

# Trade Performance of SEZ in Southern India – A Comparative Study of Karnataka and Kerala Special Economic Zones

M.V. Shruthi<sup>1</sup> and K.S. Sarala<sup>2</sup>

<sup>1</sup>*Department of PG Studies and Research in Commerce, Jnanasahyadri, Kuvempu University, Shimogga, Karnataka, India.*

<sup>2</sup>*Department of Commerce & Management, Sahyadri Arts and Commerce College, Shimoga-577 203, Karnataka, India.*

*Corresponding author: shruthimallipatna@gmail.com*

## ABSTRACT

Since the SEZ policy was announced in 2000, there has been a continuous effort made for the improvement in the export performance. The Special Economic Zone scheme was also upgraded through a revision in the Export-Import Policy of 1997-2002 and the Special Economic Zones Act was passed in 2005. However, it was the enactment of the SEZ Act that provided a major push to the SEZs' export performance and the SEZ policy for the increased exports. Export growth is necessary to offset the deterioration in the balance of payments. Through the establishment of Special Economic Zones export is increasing considerably. Therefore, there is a need to understand the contribution of Southern SEZs towards India's Trade. In this background, the present paper analyses the Trade performance of Special Economic Zones of Southern India, focusing on Karnataka and Kerala SEZs. With the help of the collected sources of data it examines the export – import trade of Karnataka and Kerala SEZs and their contribution to Indian exports.

**Keywords:** Exports, Imports, Karnataka, Kerala, Special Economic Zones

Most developing countries like India across the world have recognized the importance of facilitating international trade for the sustained growth of the economy and increased contribution to the GDP of the nation. As a part of its continuing commitment to liberalization and to trigger larger flow of foreign and domestic investment for the generation of additional economic activity and creation of employment opportunities, government of India started promoting SEZs. India was one of the first in Asia to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting exports.

## **Special Economic Zones in India**

Asia's first EPZ set up in Kandla in 1965. EPZ's could not prove their efficiency in Indian economy and so could not attract larger foreign investments. Therefore, due to the shortcomings experienced on account of the multiplicity of controls and clearances; absence of world-class infrastructure, and an unstable fiscal regime, the Special Economic Zones (SEZs) Policy was announced in April 2000. The Special Economic Zones Act was passed by Parliament in May, 2005 and is supported by SEZ Rules, 2006. At present, there are seven SEZs operating in India. (Kandla, Santacruz, Madras, Cochin, Falta, Vizag and Noida)

### **Significance of the Study**

The present study covers only Cochin SEZ which includes the combined figures of both Karnataka SEZ and Kerala SEZ. At the national level, any published figures under Cochin SEZ include the combined figures of both Karnataka SEZ and Kerala SEZ and any reference made to Cochin SEZ in previous analyses carried out implies that it is inclusive of Karnataka SEZ. As a consequence, the contribution or rather the performance of Karnataka SEZ might be subdued. On the contrary, the contribution of Kerala SEZ might be higher than Karnataka SEZ and any outcome from analysis in showing Cochin SEZ in a better position as compared to other SEZs in India would imply that the contribution of Karnataka SEZ is also higher which in relative terms might be lesser than Kerala SEZ. Thus, it was felt essential to understand the contribution of each of two SEZ zones across exports and imports. In essence, an attempt is made sector variations in performance across two selected SEZs in addressing the following questions as whether there exist any variations in terms of performance and if so, which is the better performing zone and so on.

### **Objectives of the Study**

The present study analyses the Trade performance of Special Economic Zones of Southern India with special reference to the Karnataka and Kerala SEZs. The specific objectives are:

- To examine the growth of exports-imports trade of Karnataka and Kerala and
- To analyse the contribution of Karnataka and Kerala SEZs to Indian exports.

### **Scope of the Study**

The paper examines the growth of exports in SEZs of India and undertakes Karnataka SEZ and Kerala SEZ as study area to assess the trends in Export and Import. Cochin SEZ (CSEZ) is the governing body for the SEZs situated in the

states of Karnataka and Kerala. The study intends to analyse in specific the trade performance of these two states to know their contribution to CSEZ in southern India. It covers the trade of all 26 SEZs of Karnataka and 14 SEZs of Kerala. To make a comparative analysis, the study covers only post SEZ Act period because not much emphasis was given to SEZs of Karnataka before the enactment of SEZ Act and Karnataka state was included in CSEZ only after the enactment of SEZ Act 2005.

## Sources of Data Collection and Methodology

The source of data on Kerala and Karnataka SEZ is from Development Commissioner of Cochin Zone. The time series data is taken from 1996-97 to 2010-11 for both Kerala and Karnataka Zone separately. As far as methodology, two type of approach is considered. First, analyse the performance of two SEZs by analysing the trend in exports and imports value, growth rate of exports over the study period and share in total trade of each of the SEZ.

## Trends in SEZs Trade of Karnataka and Kerala

In the present paper, an attempt is made to analyse import intensity of two SEZs exports. This is dealt with by comparing annual percentage changes of exports and imports methodology espoused by Sathe (1997) Table -1 presents time series data on changes in SEZs export and Imports (expressed ₹ in crores at Constant prices) for the period<sup>1</sup> 2007-08 to 2012-13 (the reference period of the study). Although, it would be stated that reference period is very less for examining a structural break in the trend or time series, yet we could draw some inferences based on five year time period. Observing the trend (see fig -1) indicate that the exports of Kerala SEZ is higher than Karnataka SEZ in the first three year reference period (i.e., from 2007-08 to 2009-10).

As far as Karnataka SEZ, a linear trend is observed in the exports during the reference period. On the other, although a similar linear trend is observed even in case of Kerala SEZ, a kind of structural break is seen from 2010-11 to 2012-13 where it increased from ₹ 12514.38 crores in 2010-11 to ₹ 19808.66 crores in 2011-12 and then drastically declined to ₹ 1260.63 during 2012-13. Yet, in terms trade performance, Kerala SEZ seem to have an edge over Karnataka SEZ in value of exports. Perhaps, the addition or deletion of number of exporting units in SEZ also play a critical role in total exports or import values. As the data on the number

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1 Data on exports and imports prior to 2007-08 was not available from the source ([www.csez.com](http://www.csez.com)) for Karnataka, where as the data is available for Kerala. In order to have consistency and also for better comparison, the reference period was taken from 2007-08 to 2012-13 for which data was available for both SEZs.

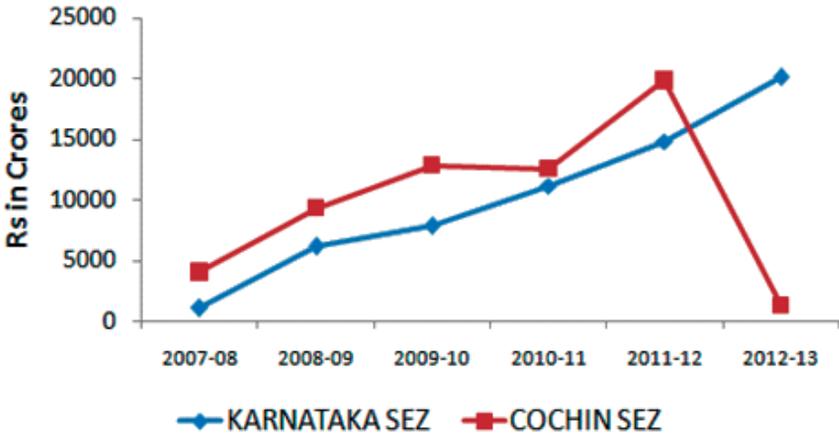
of units for both Karnataka and Kerala was unavailable, further refined analysis could not be attempted.

**Table 1: Trends in Exports and Imports of Karnataka and Kerala SEZs (2007-08 to 2012-13)**

Karnataka SEZ						
Year	Exports		Imports		N F E	
	Value*	Actual % change	Value*	Actual % change	Value*	Actual % change
2007-08	1011.08	-	1459.03	-	- 447.9	-
2008-09	6121.43	505.4	2155.08	47.7	3966.3	-
2009-10	7819.26	27.7	2672.32	24.0	5146.9	29.77
2010-11	11082.48	41.7	1791.87	-32.9	9290.6	80.51
2011-12	14747.64	33.1	2056.54	14.8	12691.1	36.60
2012-13	20095.85	36.3	2359.68	14.7	17736.2	39.75
CAGR (in %)	64.58		8.34			
Kerala SEZ						
Year	Exports		Imports		N F E	
	Value*	Actual % change	Value*	Actual % change	Value*	Actual % change
2007-08	4014.42	-	21.17	-	3993.3	-
2008-09	9291.12	131.4	27.68	30.7	9263.4	131.98
2009-10	12822.02	38.0	41.40	49.6	12780.6	37.97
2010-11	12514.38	-2.4	258.16	523.5	12256.2	-4.10
2011-12	19808.66	58.3	56.17	-78.2	19752.5	61.16
2012-13	1260.63	-93.6	20.76	- 63.0	1239.9	-93.72
CAGR (in %)	- 29.39		- 0.33			

\* Values are ₹ in Crore and at constant prices 2004-05

Source: Author's calculation of data obtained from www.csez.com



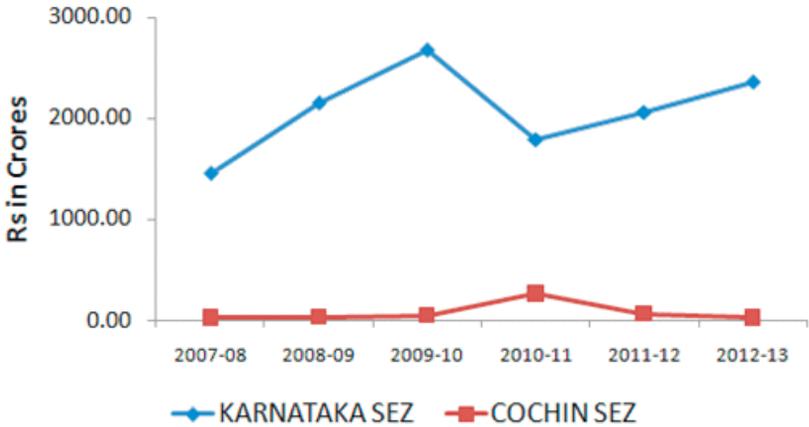
**Fig. 1. Exports (at constant prices) of Cochin and Karnataka SEZs - 2007-08 to 2012-13**

Examining the trend in terms of Year-on-Year (Y-o-Y) growth rate of exports, firstly with regard to Karnataka SEZ, it is observed that there has been a steady increase from about 27.7% during 2009-10 to 47.7% in 2010-11. However, a considerable decline is seen in the next fiscal year (i.e., 2011-12) to 33.1% and then increased to 36.3% in the year 2012-13 indicating a possible cyclical trend. This leads us to support the argument of Wong and Chu that “EPZs/SEZs are vulnerable to changing conditions in the world economy, such as recessions and inflation, which may bring about extensive closures and lay off” (Malini Laxminarayan, 2010). When looked at the Cumulative annual growth rate (CAGR) of exports for both Karnataka and Kerala SEZ, there seem to be not comparable. In a sense, the CAGR for Karnataka is 64.58% and for their counterpart Kerala SEZ, the CAGR is – 29.39% despite having a positive trend in exports under most of reference time period. The reason for a cumulative negative growth is due the exports for the year 2012-13 wherein there is decline of about 93.6% in 2011-12. Thus, one would be very prudent before coming to a conclusion that CAGR has been good for Karnataka as compared to Kerala. If assumed that export figures of Kerala SEZ for the financial year 2012-13 is factual, it would then result in a serious setback in terms of exports and its growth as far as Kerala SEZ is concerned.

On Import front, it is observed from Table-1 that there is a high value of imports for Karnataka and an undervalued<sup>2</sup> figure for Kerala SEZ. We have made an attempt

2 The foremost reason for an undervalued figure of imports for Kerala is because of incomplete data. Firstly, as it is known that Kerala SEZ comprises of 14 SEZs spread across its state. The Import figure available on the official website shows the figure of Cochin Special Economic Zone (CSEZ) as Zero for fiscal year 2007-08 to 2010-11.

to examine the trend in imports for Kerala SEZ with a caveat of having incomplete data. Firstly, with respect to Karnataka there is a non linear trend in imports with higher growth in a year followed lower growth (see fig -2). Accordingly, an increase in imports was observed in first three reference period (from 2007-08 to 2009-10). After a decline of 32.9% in the next fiscal year (2010-11) which perhaps is good for SEZ units, there seem to be an increase of about 15% in next two years.



On the contrary, the imports figures of Kerala SEZ show a better result from the perspective of an exporter with a linear increase from about 21 crore in 2007-08 to about 42 crore in the year 2009-10. After a massive growth (more than 200 %) in imports was observed during the year 2010-11, it gradually decreased in next couple of years to about 78% in 2011-12 and then to 68% during 2012 -13. The annual average growth of -0.33% for Kerala SEZ is much lesser as compared to Karnataka with a CAGR of 8.34 percent. In terms by the trade performance of SEZs measured in terms of its capacity to meet its own import requirement has turned out to be quite optimistic. Yet, in terms of growth rate, SEZs trade was guided at times of higher growth in export and at other times by higher growth of imports. Thus, it leaves us indeterminate about the status of import content of export and its variation over the years.

Besides explaining growth in absolute value terms, a look at the SEZ (Karnataka and Kerala) participation ratio in the trade basket helps us to understand the dynamics of contribution of each of the selected SEZs over the years. In the

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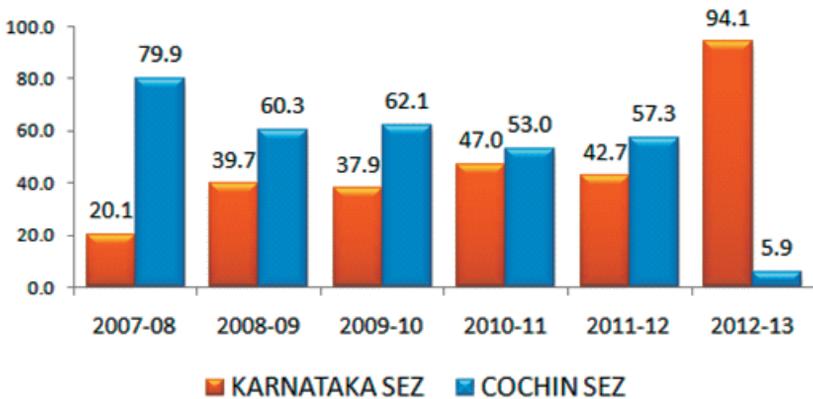
However, the import figure of CSEZ has been reflected only for the year 2011-12. CSEZ being the highest contribution among 14 SEZs in Kerala, the non availability the import figures would really very low at the aggregate level and moreover it would be a setback for any kind of time series analysis. Hence, there is a need for updating the database.

present context this is analysed by measuring the share of each of the SEZ to total exports. It can be seen from Table-2 that the share of Kerala SEZ is about 80% while the share of Karnataka is 20% during 2007-08. Although, the share of Karnataka improved to about 42% in next three years, the share of Kerala seem to be higher expect for the year 2012-13 wherein it lagged with only six Percent share in value of exports. The share of exports to Karnataka over the reference period has improved in percentage share of exports and coming closer to Kerala SEZ. This comparison is only to point out the scope for further improvement in the performance of such SEZ which is lagging behind in performance index.

**Table 2. Share (in %) of each of SEZs to total exports (in crores) by year wise**

Year	Total Exports* (in Crores)	Share (in %) of Karnataka SEZ	Share (in %) of Kerala SEZ
2007-08	5025.51	20.1	79.9
2008-09	15412.55	39.7	60.3
2009-10	20641.27	37.9	62.1
2010-11	23596.86	47.0	53.0
2011-12	34556.30	42.7	57.3
2012-13	21356.48	94.1	5.9

\* Inclusive of both Kerala & Karnataka SEZs at constant price -2004-05



**Fig. 3. Share (in %) of Cochin and Karnataka SEZ to total exports (2007-08 to 2012-13)**

## Major Findings of the Study

The analysis brings forth a few important findings:

- First, in terms of exports, Kerala SEZ seems to have an edge over Karnataka for the fact that it was established prior to Karnataka and also higher number of functioning units.
- Second, variations were found in performance across two SEZs. In fact, it is observed Kerala is slightly better although Karnataka is moving on a positive note and having consistency in terms of exports in the reference period (2007-08 to 2012-13). This indicates that regional disparity is not reflected much in two SEZs' of southern region performance.
- Third, despite their status as separate economic entities with privileged benefits these two enclaves were equally susceptible to the changing fortunes of the world economy. However, it is observed more with Kerala SEZ in one particular year.

## **Suggestion**

The above discussion underlines the need for caution in promoting SEZs and to diversify rather than concentrate on a few sectors.

- Though the notified SEZs are more in Karnataka there is a need to promote functioning units and diversify from IT/ITES sectors to other manufacturing sectors.
- The consistency in exports could be further achieved through attracting units by extending the sunset clauses of fiscal package to few more years in SEZs. Importance must be given for the development of SEZs in states which lagging behind compared to other states
- In order to increase trade the government has to notify more SEZs and provide proper infrastructure support for the development, operation, and maintenance of the Special Economic Zones and for setting up units.

## **Conclusion**

It can be concluded from the discussion with the assertion that there is a pressing need to draw lessons from Kerala SEZ time, and identify factors responsible for the success/failure of ventures and come up with policy prescriptions and guidelines for further improving the successful zones and also to boost the performance of zones that are lagging behind in Karnataka. However, we would also draw attention of concerned government officials in updating the data on exports and imports on regular intervals and to ensure that relevant information is provided in future for better and accurate results.

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