

SEZs in India :Some Issues

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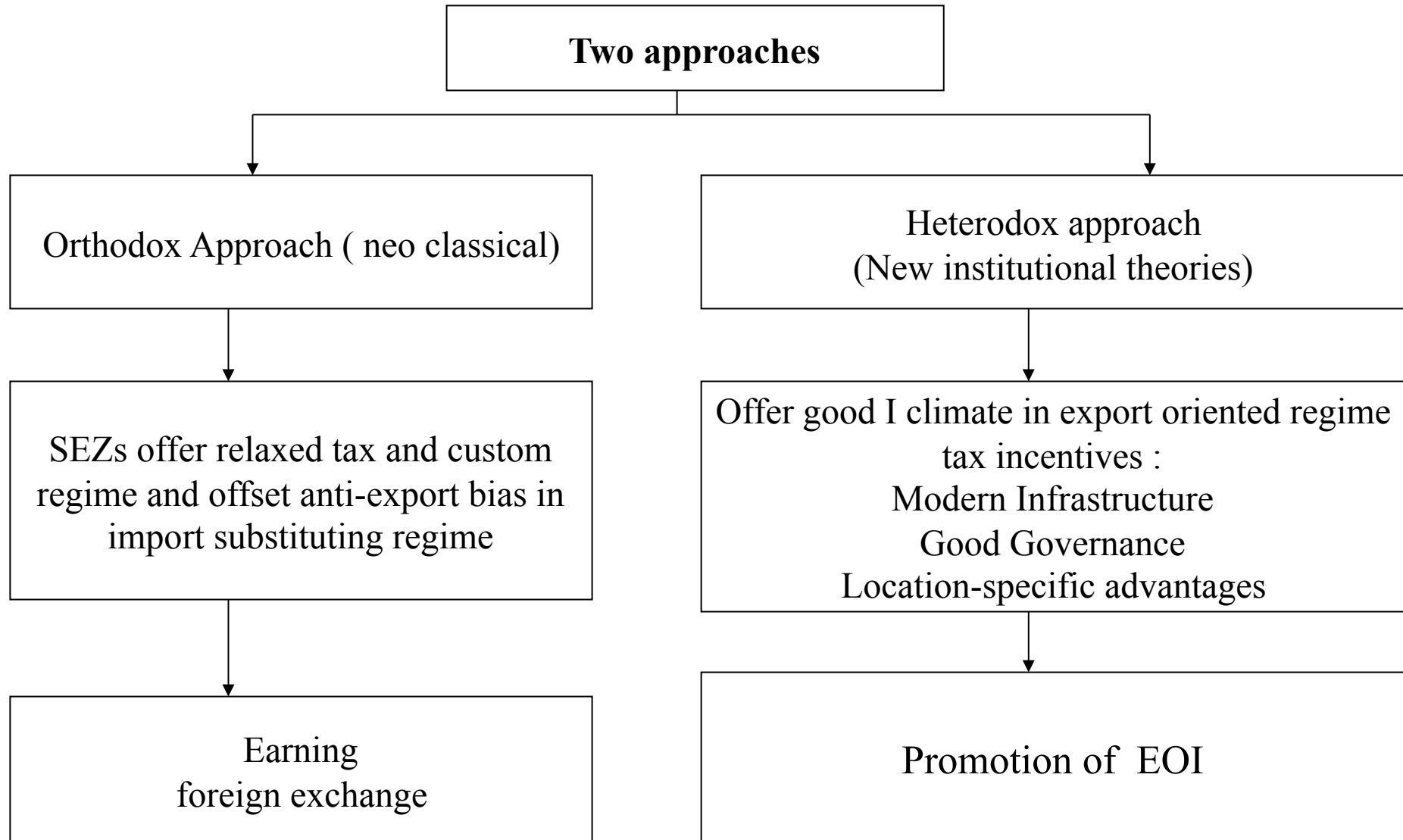
- Industrialization and growth; trade as engine of growth
- SEZs – the rationale, origins- performance and initiatives
- Benefits and costs: Theoretical approaches
- Benefits and costs: Some issues
- The question of food
- The question of employment
- The question of ‘investment climate’
- Conclusion

- Routes for faster and higher rates of growth
- Role of industrial sector
- How to promote industrialization?
- Importance of trade
- Globalization

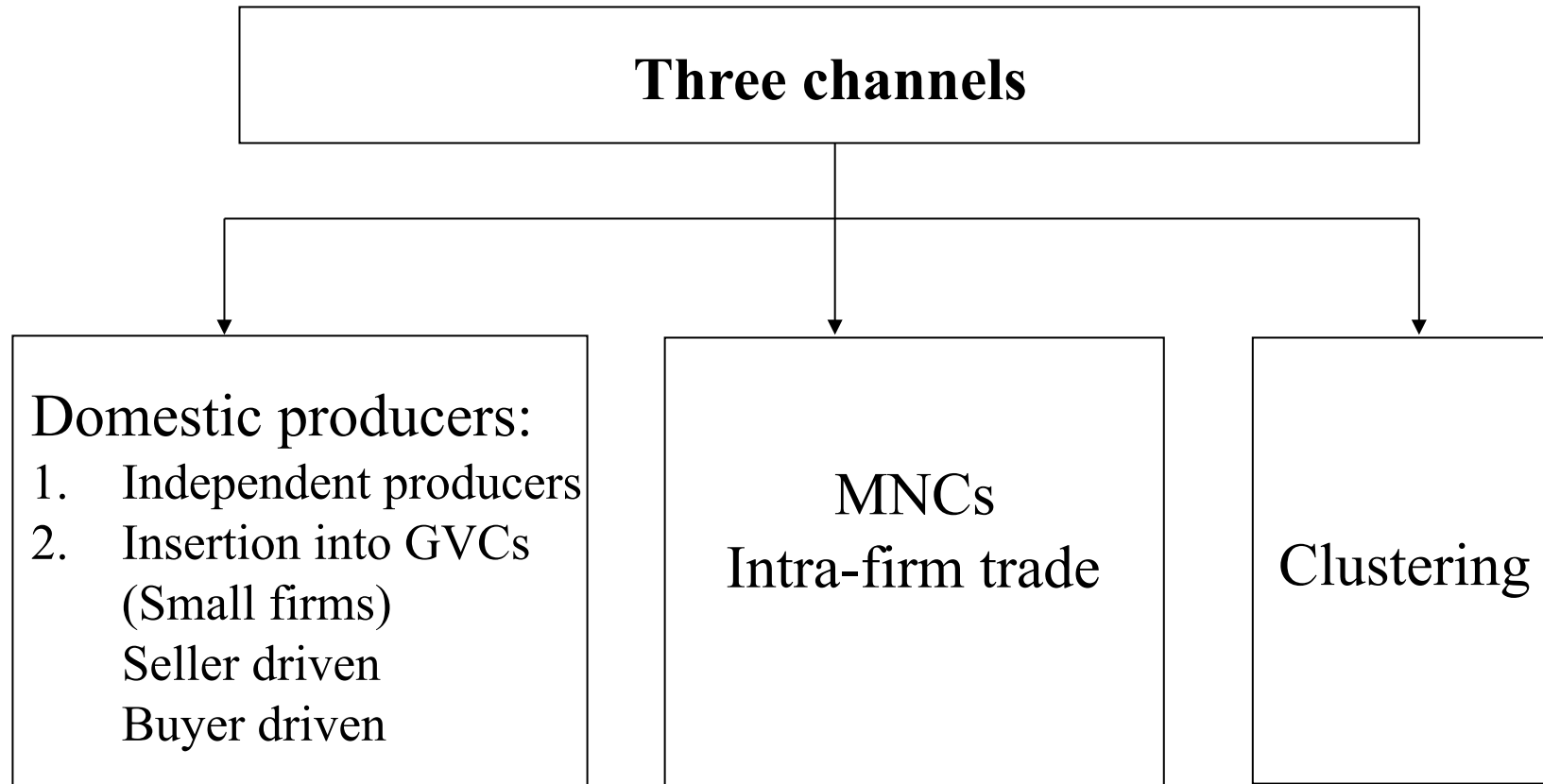
- India's development experience
- Approach towards industrialization
- Import substitution
- Industrial performance

- Policy changes in India
- Export promotion
- Role of state and market
- Trade integration

Why SEZs?



EOI is promoted through...



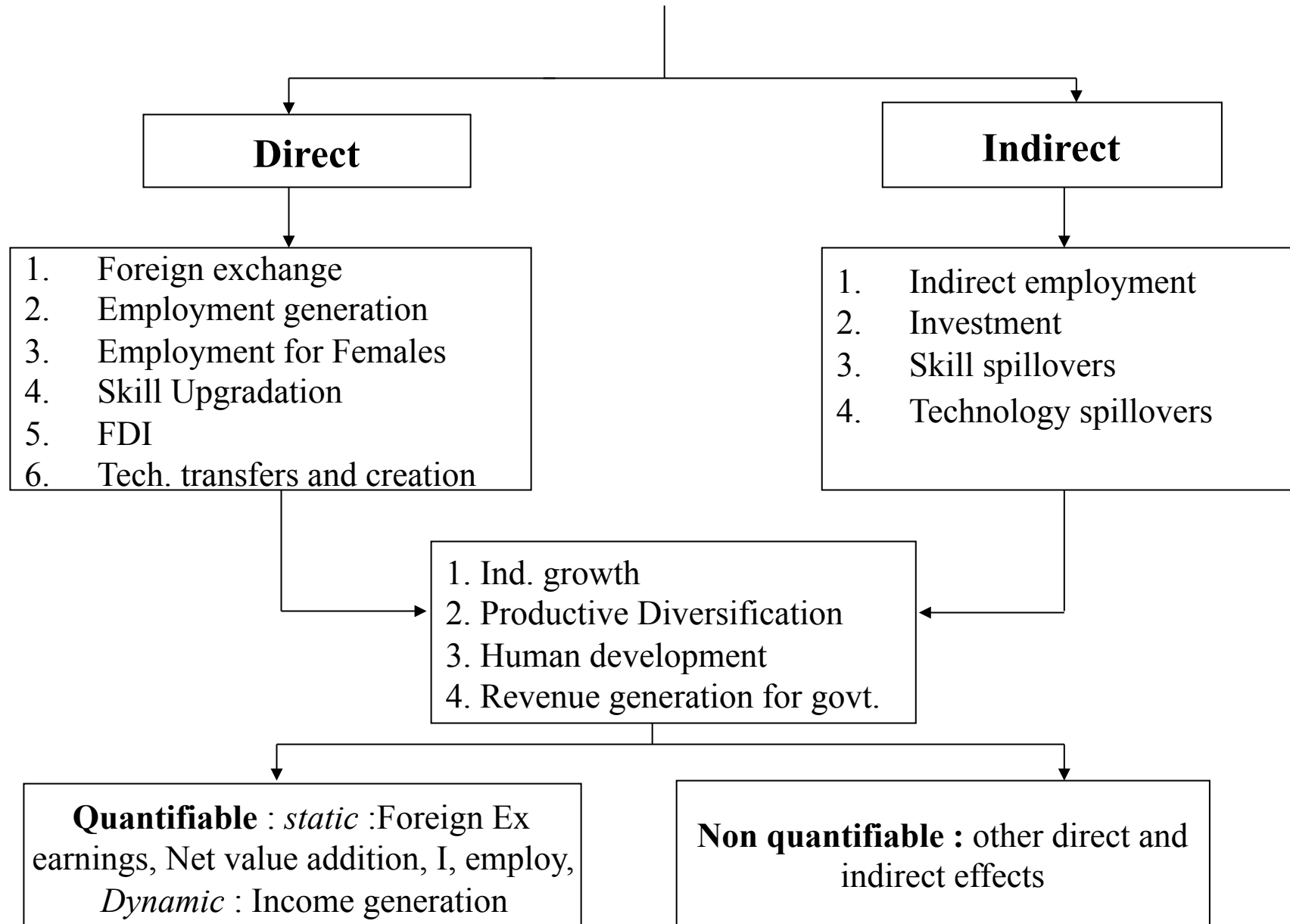
Promoting manufacturing is important in India because...

- Service-sector driven growth. Employment generation potential is limited.
- The share of manufacturing remains almost constant at 16-17%.
- Evidence suggests that employment growth in the formal sector declined.
- Agriculture contributes less than 20% but over 60% people are dependent on agriculture and allied activities.
- A case study of Faizabad : 5 families multiplied to 300 families over time, cultivable land remains 1100 acres. No “break even” in many cases. Villagers are looking for alternative employment opportunities.
- There is need to improve investment climate to promote manufacturing but resources limited.
- Evidence suggests that zones can play an important role in attracting investment and promoting exports and industrialisation.

Benefits to the economy: Theoretical approaches

- **1. Orthodox Approach (Neo classical):**
 - to offset anti-export bias in a heavily regulated economy :
 - always welfare reducing
- **2. Cost benefit approach (accounting method) :Warr, 1989**
 - SEZs have both costs and benefits.
 - Their contribution depends on whether measurable costs are less than measurable benefits.
 - Recognised indirect benefits in terms of income generated
 - These arise from backward and forward linkages but argued that they are limited.
- **3. Heterodox approach (Johansson 1994)**
 - Underscored the importance of indirect effects through spillovers and demonstrations.
 - Overall effects are difficult to measure
- **4. Spillovers also take place when**
 - Zones' entrepreneurs interact with the rest of the economy entrepreneurs in various forums.
 - Zone entrepreneurs set up production units outside the zones.

Benefits : The Eclectic approach



Costs

- Quantifiable:
 1. SEZ development cost : Not incurred by the government
 2. Revenue loss (Tax and other investment incentives)
 3. Operational costs

Other welfare costs : Non quantifiable

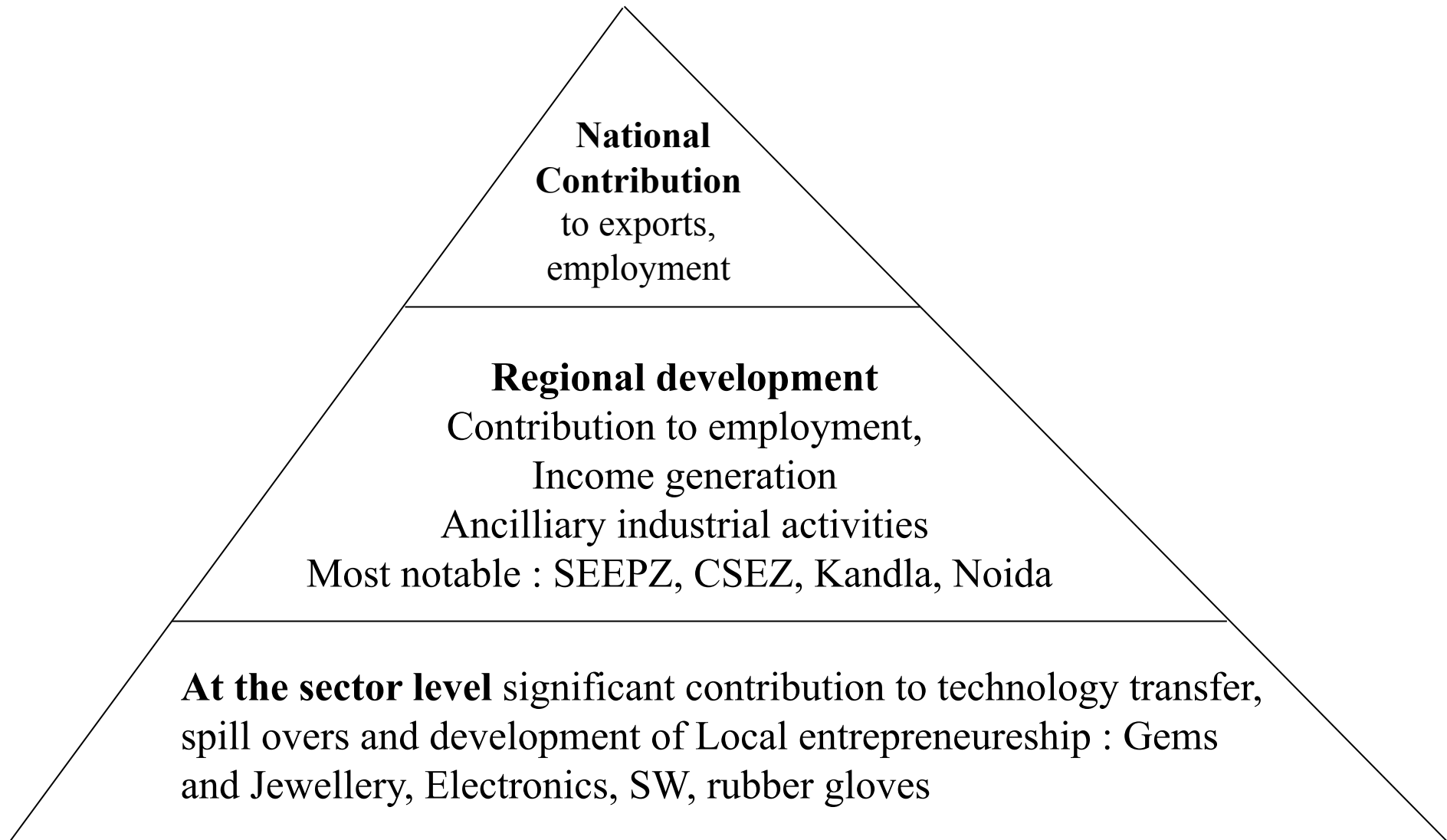
- Resource transfer from the domestic sector to SEZs with no net addition to economic activities (relocation and substitution effect)
- Land Acquisition without adequate compensation
- Impoverishment of farmers
- Loss of agricultural land
- Misuse of land for real estate
- Regional disparities
- Unequal treatment

Tax losses as proportion of incremental investment

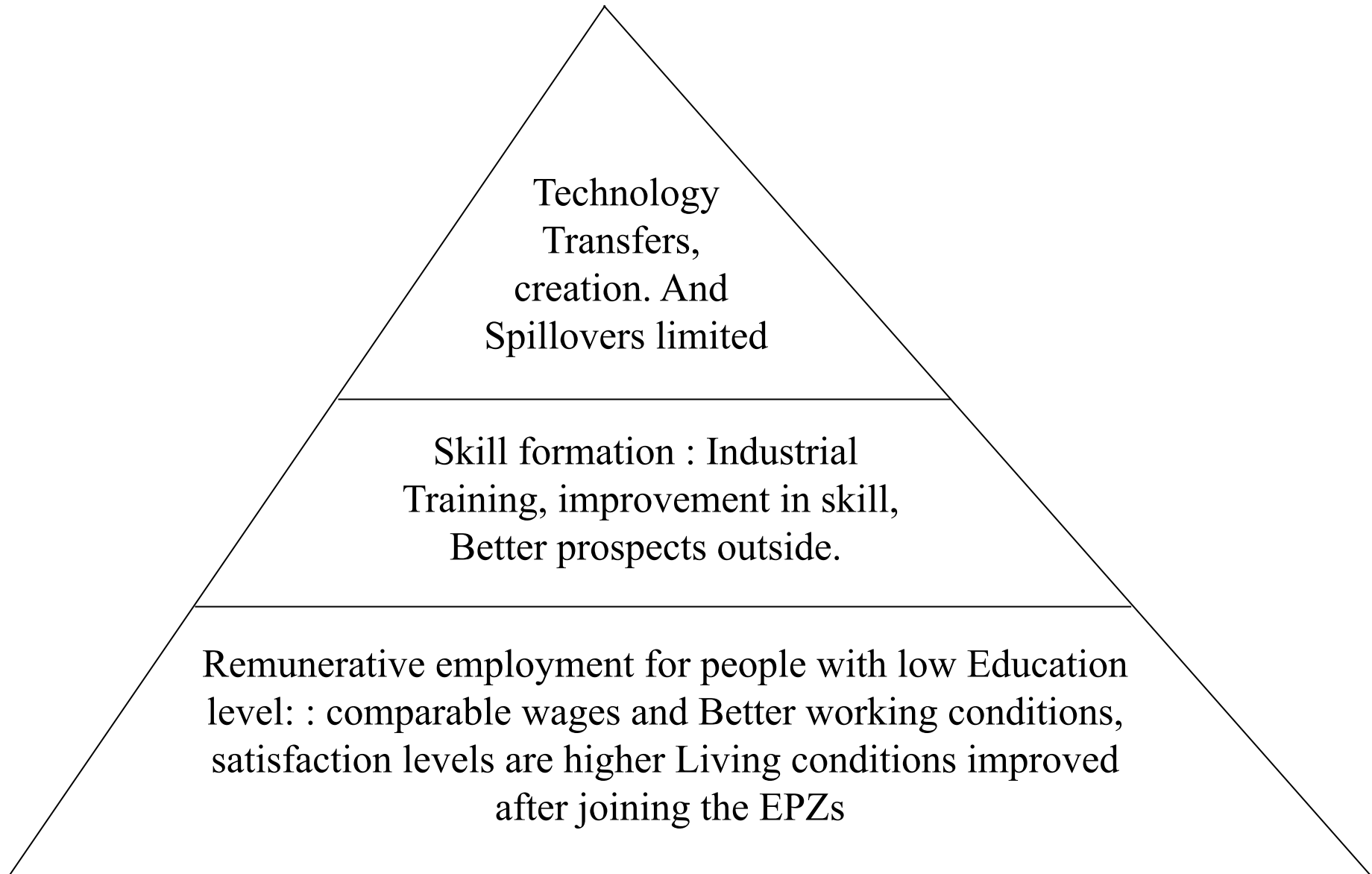
	Tax losses as % of actual investment
2007	8.58
2008	11.81
2009	14.24
Average	12.16

	Direct tax loss (Rs. Cr)	Indirect tax loss (Rs.Cr)
2007	2113.3	2178.7047
2008	6349.5	3094.5933
2009	10911.1	3330.504
2010	8034.4	763.2405
2011	5911.6	138.771
Total	33320.0	9505.8

Contribution of EPZs to Industrial growth/ diversification : A qualitative analysis



Human development and Poverty



SEZ Act provides a major thrust

- 1. A well balanced package of incentives, infrastructure, governance is offered.
- Should tax incentives be offered:
- Yes, Our survey-based study shows that
- The most important ingredient in any SEZ policy is :Tax incentives
- Three reasons:
- Export obligations, attachment with GVC, no location choice.
- Second most important factor: good governance : custom rules and single window clearance.
- Third: infrastructure : within zones: electricity and water; outside zones: transport, roads, ports and airports
- Fourth : location. If good external infrastructure, this is not important. The argument that they should be set up only near the ports is not sustainable.

Current status

SEZ	Status	Investment	Employment (No.)
Nokia, Tamil Nadu:	commenced commercial production	US\$ 100 Million	Direct : 2800 Indirect : 10000
Quark City, Chandigarh:	Inaugurated by the PM	\$ 0.5 billion FDI*	35000* by May 2007
Flextronix in Tamilnadu	Commences operation in November 2006	\$100 million	3000* (2500 under training)
Motorola and Foxconn, Tamilnadu	Units being set up	\$200 million*	5000* by Dec. 2007
Apache SEZ (Adidas Group), Andhra Pradesh	Construction started	\$50 million*	25,000*
Divvy's Labs, Andhra Pradesh	Commenced operations	NA	8000* by April 2007
Rajiv Gandhi Technology Park, Chandigarh	Construction started	NA	5000* by June 2007 (500 under training)
Brandix Apparel SEZ, Andhra Pradesh	Advanced stage of construction	\$100 million*	26000* by March 2007

*Expected

Recent patterns

1. Formal approvals : 234 as on May 1, 2007
2. AP : 45, Maharashtra : 47, Tamilnadu : 25, Karnataka : 29, Haryana and Gujrat : 19 each, Kerala 10, UP 8. WB: 7,MP : 4
3. IT : 133, Electronic HW and SW : 16; 10 multi products; 12 Pharmaceuticals, 9 bio tech, over 11 textile
4. In principle approvals : 164
5. Notified as on 1st May 2007: 100

High tech industries that have come up due to SEZs:
Electronics Manufacturing Services, Semiconductor, Aerospace,

Other industries benefited : Biotech, Pharmaceutical,
automobile, textile.

Costs : A qualitative Analysis

- Relocation : Misplaced. but in the IT sector substitution effect is evident
- Land Acquisition : Needs serious research, should not be left to the private parties.
- Loss of agricultural land : Need to create “land bank” along the lines of TN.
- Impoverishment of farmers : Needs research. But sharp rise in land prices, Huge compensations, They must be offered specifically designed investment plans for these funds to ensure regular incomes. This may provide them security.
- Misuse of land for real estate : Need for exit policy and regular monitoring
- Uneven growth : misplaced
- Unequal treatment with exporters : Tax incentives to STPIs and EOUs.
- A large number of IT sector SEZs : Once STPI incentives restored, this issue will be addressed.

Costs

- Land conversions
- Declining per capita availability of food
- Food prices
- Agriculture poverty linkages

Costs

- Employment generation
- ‘Jobless growth’
- Large unorganised sector
- Labour rights
- Quality of jobs

- Investment climate
- Role of state
- Unregulated capital flows
- Determinants of investments
- Obsession about competitiveness

Conclusion

- SEZs can act as catalyst to industrial growth provided they are implemented effectively.
- Effective implementation of a policy that aims at giving shock to the economy requires mobilization of public opinion. People often approach such an issue initially with strong, emotionally laden feelings and opinions. It must be shaped and formed so that important decisions are taken without creating instability in the society.
- Four things are important :
- The government must slow down the process of giving approvals. This is important not only for social or political reasons but also due to economic realities.
- Legal institutions related to land acquisition (including land acquisition modalities, compensation package and rehabilitation package) must be addressed.
- Introduce a performance based exit policy for SEZ developers
- Restore STPI and EOUs benefits
- Finally, the policy should be treated as transitory.