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ROLE OF SEZ IN EXPENSION OF INDUSTRIAL & SERVICE SECTOR OF MADHYA  
PRADESH ESPECICALLY IN PITHAMPUR REGION

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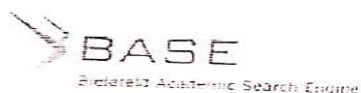
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## ROLE OF SEZ IN EXPANSION OF INDUSTRIAL & SERVICE SECTOR OF MADHYA PRADESH ESPECIALLY IN PITHAMPUR REGION

Dr. Devendra Singh Bagri

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**Abstract** - Special Economic Zones (SEZs) are a popular policy tool used by both developed and developing economies to boost growth in specific geographic areas and economic sectors. Governments typically direct infrastructure development and regulatory concessions at narrow regions in order to influence the location of large and productive firms within them. Our results are especially striking given the unique nature of Indian SEZs. The Indian government incentivized the participation of the private sector in zonal development and allowed SEZs to be of substantially smaller physical sizes than found elsewhere in the world. In this paper, we provide one of the first empirical evaluations of the Indian SEZ policy to understand its aggregate and distributional impact on the Indian economy. India introduced the 2005 Special Economic Zones (SEZ) Pithampur Act as one of the biggest pushes to industrial development in its history. Over ten years since 2005, it has annually invested roughly 0.5% of its GDP, to tallying 62 billion US dollars. The size of its investment is substantial by both Indian and international standards. As of 2016, 221 SEZs began operation across the nation, attracting firms through tax exemptions, infrastructural benefits and regulatory concessions, directly employing 1.4 million people and contributing.

### 1 INTRODUCTION

The economy of India is a very ancient economy of the world. But when it is compared to other economies of the world India is being listed in developing Economy. If I talk about United States it enjoys the world's largest economy, presenting 22% of nominal global Gross Domestic Product (GDP). The United States GDP counts a triggering figure of 17.4187 trillion dollars as in 2014. It is the nation which has been a role model for many of the developing Countries. It has been observed by many economists in the World that the developed Countries enjoy high growth of their Gross Domestic Product & on the contrary developing countries always struggle and make every possible effort to enjoy such economy.

In case of India which is about four times more voluminous than US and counts for \$2.1 trillion dollars as in (2014) GDP is only 12% of the world's strongest Country's GDP. Behind the success of US & most of European Countries is having an Industrial based economy. But if we talk about India it has a very weak Industrial base. From last sixty decades India has spared no effort for making its economy strong by transferring itself from an agro-based to an industrial based economy.

### 2 BENEFITS OF EXPORTS TO THE NATION

The goal of the any economy is to increase exports as a means of strengthening economy. In the same way Indian economy with its continuous efforts are trying to raise its exports. As Indian exports means strengthening economy by supporting additional jobs, and stimulating long-term sustainable growth. For Indian Government the top priority is to improve the conditions that directly affect the ability of Indian firms to export. Many measures are taken in this regard such as removing trade barriers, helping Indian firms to overcome hurdles of entering new markets, availing financial benefits, developing infrastructure & most importantly creation of SEZ enclaves.

#### 1.1 Introduction of Special Economic Zone

The first country who proposed and developed the first economic zone is China in 1980. China opened up its economy to Foreign Investment with establishment of Shenzhen SEZ with annual foreign trade of \$50 billion. The main highlights of Chinese SEZ model are:-

- Large in size like Shenzhen (326 sq k), Xiamen (132 sq km).
- Single window clearance for both application and operation phases.
- Flexibility from labor law.

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- Exemptions in custom duties, licenses, services used for processing of export products.
- Delegation of power to state or local government for managing the zones.

SEZ is a specified, delineated geographical region with all improved technologies & well developed infrastructure to promote industrial production, promotion of International exports & employment generation to achieve sustained growth of economy. It has a duty free environment from custom, import of raw material & licensing. Tax Exemption [100% for five years & 50% for two years thereafter], 100% FDI & Single window clearance are the most attractive features of SEZ in India. 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 first SEZ in India was setup in Kandla, Gujarat then after many SEZ came in existence.

### 1.2 Glimpse of Indian Economy

Even though the term economy has taken a shape since the past few centuries, its origin dates back to when human life began its generation on Earth in Africa, around 2,00,000 years ago. The first humans started to live by eating grass, leaves and many tubers they got their hands on. Growing and evolving step by step, they found the art of hunting and meat. Their needs started taking new shapes. They understood the need to cover themselves and found the shelter in as many ways they could: caves and trees. With this, as humans grew, a very early stage of economy building started to evolve among humans too. Once they discovered fire and stones as a means of survival, there was no going back. It played an important role in their development, as they used the stones to start the fire and started to cook their meat on it.

### 1.3 Introduction to "the Land of India"

A group of people began to settle around the Indus River in the Southern lands (today known as Pakistan and Western India) around 2,500BC and a culture started to take shape. Along with the culture, Darwinism of one of the largest economies started developing itself,

known as the "LAND OF INDIA" (today known as the Indus Valley Civilization). This civilization started with farming communities and very dynamic cultures, which included the migrating people that surrounded the region of India.

### 1.4 Development of SEZ In India

Asia's first Export Processing Zone (EPZ) was inaugurated in Kandla, Gujarat in India in 1965. India was one of the first countries who recognized the benefits of this model in increasing export. When Shri Late Murasoli Maran, (The Former Union Minister of Commerce & Industries) visited China, he was very impressed by such zones and the Export-Import Policy and thus amended the policy in India in the year 2000. It was decided to set up the SEZs based on the Chinese model. Under the provisions of the Foreign Trade Policy, SEZs in India functioned from 1.11.2000 to 09.02.2006 and through the provisions of relevant statutes, fiscal incentives were made effective. In May 2005, the SEZ Policy with many of the amendments got passed by Parliament. It received its Presidential assent on 10th February, 2006. Later, all the eight existing Export Processing Zones (EPZs) were converted into Special Economic Zones namely at Kandla, Surat, Cochin, Falta, Santa Cruz, Chennai and Noida and were controlled by the Central Government. The process of creating new zones was initiated in every part of the country by the Government after converting all the EPZs into SEZs.

Different Types of SEZs: Differentiated according to the minimum area requirements, there are three types of SEZ which can be setup in India.

### 1.5 Development of SEZ in Madhya Pradesh

The first SEZ was developed by the Government of India in Madhya Pradesh, in Pithampur district of Indore, prior to the enactment of the SEZ Act 2005. Thus, it became operational with effect from August 15th, 2003. The SEZ scheme is used to reach out to more and more industries engaging in manufacturing and helping to raise exports, ultimately leading to inflow of FDI in the state. It also increased the employment generation rate. Here, it is a Green Field multi-product SEZ.

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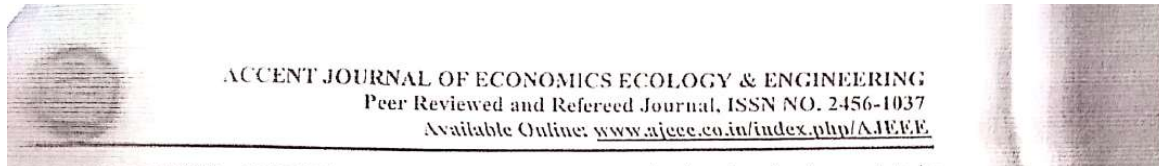
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### GOVERNMENT ASSISTANCE FOR SPECIAL ECONOMIC ZONE

A small plant aiming to grow & convert itself in a giant tree has to be nurtured with great care. The supplements important for its growth have to be supplied on regular basis by its caretaker. And also a check has to be kept upon that no external forces like extreme temperature, extra water supply or any other forceful wrench harm the plant & its growth. And with continuous efforts made by the caretaker the tiny plant which was unable to protect itself grows in a giant tree which provides shelter & fruits to its owner.

In the same way the Industries which are in its start-up age has to be nurtured by the Government, so that the outer force does not hamper the growth of the young Industries. Proper supplements have to be provided in the form of different facilities, Incentives & by providing security so that the development of the young Industries becomes continuous & speedy. With continuous effort's the Industries will provide fruits in the form of increased exports & higher Inflow of FDI's.

Industries have a tremendous socio-economic impact on Indian economy. For the same Government of India is trying hard to boost its Industrial sector in many ways, to develop the Industrial sector as a weapon of growth. Formation of Industrial Promotion Policy by the Government of India is being in such a manner that it can benefit the overall growth of the Industries.

### 2.1 Pivotal Role of SEZ in Infrastructural Development

Before focusing on Infrastructural development the question arises what is infrastructure & why is it so important for the progress of Industries? Answer to this question is the basic physical and organizational structures and facilities (e.g. buildings, roads, power supplies) needed for the operation of a society or enterprise. (Source: Wikipedia)

Infrastructure development is an essential component in encouraging India's manufacturing sector. This will help in enhancing India's productivity by helping in making firms more competitive. Infrastructure not only escalates the efficiency of production, transportation,

and communication, but it also assists in providing economic incentives to public and private sector participants. The accessibility and high-standards of infrastructure in a zone help shape domestic firm's investment decisions and also determines the zone's attractiveness to foreign investors.

### 2.2 Role of SEZ in expansion of Industrial of Madhya Pradesh

The economy of India is a very ancient economy of the world. But when it is compared to other economies of the world India is being listed in developing Economy. If I talk about United States it enjoys the world's largest economy, presenting 22% of nominal global Gross Domestic Product (GDP). The United States GDP counts a triggering figure of 17.4187 trillion dollars as in 2014. It is the nation which has been a role model for many of the developing Countries. It has been observed by many economists in the World that the developed Countries enjoy high growth of their Gross Domestic Product & on the contrary developing countries always struggle and make every possible effort to enjoy such economy.

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### 2.3 Benefits of Exports to The Nation

The goal of the any economy is to increase exports as a means of strengthening economy. In the same way Indian economy with its continuous efforts are trying to raise its exports. As Indian exports means strengthening economy by supporting additional jobs, and stimulating long-term sustainable growth. For Indian Government the top priority is to improve the conditions that directly

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affect the ability of Indian firms to export. Many measures are taken in this regard such as removing trade barriers, helping Indian firms to overcome hurdles of entering new markets, availing financial benefits, developing infrastructure & most importantly creation of SEZ enclaves.

### 3 ANALYSIS & CONCLUSION

Today, in the world of economic reforms economies are transforming at much higher speed globally. In similar way, India which is world's third largest economy is also transforming itself by adapting many of the economic reforms including the most important reform of 1991 that is Liberalization, Privatization and Globalization. On the way of liberalizing, privatizing & globalizing economy, a tool was developed for achieving various pre-planned objectives which was named as Special Economic Zones (SEZ). This research is also based on the same tool used for development by the Government. I while perusing my research on the topic "Contribution of Special Economic Zone in the economic development of Pithampur region" has made efforts to satisfy hypothesis which I drafted after reading articles, newspaper & interview of great economists that enclaves of SEZ are proving as a powerful tool in modifying the economic structure globally.

#### 3.1 Problems Related to SEZ

During the research it was found that infrastructural facilities provided in SEZ Pithampur is the prime factor in attracting industries towards SEZ enclave. Though Pithampur region of Madhya Pradesh is already an Industrial area but than to the facilities available in DTA area of Pithampur for the non SEZ units is not equivalent to the facilities which are provided by Central & State Government to Units in SEZ. Although all the major facilities are provided in SEZ but in my research I found some loopholes related to facilities provided which are:

- There is only one window for clearance which results in waste of time & late delivery of goods & also become a reason for the traffic jam on the main entrance.

Continuing with further talks during the Interview Mr. Ashish (H.R Manager of IPCA CO.) informed me about

the problem that the industries of SEZ are facing which are:

- The main entrance of SEZ Pithampur phase 1 is having a single gate. All 2, 4, 6 & 8 wheeler have to enter & exit from the same gates which causes a severe traffic jam that to in front of the highway. Because of this regular traffic jam the highway also gets stuck which creates chaotic situation
- There is a severe issue of security in the corridor of SEZ. There are no cameras on streets inside the SEZ. Though all industries are fully equipped with high technology security system but when it comes to the outer corridors SEZ provides its populace poor quality of security system.
- There are no residential Apartments, educational Schools & hospital building within SEZ area. Though these are available in Indore but if they are available in Pithampur itself it will decrease the transportation cost & time of the Industrialists as well as of the employees.
- The ecological maintenance in SEZ is not proper. The corridors are not covered with plantation which causes pollution. Though each Industry is trying hard & has proved with their appreciable efforts that all are concerned for maintenance of ecological balance within SEZ enclaves.
- The share of women in employment is low which has to be increased to promote women employment. In order to eradicate poverty Government needs to raise the income which is possible only when higher share of employment will be provided to skilled & unskilled women.
- Weak Railway transportation lowers the connectivity to other part of the nation & hampers growth of industries.
- A regular strike by regional employees affects the manufacturing activities in SEZ Pithampur.
- the cascading effect of multiple taxes is responsible for increase in

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the tax rates & ultimately the prices of the goods produced by EOUs of SEZ

- Poor construction and maintenance of roads connecting Pithampur region to different part of the State. After finding the above listed problem the suggestion which I can contribute after perusing research on SEZ and local economy are:

#### 4 SUGGESTION AND RECOMMENDATIONS

- In India many SEZ had been developed on the fertile land which has affected the agro sector. According to one of the previous researcher Mr. Amar Dhere & according to me, a land bank should be formed which should have a count of total available fertile & non fertile land of India. If a fertile land has been permitted by the Government for establishing SEZ than the farmers whose land has been acquired should be provided with the other fertile land. By doing this kind of practice the development of Agricultural Sector & Industrial Sector will be smooth and simultaneous.
- Whenever a SEZ is establish on the agricultural land acquired from the farmers, partnership in the SEZ project should be offered to the farmers according to the ratio of land which has been acquired for developing Special Economic Zone. Which will raise the income of the farmers & there will be no incidences of forceful land acquisition.
- SEZ in India should be established in such a way that the Industries of same nature should be establish in that kind of SEZ. For example if a region is rich in agro sector than the industries settling down in SEZ of that region should be Agro based Industries. By doing so the cost of production will decrease because of the decreased transportation cost (the raw material necessary for production will be acquired from local market which will decrease transportation cost).
- The second benefit will be for the

local market that when the Industrialists will pay high value of goods which they will acquire from the local market. This will increase the living standards of the people as they will fetch good amount of money.

- "Make in India" Programmed should be made mandatory on units in SEZ which will decrease the import & will also help in boosting local markets of India.
- In order to boost exports Government should decrease the rates of MAT and DDT.
- Government should make a clause for hiring minimum 50% of the Indians in total work force (including skilled, semi- skilled & unskilled labors) in the MNCs developed in SEZ which will help in employment generation.
- Government in order to boost women employment should give 33% minimum reservation to women in MNCs situated in SEZ area.
- Government should start training programmers for the unskilled labors.
- Imposition of General Sales Tax (GST) Act in SEZ will be beneficial as the revenue of Government will increase & the rate of taxes levied on SEZ Units should be decreased which will help in increasing exports & more FDI in flows.
- Efforts should be made to increase industries of service sector in Pithampur & nearby areas including Indore.
- Rail Transportation from Indore should be developed to each & every part of the country which will ease transportation system.
- AICTSL transportation should be increased up to Pithampur region for making travelling easy & convenient.
- Government with the help of Education Ministry & NGO's should provide training programmes to the rural people of Madhya Pradesh & specially of Dhar district & nearby areas to improve working efficiency of labors (man and woman) which will help in boosting employment.

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