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Special Economic Zones in India: Investment, Trade, Employment Generation and Impact Assessment

Deepak Shah*

Introduction

A geographical region encompassing more liberal economic laws than a country's typical economic laws can be referred to as a Special Economic Zone (SEZ).¹ A policy of setting up of SEZ was introduced in India on April 1, 2000 with a view to provide a more competitive free trade environment for exports. During the period from November 1, 2000 to February 9, 2006, the SEZs in India operated under the provisions of the Foreign Trade Policy. In fact, India was the first Asian country to recognize the importance and effectiveness of Export Processing Zone (EPZ) and the first EPZ came into being in 1965 in Kandla, Gujarat. But, since then there has not been done much to the strengthening of EPZs in India. In 2000, therefore, the government replaced the earlier regime of EPZ by a new scheme of SEZs, which encompassed a number of potential benefits that were missing in the earlier scheme. In May 2005, the SEZ Act² was passed by the Parliament and SEZ Rules³ came into force from February 10, 2006, which not only simplified procedures but also extended single window clearance for matters relating to Central as well as state governments. The SEZ Rules provide for different minimum land requirement for different class of SEZs.

The promotion of SEZs is expected to tackle wide range of structural bottlenecks created by monetary, fiscal, taxation, trade, tariff and labour policies, aside from overcoming complex procedures and infrastructure deficiencies (Aggarwal, 2006). It has been argued that since development of infrastructure requires huge capital investment and as implementation of structural reforms is time-consuming process, the establishment of SEZs would be the only realistic strategy governing the process of industrialization. Although SEZs offer numerous benefits, there are also various positive as well as negative features associated with the establishment of SEZs in India. It is, therefore, essential to analyse not only the potential benefits of SEZs but also the likely impact of establishment of SEZs on agricultural production, employment, water and food security. This paper is an attempt in this direction and it specifically focuses on benefits of establishing SEZs, their current status in terms of employment, investment and exports, bottlenecks in their functioning, adverse affects, and likely threats to the farming community in particular and society in general.

Benefits of SEZs

The SEZs in India are not only expected to bring large flow of foreign direct investment but also domestic investment, which will help in generating additional economic activity in the

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form of creating employment opportunities, infrastructure development and enhancing productive capacity as well as capabilities. The salient features of the SEZ Act mainly revolve around (i) satisfying the needs of all major stakeholders in an SEZ, including developers, operators, suppliers, residents, etc., (ii) making provisions of single window clearance mechanism, (iii) providing attractive fiscal incentive package, (iv) establishing free trade and warehousing zones with a view to develop internationally competitive infrastructure facilities to augment import and export of commodities, (v) setting up of off shore banking units, and (vi) facilitating public private participation towards development of infrastructure. In order to promote SEZs in India, a number of incentives and facilities have been offered to the SEZs as well as the developers of SEZs, which mainly include duty free import/domestic procurement of goods for development, operation and maintenance of SEZ units, 100 per cent tax exemption on export income for SEZ for first 5 years, 50 per cent for next 5 years thereafter and 50 per cent of the ploughed back export profit for next 5 years, exemption from Central Sales Tax, Service Tax, State Sales Tax and other Levies as extended by the respective State Governments, exemption from customs/excise duties, single window clearance for Central and State level approvals, external commercial borrowings by SEZ units up to US \$ 500 million in a year without any maturity restrictions through recognized banking channels, exemption from minimum alternative tax, exemption from dividend distribution tax, etc (GOI, 2008).

Due to wide range of incentives, facilities and several other relaxations extended to SEZs, majority of the states in the country are geared to set up SEZs to reap the benefits accruing through these zones. As on October 31, 2007, there were 439 formal approvals of SEZs across 22 states in the country.⁴ Out of this, 205 SEZs were notified. Among various states, Andhra Pradesh ranks first in the country with 4,100 hectares of area under SEZs. The other states like Tamil Nadu, Maharashtra and Gujarat are likely to have significant area under SEZs.

Status of SEZs

The SEZs in India have attracted significant private investment, apart from generating additional employment opportunities. As on November 30, 2007, there were 7 Central Government SEZs with a private investment of Rs.4,638.98 crores and 12 private/State Government new generation SEZs set up/notified prior to SEZ Act 2005 had an investment of Rs.52,354 crores. Thus, the total private investment in SEZs worked out at Rs.59,630.98 crores. The total employment was estimated at 1,81,494 persons in the 7 Central Government SEZs, 59,356 persons in SEZs notified under the SEZ Act 2005, and 35,477 persons in 12 private/State Government new generation SEZs setup/notified prior to SEZ Act 2005 with a sum of 2,76,307 persons employed in all the SEZs put together (Table 1). The expected investment in new generation SEZs is estimated at Rs.1,00,000 crores including FDI of US \$ 5-6 billion by March 2008 and Rs.2,85,279 crores by December 2009. As for employment in new generation SEZs, as much as 1,00,000 direct jobs and 23,30,277 additional jobs are expected to be created by March

2008 and December, 2009, respectively. There are as many as 1122 approved units in 7 Central Government SEZs and 403 units in 12 private/ State Government new generation SEZs setup/notified prior to SEZ Act 2005.⁵

Table 1: Status of Employment and Investment in SEZs of India (As of November, 2007)

Particulars	
(a) Employment (in persons):	
(i) In the 7 Central Government SEZs	1,81,494
(ii) SEZs notified under the SEZ Act 2005	59,356
(iii) 12 private/ State Government new generation SEZs notified prior to SEZ Act 2005	35,477
Total	2,76,307
(b) Current Investment (in Crore Rs.)	
(i) In the 7 Central Government SEZs (Pvt. Investment only)	4,638.98
(ii) 12 private/ State Government new generation SEZs notified prior to SEZ Act 2005	2,638.00
(iii) SEZs notified under the SEZ Act 2005	52,354.00
Total	59,630.98
(c) Expected Investment and Employment	
(i) Expected employment in new generation SEZs	
By March 2008	1,00,000 direct jobs
By December 2009	22,30,277 additional jobs
(ii) Expected investment in new generation SEZs	
By March 2008	Rs.1,00,000 crores including FDI of US \$ 5-6 billion
By December 2009	Rs.2,85,279 crores

Source: <http://sezindia.nic.in>

Twenty-eight meetings of the Board of Approvals have been conducted ever since the SEZ Rules came into effect from February 10, 2006. These meetings have granted formal approval to 531 SEZ proposals, which include 260 notified SEZs. About 33 per cent of the 531 formal approvals are meant for sector specific and multi product SEZs, especially engaged in labour intensive manufacturing of Textiles and Apparels, Leather Footwear, Automobile components, Engineering, etc. The extent of employment is seen to be to the tune of 14,577 persons for Nokia SEZ, 1,058 persons for Flextronics electronics hardware SEZ in Sriperumbudur, 2,145 persons for Hyderabad Gems SEZ engaged in Jewellery manufacturing. Majority of the persons employed in these SEZs belong to landless families. The Ministry of Commerce claims that Apache SEZ being set up in Andhra Pradesh will employ 20,000 persons to manufacture 10,00,000 pairs of shoes every month, though current employment in Apache SEZ stands at 5,536 persons. Similarly, it is claimed that Brandix Apparels, a Sri Lankan FDI project would provide employment to 60,000 workers over a period of 3 years. In service sector, 12.5 million sq meters space is expected in the IT/ITES SEZs, which would translate into 12.5 lakh jobs. These estimates are concomitant of the fact that establishment of SEZs would result in tremendous growth not only in labour intensive manufacturing sector but also in service sector.

The direct additional total employment generation in SEZs across 15 major states in the country was estimated at 1,46,128 persons, which included employment of 61,015 persons in

SEZs notified under SEZ Act 2005, 23,995 persons in 12 private/ State Government SEZs and 61,118 persons in 7 Government SEZs (Table 2). The state of Maharashtra was noticed to show the highest share (27.35 per cent) in total additional direct employment generation in SEZs across 15 states, followed by Tamil Nadu (21.36 per cent), Karnataka (13.12 per cent), Gujarat (10.15 per cent) and Andhra Pradesh (9.43 per cent). The total investment in new generation SEZs across 15 states was estimated at Rs.70,226 crores, which encompassed current investment of Rs.67,347 crores in SEZs notified under SEZ Act 2005 and an investment of Rs.2,879 crores in 12 private/ State Government SEZs .

Table 2: State-wise Employment and Investment Status of SEZs in India (As on 31st December, 2007)

States	Direct Employment in SEZs Notified under SEZ Act	Employment Generation in 12 Private/State Govt. SEZs	Incremental Employment Generated in 7 Govt. SEZs	Total additional Direct Employment Generated	Current Investment in SEZs Notified under SEZ Act	Current Investment in 12 Private/ State Govt. SEZs	Total Investment in New Generation SEZs (in Cores Rs.)
A.P.	12236	-	1549	13785 (9.43)	1513	-	1513 (2.16)
Chandigarh	1113	-	-	1113 (0.76)	81	-	81 (0.12)
Goa	24	-	-	24 (0.02)	47	-	47 (0.07)
Gujarat	4985	5140	4702	14827 (10.15)	35951	316	36267 (51.64)
Haryana	-	-	-	-	3836	-	3836 (5.46)
Karnataka	19178	-	-	19178 (13.12)	3244	-	3244 (4.62)
Kerala	534	-	4925	5459 (3.74)	462	-	462 (0.66)
M.P.	4	2462	-	2466 (1.69)	121	460	581 (0.83)
Maharashtra	3931	-	36038	39969 (27.35)	2530	-	2530 (3.60)
Orissa	-	-	-	-	25	-	25 (0.04)
Punjab	3300	-	-	3300 (2.26)	348	-	348 (0.50)
Rajasthan	20	3018	-	3038 (2.08)	9	144	153 (0.22)
Tamil Nadu	14594	8818	7807	31219 (21.36)	4789	1777	6566 (9.35)
U.P.	946	255	3334	4535 (3.10)	557	136	693 (0.98)
W.B.	150	4302	2763	7215 (4.94)	30	47	77 (0.11)
India	61015	23995	61118	146128	67347	2879	70226

Source: Rajya Sabha Starred Question No. 195, dated on 12.03.2008

Note: Figures in parentheses are percentages to total employment and investment

Gujarat alone showed more than 50 per cent share in total investment in new generation SEZs among 15 major states in the country. The other major states attracting significant investments in SEZs were Tamil Nadu, Haryana, Karnataka and Maharashtra. The state of Gujarat had attracted major investment despite the fact that this state accounted for only 10 per cent share in total employment generation in SEZs across 15 states in the country. In contrast, the state of Maharashtra showed the highest level of employment despite having only 3.60 per cent share in total investment in SEZs across 15 major states in the country. This establishes no direct correlation between the level of investment and employment in SEZs across states in the country.

SEZ Exports

The Government of India has visualized SEZs as the potential source for boosting India's exports. The Ministry of Commerce claims that the exports from these zones in value terms would reach to Rs.1,00,000 crores by the end of 2009 from its level of Rs.34,788 crores in 2006-07 and Rs.67,300 crores in 2007-08. Export performance of India with respect to Special

Economic Zones (SEZ) and Export Oriented Units (EOUs) encompassing the period from 1992-93 to 2005-06 is shown in Table3.

Table 3: Export Performance of SEZs Units and EOUs Units of India: 1992-93 to 2005-06

Year	SEZs Units			EOUs Units			Total			
	Rs. In Crores	Fixed Base Index	Growth over Previous Year	Rs. In Crores	Fixed Base Index	Growth over Previous Year	Rs. In Crores	Fixed Base Index	Growth over Previous Year	
1992-93	1376.31	100.00	-	2170.14	100.00	-	3546.45	100.00	-	
1993-94	1959.91	142.40	42.40	3086.00	142.20	42.28	5045.91	142.28	42.28	
1994-95	2653.11	192.77	35.37	4709.59	217.02	45.91	7362.70	207.61	45.91	
1995-96	3235.63	235.09	21.96	7009.36	322.99	39.15	10244.99	288.88	39.15	
1996-97	4338.92	315.26	34.10	8728.72	402.22	27.55	13067.64	368.47	27.55	
1997-98	4817.30	350.02	11.03	10278.51	473.63	15.52	15095.81	142.66	15.52	
1998-99	5252.48	381.63	9.03	12058.27	555.64	14.67	17310.75	488.11	14.67	
1999-00	6708.62	487.44	27.72	13701.29	631.36	17.90	20409.91	575.50	17.90	
2000-01	8449.04	613.89	25.94	15912.00	733.22	19.36	24361.04	686.91	19.36	
2001-02	9200.42	668.48	8.89	18735.45	863.33	14.67	27935.87	787.71	14.67	
2002-03	10056.62	730.69	9.31	23590.60	1087.05	20.44	33647.22	948.76	20.44	
2003-04	13813.58	1003.67	37.36	28827.58	1328.37	26.73	42641.16	1202.36	26.73	
2004-05	18655.00	1355.44	35.05	37488.38	1727.46	31.66	56143.38	1583.09	31.66	
2005-06	22309.50	1620.96	19.59	37657.68	1735.27	6.81	59967.18	1690.91	6.81	

Source: Department of Commerce, Ministry of Commerce and Industry, Government of India, New Delhi

Note: Fixed base index computed taking 1992-93 as a base year

$$\text{Fixed Base Index} = (\text{Current Year Export} / \text{Fixed Base Export}) \times 100$$

Exports from SEZ have been growing steadily over the past one decade or so. The value of exports from SEZ units in India was estimated at Rs.1,376 crores in 1992-93, Rs.8,449 crores in 2000-01, Rs.13,814 crores in 2003-04, Rs.22,310 crores in 2005-06 and Rs.67,300 crores in 2007-08, showing thereby about six folds rise in value of exports between 1992-93 and 2000-01, 10 folds between 1992-93 and 2003-04, 16 folds between 1992-93 and 2005-06 and as much as nearly 50 folds rise in the same between 1992-93 and 2007-08. The exports from EOUs in value terms also increased by 17 folds between 1992-93 and 2005-06. As for growth in value of exports from SEZ over previous year, a considerable fluctuation was noticed between 1992-93 and 2007-08. Basically, the major increase in value of exports from SEZ was noticed ever since SEZ Act came into being in 2005. This is evident from the fact that value of exports from SEZs increased by 56 per cent between 2005-06 and 2006-07 and by 93 per cent between 2006-07 and 2007-08. Although exports from SEZs have been growing over time, still it is not more than 5 per cent of the total exports of India in value terms (Kumar, 2006). However, it is hoped that adequate infrastructure development and investments would give a real boost to India's exports from SEZs in the coming years.

Land Acquisition

A considerable debate is going on in favour of as well as against promotion of SEZs in India. Acquisition of agricultural land and misuse of land for real estate development are some of the concerns raised by various development experts. It is being perceived that large-scale

acquisition of prime agricultural land by developers will not only lead to widespread displacement of farmers with no alternate means of livelihood for them but it might also create problems relating to food security for the country. Since minimum requirement of land for processing activities is 35 per cent, the remaining 65 per cent will be utilized for other purposes like development of residential complexes, recreational facilities, etc. (Aggarwal, 2006). Loss of fertile agricultural land, revenue loss to the exchequer, adverse consequences of uneven growth, relocation of industries to take advantages of tax concessions are some of the other apprehensions against the SEZs. However, statistics reveal that out of the total land area of 29,73,190 sq. km in India, total agricultural land is of the order of 16,20,388 sq. km (54.5 per cent). Since land in possession of the 270 SEZs notified accounts to approximately over 314 sq. km and that the formal approvals granted works out to only around 676 sq. km, the total land area under SEZs would be 990 sq. km. This would translate into only 0.033 per cent of the total land and 0.061 per cent of the total agricultural land of the country. This means that land allocation for the promotion of SEZs in the country is miniscule. Some of the SEZs in India are so small that they have areas of less than 1 sq. km. and they do not lead to any economies of scale, though economies of scale are not being considered as the major aspect for the development of SEZs. As for acquisition, the Government of Maharashtra claims that arable and fertile land will not be acquired for the development of SEZs and that the land acquisition will be at the market rates (Anonymous, 2007). Priority would be given to acquisition of waste and barren land and, if necessary, only single crop agricultural land would be acquired.

SEZ Bottlenecks and Threats

The treatment of small processing areas as SEZs having area less than 1 sq. km may not be a relevant policy proposition when viewed in terms of economies of scale.⁶ Due to several relaxations, a large number of SEZs are also believed to take advantages under the new law. The Ministry of Finance itself claims that the Government may lose indirect and direct tax revenue to the tune of Rs.939 billion over the next four years on account of new EOUs converted into SEZs. It is being perceived that some of the companies may relocate to SEZs in view of taking tax concessions with little economic activity. Similarly, many existing manufacturing units in India are also expected to shift their base to the SEZs to reap the benefits of incentives and other concessions. Further, since more than 60 per cent of SEZ approvals have been extended to IT sector, the manufacturing sector would be left with only one-third of the total approvals. This might result in declining competitiveness of the manufacturing sector. Although large number of jobs may be created, insecurity may loom large on the workers. However, it is to be noted that the current policy extends tax exemption to Software Technology Parks (STPs) only if they export 30-50 per cent of the production and that they are net foreign exchange earners.

Some of the critiques have pointed out that SEZs may encourage “enclave economies” or areas having few links with rest of the economy. Further, it is also believed that entry of some

foreign units into the SEZs of developing countries may chiefly be on account of gaining quotas under various regimes such as Multi Fiber Agreements. Since the SEZs would mainly come up in Maharashtra, Gujarat, Uttar Pradesh, Tamil Nadu, Orissa, Karnataka and Haryana, there is a distinct possibility of regional imbalances in terms of development. This stems from the fact that no SEZ would come up in the north-eastern regions, which are already deprived of development with significant discrimination and alienation. Ironically, while on one hand several concessions are being extended to SEZs, a number of projects meant for public still remain incomplete due to paucity of funds.

There is a possibility of threat to the water and food security in areas where SEZs are proposed to be developed and this may have adverse implications for agricultural sector of the country. It is believed that there would be diversion of water for use within the SEZs. This would result in lack of access to water for the people living in the SEZ area. The release of untreated effluents from the SEZ may have adverse implication on the health of people residing in the area. This has already been noticed in the case of Ankleshwar in Gujarat and Patancheru in Andhra Pradesh. Not only this, the groundwater recharge system may also be destructed when land is converted to SEZ. In India, the owner of the land has the right to extract groundwater. The excess pumping of water for the use of SEZ might, therefore, adversely affect groundwater situation in surrounding areas. It might even deplete water table. The estimates of the Ministry of Commerce reveal that about 41,700 hectares of land would be acquired for the promotion of SEZ (GOI, 2007). The water requirement for such SEZs would be substantial and may create problem relating to access to water in the adjoining areas, which, in turn, consequently influence irrigation facilities, crop production and development of agriculture as a whole.

Evidences show large scale destruction of Mangrove in Gujarat where 3000 hectares of Mangrove area is brought under Mundra SEZ in Kutch. Destruction of Mangrove is also noticed in other location in Gujarat mainly owing to expansion of industries along the coast of Kutch, Saurashtra and South Gujarat. The Mundra SEZ might adversely affect fisheries sector of the state. Further, conversion of Mangrove and fertile land into SEZ might also have adverse impact on farmers who are in dairy business and who use these areas for rearing their cattle. Since still India does not have any land use policy, there is hardly any coordination between agriculture and water resource development, forest and wildlife conservation, etc. The SEZ Act allows acquisition of single cropped fertile agricultural land, which may pose threat to the food security of the country. India is already having near stagnant food production due to declining area under crops with deceleration in yield levels. The promotion of SEZs would obviously have adverse implications for the agricultural sector of the country. Ironically, how far subsidies extended to SEZ industries can be justified when even IMF and ADB have raised questions relating to subsidies to industrial sector. In fact, subsidies may rather create disincentives for the units located outside SEZs and, perhaps landless people would be the worst sufferers of such an

initiative. Although several views are raised in favour of and against development of SEZs in India, there is hardly any study highlighting the impact of SEZs on regional economy, the extent of loss of fertile land, tax implication of SEZs and influence of such policy on farming community in general.

Conclusions

Although the SEZ policy announced by the Government of India in April 2000 aims at promoting exports of goods and services, investments from domestic and foreign sources, creation of employment opportunities, infrastructure facilities with emphasis on generating additional economic activity, a long-term strategy is yet to be evolved to counter the socio-economic consequences of the scheme. The policy assumes that a significant rise in private investment in SEZs and consequent increase in exports would result in higher employment opportunities. The estimates reveal that about 22-25 lakh jobs would be created in new generation SEZs with an investment of Rs.1,00,000 crores. However, this works out to less than 0.5 per cent of the total workforce in India, which is estimated at 45 crores. This means that the SEZs may not have major impact on employment pattern in India. On the export front, the SEZs have to do a lot of catching up to make their significant presence as so far exports from these zones have not exceeded 5 per cent of the total exports of India.

Since the SEZs in India have been extended wide range of incentives, facilities and tax concessions, it is perceived that some of the companies and many existing manufacturing units in India may shift their base to the SEZs to reap the benefits. There are also apprehensions that promotion of SEZs may lead to loss of fertile agricultural land, revenue loss to the exchequer and adverse consequence of uneven growth. However, statistics reveal that only 0.033 per cent of the total land and 0.061 per cent of the total agricultural land would be acquired by the approved SEZs. Although area covered under SEZs is not very significant, the development of these zones still pose threat to the water and food security. The diversion of water for use within SEZs would result in lack of access to water for people living in the SEZ areas. Similarly, release of untreated effluents from SEZs may adversely affect health of people residing in the area. The excessive use of water within SEZ may also create problem relating to access to water in the adjoining area and consequently affect irrigation facilities, crop production and development of agriculture. Large scale destruction of Mangrove in Gujarat has already affected fisheries and dairy sector of the state. Since SEZ Act allows acquisition of single cropped fertile agricultural land, the consequence obviously would be on the food security of the country, which is already having near stagnant food production due to declining area under crops with deceleration in yield levels. The subsidies extended to SEZ industries have already been criticized by the IMF and ADB. The lack of infrastructure and other bottlenecks are the main reasons for the promotion of SEZ policy. The SEZs, therefore, need to be promoted but not at the expense of farming community and development of agricultural sector in the country.

End Notes

1. Special Economic Zone (SEZ) is defined as "a specifically delineated duty free enclave and shall be deemed to be foreign territory for the purposes of trade operations and duties and tariffs". SEZs are an acknowledgement of the potential of export-led development strategy in accelerating economic growth.
2. The main thrust of SEZ Act are on: (a) generation of additional economic activity, (b) promotion of exports of goods and services, (c) promotion of investment from domestic and foreign services, (d) creation of employment opportunities, and (e) development of infrastructure facilities.
3. The SEZ Rules provide for: (i) simplified procedures for development, operation and maintenance of the SEZ and for setting up units and conducting business in SEZs, (ii) single window clearance for setting up of SEZ, (iii) single window clearance for setting up of an unit in a SEZ, (iv) single window clearance on matters relating to Central as well as State Governments, and (v) simplified compliance procedures and documentation with an emphasis on self certification.
4. As on December 18, 2008, there were 552 formal approvals of SEZs in the country. Out of this, 274 SEZs were notified. The number of valid In-Principle approvals was 141.
5. The 7 Government SEZs (EPZs converted as SEZs) encompass Kandla SEZ, SEEPZ SEZ, Noida SEZ, MEPZ SEZ, Cochin SEZ, Falta SEZ and Vishakapatnam SEZ, whereas the 12 State/Private SEZs notified prior to SEZ Act 2005 include Surat SEZ, Manikchand SEZ, West Bengal, Jaipur SEZ, Indore SEZ, Jodhpur SEZ, Salt Lake Electronic City – WIPRO, West Bengal, Mahindra City SEZ (IT), Tamil Nadu, Mahindra City SEZ (Auto ancillary), Tamil Nadu, Mahindra City SEZ (Textiles), Tamil Nadu, Nokia, Tamil Nadu, Moradabad SEZ, and Surat Apparel Park.
6. The new law allows the SEZs to have area of the order of 1000 hectares for multi-product zones, 100 hectares for product specific zones and only 10 hectares for IT, gems and jewellery and biotechnology zones.

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