Potential of SEZs in the Export Promotion of Indian Gems and Jewellery Sector

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Abstract- *The Special Economic Zones (SEZs) are considered as growth drivers of our fast growing economy. The basic Objective of SEZs is to generate additional economic activities, promote investment from domestic and foreign sources and improve the competitiveness of exports of our goods and services. The present article aims at evaluating the impact of SEZs on Indian exports during 2000-01 to 2010-11. The study reveals that the overall exports performance of SEZs is satisfactory. However, SEZs wise, State wise and Sector wise achievement is not uniform. Indian SEZs today plagued with number of problems. The policy makers and government therefore should make sincere efforts to solve their problems.*

Keywords:- SEZs, EPZs, Exim Policy, Export Performance.

I. INTRODUCTION

Special Economic Zone (SEZ) is a specifically delineated duty-free enclave and shall be deemed to be foreign territory for the purposes of trade operations and duties and tariffs. In order words, SEZ is a geographical region that has economic laws different from a country's typical economic laws. Usually the goal is to increase foreign investments. SEZs have been established in several countries, including China, India, Jordan, Poland, Kazakhstan,

Philippines and Russia. North Korea has also attempted this to a degree. A SEZ is a demarcated area of land that provides impetus to manufacturing and services, with the primary objective of boosting exports. SEZs typically feature liberal tax laws and economic policies. Units situated in SEZs are deemed to be outside the customs territory of India. Therefore, goods and services coming into SEZs from the domestic tariff area (DTA) are treated as exports from India, while goods and services rendered from the SEZ to the DTA are treated as imports into India.

SEZs have generated interest in developing countries with regards to boosting international trade and encouraging economic activity in the country's domestic market. China experimented with SEZs in 1979-80 with the objective of opening its hitherto closed economy and thereby promote trade and investment. Following China's lead, the countries of the Soviet bloc experimented with the SEZ model, mainly with an aim to boost FDI and solve their unemployment problem. However, China's experiment with SEZ turned out to be the most successful. Successful SEZs create new jobs for citizens, provide laboratories for governments to run controlled trade policy experiments, attract FDI, strengthen industries, and help countries avoid potentially defective domestic laws and institutions that act as a barrier to growth. Around the world, units set up in SEZs, enjoy key fiscal incentives / tax concessions. Some of the major ones are:

- Production inputs, raw materials and intermediate goods may be imported duty-free
- Corporate income tax benefits
- Foreign funded enterprises / joint ventures may be taxed at lower enterprise tax rates as compared to the national rate
- Tax holidays may be available depending upon the degree of export activity
- Exemption from import duty on imported items used for investment in the unit, and inputs for exported items
- Cheap land made available to SEZ projects

II. OBJECTIVE AND DATA SOURCES

The main objective of the present study is to evaluate export performance of Special Economic Zones (SEZs) in India, during 2000-01 to 2010-11. The study is based on the secondary data collected from various publications of Reserve Bank of India, Reports of Ministry of Trade and Commerce, Various Reference Books, Journals and Concerned websites. The collected data have been analyzed by using appropriate tools such as ratios, percentages and annual compound growth rates

SEZs in INDIA

Up until 2000, India did not have SEZs and instead had a number of export processing zones (EPZs), which, although similar in structure to the modern SEZ, failed to attract many firms to India. The government accordingly introduced the SEZ in April 2000. Structured closely on the already successful model of China, they are designed to help stimulate both foreign and domestic investment, boost India's exports, and create new employment opportunities.

India's SEZ Act 2005 further amended the country's foreign investment policy and converted its EPZs to SEZs, with notable zones including Nodia, Chennai, Cochin, and Falta. Since the act's promulgation, the Indian government has also been accepting proposals for additional, far smaller SEZs, which must be proposed by developers to the Indian Board of Approval. As of August this year, almost 200 SEZs are in operation and a massive 565 have already been formally approved for operation.

Asia's first Export Promotion Zone (EPZ) was set up in Kandla in 1965. Seven more zones were set up thereafter. However, according to the Department of Commerce, Government of India (GoI), these zones were unable to do much for export promotion on account of the multiplicity of controls and clearances, the absence of world-class infrastructure and an unstable fiscal regime. While correcting the shortcomings of the EPZ model, some new features were incorporated in the SEZ Policy announced in April 2000. This was followed by the SEZ Act 2005, supported by SEZ Rules, which came into effect on 10 February 2006, providing for drastic simplification of procedures and for single window clearance on matters relating to Central as well as State Governments. The SEZ Rules provide for different minimum land requirements for different classes of SEZs.

Manufacturing sector's growth spurt

Tax benefits offered by SEZ are:

- Duty free import/domestic procurement of goods for development, operation and maintenance of SEZ units.
- 100 per cent income tax exemption on export income for SEZ units for first five years, 50 per cent for next five years thereafter and 50 per cent of the ploughed back export profit for next five years.
- Exemption from Minimum Alternate Tax (MAT).
- External Commercial Borrowing (ECB) by SEZ units up to USD500 million per year without any maturity restriction through recognised banking channels.
- Exemption from Central Sales Tax.
- Exemption from Service Tax.
- Single window clearance for Central and State level approvals.
- Exemption from State sales tax and other levies as extended by the respective state governments.

Effective solution for infrastructure bottlenecks in India

Better infrastructure is one of the most important benefits offered by SEZs to manufacturing units. Infrastructure facilities in SEZs can be commonly used by members, thereby reducing the requirement of setting up individual facilities.

Infrastructure related to SEZs is of two types:

1. Facilitating internal functioning of SEZs (power generation plants and distribution network, internal water supply, sanitation and sewerage, and internal roads) with direct implications on productivity; and
2. Linking SEZs with non-SEZs through a supply chain (railway tracks, roads and bridges, airport facilities, telephone lines and telecom network). SEZs, apart from offering better connectivity in the form of multi-lane roads that comply with global safety and quality standards, provide the following infrastructure facilities.

   - Customised support infrastructure
   - Adequate warehousing and cold storage facilities
   - Inland container depots
   - Captive airstrip/helipad
   - Dedicated jetty for cargo movements
   - Captive power plants of SEZs to support state electricity
   - Safety and security measures

SEZs can be particularly helpful for small and mid-sized entities that cannot afford to set up captive infrastructure facilities; for example, large Indian companies, along with small and mid-sized firms, aim to set up units in SEZs with state-of-the-art infrastructure facilities and share the costs. Better infrastructure facilities in SEZs have enabled hassle-free manufacturing, as evident from an increase in exports.

Geographical distribution – South India leads the way

South India is ahead of other regions in taking advantage of the tax-free special economic zones scheme as 91 of 143 operational SEZs2 are located in the four southern states. According to the Department of Commerce, Andhra Pradesh leads with a maximum number of 36 operational SEZs followed by Tamil Nadu (28), Karnataka (20) and Kerala (7), according to latest government data.

The sector-wise data shows that out of 143 operational SEZs as of September2011, a significant majority relate to IT/ITeS and electronic hardware. One of the reasons for the rush of these sectors in SEZs was stated to be the sunset clause on earlier schemes like Software Technology Parks of India (STPI).

State	Formal Approvals	In-principle approvals	Notified SEZ	Exporting SEZs (Central Govt. + State Govt./Pvt. SEZs + notified SEZs under the Act, 2005)
Andhra Pradesh	109	6	76	37
Chandigarh	2	0	2	2
Chhattisgarh	2	1	1	0
Delhi	3	0	0	0
Dadra & Nagar Haveli	2	0	1	0
Goa	7	0	3	0
Gujarat	47	6	30	16
Haryana	46	3	35	3
Jharkhand	1	0	1	0
Karnataka	61	1	38	20
Kerala	28	0	20	6
Madhya Pradesh	14	2	5	1
Maharashtra	103	14	63	18
Nagaland	2	0	1	0
Orissa	10	0	5	1
Pondicherry	1	1	0	0
Punjab	8	0	2	1
Rajasthan	10	1	9	4
Tamil Nadu	69	6	55	31
Uttar Pradesh	34	1	21	8
Uttarakhand	2	0	1	0
West Bengal	22	3	11	6
GRAND TOTAL	583	45	380	154

Export peformance of sezs

Exports from the operational SEZs during the last nine years are as under:

Years	Exports		Growth over previous year
	Value in Rs. Crores	Billion USD	
2005-2006	22,840	5.08	-
2006-2007	34,615	7.69	52%
2007-2008	66,638	14.81	93%
2008-2009	99,689	22.15	50%
2009-2010	2,20,711	49.05	121%
2010-2011	3,15,868	70.19	43.11%
2011-2012	3,64,478	81.00	15.39%
2012-2013	4,76,159	88.18	31%
2013-2014	4,94,077	82.35	4%

Overview of GEMS and jewellery industry in india

The gems and jewellery sector has been one of the fastest-growing sectors in India in the past few years. The sector has gained global popularity because of its talented craftsmen, its superior practices in cutting and polishing fine diamonds and precious stones, and its cost-efficiencies. The sector has been vital to the Indian economy as well; during 2008-09, the sector accounted for around 13% of the country's total exports.

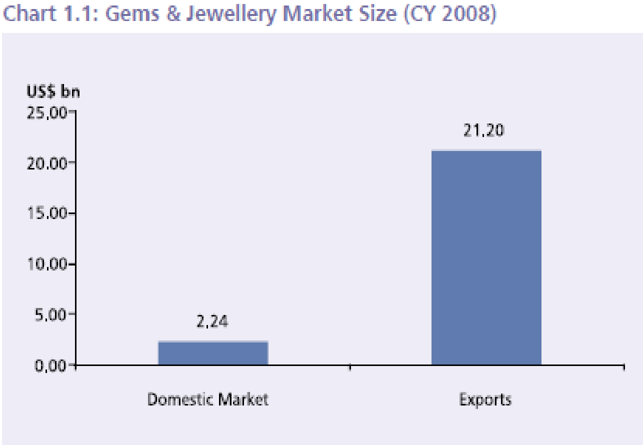
The gems and jewellery sector in India is engaged in sourcing, manufacturing, and processing, which involves cutting, polishing and selling precious gemstones and metals such as diamonds, other precious stones, gold, silver and platinum.

Gold jewellery is the most preferred form of jewellery in demand in India as it is considered auspicious to purchase gold on major occasions like festivals, marriage, birth etc. Also, gold occupies the second position among all investment instruments and is considered as the safest investment option. According to the data released by the World Gold Council (WGC), India is the largest consumer of gold. In 2008, India consumed approximately 660 tonnes of gold and accounted for 22.71% of the total gold consumed all over the world, most of which was used in jewellery. Even though the gold demand remained weak, India continued to maintain its second position in the third quarter-ended 2009 as well and accounted for 20.87% of the total gold consumed all over the world.

India is also one of the largest diamond processor in the world and its artisans have specialised skills in processing small diamonds (below one carat); in fact, the Indian craftsmen have achieved excellence in cutting and polishing small diamonds. However, the real uniqueness of the Indian craftsmen lies in the fact that they do most of the cutting and polishing manually which sets India apart from its other peers. India (especially, Surat and Mumbai) ranks among the ‘big four’ diamond cutting centres of the world — the other three being, Belgium (Antwerp), the US (New York) and Israel (Ramat Gan). Currently, diamonds processed in India account for 85% in volume, 92% in pieces and 60% in value of the total world diamond market.

The gems and jewellery sector in India is highly export-oriented, labour-intensive and a major contributor to the foreign exchange earnings; therefore, the Indian government has declared the sector as a thrust area for export promotion.

Chart 1.1: Gems & Jewellery Market Size (CY 2008)



Source: Assocham

The Gems and jewelry sector in India plays a significant role in the Indian economy, contributing around 6-7 per cent of the country’s GDP. One of the fastest growing sectors, it is extremely export oriented and labour intensive. The government of India has declared the sector as a focus area for export promotion based on its potential for growth and value addition. The government has recently undertaken various measures to promote investments and to upgrade technology and skills to promote brand India in the international market.

The domestic gems and jewellery industry had a market size of Rs 251,000 crore (US$ 40.45 billion) in 2013, and has the potential to grow to Rs 500,000–530,000 crore (US$ 80.59-85.43 billion) by 2018, according to a study by a leading industry body. The study also projected that the country's gems and jewellery market could double in the next five years. The growth will be driven by a healthy business environment and the government's investor friendly policies. India is deemed to be the hub of the global jewellery market because of its low costs and availability of high-skilled labour. India is the world’s largest cutting and polishing centre for diamonds, with the cutting and polishing industry being well supported by government policies. Moreover, India exports 95 per cent of the world’s diamonds, as per statistics from the Gems and Jewellery Export promotion Council (GJEPC). The industry is projected to generate up to US$ 35 billion of revenue from exports by 2015.

India's gems and jewellery sector has been contributing in a big way to the country's foreign exchange earnings (FEEs). The Government of India has viewed the sector as a thrust area for export promotion. In FY14, India's gems and jewellery sector contributed US$ 34,746.90 million to the country's FEEs.

Market size

According to a report by Research and Markets, the Jewelry Market in India is expected to grow at a CAGR of 15.95 per cent over the period 2014-2019.

The gold jewelry exports from India were US$ 554.45 million in December 2014, while silver jewellery exports were US$ 148.49 million, according to the latest data released by the Gems and Jewelry Export Promotion Council (GJEPC).

The cumulative foreign direct investment (FDI) inflows in diamond and gold ornaments in the period April 2000-December 2014 were US$ 476 million, according to Department of Industrial Policy and Promotion (DIPP).

FY14 saw an increase of 12.65 per cent in export of cut and polished diamonds with the segment reaching US$

19,635 million. The industry also witnessed a rise of 11.98 per cent in imports of rough diamonds with figures of US$ 16,716 million. India imported 163.11 million carats of rough diamonds worth US$ 16.34 billion and exported 36.46 million carats of polished diamonds valued at US$ 20.23 billion in 2013. The country exported gems and jewellery worth US$ 36.04 billion in 2013.

Also, platinum jewellery could breach the Rs 2,500 crore (US$ 402.95 million) mark in FY15, according to research by IKON Marketing Consultants.

Road Ahead

In the coming years, growth in the industry would be highly contributed with the development of the large retailers/brands. Established brands are guiding the organised market and are opening opportunities to grow. Increasing penetration of organised players provides variety in terms of products and designs. These players are also offering financing schemes to consumers to further boost sales. Also, the relaxation of restrictions of gold import is likely to provide a fillip to the industry. The improvement in availability along with the reintroduction of low cost gold metal loans and likely stabilisation of gold prices at lower levels is expected to drive volume growth for jewellers over short to medium term. The demand for jewellery is expected to be significantly supported by the recent positive developments in the industry.

Potential of sez in development of the industry

Sezs exporting gems and jewellry(sector wise distribution of SEZ)

Sector-wise Distribution of approved SEZs				**(As on 09.07.2015)**
Sectors	**Formal approvals**	**In-principle approvals**	**Notified SEZs**	**Exporting SEZs (Central Govt. + State Govt./Pvt. SEZs + notified SEZs under the SEZ Act, 2005)**
Agro	5	2	5	1
Airport based multiproduct	3	0	0	0
Auto and related	1	1	1	1
Aviation/Aerospace/ Animation & Gaming/ Copper	6	1	5	5
Beach & mineral/ metals	3	0	3	0
Biotechnology	23	0	16	2
Building prod./mal./ transport equipments / ceramic and glass	2	2	2	2
Electronic product/Industries	2	0	2	2
Engineering	15	1	15	13
Footwear/Leather	5	0	4	3
Food Processing	4	0	3	3
FTWZ	10	4	7	3
Gems and Jewellery	8	3	5	3
Handicrafts & Carpets	3	0	2	2
IT/ITES/Electronic Hardware/Semiconductor/Services	256	1	202	114
Metal/Stain. Steel/Alum/Foundry	3	0	3	0
Light Engineering/Metallurgical Engineering /Automotive Components	1	0	0	0
Multi-Product	20	11	16	20
Multi-Services	6	1	6	2
Non-Conventional Energy	2	0	2	2
Petrochemicals & petro./oil and gas	2	1	0	0
Pharmaceuticals/chemicals	17	2	17	12
Port-based multi-product	5	1	3	2
Power/alternate energy/ solar	4	1	3	3
Textiles/Apparel/Wool	6	1	6	7
Writing and printing paper mills	2	0	1	0
Granite processing Industries and other allied machinery/ manufacturing	2	0	1	0
GRAND TOTAL	**416**	**33**	**330**	**202**

STATISTICAL INFORMATION OF KASEZ

INVESTMENT, EMPLOYMENT & EXPORTS IN KANDLA SPECIAL ECONOMIC ZONE AS ON 30/09/2014	
INVESTMENT	
GOVT INVESTMENT OF KASEZ	INR 182.87 CRORES
PRIVATE INVESTMENT/UNIT	INR 451.64 CRORES
FOREIGN DIRECT INVESTMENT	INR 68.34 CRORES
TOTAL	INR 703.25 CRORES
EMPLOYMENT	
NO. OF UNITS	EMPLOYMENT
185	25759
EXPORTS	
PHYSICAL EXPORTS (2011-12)	INR 2212.20 CRORES
PHYSICAL EXPORTS (2012-13)	INR 2965.72 CRORES
PHYSICAL EXPORTS (2013-14)	INR 3636.07 CRORES
PHYSICAL EXPORTS (1-04-2014 to 30-09-2014)	INR 1868.81 CRORES
DTA SALES (1-04-2014 to 30-09-2014)	INR 722.15 CRORES

1) Falta speciAL ECONOMIC ZONE

l.No.	Sector	2005-06	2006-07	2007-08	2008-09
(1)	(2)	(3)	(4)	(5)	(6)
1	Textile/Garment	3145.90	3966.17	2796.10	5063.83
2	Computer Software	--	--	--	
3	Electronic	--	1.32	16.92	91.57
4	Engineering Goods	373.30	474.35	717.53	968.03
5	Pharmaceuticals/chemicals	77.40	214.06	221.97	54.44
6	Leather/Sports Goods	566.40	76.95	0.03	0.02
7	Gem & Jewellery	Nil	889.42	1716.59	262.35
8	Plastic/Rubber/Synthetic	331.80	419.71	858.94	888.93
9	Food & Agro Products(Packet Tea)	473.10	1107.27	1003.30	1316.56
10	Miscellaneous	281.60	2837.76	2931.66	966.92
	TOTAL	**5249.50**	**9987.01**	**10263.04**	**9612.65**
	Million in US$ Ex-rate	117.70 (44.60) (average)	226.72(44.05) (average)	258.51(39.70) (average)	194.59 (49.40) (average)

2) FDI in this segment FALTA

INVESTMENT ON DEVELOPMENT OF INFRASTRUCTURE:

During the last three years

(Rs. Crores)

Year	Investment
2006-07	1.60
2007-08	4.29
2008-09	4.85

INVESTMENT BY UNITS :

(Rs. Crores)

Year	Indian Investment	NRI Investment	Foreign Investment	Total Investment
2008-09	190.45	--	--	190.45
Cumulative	558.24	8.89	8.41	575.54

III. CONCLUSION

The study of the Export Performance of SEZs in India reveals that the SEZs are playing an important role in promoting export of our country. There is a rapid increase in SEZs export as compared to India's total exports. When the whole world including India was reeling under the effects of the global recession, growth in SEZs exports was 121.40 percent in 2009-10 compared to a small 0.57 percent growth in total exports from India. Despite this, the existing SEZs have not proved to be cost-effective due to many obstacles. The government, therefore, should create a more conducive atmosphere and provide sufficient administrative support to the SEZs. This will make the country's export more competitive and globally noticeable.

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