in terms of employment)	No. of Operating IT/ITeS SEZ	% of total employment from IT/ITeS Sector
Maharashtra	5[113]	16	62.05%
West Bengal	2[114]	4	61.38%
Tamil Nadu	6[115]	19	73.42%
Gujarat	1[116]	5	64.16%
Telangana	5[117]	20	62.33%

(Source: Compiled from data provided by the office of DCs;)

Further, to understand the employment concentration, per cent of top SEZs (in terms of employment) to total SEZ employment of the state have been computed. It shows highly concentration of SEZ employment. Like, in Maharashtra, out of 29 operational SEZ only 3 SEZs contribute 48% of total employment in that state. Similarly in Telangana, only 4 SEZs contribute 50.79% of total employment. Similarly, for some other states this exercise is carried out and it shows high concentration. This is shows in Table **6.5**. Among the top employment generator SEZ, most of SEZs are in IT/ITeS sector.

Table 6. 5: Share of employment of top SEZs to total employment by all sector as on 31.03.2018

States	No. of SEZs (Top SEZs in terms of employment)	Total No. of Operating SEZ	% of total employment of the State
Maharashtra	3[118]	29	48.00%
West Bengal	2[119]	4	47.17%
Tamil Nadu	4[120]	38	48.44%
Andhra Pradesh	2[121]	19	46.77%
Gujarat	2[122]	18	57.70%
Telangana	4[123]	30	50.79.%

(Source: Compiled from data provided by the office of DCs;)

[113] These are Maharashtra Industrial Development Corporation Limited, Pune, Mindspace Business Park Pvt. Ltd., Thane, EON Kharadi Infrastructure Pvt. Ltd., Pune, Infosys Technologies Ltd., Pune & Magarpatta City SEZ, Pune.

[114] Candoor Kolkata 1 Hitech Structures Ltd. And Tata Consultancy Services Limited

[115] DLF Infocity Developers Ltd., ELCOT – Sholinga Nallur, Mahindra World City Developers SEZ (IT/ITeS), Coimbatore Hitech Infrastructure Private Limited SEZ, Tril Infor Park Ltd. and Tata Consultancy Services Limited.

[116] Tata Consultancy Services Ltd., Gandhinagar

[117] Sundew Properties Pvt. Ltd. (IT/ITeS), DLF Commercial Developers Ltd. SEZ (IT/ITeS), Divyashree NSL Infrastructures Pvt. Ltd. (IT/ITeS), Phoenix Infocity Pvt. Ltd., Madhapur (IT/ITeS) and APIIC (Nanakramguda)

[118] SEEPZ SEZ (Electronics and Gems & Jewellery), MIDC, Pune (IT/ITeS), Mindspace Business Parks Pvt. Ltd., (Formerly known as Serene Properties Pvt. Ltd.) (IT/ITeS)

[119] Falta SEZ (Multi-Product) and Candoor Kolkata 1 Hitech Structures Ltd. (IT/ITeS)

[120] MEPZ SEZ (Multi-Product), DLF Infocity Developers Limited (IT/ITeS), ELCOT – Sholinga Nallur (IT/ITeS) and Tril Info Park Limited (IT/ITeS)

[121] Apache SEZ Development India Private Limited, Nellore (Footwear) and Brandix India Apparel City Private Ltd., Visakhapatnam (Textile)

[122] Kandla SEZ (Multi-Product) and Surat SEZ (Multi-Product)

[123] Sundew Properties Pvt. Ltd. (IT/ITeS), DLF Commercial Developers Ltd. SEZ (IT/ITeS), Divyashree NSL Infrastructures Pvt. Ltd. (IT/ITeS), Phoenix Infocity Pvt. Ltd., Madhapur (IT/ITeS)

Thus, it may be said that a handful SEZs have generated significant per cent of total SEZ employment.

A multiple regression analysis has also been done with employment from SEZs as dependent variable and investment, export and number of operational SEZ as independent variable with time series data from 2006-07 to 2020-21. The results are not found significant; and hence not reported here. The result of the test is given in **Appendix F**.

Thus, to conclude, employment generation from SEZs remain highly concentrated in IT/ITeS sector and that too is dominated by some top performing SEZs.

CHAPTER - 7

Findings, Policy Recommendations & Conclusion of the Study

Chapter – 7: Findings, Policy Recommendations & Conclusion of the Study

7.1. Introduction

SEZ, being an economic development tool, have become successful in many countries including developing countries like China, Vietnam, Philippines etc. Existing literatures have shown that countries which have adopted this model early in their developing phase has gained more. Though India is a late comer in SEZ model, nevertheless, the benefit it has accrued is outstanding. Indian SEZs have contributed significantly in export promotion, bringing domestic and foreign investment and employment generation. With the advancement of newer technology and constant change in laws, both domestic and international, doing business has become easier than earlier. Countries have now understood their competitive advantage and have started focusing in that particular industry. India too has understood its potential advantage in different sectors and accordingly framed friendly industry policy. These policies have been aligned with specific development tool like SEZ. A correct combination of industrial policy with specific tool shall bring out the best of the sector, as happened with IT / ITeS sector. India too has many other potential sectors like agro and food processing, footwear, electronics, chemicals, pharmaceuticals etc. The vast workforce and cheap labour cost in India, gives an added advantage to promote labor-intensive industries. Recent government's push towards 'Make in India' initiatives helps a lot of industries to scale up their production for domestic as well as export demand. Sectors like chemicals, pharmaceuticals, electrical and electronics are among which has significantly grown in the recent past[124]. Along with the industry, another major advantage of SEZ is infrastructure development in different zones. This also creates thousands of direct and indirect employments. Overall, it can be concluded that framing correct SEZ policy aligning industrial requirement can bring optimal benefit to the government and society at large.

This chapter discusses about findings of the overall study followed by policy recommendations which may be helpful to policy makers to ignite discussions for betterment

[124] https://economictimes.indiatimes.com/news/economy/indicators/the-sectors-that-would-matter-in-indias-race-to-be-a-manufacturing-powerhouse/articleshow/92839739.cms

of existing SEZ model. Overall conclusion of the study is given thereafter. Lastly, the chapter jots down limitations of the study and scope for future research.

7.2. Findings of the Study

For each of the analysis and interpretation made in earlier chapters, and discussions thereof, overall findings of the study are given below.

SEZ model is a powerful tool for economic development of the country. It also plays an important role in socio-economic development of the geographical region. This model of economic development has contributed significant towards export (35%), bringing investment and employment generation in the last decade. On comparison of Indian SEZs with that of other developing countries, it appears that Indian SEZs are more prone to sector specific with higher thrust on service export as compared to China, Bangladesh, Republic of Korea, Philippines etc., where manufacturing export remained major thrust. State-wise distribution of SEZ shows regional concentration of SEZ primarily in technology hubs like, Gurgaon, Bangaluru, Hyderabad, Chennai etc. Sector-wise classification and analysis of SEZs, shows SEZs in India are primarily concentrated towards IT/ITeS sector. The importance of IT/ITeS sector in SEZ can be well understood looking at share of this sector in export (61%) and employment generations (>65%). IT / ITeS sector also accounts highest number of SEZ, be it approved, notified or operational. In spite of these rosy picture of this sector, there are some bottlenecks. The present study finds, there are large number of SEZs which were notified before a considerable time period, but remains non-operational. These IT/ITeS SEZs which are presently lying non-operational can be made operational if policy makers work on the identified factors which act as constraint to start operation of notified IT/ITeS SEZs. Broadly, six factors are identified which act as constraint; These factors are either administrative constraint or policy related constraint in nature. These identified factors are discussed below:

First, choosing right location for IT/ITeS sector is most important to make SEZ operational because this requires semi-skilled and skilled work-force. The study finds that 40% of respondents agrees that the chosen SEZ location is not available with skilled and unskilled manpower causing delay to make operational of SEZ. Also, lack of basic amenities (like electricity, sewerage, drinking water, transportation, safety etc.) inside SEZ site is another constraint. IT/ITeS SEZ, being in service sector, attracts large pool of employees; and if these amenities are not provided in work-place, it would be very difficult to attract the prospective units.

Second, the study finds unsatisfactory single window clearance system at DC's level for approval and clearances. 75% of respondents have agreed to this fact. The state government delegates many administrative powers to DC for ease of doing business in SEZ. However, in actual, developers find in difficult to get all clearance under one umbrella resulting delay in project completion. Further, lack of coordination between the Central Govt. and State Govt. departments results ambiguity and process overlapping. In nutshell, single window mechanism which should ideally be effective in true sense, must be integrated to provide all services.

Third, SEZ developer with no captive units invites prospective units to lease out space. In tech cities like, Hyderabad, Bangaluru, Gurgaon etc., large number of SEZs within a particular geographical location creates competition to lease out space. Because of this, some SEZs are not getting units and cannot be declared as 'operational'. There are some IT major developers (like TCS, Infosys, Cognizant etc.) who have their own captive SEZ units i.e., the developers set up its own units). A captive unit by a developer will enhance the possibility to become SEZ operational faster because of forward integration of business (Mukherjee., A. *et al*, 2016).

Fourth, lack of state SEZ Act/policy is also a constraint to making IT/ITeS SEZ operational. States/UTs having state SEZ Act/policy can unfold many dilemmas about fiscal and non-fiscal benefits. Also, a dedicated Act/Policy can accumulate a state's overall view on SEZs and its long-term focus. For some states even though there is state SEZ/policy, it is decade old and does not address present condition. Further, policy inconsistency, like discontinuation of fiscal incentives, change in minimum land requirement etc., makes the developers to move slow resulting delay in project take off.

Fifth, development of SEZ is considered a risky project and thus, many developers find it difficult to get their project finance by banks/venture capitalist. If the SEZ does not get enough units to lease out the space, the pay-back period also extends and thus the project becomes risky. This is also reflected in primary survey where 62% of developers admits that getting finance from banks is very difficult for SEZ project. Venture capitalist / PE investors also show lesser investment in SEZ project.

Last, the study identifies withdrawn of income tax exemption (like imposition of DDT and MAT) and recent abolition of tax holiday to developers (u/s 80IAB of Income Tax Act, 1961) and units (u/s 10AA of Income Tax Act, 1961) as another factor which has badly affected SEZ attractiveness. This move may bring revenue to the government but the attractiveness in

SEZ investment has been severally impacted and points towards unstable policy framework by Government.

These above-mentioned factors cumulatively becoming constraint to make operational IT/ITeS SEZs.

Further, the study finds regional concentration of SEZ investment and more particularly in some developed and coastal states. As the basic objective of SEZ is to export of goods and services, selection of coastal states is justified for manufacturing sector. However, state of Odisha and West Bengal even after having coastal region could not bring much of investment in SEZs. It is found that state of the economy, availability of infrastructure and availability of labour does not have significant impact in bringing SEZ investment in the state. However, state SEZ Act/Policy has significant influence in attracting SEZ investment. States with no SEZ Act/Policy could not achieve much in bringing investment. States like Haryana, Telangana and Karnataka being technology hub and having skilled work-force have attracted large amount of investment in IT/ITeS sector.

Another finding of the study is employment generation trend of SEZs in different states and in different sector. Four states (Tamil Nadu, Maharashtra, Karnataka & Telangana) taken together contribute 71% of employment by SEZs and 13 states contribute rest 29%. This shows high regional concentration of employment. When employment data is analysed sector-wise, we can see almost 75-80% of employment belongs to only IT/ITeS sector. Even, labour-intensive sector like footwear, food-processing etc. could not achieve much in employment generation. When SEZ-wise employment data analysed (wherever available), it is found only handful of IT/ITeS SEZ has contributed towards large employment. This shows high dependency of SEZ employment only in one sector. The statistical results show no significant impact on SEZ employment by SEZ investment and export.

7.3. Policy Recommendations

Based on analysis and findings of the study, following policy recommendations are made:

a) At present validity of LoA is extended by BoA beyond 5th year only on justifiable reason. However, there is no standard formula for justification. It is recommended to make a standard quantifiable formula (which may be based on minimum incremental investment, minimum per cent completion etc.) for appraisal and further extension. This will reduce

ambiguity on justification and shall make developers more accountable. It is also recommended to review of SEZ development work quarterly at DC level and bi-annually at BoA level.

b) State governments may build physical infrastructure outside the SEZ area by investing a percent to the total cost of development. This may reduce the financial burden of developer and shall provide basic amenities near the SEZ site. It is learned that, the Department provides support for creation of external infrastructure under the ASIDE (Assistance to States for Development of Infrastructure for Exports) Scheme. The proposals in this regard are received from the DC and/or State Governments. It is recommended to review and evaluate each of the non-operational SEZ by DC and wherever assistance required, send the proposal to the department.

c) The developers may set-up an incubation centre' in processing area. The prospective units may be allowed to do business for sometime without applying for unit status and without claiming tax benefits. This facility may be allowed by DC to bring prospective IT/ITeS SEZ. A suitable provision in this respect may be made by amending SEZ rule or guidelines.

d) There are no criteria of minimum investment, at present, for SEZ developers and units. For IT/ITeS SEZ, it is recommended to have minimum investment criteria so as to keep only serious developers. This criterion may be different according to cities. Also, for SEZ units no minimum investment criteria is followed. A suitable policy may be prepared in this respect.

e) It is recommended to make Single Window Clearance system both at UAC level and BoA level to be an effective one to ease of doing business.

f) States may provide subsidy on interest for long term SEZ finance and last-mile financing to developers to complete their project on time.

g) SEZ Section issues clarifications/instructions/circulars from time to time. However, no corresponding amendment is made in act / rules. This allows different stakeholder to interpret differently. Hence, it is recommended to bring timely amendment in SEZ Act / Rules. Further, State Governments may be encouraged to bring/amend state SEZ Act/Policy so as to have more clarity on fiscal and non-fiscal benefits and to bring investment in SEZs.

h) Labour intensive industry e.g., agro & food processing, footwear, multi-services etc. may be encouraged to set-up dedicated SEZs. This shall increase employment opportunities and reduce employment dependence on only IT/ITeS sector. Also dedicated employment-based incentive scheme for SEZs may be made to generate more employment.

i) At present no target is fixed for employment generation and investment by government. It is recommended to set a reasonable target for this. The state government should also actively participate in achieving this target.

7.4. Conclusion and the Way Forward

The SEZ model of economic development has contributed significantly in terms of export and employment creation in the last decade. At the same time, it must be remembered that this economic benefit has come with some cost i.e., revenue forgone both by central and state governments. At present there is no such mechanism to quantify whether economic development exceeds cost of development. Nevertheless, SEZ model is promoted to augment economic activity. A large number of non-operational IT/ITeS SEZ remained a concern for the authorities as well as for developers. Development Commissioners, the monitoring authority for SEZ development process, should be more vigilant and active to review the progress of developers. Single window clearance system should be made more transparent and output should be made time-bound. The overlapping administrative procedures may be synchronised to avoid duplication of work. The sectoral concentration (IT/ITeS) of SEZs may be dealt with only serious entrepreneur to stop mushrooming of SEZs. Attractive fiscal and non-fiscal benefits may turn up the unfinished SEZs into operational SEZs. Hence state SEZ Act/Policy may be made more relevant and transparent. The effective coordination between departments of central and state government can bring down the overlapping procedures. Multiple models of zone development, cluster development etc. should not be mixed-up in a state. At the end, we must accept that SEZs being the growth drivers of the economy should be shaped in as centre of excellence of export-oriented business.

7.5. Limitations of the Study

The present study is carried out with certain limitations. These are pointed below.

a) Availability of Data: Dis-aggregated data in respect of investment made in Land, Building, Plant & Machinery were not available in each DC's office. Investment data segregated in approved SEZ, notified SEZ, and operational SEZ were not available. Further, time series data on sector-wise investment data also were not available in each DC's office.

Data in respect of State-wise availability of industrial land were asked for through RTI to concerned department. However due to non-availability of data, the second objective of the study does not indues 'availability of land' as a variable.

b) Collection of Data: Due to COVID-19 Pandemic, I faced many difficulties in getting data from different government offices and particularly SEZ developers. The situation forced me to conduct many interviews and discussions in virtual mode. Development Commissioners were requested for virtual / physical interview for better explanation of facts and future prospects of SEZ. However, no interviews were entertained.

c) Physical Access to Visit SEZ Sites: Many SEZs have strict policy to not allow any unauthorised person to enter within the SEZ boundary and thus, many SEZs denied to give permission to enter in their premises, even after showing the ID card and repetitive request. The recent pandemic was an added reason for the same.

7.6. Scope for Further Study

The present study can be further extended by incorporating the following point.

a) Non-operational condition of SEZs in other sectors (i.e., other than IT/ITeS sector) can be further explored and accordingly suitable policy formulations may be made.

b) State-wise Investment in SEZ and State SEZ Act/Policy can be explored further if data in respect of investment in Land & Building, Plant & Machinery and others made available.

c) Study in respect of employment generation by SEZ, can be made more in-depth, if data in respect of employment generation by SEZ developers and SEZ units are made available.

****

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APPENDICES

Appendices

Appendix A: IT/ITeS SEZ Granted Five or More Extensions (See Para 3.3.1.)

Sl. No.	Name of the SEZ	Extension Details	Extended From	Extended Upto
1	Milestone Buildcom SEZ	1st Extension	30.10.2011	29.10.2012
		2nd Extension	30.10.2012	29.10.2013
		3rd Extension	30.10.2013	29.10.2014
		4th Extension	30.102014	29.10.2015
		5th Extension	30.10.2015	29.10.2016
2	Brigade Properties Pvt. Ltd.	1st Extension	30.03.2013	31.03.2014
		2nd Extension	30.03.2014	31.03.2015
		3rd Extension	30.03.2015	31.03.2016
		4th Extension	30.03.2016	31.03.2017
		5th Extension	30.03.2017	31.03.2018
3	Gopalan Enterprises (India) Pvt. Ltd. (Fortune City SEZ)	1st Extension	03.07.2010	02.07.2011
		2nd Extension	03.07.2011	02.07.2012
		3rd Extension	03.07.2012	02.07.2013
		4th Extension	03.07.2013	02.07.2014
		5th Extension	03.07.2014	02.07.2015
		6th Extension	03.07.2015	02.07.2016
		7th Extension	03.07.2016	02.07.2017
4	Electronic Technology Park SEZ, Phase IV	1st Extension	16.05.2015	15.05.2016
		2nd Extension	16.05.2016	15.05.2017
		3rd Extension	16.05.2017	15.05.2018
		4th Extension	16.05.2018	15.05.2019
		5th Extension	16.05.2019	15.05.2020
5	Electronic Technology Park SEZ, Phase V	1st Extension	16.05.2015	15.05.2016
		2nd Extension	16.05.2016	15.05.2017
		3rd Extension	16.05.2017	15.05.2018
		4th Extension	16.05.2018	15.05.2019
		5th Extension	16.05.2019	15.05.2020
6	Smartcity SEZ	1st Extension	21.04.2011	20.04.2012
		2nd Extension	21.04.2012	20.04.2013
		3rd Extension	21.04.2013	20.04.2014
		4th Extension	21.04.2014	20.04.2015
		5th Extension	21.04.2015	20.04.2016
		6th Extension	21.04.2016	20.04.2017

(Source: Data provided by DC's Office, CSEZ. Note: The list is indicative and not exhaustive)

Appendix B: List of IT/ITeS SEZ notified but non-operational as on 31st March, 2018 (See Para 4.5.)

Name of SEZ	Location	State	Notified Area	Date of Notification
Shivganga Real Estates Holders Private Limited	Sargasan (Sarkhej- Gandhinagar Highway), Taluka Gandhinagar, District Gandhinagar, Gujarat	GJ	37.56	2nd July 2008
Calica Construction and Impex Private Limited	Village Ognaj, Taluka Dascroi, District Ahmedabad, Gujarat	GJ	10.4310/add 0.5059 (Total 10.9369)	8th May 2009/ 12th October, 2011
Gujarat Industrial Development Corporation	Gandhinagar - Sarkhej Highway, Gandhinagar, Gujarat	GJ	22.2585	13th May 2009/ 25th October 2010
Myron Realtors Private Limited	Village Santhal, Taluka Sanand, District Ahmedabad, Gujarat	GJ	10.6862	11th September, 2009
K. Raheja Corp Pvt. Ltd.	Verna Industrial Area, Goa	GOA	105.91	6th Nov 2007
Selecto Systems Pvt. Ltd.	15/1, Main Mathura Road, Faridabad, Haryana	HR	3.34	17th April 2007
Metro Valley Business Park Private Limited	Gurgaon – Faridabad Road, Opp. Ansals Valley View Apartments, Gurgaon, Haryana	HR	10.393/ add 0.8236 total 11.2136	6th Nov 2007
Ascendant Estates Private Limited	Bhondsi, Tehsil Sohna, District Gurgaon, Haryana	HR	12.5975	2nd May 2008
Perpetual Infracon Private Limited	Sector -81, Villages Budena & Faridabad, District Faridabad, Haryana	HR	21.695	14th July 2008
Anant Raj Industries Ltd.	Plot No. TP-1, Rai, Sonepat District, Haryana	HR	10	1st Sep 2008

(Contd.)

Name of SEZ	Location	State	Notified Area	Date of Notification
Mittal Infratech Private. Limited.	Sewah Village G T Road, Panipat District Haryana	HR	10.89	24th Feb 2009
G.P. Realtors Private Limited	Village Behrampur, District- Gurgaon, Haryana	HR	18.86858 (De-notified 2.1601)/(Add 4.8817/0.14670/3. 38430/0.476) = 25.59723	4th May 2009/ 18th January, 2011/2nd February, 2012/8th October, 2014/31st May, 2018
Mikado Realtors Private Limited	Village Behrampur and Balola, District- Gurgaon, Haryana	HR	11.033 (de- notified 0.584/0.228) = 10.221	29th October 2009/23rd November, 2010/16th August, 2016
Goldsouk International Gems & Jewellery SEZ Pvt. Ltd.	Village Bhondsi, Tehsil- Sohna, Gurgaon, Haryana	HR	16.19	22nd December, 2010
G.P. Realtors Private Limited	Village Beharampur Balola and Bandhwari, Tehsil Sohna, District-Gurgaon, Haryana.	HR	36.3744 (add. area 0.3919 and de-notified area 8.094 & 2.8630)= 25.8093 (de-notified area 0.0152 and add. Area 1.5580) = **27.3521**	24th December, 2010/31st January, 2012/25th April, 2013/5th July, 2013/11th April, 2018
Orient Craft Infrastructure Limited	Village Bans Hariya District Gurgaon, Haryana	HR	26.56019	1st March, 2011
Kerala State Information Technology Infrastructure Limited	Village Eramam, Taluka Thaliparambu, District Kannur, Kerala.	KL	10.375	9th October, 2009

(Contd.)

Name of SEZ	Location	State	Notified Area	Date of Notification
Kerala State Information Technology Infrastructure Limited	Village Purakkad, Taluk Ambalappuzhe, Distt. Alappuzha, Kerala	KL	13.4415	18th November, 2009
Bluestar Realtors Private Limited	Village Thrikkakara North, Taluka Kanayannur, District Ernakulam, Kerala.	KL	28.329	23rd March, 2010
Electronics Technology Parks-Kerala	Village Andoorkonam, Taluk & District Thiruvananthapur am, Kerala	KL	17.712	29th November, 2012
Electronics Technology Parks	Village Pallippuram & Veiloor, Thiruvananthapur am, Kerala	KL	39.37	13th February, 2013
Kerala State Information Technology Infrastructure Limited	Village Cheemeni taluk Hosdurg Kasaragod Distt. Kerala	KL	40.47	28th February, 2013
Parsvnath Infa Ltd	Chengamanad Village of Aluva Taluk, Ernakulam District, Kerala	KL	30.76	8th April, 2013
Ittina Properties Pvt. Ltd.	Bagur village, Anugondanahalli Hobli, Hoskote Taluk, Banglore Rural District, Karnataka	KN	14.625	11th Aug 2008
Gopalan Enterprises (India) Private Limited.	Hoodi Village, K.R. Puram, Whitefield, Banglore, Karnataka.	KN	10.3092	16th Feb 2009
Brigade Enterprises Pvt.Ltd.	Ganjimutt, EPIP Industrial Area, Taluka Mangalore, Dakshin Kannada District, Karnataka	KN	10.117	23rd April 2009
Karnataka Industrial Areas Development Board (KIADB)	Villages Pajeer and Kairangala, District Mangalore Dakshina Kannada, Karnataka.	KN	65.571	24th August 2009

(Contd.)

Name of SEZ	Location	State	Notified Area	Date of Notification
Opto Infrastructure Limited	Village Dodda Basavanahalli and Chikkabasavanah alli, Talukas Shanthigrama Hobli and Hassan, District Hassan, Karnataka	KN	101.171	15th June, 2010
Opto Infrastructure Limited	Village kallahalli, Taluka Nanjungud, District Mysore, Karnataka	KN	13.345	21st June, 2010
Brooke Bond Real Estates Private Limited	Bangalore, Karnataka	KN	10.72	7th October, 2010
Renaissance Designbuild Private Limited	Plot No. 47 of Koorgally Industrial Area, Village Koorgally, Hobli Ilawala, Taluka Mysore, Distt. Mysore, Karnataka	KN	10.118	4th January, 2011
Infosys Technologies Limited	Villages Borgunte, surjapur and billapur, Taluka Anekal, District Bangalore, Karnataka	KN	24.446	31st October, 2011
Gulf Oil Corporation Limited	Village Kattigenahalli and Venkatala, Hobli Yelahanka, District Bangalore, Karnataka	KN	12.14	14th March, 2012
Navi Mumbai SEZ Pvt. Ltd.	Village Ulwe, Taluka Panvelo, District Raigad, Maharashtra	MH	38.28	8th May 2008
Navi Mumbai SEZ Pvt. Ltd.	Village Ulwe, Taluka Panvelo, District Raigad, Maharashtra	MH	21.13	27th May 2008
Navi Mumbai SEZ Pvt. Ltd.	Kalamboli, Navi Mumbai, Maharashtra	MH	133.62	11th Aug 2008 / 19th May 2009
New Found Properties and Leasing Pvt. Ltd.	Trans Thane Creek Industrial Area, MIDC, Thane District, Maharashtra	MH	21.26 (de-notified 1.76 & 5.58) = 13.92	22nd Aug 2008/6th March, 2017/20th July, 2018

(Contd.)

Name of SEZ	Location	State	Notified Area	Date of Notification
Suyog Realtors Pvt. Ltd.	MIDC Industrial area, Butibori, Village- Rengapur, Taluka- Nagpur, Maharashtra	MH	17.189	27th Oct 2008
Kumar Builders Townshiop Ventures Pvt. Ltd.	Hinjewadi, Pune, Maharashtra	MH	10.968	12th Dce 2008
Navi Mumbai SEZ Pvt. Ltd.	Village Ulwe, Taluka Panvelo, District Raigad, Maharashtra	MH	10.77	12th March 2009
DLF Info Park (Pune) Limited	Rajiv Gandhi Infotech Park, Phase-II, Village Hinjewadi and Mann, Taluka Mulshi, Pune Maharastra	MH	7.279	27th October, 2014
Madhya Pradesh State Electronics Development Corporation Limited	Ganga Malanpur Village, Tehsil and District Gwalior, Madhya Pradesh.	MP	12	23rd April 2009
Tata Consultancy Services Limited	Village Bada Bangarda & Tigariya Badshah, Madhya Pradesh	MP	40.468	5th July, 2013
Manipur IT SEZ Project Development Company Ltd.	Imphal, Manipur	MN	10.85	26th February, 2014
Somani Worsted Limited	Khushkera Industrial Area, Bhiwadi District, Rajasthan	RJ	19.9994	26th Nov 2007
Genpact Infrastructure (Jaipur) Private Limited	Village Jamdoli, Tehsil Jaipur, Rajasthan	RJ	10.1175	30th September, 2010
Foxconn India Developer Private Limited	Santhavelore-B, Chittur Village, Sriperumbudur Taluk, Kancheepuram District, Tamil Nadu	TN	10.39.00	5th Dec 2007
Kanai Techonology Parks Pvt. Ltd. (formerly Velankani Technology Parks Pvt. Ltd.)	Podavur Village, Sriperumbudur Taluk, Kanchipuram District, Tamil Nadu	TN	57.46715	11th Dec 2007

(Contd.)

Name of SEZ	Location	State	Notified Area	Date of Notification
SNP Infrastructure Pvt. Ltd.	Zamin Pallavaram Village, Tambaram Taluk, Kancheepuram District, Tamil Nadu	TN	11.14.70	12th Feb 2008
RudradevTown ship Private Limited	Solankurini Village, Madurai Taluk, Madurai District, Tamil Nadu	TN	31.04	22nd April 2008
Electronics Corporation of Tamil Nadu Limited (ELCOT)	Vadapalanji Village, Madurai South Taluk and Kinnimangalam Village, Tirumangalam Taluk, Madurai II, Madurai District, Tamil Nadu	TN	86.46.50	30th April 2008
Electronics Corporation of Tamil Nadu Limited (ELCOT)	Jagir Ammapalayam Village, Salem Taluk, Salem District, Tamil Nadu	TN	66.50.50	30th April 2008
Electronics Corporation of Tamil Nadu Limited (ELCOT)	Viswanathapuram Village, Hosur Taluk, Krishnagiri District, Tamil Nadu	TN	70.01	4th May 2009
Jay Gee Hitech Infraventures Pvt. Ltd	Vengadu and Pennalur Village, Sriperumbudur Taluk, Kancheepuram District, Tamil Nadu	TN	11.885	4th August, 2009
Sanghi SEZ Private Limited	Village Koheda, Ranga Reddy District, Telangana	TG	202.4	12th Dec 2006
Emaar Hills Township Private Limited	Manikonda Village, Rajendranagar Mandal, Ranga Reddy District, Telangana	TG	10.52	10th April 2007/ 19th May, 2010
Brahmani Infratech Private Limited	Mamidipalli Village, Sarroornagar Mandal, Ranga Reddy District, Telangana	TG	60.70	14th April 2007
Maytas Enterprises SEZ Private Limited	Gopanpally Village, Serilingampally Mandal, Ranga Reddy District Telangana	TG	15.96	20th April 2007

(Contd.)

Name of SEZ	Location	State	Notified Area	Date of Notification
Rudradev Infopark Pvt. Ltd.	Kistapur & Antharam Villages, Chevella Mandal, Ranga Reddy District, Telangana	TG	12.25	28th May 2007
Mahaveer Skyscrapers Limited	Chevella village, Besides Faraha Engineering College, Ranga Reddy District Telangana	TG	22.78	6th June 2007
Information Technology and Communication Department (IT and C), Government of Andhra Pradesh through Hyderabad Urban Development Authority (HUDA)	Kokapet Village, Serilingampalli Mandal, Ranga Reddy District Telangana	TG	47.60	13th June 2007
V. R. Enterprises	Ananthasagar Village, Hasanparthy Mandal, Warangal District, Telangana	TG	10.12	17th Sep 2007
Genpact India Business Processing Private Limited	Jawaharnagar Village, Shameerpet Mandal, Ranga Reddy District, Hyderabad, Telangana	TG	20.234	26th May 2008
Cognizant Technology Solutions India Pvt. Ltd.	Survey No. 255, Adibatla Village, Ibrahimpatnam Mandal, Ranga Reddy District, Telangana	TG	16.19	9th June 2008
OSE Infrastructure Limited	Plot No. C-001, Sector- 67, Noida, Gautam Budh Nagar District, Uttar Pradesh	UP	10.11753	14th May 2007
Unitech Infra Con Limited	Plot No. TZ-04, Greater Noida, District Gautam Budh Nagar, Uttar Pradesh	UP	20.23	15th Jan 2008
Perfect IT SEZ Private Limited	Plot No. 6, Sector- 144, Noida, Uttar Pradesh	UP	10	15th May 2008
Unitech Hi- tech Projects Private Limited	Plot No. 1, Sector- 144, Noida, Uttar Pradesh	UP	10.08	9th June 2008

(Contd.)

Name of SEZ	Location	State	Notified Area	Date of Notification
Gallant Infrastructure Private Limited	Plot No. 202, Sector Knowledge Park- V, Greater Noida, Uttar Pradesh	UP	33.2169	17th July2008
Jubilant Infracon Pvt. Limited	Plot No. 3, Sector - 140 A, Noida, Uttar Pradesh	UP	10.1769	2nd Sep 2008
Golden Tower Infratech Pvt. Ltd.	Plot No. 8, Sector- 144, Noida, Uttar Pradesh	UP	10	18th Dec 2008
Bengal Shriram Hi-tech City Private Limited	Uttarpara, Kalkata, West Bengal	WB	24.29	24th April 2009

(Source: The data is extracted by author from Lok Sabha Starred Question No. 78, Answered on 23rd July, 2018 (Available at http://164.100.24.220/loksabhaquestions/annex/15/AS78.pdf) and The List of Notified SEZs as on 31.07.2018 as was available on www.sezindia.nic.in;)

Appendix C: List of IT/ITeS SEZ De-notified between January, 2009 to March, 2018 (See Para 4.5.)

Sl. No.	Name of the Developer	Location	Area (hectares)	Date of De-notification
1	Shivajimarg Properties Limited	15, Shivaji Marg, National Capital Territory of Delhi	10.021	De-notified on 23rd January, 2009 (S. No. 291 (E))
2	DLF Limited	Village: Patia, PS: Chandraselkarpur, Tehsil: Bhubaneswar, District: Khurda, Odisha	10.239	De-notified on 24th July, 2009 (S. No. 1827 (E))
3	DLF Limited	Plot No. TP-2, Industrial Estate, Rai, Sonipat, Haryana	10.2498	De-notified on 27th October, 2009 (S. No. 2705 (E))
4	K. Raheja Universal Pvt. Ltd.	Raheja Infocity – II, Plot No. 2/1/C, Block – D, Trans-Thane Creek Industrial Area, MIDC, Villages Bonsari, Kukshet and Shirvane, Opp. Juinagar Railway Station, Taluka – Thane, Navi Mumbai, Maharashtra	20.64	De-notified on 18th January, 2010 (S. No. 110 (E))
5	DLF Limited	Near DA-II CT, Sargasan Dhola Kuan Road, Gandhinagar Distrct, Gujarat	10.12.00	De-notified on 30th April, 2010 (S. No. 995 (E))
6	Omnibus Industrial Development Corporation of Daman and Diu and Dadar and Nagar Haveli Limited	Village Kharadpada, District Naroli of Dadra & Nagar	12.81	De-notified on 7th January, 2011 (S. No. 29 (E))
7	State Infrastructure and Industrial Development Corporation of Uttarakhand Limited (SIDCUL)	Dhoran Khas, Danda Dhoran, Guranda Man Singhwala Villages, Sahastra Dhara Road, Dehradun, Uttarakhand.	14.6	De-notified on 15th March, 2011 (S. No. 568 (E))
8	Medicaps IT Park Pvt. Ltd.	Village Panda, Tehsil – Mahu, District Indore, Madhya Pradesh	11.936	De-notified on 29th July, 2011 (S. No. 1775 (E))

(Contd.)

Sl. No.	Name of the Developer	Location	Area (hectares)	Date of De-notification
9	Estra Park Pvt. Ltd.	Mount Poonamalee High Road, Aiyappanthangal, Porur, Chennai, Tamil Nadu	10.194	De-notified on 4th January, 2012
10	Airmid Developers Ltd.	Sector – 106, Village – Pawala, Khusrupur, Gurgaon, Haryana	11.6627	De-notified on 17th January, 2012
11	NSL SEZ (Chennai) Private Limited	Sholinganallur, Tambaram Taluk, Kanchipuram District, Tamil Nadu	18.6	De-notified on 31st January, 2012
12	Larsen & Toubro Limited	Village Malumichampatti, Coimbatore South Taluk, District Koimbatore, Tamil Nadu	11.0388	De-notified on 1st May, 2012 (S. No. 986 (E))
13	Unitech Inforpark Limited	Nallambakkam Village, Chengalpattu Taluk, Kanchipuram District, Tamil Nadu	10.175	De-notified on 2nd May, 2012 (S. No. 996 (E))
14	Bannari Techno Park Pvt. Ltd.	Kalapatty Village, Coimbatore, Tamil Nadu	24.055	De-notified on 18th July, 2012
15	City Gold Realities Pvt. Ltd.	Sanathal (Sarkhej-Bavla Highway), Taluka Sanand, District – Ahmedabad, Gujarat	10.5146	De-notified on 29th January, 2013
16	Bengal Shapoorji Infrastructure Development Pvt. Ltd.	Bidhannagar Township, Durgapur, District – Burdwan, West Bengal	10.12	De-notified on 7th February, 2013
17	Bata India Limited	Villages Jagtala and Bangla, District South 24 Pargana, West Bengal	10.11	De-notified on 1st May, 2013
18	Parsvnath SEZ Limited	Sohna Road, Gurgaon, Haryana	42.7045	De-notified on 19th July, 2013
19	Suncity Haryana SEZ Developers Pvt. Ltd.	Jhund Sarai & Bhangrola villages, Gurgaon, Haryana	67.64	De-notified on 13th January, 2014
20	Luxor Cyber City Pvt. Ltd.	Gurgaon, Haryana	27.07845	De-notified on 10th March, 2014
21	Ansal IT City and Parks Limited	Badshahpur village (District Gurgaon), on Gurgaon Sohna Road, Haryana	10.99	De-notified on 17th February, 2015
22	UP Electronics Corporation Limited	Chuck Gajaria Farm, Sultanpur Road, Lucknow, Uttar Pradesh	40.469	De-notified on 10th July, 2015

(Contd.)

Sl. No.	Name of the Developer	Location	Area (hectares)	Date of De-notification
23	Bhuvana Comforts Pvt. Ltd.	Villages B M Kaval and Rachanamadu, Kangeri Hobli, District Bangalore, Karnataka	12.4851	De-notified on 26th October, 2015
24	Gera Developments Pvt. Ltd.	Villages Kharadi, Taluka Haveli, District Pune, Maharashtra	10.14	De-notified on 7th March, 2016
25	Andhra Pradesh IndustrialInfrastructure Corporation Limited (APIIC)	Gambheeram village, Andhra Pradesh	20.76	De-notified on 25th May, 2016
26	Vatika Jaipur SEZ Developers Limited	Jaipur Ajmer-Expressway, Jaipur Rajasthan	20.1366	De-notified on 16th February, 2017
27	Lodha Dwellers Pvt. Ltd.	Village Narivali, Taluka Thane, District Thane, Maharashtra	32.67	De-notified on 6th April, 2017
28	Andhra Pradesh Industrial Infrastructure Corporation	Madhurawara Village, Vishakapattanam District, Andhra Pradesh	16	De-notified on 12th September, 2017
29	True Developers Pvt. Ltd.	Arasur village, Palladam Taluk, Coimbatore District, Tamil Nadu	11.5040	De-notified on 12th January, 2018

(Source: Data provided by SEZ Section, Department of Commerce, Government of India)

Appendix D: Questionnaire for primary survey to identify factors which act as constraint to start operation of notified IT / ITeS SEZs (See Para 4.5.)

The sole objective of framing this questionnaire is ***to determine the factors which act as constraint to start operation of notified IT/ITeS SEZs*** and to recommend the measures to overcome the same.

1) NAME OF THE SEZ DEVELOPER :
2) SECTOR : IT/ITeS
3) ADDRESS :

4) PRESENT STATUS : NOTIFIED AND NON-OPEARTIONAL
5) DATE OF FORMAL APPROVAL :
6) DATE OF NOTIFICATION :
7) LAND AREA :
8) NO. OF EXTENSIONS OF THE FORMAL APPROVAL GRANTED TILL 31/03/2018 :
9) INVESTMENT (IN RS. CRORES)

PROPOSED	ACTUAL TILL 31/03/2018	SINCE LAST 3 EXTENSION IN FORMAL APPROVAL

10) THE SEZ REMAINS NON-OPERATIONAL FOR A PERIOD OF MORE THAN 3 YEARS SINCE ITS NOTIFICATION.ON A SCALE OF 1 TO 5 HOW WILL YOU RATE THE FOLLOWING ***REASONS FOR REMAINING NON-OPERATIONAL*** FOR A CONSIDERABLE PERIOD OF TIME SINCE ITS NOTIFICATION?

(1=STRONGLY DISAGREE, 2=DISAGREE, 3=CAN'T SAY/NEUTRAL, 4=AGREE, 5=STRONGLY AGREE)

SL. NO.	REASONS	1	2	3	4	5
A.	**IT/ITeS SEZ policy (Laws & Regulations) is very uncertain** in India which changes very frequently.					
B.	**The location of SEZ site** was not surveyed correctly before making investment decision					
C.	**Withdrawal of Income Tax Incentives** (Tax Holiday) w.e.f 01/04/2017 for SEZ Developer and for SEZ Units w.e.f 01/04/2020					
D.	**Imposition of Minimum Alternative Tax (MAT) and Dividend Distribution Tax (DDT)** w.e.f. 01/04/2012					
E.	**Cost of Borrowing/Investment remains very high** in SEZ development					
F.	**Non-availability of labour** (skilled & unskilled) in SEZ site					
G.	**Non-stability and inconsistency of Government** (Local government and State Government)					
H.	**Unsatisfactory Single Window Clearance**					
I.	**High competition with neighbouring SEZs** to lease out the space at a competitive price					
J.	**Lack of interest of units due to** - **economy slowdown/recession in IT/ITeS industry; and** - **withdrawn of Income Tax benefits** in the last couple of years					
K.	**Local Issues with the Proposed Site** [political interferences, Illegal encroachments, water logging etc.]					
L.	**Frequent change in Management Decision** (change in shareholding pattern, introduction of co-developer etc.)					
M.	**Absence/ineffectiveness of State SEZ Act and/or Policy** resulting lack of State Government support for SEZ and non-willingness to set to set up SEZ units by entrepreneur.					

(Contd.)

SL. NO.	REASONS	1	2	3	4	5
N.	**Non-availability of Social Infrastructure** (housing facility, banking/ATM facility, telecommunication facility, medical and food facility, mass transportation facility etc.) **outside the SEZ site.**					
O.	**Delay in getting refund of indirect taxes** (GST/earlier Sate VAT/Central Excise/Service Tax, Customs etc.)					
P.	**Absence of captive units** (i.e., the developer sets up its own units) by the developer.					
Q.	**Non willingness to invest by Private Equity (PE) investors, Venture Capitalist, Hedge Fund etc**.					
R.	**Non-cooperation from DC's office** in respect of administrative work/sanction/approval/information about recent development etc.					
S.	**Non-availability of basic facilities** at the site (e.g., drinking water, sanitation, electricity, security, solid waste management etc.)					
T.	**Delay in getting clearances from State Government** especially building sanction plan clearance, fire clearance, environment clearance among others.					
U.	**Difficulty in getting long term finance from Bank** as SEZ is considered as a risky project by Bank					
V.	**Lack of coordination between the Central Govt. and State Govt. departments** to minimize the ambiguity, overlapping procedure and expenses.					

11) Mention any other reason which you consider as barrier to operationalize your SEZ.
   a) _____
   b) _____
   c) _____
   d) _____

12) What in your opinion should be the ideal required time period for developing an IT/ITeS SEZ (minimum built up area requirement) and make it operational since the date of

notification, assuming all other factors are positive? _____ Years.

13) Do you think that in order to operationalize the existing IT/ITeS SEZ in the country the Government should continue the fiscal incentives?

14) Are you planning to get your SEZ de-notified? If yes, kindly specify the major reasons.

_____

_____

_____

_____

Thank you very much for the time spared to fill the survey!

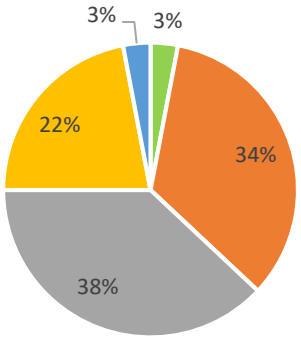
_____

Official Designation & Signature

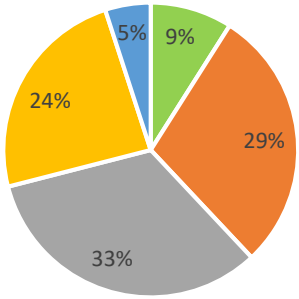
****

Appendix E: Response of SEZ Developers to Questionnaire (See Para 4.7)

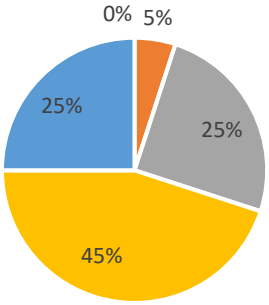
A. IT/ITeS SEZ policy (Laws & Regulations) is very uncertain in India which changes very frequently.



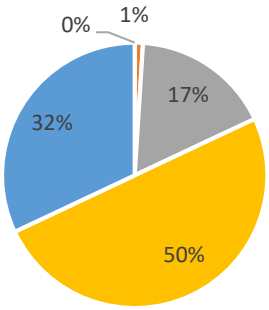
B. The location of SEZ site was not surveyed correctly before making investment decision.



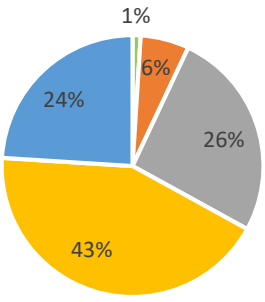
C. Withdrawal of Income Tax Incentives (Tax Holiday) w.e.f 01/04/2017 for SEZ Developer and for SEZ Units w.e.f 01/04/2020



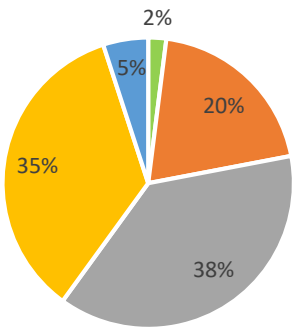
D. Imposition of Minimum Alternative Tax (MAT) and Dividend Distribution Tax (DDT) w.e.f. 01/04/2012



E. Cost of Borrowing/Investment remains very high in SEZ development

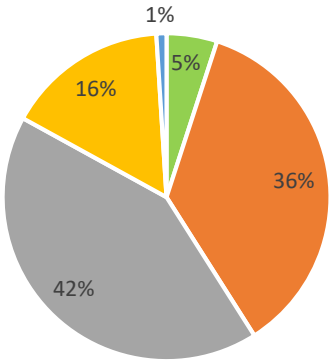


F. Non-availability of labour (skilled & unskilled) in SEZ site

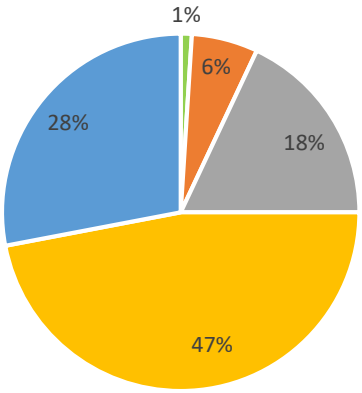


Strongly Disagree | Disagree | Can't say / Neutral | Agree | Strongly Agree

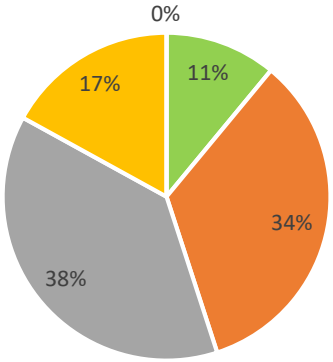
G. Non-stability and inconsistency of Government (Local government and State Government)



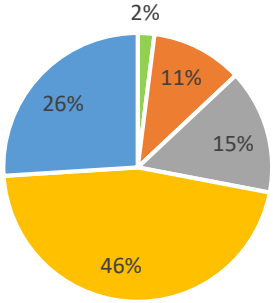
H. Unsatisfactory Single Window Clearance



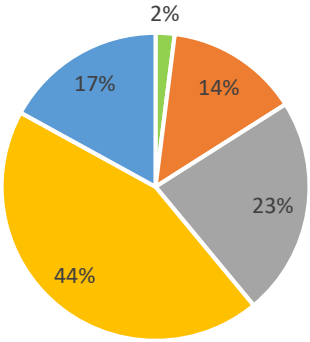
I. High competition with neighbouring SEZs to lease out the space at a competitive price



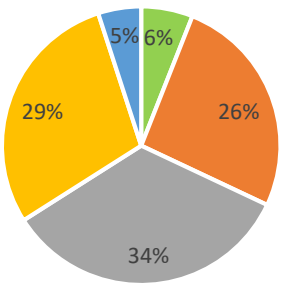
J. Lack of interest of units due to economy slowdown/recession in IT/ITeS industry and withdrawn of Income Tax benefits in the last couple of years



K. Local Issues with the Proposed Site [political interferences, Illegal encroachments, water logging etc.]

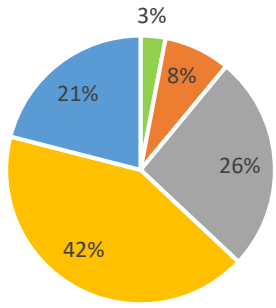


L. Frequent change in Management Decision (change in shareholding pattern, introduction of co-developer etc.)

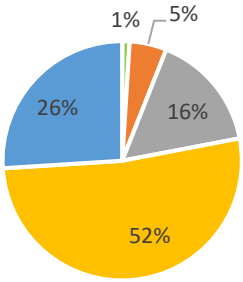


Strongly Disagree	Disagree	Can't say / Neutral	Agree	Strongly Agree

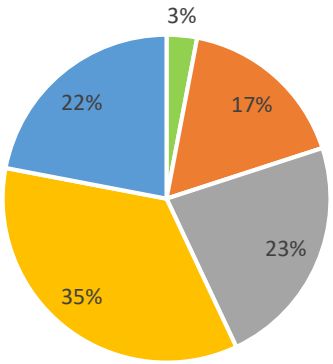
M. Absence/ineffectiveness of State SEZ Act and/or Policy resulting lack of State Government support for SEZ and non-willingness to set to set up SEZ units by entrepreneur.



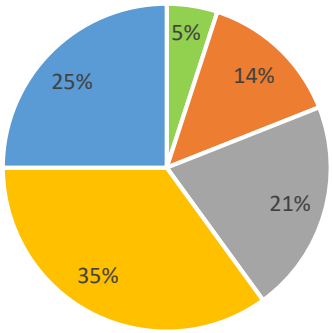
N. Non-availability of Social Infrastructure (housing facility, banking/ATM facility, telecommunication facility, medical and food facility, mass transportation facility etc.) outside the SEZ site.



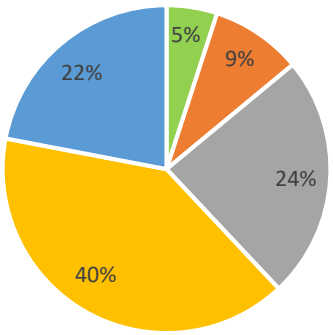
O. Delay in getting refund of indirect taxes (GST/earlier Sate VAT/Central Excise/Service Tax, Customs etc.)



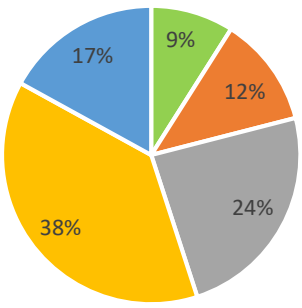
P. Absence of captive units (i.e., the developer sets up its own units) by the developer.



Q. Non willingness to invest by Private Equity (PE) investors, Venture Capitalist, Hedge Fund etc.

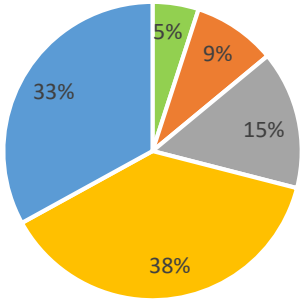


R. Non-cooperation from DC's office in respect of administrative work/sanction/approval/information about recent development etc.

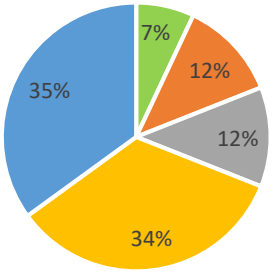


Strongly Disagree | Disagree | Can't say / Neutral | Agree | Strongly Agree

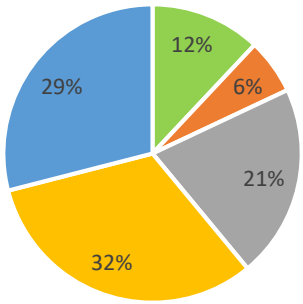
S. Non-availability of basic facilities at the site (e.g., drinking water, sanitation, electricity, security, solid waste management etc.)



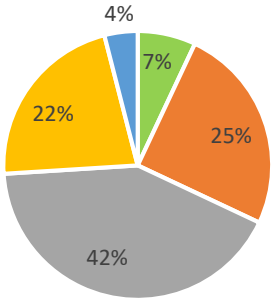
T. Delay in getting clearances from State Government especially building sanction plan clearance, fire clearance, environment clearance among others.



U. Difficulty in getting long term finance from Bank as SEZ is considered as a risky project by Bank



V. Lack of coordination between the Central Govt. and State Govt. departments to minimize the ambiguity, overlapping procedure and expenses.



Strongly Disagree | Disagree | Can't say / Neutral | Agree | Strongly Agree

Appendix F: Result of Multiple Linear Regression (See Para 6.5.)

Regression Statistics	
Multiple R	0.342149064
R Square	0.117065982
Adjusted R Square	-0.214034275
Standard Error	52244.36144
Observations	12

ANOVA					
	df	*SS*	*MS*	*F*	*Significance F*
Regression	3	2895151537	965050512.3	0.35356657	0.788042963
Residual	8	21835786419	2729473302		
Total	11	24730937956			

	Coefficients	***Standard Error***	***t Stat***	***P-value***	***Lower 95%***	***Upper 95%***	***Lower 95.0%***	***Upper 95.0%***
Intercept	113379.00	54774.86	2.07	0.07	-12932.05	239690.05	-12932.05	239690.05
Increase in Export (In Rs. Crore)	-0.13	0.33	-0.39	0.71	-0.88	0.63	-0.88	0.63
Investment (in Rs. Crore)	0.81	0.96	0.84	0.43	-1.41	3.03	-1.41	3.03
No. of Operational SEZs	1584.34	2051.84	0.77	0.46	-3147.20	6315.89	-3147.20	6315.89