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Export Performance and Efficiency of Special Economic Zone in Haryana

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Abstract

The first SEZ in India was established in 1965. Later SEZ Act 2005 was formed to clarify the concept of SEZs. The SEZs were projected to boost the export performance and generating extra economic activity. As expected, the policy initiative not received satisfactory response, however the establishment of hundred of SEZs across the country. Therefore it becomes very important to evaluate the economic performance of these zones. Hence the paper aims to study the export performance of SEZs, namely DLF Ltd, DLF Cyber City and Gurgaon Infospace Ltd which are functioning at present. The paper makes an assessment on economic aspects of SEZs.

Keywords: SEZ, NSEZ

Export performance of Special Economic Zones- A Case Study of Haryana

The establishment of SEZs is seen as important strategic tools to expedite the growth of trade in a region. Trade expansion is only measure in the form of increased export as per unit set up in on SEZs have to be produced goods and services mostly for export. Hence the increased level of export has been critical to success of SEZs and is directly related to productivity gains. An annual trend analysis of the cumulative export contribution of all the SEZs in India reveals that they have had a catalytic effect in promoting goods and services in international market. The basic objective of SEZ policy in India is to promote export. The direct SEZs Bill, 2004 also considers “Promotion of foreign trade in goods and services” as the most important objective of SEZs. Ever since their introduction, SEZs have attracted a lot of attention from varied quarters, especially with respect to their performance. However, it is identified that little research has been conducted on SEZ performance in India during the period 2000-2010. For better participation in SEZ establishment, SEZ Act in 2005, SEZ Rules in 2006. It is therefore considered appropriate to evaluate the performance of Indian SEZs. The objective is to understand the progress made by the zones and the extent of fulfillment of their objectives. The variables of performance chosen for evaluation are exports values. The present paper has to attempt some of related issue to SEZs.

Objectives

On these aspects, the performance evaluation is carried out under the following heads:

1. To evaluate export performance of SEZs during 2007-2013
2. To calculate efficiency of SEZs

Methodology: The study covering the period from 2008-13 include worth export of India's SEZs and Haryana SEZs. The study also provides inter unit difference of SEZs unit s namely DLF Ltd, DLF Cyber City and Gurgaon Infospace Ltd. I have evaluated simply average growth rate, compound growth rate, and percentage share and percentage increment in exports value of

different means. The efficiency of zones refers to the capability of a zone to produce the maximum possible output utilizing input material. We have employed a Cobb-Douglas production function in the present analysis. As given in the literature it scores on simplicity while facilitating a better understanding with least technicalities. The estimable form of the model is as follows.

$$\ln(X_{it}) = a + b_1 \ln L_{it} + b_2 \ln R_{it} + b_3 \ln CG_{it} + v_{it} + \mu_{it} \dots$$

In order to identify the determinants of inefficiency I have adopted the procedure given by Coelli (1995).

In the model, X_i represents the Rupee value (at Constant Prices) of exports of zone i in the year t ; RM_i represents the value of Raw Material Imports (the Rupee value at Constant Prices) of zone i in the year t ; L_i stands for the total Labour employed in the zone i in the year t ; CG_i denotes Capital Goods Imports of zone i in the year t ; V_{it} are random variables, assumed to be independently and identically distributed (IID) with $N(0, \sigma_u)$.

Special Economic Zones are playing a vital role in increment of India's export. It is evident from table 4.1 that value of India's export and SEZ export is continuously rising. Figure of SEZs export during last five year and current financial year.

Table 4.1

Figure of SEZs and India's export during last five year (As on July 2013)

Financial year	India's total export	Total SEZs export (value in Rs crore)	Percentage growth of sez export	Percentage share of sez in India's export	Percentage growth of India's export
2008-2009	8,49,755	99,689	50percent	11.16percent	28.2
2009-2010	8,45,534	2,20,711	121percent	26.10percent	0.56
2010-2011	11,42,922	3,15,868	43percent	27.64percent	35.17
2011-2012	14,54,066	3,64,478	23percent	24.86percent	27.71
2012-2013	16,35,261	4,76,159	30.64percent	29.12percent	12.46
Average	1185508	295,381	53.52percent	24percent	20.82percent

Source: Ministry of Commerce and Industry, Government of India,

Table 4.1 illustrates that the value of India's export increased from Rs 849755 crore to Rs 1635261 crore during the period 2008-2013. During the same period, SEZs export increased from Rs 99689 crore to Rs 476159 crore. The SEZs export increased at a rapid speed in comparison of India's export. During the financial year (2008-09) export of Rs 99686 crore has been made from SEZs, registering the growth 50percent over the export of the year 2007-08. Export during second quarter of the financial year 2009-10 have been made to Rs 220711 crore a growth rate about 121percent over the corresponding period of previous year. Export during the financial year 2010-11 export to the tune of Rs 315868 crore have been made from SEZs, having growth rate about 43.11percent over the export of the year 2009-10. During the financial year 2011-12 to 2012-13 export to the tune of Rs 364478 crore, Rs 476159 crore respectively. From 2008-09 to 2012-13 India's export increased as an average of 20.82 percent per annum; while SEZs export increased as an average of 53.12 percent per annum. The growth rate of SEZs export over previous year (2001-2008) is also observed to be higher than country export rate. We can calculate share of SEZs export in country total export. Share of SEZs export in country export is an index of their role in export promotion. Further we analysed export performance of Haryana SEZs. First of all we formulate a table of figure of SEZs export during last five year.

Table 4.2

Total export from Haryana during last five year (As on Dec. 2013)

Sr No	Financial year	Total export from Haryana SEZs in Rs Crore
1	2008-2009	2475.58
2	2009-2010	1018.78
3	2010-2011	2807.01
4	2011-2012	1038.96
5	2012-2013	2160.93

Source: Ministry of Commerce and Industry, Government of India.

The value of Haryana SEZs export shows increasing as well as decreasing trends. There is no clear pattern of growth in export growth rate. Now; we take an analysis on Haryana SEZs and their contribution in export promotion. During the financial year 2008-09 export of Rs

2475.80 crore has been made from SEZs. Export during second quarter of the financial year 2009-10 have been to Rs 1018.78 crore with negative growth 58.86 percent over the export of the year 2008-09. Export during financial year 2010-11 Rs 2807.01 crore have been made from SEZs with having increasing growth rate 175 percent over the financial year 2009-10 and 13.41 percent over 2008-09 financial years. Haryana SEZs are registering negative growth rate 63.02 percent again with having value of Rs 1038.96 crore in financial year 2011-12. Further, 2012-13, export of Rs 2160.93 crore has been made from Haryana SEZs with increasing growth rate 51.94 percent over the financial year 2011-12. Haryana SEZs having maximum export value in 2010-11 while minimum export value in financial year 2009-10.

The comparison reveals that there is an increasing trend of export performance among India's SEZs. Table-4.1 shows that export from India's SEZs increased from Rs 99,689 crore to 476159 crore during period 2008-09 to 2012-13. The compound growth rate of export in these SEZs is 24 percent per annum during this period. But in Haryana, there is a wide variation in export performance. It is obvious that export of Haryana SEZs have been decreasing. It means over all contribution of Haryana SEZs has not been significant. There is only one plausible explanation for this can be that the numbers of operational SEZs are less and it also may be the result of de-notification of SEZs in Haryana. As the result, in order to find out the proportionate contribution of individual SEZs unit we analysed the export performance of selected SEZ. Table-4.3 presents annual analysis of selected SEZs export. Table-4.3 contains export report of three SEZs namely DLF Cyber City, DLF Ltd, Gurgaon Infospace Ltd.

Table-4.3

Export report of three selected SEZs during 2008-13 (As on September 2013)

Sr No	Financial year	DLF Cyber City Gurgaon (Export in Crore)	DLF Ltd Gurgaon (Export in Crore)	Gurgaon Infospace Ltd (Export in Crore)
1	2008-09	166.67	Nil	111.88
2	2009-10	587.88	88	342.9
3	2010-11	1509.94	342.69	154.38
4	2011-12	360	243.96	435.87
5	2012-13	757	387.23	983.64

Source: Official website of Ministry of Commerce and Industry, Government of India.

DLF Cyber City: During the financial year 2008-09 export of Rs 166.04 crore have been made from DLF Cyber City. Export during the second quarter of financial year 2009-10 has been increased from Rs 166.04 crore to Rs 587.88 crore. During the financial year 2010-11 DLF Cyber City contribute maximum export value having Rs 1509.94 crore and registering minimum export value in next financial year 2011-12. Further export of Rs 757 crore has been made in 2012-13. Table 4.3 gives the export figure of last five financial years. It reveals that export value of DLF Cyber City is decline in financial year 2009-10 and 2011-12. It has been increased from Rs 166.04 crore in 2008-09 to Rs 757 crore in 2012-13 which is 386.14 percent more than financial year 2008-09.

DLF Ltd: The total export value of DLF Ltd has been to the tune of Rs 88 crore in financial year 2009-10. It has been increased from Rs 88 crore to Rs 342.69 crore in next financial year 2010-11 registering increment 289.42 percent over the corresponding period of previous year. Export during the fourth quarter of financial year has been decreased to Rs 243.96 crore. Total export value of DLF Ltd is increased Rs 243.96 crore to Rs 387.23 crore in financial year 2012-13. The export figure of last five financial year reveal that export value of DLF Ltd has been increased from Rs 88 crore in 2009-10 to Rs 387.23 crore in 2012-13 which is 339.77 percent more than 2009-10. Table 4.3 highlights export trend of DLF Cyber City and DLF Ltd which shows that both of SEZs having increasing trend in same financial year 2010-11 and 2012-13.

Gurgaon Infospace Ltd: During the financial year 2008-09 export of Rs 111.88 crore have been made from Gurgaon Infospace Ltd. Export during second quarter of the financial year have been increased to Rs 342.9 crore which is near about three times more than export value of previous year. During the third quarter of financial year 2010-11 Gurgaon Infospace Ltd having minimum export value of Rs 154.38 crore. It has been increased to Rs 435.87 crore in next financial year. An empirical study conducted on selected SEZs in Gurgaon concluded that export of these units is increased with very marginal rise. The individual performance report of these selected SEZs is not as good as required. But there share in total export from SEZs in Haryana during last financial year is maximum. Table 4.4 gives the figure of export share of selected SEZs in total export from Haryana SEZs.

Table 4.4

Share of selected SEZs export in total Haryana SEZs export (As on Dec 2013)

Sr No	Financial year	Total export from selected SEZs in Rs Crore	Total export from Haryana SEZs in Rs Crore	percent Share of selected SEZs export in Haryana SEZs export

1	2008-2009	277.92	2475.58	11.22
2	2009-2010	1018.10	1018.78	100
3	2010-2011	2004.01	2807.01	71.39
4	2011-2012	1039.83	1038.96	100
5	2012-2013	2127.87	2160.93	98.47

Source: Official website of Ministry of Commerce and Industry, Government of India.

During the Financial year 2008-09 the share of selected SEZs export in total SEZs export of Haryana is 11.22 percent. It increased to 100 percent in financial year 2009-10 and 2011-12. These SEZs contribute 98.47 percent in last financial year 2012-13. It means rest of all SEZs are contributing approximately zero. So, let us examine some of critical factors which are responsible for poor performance of SEZs.

Sector specific SEZs like IT/ITES are not viable business: The sector-wise distribution of SEZs reflects that more than 50 percent of SEZs are IT/ITES category. Many other proposals received by State Government for setting up SEZs in IT/ITES related business. But IT sector specific SEZs are not viable business option because these SEZs may be easily affected by global economic factor as could be seen during the latter half of 2008. As the result, considerable number of approved SEZs in IT/ITES category may not start their business due to global economic uncertainty. This sector remains pay for common opinion that IT sector have gloomy future outlook. That is why IT/ITES SEZs may not be viable business option in long run.

Size of SEZs: One of the important factors of the SEZs is their size. The inadequate size might affect long-term performance and success of SEZs. In a small zone, the scope for expansion will be very less. The infrastructure and services cannot be provided nor can multi-economic activity performed. Smaller size of SEZ will create difficulties in providing internal connectivity which might lead to inefficiency. Now we take example of successive role model zone of Shenzhen (China) covers 32000 hectares. Hence it proved that only large size zone can generate economic activity on large scale..

Corruption: It is important to note that corruption is most pertinent to the slowed operationalization of SEZs rather than to their ultimate de-notification. Otherwise how they slowed or stopped SEZs from becoming operational are important to be considered.

Less number of operational SEZs: Table-5.4 shows the list of Formal approved, in principle approved, Notified and Operational SEZs in Haryana. (As on June 2013)

Table-5.4

List of Formal approved, in principle approved, Notified and Operational SEZs in Haryana (As on June 2013)

Sr No	Financial year	Formally approved SEZs	In Principle Approval	Notified SEZs	Operational SEZs
1	2008-09	46	17	26	8
2	2009-10	45	17	34	3
3	2010-11	46	3	35	5
4	2011-12	46	3	35	3
5	2012-13	45	3	34	5

Source: Ministry of Commerce and Industry, Government of India.

Investors have shown much interest in establishment of SEZs in developed a state like Haryana. As the result 82 SEZs were granted in Haryana and 35 have been notified (As on Dec 2013). But only 5 SEZs out of 82 are operational currently. It means there is only increasing number of SEZs. It is evident from table-5.4 that only 8 SEZs out of 89 were operational in 2008-09 and 3 SEZs were operational in 2009-10 and 2011-12 which is very less. That is why export performance of Haryana SEZs is poor. Export performance of selected SEZs is also poor due to decreasing number of exporting units of respective SEZs.

Efficiency of Haryana Notified SEZ and Selected SEZs:

The arguments are against of SEZs regime that they had not only failed in term of meeting their objectives but also generated non-performing assets which are responsible to create inefficiency in the process. The question is going to take more attention on the policy itself. Efficiency parameter is widely applied in evaluating the performance of different sectors of the economy. Now, we have sector specific studies that analyse efficiency and its variations during five years. The study is attempted to evaluate efficiency of Haryana SEZs and across selected SEZs. It is important to analyse the level of efficiency of these enclaves in Haryana and the related change over the years. It is impossible that a zone may be quite ahead on the export front in comparison

to other zones, but may be lacking in efficiency. In opposite sides, a zone may account for a low level of export in comparison to other zone, but makes optimum utilization of inputs. First of all we have computed efficiency scores of Haryana Notified SEZs and selected SEZs during last five years. Table-5.10 explores the efficiency of Haryana notified SEZs.

Table-5.10

Efficiency of Haryana Notified SEZs (As on April 2013)

Financial Year	Efficiency of Haryana Notified SEZs (in Crore)
2008-09	0.79
2009-10	0.50
2010-11	0.11
2011-12	Nil
2012-13	Nil
Average	0.28

Source: Calculation based on Data Obtained from Noida SEZ

Table-5.11

Efficiency across Three Selected SEZ in Gurgaon (As on April 2013)

Sr No	Financial year	DLF Cyber City Gurgaon	DLF Ltd Gurgaon	Gurgaon Infospace Ltd
1	2008-09	0.31	0	0.72
2	2009-10	1.53	0.24	1.24
3	2010-11	0.15	0.07	0.02
4	2011-12	0.03	0.03	0.03
5	2012-13	0.05	0.05	Nil
6	Average	0.41	0.07	0.41

Source: Calculations based on Data Obtained from Noida Special Economic Zones

We have computed efficiency of Haryana notified SEZs for each year. We have observed that the efficiency of Haryana notified SEZs over the reference period ranges from 0.79 to zero percent and average efficiency of all notified SEZs for over five years is found to be 0.28 percent. In some other context, argue that an industry can be considered efficient if its efficiency score is not less than 75 percent. If we analysed the efficiency of SEZs with in this parameter one can observe that these SEZs are highly inefficient at aggregate level as well as individual level. The scenario changes significantly a downward trend in reference period which indicate gloomy picture of SEZs scheme. In fact, all the policy incentive in favour of SEZs turned out to be inefficient segment of economic system. Thus it emphasizes the need for future discipline the SEZs structure specifically through a better understanding of difficulties involved in SEZs rather than just extending fiscal liberal code.

Conclusion: It has been resulted that exports are continuously rising in India from Rs 99,689 crore in 2008-09 to Rs 2,95,381 crore during 2012-13. The SEZs export increased at a rapid speed in comparison of India's export with registering the 24 percent average growth rate during five years. The value of Haryana SEZs export shows increasing as well as decreasing trends. The value of Haryana export decreased from Rs 2475.58 crore in 2008-09 to Rs 2160.93 crore in 2012-13. It means over all contribution of Haryana SEZs has not been significant. The study also analyse the contribution of DLF Ltd, DLF Cyber City and Gurgaon Infospace Ltd SEZs in total export of Haryana SEZs and found that export of these units are increased with very marginal rise. However there share in total export from Haryana SEZs during last five years is maximum. It means rests of all SEZs are contributing approximately.

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