

Cochin Special Economic Zone: An Analysis of Export Performance

Babita

Research Scholar,
Haryana School of Business
Guru Jambheshwar University
of Science and Technology
Hisar, Haryana

Abstract

The special economic zones (SEZs) are considered the key drive in the welfare of any economy. The basic objective of SEZs policy in India is to generate additional economic activity, promote investment from domestic and foreign investors, promotion of exports and employment generation. In this direction, the present paper is an attempt to evaluate the export performance of Cochin special economic zone and impact of SEZ act 2005 on its export performance. Trend value of export performance is calculated by using the least square method of time series model. While doing so evolution of special economic zone in India, their policy incentives available to SEZs are also discussed. An effort is also made for assessing the relationship of export performance with the other economic variables like investment mobilisation and employment generation. The findings indicate that significant relationship exists between the export and other two variables.

Keywords: Special economic zone, Policy, Cochin SEZ, Export performance, SEZ Act, Variable

Introduction

After independence, government of India for promoting their exports and investment introduced the concept of EPZs. A geographical region encompassing more liberal economic laws than a country's typical economic laws can be referred to as an Export processing zone (EPZ) (Shah 2012). When discussing EPZs, a variety of terminologies, such as industrial free zones, free trade zones, special economic zones and maquiladoras are used interchangeably through most of the literature (Madani 1999). Johansson (1994) supports such a clustering, arguing that the general concept of all these terminologies is basically the same whereas the World Bank (1992) has defined " an export processing zone is an industrial estate, usually a fenced-in area of 10 to 300 hectares, that specializes in manufacturing for export. It offers firms free trade conditions and a liberal regulatory environment (Madani 1999). The first Indian EPZ was set up in Kandla as early as in 1965. It was followed by the Santacruz EPZ which came into operation in 1973. Subsequently, the government set up five more zones during the late 1980s. These were at Noida (Uttar Pradesh), Falta (West Bengal), Cochin (Kerala), Madras (Tamil Nadu) and Visakhapatnam (Andhra Pradesh). Afterwards Gujarat state government also made effort in this direction by setting up Surat EPZ in 1994. Despite of rapid popularisation of EPZ concept, they are not able to contribute to

expected results and not fulfilling the objective for which they are created. Various Problems like infrastructural deficiencies, procedural complexities, bureaucratic hassles and barriers raised by monetary, trade, fiscal, taxation; tariff and labour policies make them fruitless. Attractive Fiscal and non fiscal benefits like 100% exemption from income tax, central excise duty, reimbursement of central tax paid on domestic purchases, carry forward of losses, no fixed wastage norms, full freedom of sub contracting, Repatriation of profits, simplified custom procedure were not available to units operating under EPZs structure. In line with the changing economic environment over the world and to unplug the loopholes under EPZs structure, the government of India in 2000 during announcing EXIM Policy, rejuvenate its EPZs structure into SEZs and government allowed conversion of all EPZs in to SEZs. This conversion has take place in two phases. During the first phase in 2000, EPZs of Kandla, Santacruz, Cochin and Surat were brought under the SEZs framework whereas EPZs of Noida, Falta, Chennai and Vizag were converted in 2003. The basic differences between EPZs and SEZs can be expressed in terms of differences in policy priorities of import substitution versus export promotion and fiscal and administrative code and legal framework (Tantri 2011).

Under new scheme of SEZs, diverse attractive fiscal and non fiscal incentives were allowed to operating units, rules and regulations were relaxed and procedures were simplified. In this respect new scheme has become motivating force to state government and private companies for setting up SEZs. In 2003-04, Jaipur, Jodhpur, Indore, Moradabad, Manikanchan SEZs were notified by their respective state government to reap out the benefits announced by the government under new SEZs policy. In 2004, three private SEZs of Mahindra industrial park ltd were notified by the Tamil Nadu government. The legal framework for the SEZs structure was instituted in 2005 to encourage industrial growth and it was expected that “the Act will provide confidence and stability to domestic and foreign investors, and signal the government's commitment to the SEZ policy framework” (Economic Survey, 2005-06). (Aradhna, 2004; Ananthanarayan, 2008; Dave, 2012; Shah, 2012; Tantri, 2011; Khurud 2013).

Now turning to Cochin SEZs, central government of India in 1985-86 notified a area of 103 acre for setting up a multi product zone in the state of Kerala. CSEZ is located in Kakkannad in the city of Kochi (formerly known as Cochin Ernakulum District) - The industrial and commercial capital of Kerala. CSEZ enjoys various locational advantages as city has a major railway terminus having broad gauge tracks directly connecting it to all the major cities of the country. Direct air routes to major cities in India provide Kochi easy accessibility to any part of the world (Manoharan 1996). Cochin EPZ set up with an objective of promotion of export,

mobilisation of investment both domestic and foreign, generation of employment and just a name few. But the performance was not found up to the mark as expected by the government. Cochin EPZ upgraded in to SEZs structure on 1.11.2000 as a part of the government strategy to unplug the loopholes of EPZs structure. Now the Cochin SEZ makes a significant contribution in export of Kerala state.

Facilities available at Cochin SEZ

Cochin SEZ provided a number of concessions and incentives to the industrial units located within its jurisdiction. Government of Kerala offers various fiscal and non fiscal incentives like 100 % FDI inflow through automatic route, reimbursement of state sales tax paid on domestic purchases, exemption from custom & excise duty, exemption from income tax, daily examination of custom reports, and full freedom for subcontracting, external commercial borrowing without any mortgage requirement through recognised banking channels and many others. The Industrial Development Bank of India (IDBI), the Exim Bank of India (EBI), the Industrial Finance Corporation of India (IFCI), Industrial Credit and Investment Corporation of India (ICICI), the Kerala State Industrial Development Corporation (KSIDC), the Kerala Financial Corporation (KFC), the Kerala Industrial and Technical Consultancy Organisation (KITCO), the Export Credit and Guarantee Corporation (ECGC) and a number of commercial banks are extending a host of financial and technical services to the Cochin SEZ entrepreneurs (Manoharan 1996).

Objectives of the study:

1. To examine the trend in export value of CSEZ during the period under study.
2. To find out the relationship between export performance and other variables like investment mobilisation and employment generated in CSEZ.
3. To suggest the various possible measures for export promotion.

Methodology of the study:

Present study covered a period from 2000 to 2012 as CSEZ converted in to SEZ during November 2000. Present study is primarily based on secondary data collected from the official records of CSEZ, ministry of commerce and industry, SEZ website, articles and research papers published in reputed national & international journals, books, magazines and some other supported documents. A technique of least square is used for examining the trend in exports and correlation co-efficient is also used for study the relationship between export promotion and other variables like investment mobilisation and employment generated in CSEZ.

Analysis of Export performance

For analysis of the trend in export value relevant data is collected and presented in table below:-

Table1: Trends in the Exports of Cochin Special Economic Zone (Rs. In Crores)

Period	Y (Exports In Crores)	Growth %	X	XY	X ²	Y _C
2000-01	304.3	-	-5	-1521.5	25	-5848
2001-02	278.9	-8.3	-4	-1115.6	16	-3496
2002-03	311.9	11.8	-3	-935.8	9	-1144
2003-04	404.2	29.6	-2	-808.4	4	1207
2004-05	638.0	57.8	-1	-638	1	3559
2005-06	696.0	9.1	0	0	0	5911
2006-07	1037.5	49.0	1	1037.5	1	8263
2007-08	4651.3	348.3	2	9302.6	4	10614
2008-09	11549.0	148.3	3	34647	9	12966
2009-10	17093.6	48.0	4	68372.6	16	15318
2010-11	17982.9	5.2	5	89914.7	25	17670
2011-12	30098.3	67.4	6	180589.9	36	20022
Total	85045.6					
2015-16						29430

Source: Official records of Cochin SEZ

The figures of the table shows that exports in 2001-02 recorded at lowest level while in 2011-12 highest figures was obtained. In 2001-02 export of Cochin SEZ was Rs. 278.91 and subsequently increasing trend was noticed over the years. Major changes were reported in export performances after the enactment of SEZ act 2005. Growth rate of 348.31 percent have been recorded in the year 2007-08 over the 2006-07 while growth rate of 67.37 percent have been recorded in the year 2011-12 over the year 2011-12. When the projection was made for the year 2015-16, Cochin SEZ has a potential to do export of Rs. 29,430 crore.

Relationship between export, investment and employment generated in Cochin SEZ

According to Shah (2012) there is no direct correlation between the levels of investment and employment in SEZ across the states in the country (India). Literature review states that SEZs are promoted not only for one objective whether it is export promotion or investment generation or others but they are promoted for economic welfare of the country which depends on many economic variables. So, the researcher intended to study the relationship between these economic variables.

The calculated Correlation Co efficient between exports promotion, investment mobilisation and employment generation is presented in the table 2.

Table 2: Relationship between export, investment and employment generation

Particular	Export	Investment	Employment
Pearson correlation	1	.787	.794
Sig. (2-tailed)		.002	.002

Source: Computed from secondary data available from official records of Cochin SEZ

The analysis of the table shows that the P value is less than 0.01 level of significance. So, it can be concluded that there is significant relationship exists between the investments made and employment opportunities created with the exports promotion in Cochin SEZ.

Conclusion:

Promotion of exports is the main objective of SEZs in India. Government of India offers various fiscal and non fiscal incentives like 100 % FDI inflow through automatic route, reimbursement of central sales tax paid on domestic purchases, exemption from central excise duty, exemption from income tax, daily examination of custom reports, and full freedom for subcontracting, external commercial borrowing without any mortgage requirement through recognised banking channels and many others with a objective of promotion of export. Export performance of Cochin SEZ during the period of study showing the increasing trend this can be seen by examine the export figure of year 2000-01 to 2011-12. The projections made in export for the year 2015-16 using the method of least square, it may increase to Rs. 29,430 Crores. Result shows that positive relationship exists between export, investment, and employment generation. Therefore, government of India should make effort to promote export which will leads to fulfilment of the other objectives of SEZs act. Future study could investigate other characteristics that are not included in this study such as trend in employment generation, role in foreign direct investment, human capital development, regional developments, and infrastructure development and many more.

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