

## Special Economic Zone - Is it User-Friendly?

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### Abstract

India is rich in human resources. An effective utilization of human resources can boost the development of India. Hence, both Central Government and State Governments have prepared the number of plans for the economic development. Among the many plans, one of the plans is establishment of Special Economic Zone (SEZ). The very purpose of establishing SEZ is providing all infrastructural facilities, marketing assistance, financial assistance and incentives in all aspects. If all the facilities are provided, certainly, many entrepreneurs may come forward to establish their units in SEZ voluntarily, mainly labour intensive units are established in SEZ for the benefit of the local area people. Some of the existing Export Processing Zones are converted into Special Economic Zones. One of such Madras Export Processing Zone (MEPZ) is converted into Special Economic Zone. After such conversion, the researchers want to know the impact of conversion of the functioning of the units within the zone area. Many more multinational corporations are very much interested to establish their sister concerns and branches in India. Hence, it is need of the hour to know the functioning of units in Special Economic Zones. The present study highlights the ways of functioning of units in SEZ erstwhile called MEPZ.

### Introduction

A Special Economic Zone (SEZ) is a geographical region that has economic laws that are more liberal than a country's typical economic laws. A SEZ is a trade capacity development tool to widen the goal to promote rapid economic growth by using tax and business incentives and to attract foreign

investment and technology. Units may be set up in SEZ for manufacturing of goods and rendering of services. In India the import and export operations of the SEZ units will be on the self-certification basis. The units in the zone have to be net foreign exchange earners but they shall not be subjected to any predetermined value addition or minimum performance requirements.

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India was one of the first in Asia to recognize the effectiveness of the Export Processing Zone (EPZ and FTZ) model in promoting exports, with Asia's first EPZ / FTZ set up in Kandla in 1965. With a view to overcome the shortcomings experienced on account of the multiplicity of controls, clearances; absence of world-class infrastructure and an unstable fiscal regime, with a view to attract larger foreign investments in India, the Special Economic Zones (SEZs) Policy was announced in April 2000.

This policy intended to make SEZs an engine for economic growth supported by quality infrastructure complemented by an attractive fiscal package, both at the Centre and the State level, with the minimum possible regulations. SEZs in India functioned from 1.11.2000 to 09.02.2006 under the provisions of the Foreign Trade Policy and fiscal incentives were made effective through the provisions of relevant statutes.

The SEZ attract investment and foreign exchange, spur employment and boost the development of improved technologies and infrastructure. The SEZ policy provides for setting up of units under public, private and joint sector or by the State Governments. It was also envisaged that some of the existing Export Processing Zones would be converted into Special Economic Zones. Accordingly the Government also converted the Export Processing Zones located at Kandla and Surat (Gujarat), Cochin (Kerala), Santa Cruz (Maharashtra), Falta (West Bengal), Chennai (Tamilnadu), Visakapatnam (Andhra Pradesh) and Noida (Uttar Pradesh) into Special Economic Zones.

Many developing countries in the world have recognized the importance of facilitating international trade for the sustained growth of the economy and increased contribution to the GDP of the nation. As part of its continuing commitment to liberalization, the Government of India has also adopted a multi-prolonged approach to promote foreign investment in India through these SEZ establishments. For the convenience of the researcher, the units within the premises of MEPZ are treated as customers.

### **Importance of the Study**

**Acquisition of technological capability through special economic zones:** Many Asian countries, have adopted the special economic zones. This popularity is to foster and stimulate the economic development. Encouraged by the success of SEZ in other Asian countries in the 1960's and 1970's, China set up four SEZ in 1979, including one in Shenzhen. As a result of its extra ordinary growth and success, Shenzhen SEZ has become itself a positive example and impetus for the rest of the world. Although a large number of SEZs are already in operation around the globe, it is likely that a growing number of SEZs will continue to appear both in Asia and worldwide. This is because the SEZs have proved to be a successful means of fostering economic growth and prosperity. For example within China, Guangdong's other two SEZ lag far behind Shenzhen SEZ. Indeed the Shenzhen SEZ is perhaps the most successful example of a SEZ in the world having enjoyed explosive growth.

**MEPZ – An Overview:** There are around 190 units inside the Special Economic Zone employing 21,000 laborers. With three to four large units to come up, the number of workers is likely to double in the next couple of years. We need to have necessary infrastructure in place to meet such a huge expansion. Moreover the shortage of the space in the MEPZ is diverting the large firms to Mahindra Industrial Park which is a private special economic zone. Further MEPZ is trying to reallocate 30 acres of land occupied by the sick units, which can be retrieved and given to new clients.

**Simmering discontent over SEZs:** The consensus among experts seems to be that the economic and other costs of SEZs are likely to outweigh those so-called benefits because of the way the rules have been formulated in the policy. The RBI has, thus, stated that SEZs be treated as commercial real estate rather than as priority sectors of proposition for bank lending. Though much of criticisms of SEZs have centered on the land acquisition process, the policy itself is riddled with flaws. The researcher has concentrated much on making the additional reforms for reducing trade barriers.

**Freeze on SEZs has upset investors:** The Special Economic Zones which have been approved but put on hold in Tamil Nadu due to the controversy over land acquisition in various states, would be given the go-ahead as most of them were being setup on the land belonging to the Small Industries Promotion Corporation of Tamil Nadu (SIPCOT). The major manufacturing sector investors were upset over the freeze and might explore the option of moving to countries like Vietnam, if the Government did not relax the norms or lift the freeze.

## **Incentives and Facilities offered to the Sezs**

The incentives and facilities offered to the units in SEZs for attracting investments into the SEZs, including foreign investment include

1. Duty free import / domestic procurement of goods for development, operation and maintenance of SEZ units.
2. 100% Income Tax exemption on export income for SEZ units under Section 10AA of the Income Tax Act for first 5 years, 50% for next 5 years thereafter and 50% of the ploughed back export profit for next 5 years.
3. Exemption from minimum alternate tax under section 115JB of the Income Tax Act.
4. External commercial borrowing by SEZ units upto US \$ 500 million in a year without any maturity restriction through recognized banking channels.
5. Exemption from Central Sales Tax.
6. Exemption from Service Tax.
7. Single window clearance for Central and State level approvals.
8. Exemption from State sales tax and other levies as extended by the respective State Governments.

The major incentives and facilities available to SEZ developers include

1. Exemption from customs / excise duties for development of SEZs for authorized operations approved by the BOA.
2. Income Tax exemption on income derived from the business of development of the SEZ in a block of 10 years in 15 years under Section 80-IAB of the Income Tax Act.
3. Exemption from minimum alternate tax under Section 115 JB of the Income Tax Act.
4. Exemption from dividend distribution tax under Section 115O of the Income Tax Act.
5. Exemption from Central Sales Tax (CST).
6. Exemption from Service Tax (Sec. 7, 26 and Second Schedule of the SEZ Act).

### Statement of the Problem

In the current scenario the foreign trade plays the major role in deciding the countries GDP, and other parameters of growth. The SEZs are also proposed to be set up by private sector. The SEZ can be set in any business area approved by the State Government and it will be treated as separate foreign territory. Hence it is assured that it can follow the rules and regulations framed by the countries where the business transactions are extended. But if the State Government is required to govern these SEZ means, it's a mind-breaking puzzle for any common person. There arise the following questions:

1. What will be the customer's nature and capital requirement to enter SEZ?
2. What are the benefits enjoyed by the customer's of SEZ?
3. What is the role played by the State Government in setting a SEZ?
4. Are all the units in SEZ show the same growth?

### Objectives of the Study

With a view to find out the solution for the problems raised above, the following objectives have been framed:

1. To study the level of customer satisfaction prevailing in MEPZ.
2. To find out the infrastructure facility available in MEPZ.
3. To study the policies, schemes and incentives available for the manufacturers and traders in MEPZ and
4. To find out the tie-ups and collaborations existing with the unit.

### Hypotheses

The following null hypotheses have been framed for the meaningful interpretation of the primary data.

1. The age of the units does not influence the satisfaction level of the standard design factory.

2. The form of business organization does not influence foreign tie-up and collaboration.
3. The age of the units does not influence the satisfaction level of respondents with the unit after entering the SEZ.
4. The status of the respondents does not influence the satisfaction level of the respondents with regard to standard design factory.
5. The incentives and facilities availed by the respondents does not influence the satisfaction level of respondents with the unit after entering the SEZ.

sampling techniques is employed in selection of the samples. Depending on the conveniences of the researcher the units were interviewed.

### Framework of Analysis

The main aim of the study is to ascertain the factors associated with the level of customer satisfaction of the units in MEPZ. Simple and cross tables were formulated to process the data. To test the associations between the dependent and independent variables, chi- square test was administered. Inferences have been made by comparing the calculated value of  $\chi^2$  with the table value to at 5% and 1% level of significance.

### Research Methodology

The design used for the study is descriptive in nature. This research includes surveys and fact-finding inquiries of different kinds. The major purpose of the research is to describe the state of affairs as it exists at present. The primary data is collected through distributing the structured questionnaires. The questions like satisfaction level on infrastructure, allocation of standard design factory etc. were asked with the five-point scale. Totally 137 customers situated in MEPZ were contacted and data were collected. In this study convenient

### Limitations of the Study

As all the respondents are corporate enterprises, it was a constraint factor to get the appointments with all the enterprises. Similarly the customers were few because only less number of people showed interest in delivering the information. The approximation and generalization must be made since there is no exact population for study.

### Analysis and Interpretation

The results of the analysis of the collected data are presented below:

**Table 1**  
**Age of the units**

Age groups	Number of customers	Percentage
Upto 2 years	23	17
3 to 5 years	67	49
Above 5 years	47	34
<b>Total</b>	<b>137</b>	<b>100</b>

Source: Primary Data

Table 1 shows that the classification of the customer based on the age. Out of 137 customers, 23 (17%) customers have come under the age group of upto 2 years and 67 (49%) customers belong to the age group which ranges from 3 to 5 years. It is seen from the table that the number of customers is very high in the age group which ranges between 3 and 5 years as compared to the other groups.

**Table 2**

**Form of business organization of respondents**

<b>Form of business organization</b>	<b>Number of respondents</b>	<b>Percentage</b>
Sole proprietor	14	10
Private Limited	86	63
Public Limited	23	17
Joint Venture	14	10
<b>Total</b>	<b>137</b>	<b>100</b>

**Source: Primary Data**

Table 2 shows that the classification of the respondents based on the nature of the form of business organization. Out of 137 respondents, 14 (10%) respondents are sole proprietors, 86 (63%) respondents followed private limited company form of business organization and 14 (10%) respondents are doing their business under joint venture umbrella. The majority of customers are following private limited company form of business organization as compares to the other groups.

**Table 3**

**Size of business unit of the respondents**

<b>Size of business unit</b>	<b>Number of respondents</b>	<b>Percentage</b>
Large Scale	38	28
Medium Scale	66	48
Small Scale	33	24
<b>Total</b>	<b>137</b>	<b>100</b>

**Source: Primary Data**

Table 3 shows that the classification of the respondents based on the size of the business unit. Out of 137 respondents 66 (48%) respondents belong to the medium scale unit and the remaining 33 (24%) respondents belong to the small-scale unit. The majority of the respondents' size of business unit is medium scale unit as compared to the other two classifications.

**Table 4**  
**Incentives and facilities provided to SEZ users**

Type of incentives and facilities	Number of respondents	Percentage
Income Tax Relaxation	31	23
Duty Free Import	61	45
Security	16	12
Full Freedom in Space Allocation	26	19
Not Applicable	3	1
<b>Total</b>	<b>137</b>	<b>100</b>

**Source: Primary Data**

Table 4 shows that the types of incentives & facilities provided to the SEZ users. Out of 137 respondents 61 (45%) respondents have enjoy the benefit of the duty free import and the remaining 3 (1%) respondents said that the specified incentives and facilities are not applicable to them. The majority of customers are enjoying the benefit of duty free import.

### Hypotheses Testing

$H_0$ : The age of the units does not influence the satisfaction level of the standard design factory.

**Table 5**  
**Relationship between the age of the units and the satisfaction level of SDF**

Age of the units	Satisfaction level of SDF				Total
	Highly Satisfied	Satisfied	Dissatisfied	Highly Dissatisfied	
Upto 2 years	10 (43%)	7 (30%)	6 (27%)	0 (0%)	<b>23</b>
3 - 5 years	10 (15%)	32 (48%)	19 (28%)	6 (9%)	<b>67</b>
Above 5 years	6 (13%)	24 (51%)	13 (27%)	4 (9%)	<b>47</b>
<b>Total</b>	<b>26</b>	<b>63</b>	<b>38</b>	<b>10</b>	<b>137</b>

**Source: Primary Data**

Degrees of freedom: 6    Calculated  $\chi^2$ : 12.413    Table Value at 5%: 12.591

Out of 23 respondents who have less than 2 years of age, 10 (43%) respondents are found to be highly satisfied and 6 (27%) respondents are dissatisfied. Out of 67 respondents who fall in the category of 3-5 years, 32 (48%) respondents are satisfied and 6 (9%) respondents are highly dissatisfied. Out of the 47 respondents who fall in the category of exceeding 5 years, 24 (51%) respondents are satisfied and 4 (9%) respondents are highly dissatisfied. As the calculated  $\chi^2$  value is less than the table value at 5% level of significance, the null hypothesis is accepted. Hence it could be inferred that the age of the units does not influence the satisfaction level of the standard design factory. .

$H_0$ : The form of business organization does not influence foreign tie-up and collaboration.

**Table 6**  
**Relationship between the form of business organization and foreign tie-up / Collaboration**

Form of business organization	Foreign tie-up / collaboration		Total
	Yes	No	
Sole proprietor	9 (64%)	5 (36%)	<b>14</b>
Private Limited	44 (51%)	42(49%)	<b>86</b>
Public Limited	11 (48%)	12 (52%)	<b>23</b>
Joint Venture	5 (36%)	9 (64%)	<b>14</b>
<b>Total</b>	<b>69</b>	<b>68</b>	<b>137</b>

**Source: Primary Data**

**Degrees of freedom: 3**

**Calculated  $\chi^2$ : 2.365**

**Table Value at 5%: 7.814**

Out of 14 respondents who are sole proprietors, 9 (64%) respondents have foreign tie-up / collaboration and 5 (36%) respondents have no foreign tie-up / collaboration. Out of 86 respondents who follow private limited company form of business organization, 44 (51%) respondents have foreign tie-up / collaboration and 42 (49%) respondents have no foreign tie-up / collaboration. As the calculated  $\chi^2$  value is less than the table value at 5% level of significance, the null hypothesis is accepted. Hence it could be inferred that the form of business organization does not influence foreign tie-up and collaboration.

$H_0$ : The age of units does not influence the satisfaction level of respondents with the unit after entering the SEZ.

**Table 7****Relationship between the age of the units and level of satisfaction of respondents**

Age of the units	Level of satisfaction of respondents			Total
	Highly Satisfied	Satisfied	Dissatisfied	
Upto 2 years	17 (74%)	1 (4%)	5 (24%)	<b>23</b>
3- 5 years	47 (70%)	10 (15%)	10 (15%)	<b>67</b>
Above 5 years	35 (74%)	9 (20%)	3 (6%)	<b>47</b>
<b>TOTAL</b>	<b>99</b>	<b>20</b>	<b>18</b>	<b>137</b>

**Source: Primary Data****Degrees of freedom: 4****Calculated  $\chi^2$ : 5.505****Table Value at 5%: 9.487**

Out of 23 respondents whose units are having less than 2 years of age, 17 (74%) respondents are found to be highly satisfied, 1 (4%) respondents is satisfied and 5 (24%) respondents are dissatisfied. Out of 67 respondents who fall in the category of 3-5 years 47 (70%) respondents are found to be highly satisfied, 10 (15%) respondents are satisfied and 10 (15%) respondents are dissatisfied. As the calculated  $\chi^2$  value is less than the table value at 5% level of significance, the null hypothesis is accepted. Hence it could be inferred that the age of the units does not influence the satisfaction level of respondents with the unit after entering the SEZ.

**H<sub>0</sub>:** The status of the respondents does not influence the satisfaction level of the respondents with regard to the standard design factory.

**Table 8****Relationship between the status and the level of satisfaction of respondents**

Status	Level of satisfaction of respondents			Total
	Highly Satisfied	Satisfied	Dissatisfied	
One star	16 (73%)	4 (19%)	2 (8%)	<b>22</b>
Two star	14 (82%)	1 (6%)	2 (12%)	<b>17</b>
Three star	18 (56%)	8 (25%)	6 (19%)	<b>32</b>
Four star	17 (74%)	3 (13%)	3 (13%)	<b>23</b>
Five star	19 (86%)	3 (14%)	0 (0%)	<b>22</b>
Not Applicable	15 (71%)	1 (5%)	5 (24%)	<b>21</b>
<b>Total</b>	<b>99</b>	<b>20</b>	<b>18</b>	<b>137</b>

**Source: Primary Data****Degrees of freedom: 10****Calculated  $\chi^2$ : 14.412****Table Value at 5%: 18.307**

Out of 17 respondents who have two star status 14 (82%) respondents are found to be highly satisfied, 1 (6%) respondents is satisfied and 2 (12%) respondents are dissatisfied. Out of the 32 respondents who have three star status, 18 (56%) respondents are found to be highly satisfied, 8 (25%) respondents are satisfied and 6 (19%) respondents are dissatisfied. As the calculated  $\chi^2$  value is less than the table value at 5% level of significance, the null hypothesis is accepted. Hence it could be inferred that the status of respondents does not influence the satisfaction level of the respondents with regard to the standard design factory.

$H_0$ : The incentives and facilities availed by the respondents does not influence the satisfaction level of respondents with the unit after entering the SEZ.

**Table 9**  
**Relationship between the incentives and facilities availed and the level of satisfaction of respondents**

Types of incentives and facilities availed	Level of satisfaction of respondents			Total
	Highly Satisfied	Satisfied	Dissatisfied	
Exemption in Customs	23 (88%)	3 (12%)	0 (0%)	<b>26</b>
FDI	7 (54%)	0 (0%)	6 (46%)	<b>13</b>
Banking & Insurance	11 (65%)	4 (24%)	2 (11%)	<b>17</b>
CST Exemption	15 (50%)	9 (30%)	6 (20%)	<b>30</b>
Service Tax Exemption	43 (84%)	4 (8%)	4 (8%)	<b>51</b>
<b>Total</b>	<b>99</b>	<b>20</b>	<b>18</b>	<b>137</b>

Source: Primary Data

Degrees of freedom: 8

Calculated  $\chi^2$ : 30.610

Table Value at 5%: 15.507

Out of 13 respondents who have availed FDI concession 7 (54%) respondents are found to be highly satisfied and 6 (46%) respondents are dissatisfied. Out of the 51 respondents who have availed Service tax exemption 43 (84%) respondents are highly satisfied and 4 (8%) respondents are satisfied and 4 (8%) respondents are dissatisfied. As the calculated  $\chi^2$  value is greater than the table value at 5% level of significance, the null hypothesis is rejected. Hence it could be inferred that the incentives and facilities availed by the respondents influence the satisfaction level of respondents with the unit after entering the SEZ.

## Findings

1. “MEPZ is offering the exporters developed plots and built up factory space for low cost of production” is the opinion of most of customers. Hence it can only be possible with the customers satisfaction on their unit as well as on the entire MEPZ premises.
2. The majority of the respondents are satisfied with the facilities and incentives provided by the zone especially duty free import.
3. The age of the units does not influence the satisfaction level of the standard design factory.
4. The form of business organization does not influence foreign tie-up and collaboration. .
5. The age of the units does not influence the satisfaction level of respondents with the unit after entering the SEZ.
6. The status of the respondents does not influence the satisfaction level of the respondents with regard to the standard design factory and
7. The incentives and facilities availed by the respondents influence the satisfaction level of respondents with the unit after entering the SEZ.
2. The merchant exporter category can be encouraged inside the zone to the maximum extent possible, which can benefit both the trading services and also the individual growth.
3. The standard design factory can be allocated more in number for the required customers so that they can produce more.
4. The concessional rent can be provided for the customers who are financially weak.
5. The customers must be motivated more to have the tie-up and collaborations which can expand the business more positively.
6. The water facility can be provided in a better way for the customers of MEPZ.
7. The transportation facility within the MEPZ must be given extra care so that it may not be a drawback.
8. The warehouse facility can be furnished more so that the perishable commodity can get extra safety and longer life.
9. The complication in the procedural formality can be relaxed to the extent possible so that more units can be set-up.
10. If the private sector banks were given a chance, they may boost the level of exports by providing uninterrupted FDI inflows.

## Suggestions

1. The small-scale units can be assisted with more financial support to make their export performance at higher level.
11. Similarly bank branches should be set up within the MEPZ so as to enable the customers to avail the bank facilities within the zone area.

## Conclusion

The EPZs have come to stay in the Indian economic and business life. The strategy for all concerned should be to adopt a two fold approach. In the light of the experience gained in the existing EPZs, newer zones must be created in all States / Districts taking advantage of the special natural facilities available. Secondly, the existing EPZs should be thoroughly investigated and bottlenecks found. Improvement and corrections must be done on a war footing. If the players and regulations co-ordinate well with each other, it will be a win win situation for all.

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