

A STUDY ON THE PERFORMANCE EVALUATION OF SPECIAL ECONOMIC ZONE UNITS ON THE BASIS OF CAPITAL INVESTMENTS IN KERALA

***Dr. Satheesh Babu A T**

Abstract

A Special Economic Zone is a trade capacity development tool with the goal to promote rapid economic growth by using tax and business incentives to attract foreign investment and technology. Special Economic Zone (SEZ) is a geographical region that has economic laws that are more liberal than a country's typical economic laws. SEZs attract investment and foreign exchange, spur employment and boost the development of improved technologies and infrastructure. In India, Special Economic Zones are being established in an attempt to deal with infrastructural deficiencies, procedural complexities, bureaucratic hassles and barriers raised by monetary, trade, fiscal, taxation, tariff and labour policies. Special Economic Zones/ Export Processing Zones are being established as industrial enclaves for expediting the process of industrialization.

Keywords:- Special Economic Zone, Formal Approval, In-Principle Approvals, Export Processing zones, Foreign Investments.

A Special Economic Zone (SEZ) is a specified delineated and duty free geographical region that has different economic laws from those of the country in which it is situated. In some countries, such a region is even treated as a deemed foreign territory. A SEZ is a trade capacity development tool, with the goal to

promote rapid economic growth by using tax and business incentives to attract foreign investment and technology. By offering privileged terms, SEZs attract investment and foreign exchange, spur employment and boost the development of improved technologies and infrastructure. The word "Special" in SEZ mainly means special economic

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systems and policies. Special Economic Zone means an area that has been specified as an enclave that is duty free and is treated as a foreign territory for various purposes such as tariffs, trade operations, and duties. India is one of the first countries in Asia to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting exports.

Asia's first EPZ was set up in Kandla in 1965. The concept of EPZ was later complemented by schemes like Export Oriented Units (EOU) which was introduced by the Ministry of Commerce in 1980 vide resolution dated 31st December 1980.

Statement of the Problem

Different states have different SEZ stories to tell, while some State has done exceedingly well, but others are not up to expectation. Govt. of Kerala SEZ Policy (2008) have been planned to suit the interests of the Indian state in particular. Kerala is located in the South Western section of the country, with the strategic district of Cochin very near the international maritime highway. From the Government of Kerala SEZ Policy it is denoted that the state can use this zone for the production of goods and services for export-oriented activities. The Government of Kerala SEZ Policy is so framed to speed up the Kerala economy along with its infrastructure to make the production of the state more export oriented for the world market. The state is offering various kinds of incentives, concessions and exemptions to the business units operating in the special economic zones. No serious research was conducted on the performance evaluation of special economic zone units in the state

of Kerala. It has been made an attempt to study on the performance evaluation of special economic zone units in the state of Kerala in terms of Capital Investments.

Review of Literature

NSSO, (2003), in a report on 'Some Aspects of Operational Land Holdings in India, stated that in India's largely agriculture based economy, questions of access to and control over land remain critical to, rural poverty and well-being. Recent estimates show that the nation's land-holding pattern continues to be sharply skewed with 95.65 per cent of the farmers, within the small and the marginal categories owning approximately 62 per cent of the operated land areas; while medium and large farmers, who constitute a mere 3.5 per cent of the total farmers, own 37.72 per cent of the total area. Banerjee - Guha, Swapna (2008), in an article on 'Space Relations of Capital and Significance of New Economic Enclaves: SEZs in India' pointed out that the pattern of concentration in urban areas is consistent with the hypothesis that SEZs are driven by motivations of acquiring real estate or, as some have noted, by a logic of "accumulation by dis-possession". These consequences reinforce the concerns that have already been expressed regarding other negative consequences of SEZs, primarily on land acquisition. They strengthen the suspicion that while the costs of SEZs are quite real, the benefits of SEZs are not substantial.

Scope of the Study

The present study is mainly concentrated on Special Economic Zone which is operated by the Central

Government in the state of Kerala to evaluate the performance Special Economic Zone. It considers the development of SEZs in the States. This study examines the major Capital Investments in Special Economic Zones in Kerala especially Trivandrum, Kochi/Ernakulam and Kozhikode. The present study is mainly concentrated in Kerala. The basic concept of Special Economic Zone (SEZ) were sown in the mid sixties. The basic model of the present day Indian Special Economic Zone was structured with the establishment of the first Export processing zone at Kandla in the year 1965. The present day Special Economic Zone policies of India are well complimented by the 'The Special Economic Zones Act, 2005' and SEZ Rules 2006. SEZ in Kerala facing a number of challenges than the other states. As this study concentrates on the problems and prospects of Special Economic Zone in KERALA.

Objectives of the Study

1. To examine the performance of Capital Investments in the Special Economic zone Units in the State of Kerala.

Hypotheses of the Study

1. H₀: There exists no significant correlation between the independent variable 'Capital Investment and the dependent variable 'Performance Evaluation of SEZ.

Population of the Study

Currently, there are about 204 Operational Special Economic Zones (as on March 2023) operating throughout

India. There are Sixteen (16) Operational Special Economic Zones (SEZs) and 300 Special Economic Zone Units have been operated in the State of Kerala and total of 21,778 employees are working in these Zones.

Samples of the Study

Area sampling method has been used for selecting the four areas from the State of Kerala namely Trivandrum from the south side of the State, from the middle side of the State Ernakulam / Kochi were selected and Kozhikode was selected from the north side of the State. Stratified Random Sampling method has been used for the selection of employees from these Special Economic Zone Units for the study (Table 1).

Capital Investments

The main objective of SEZ is to invite entrepreneurs to commence business units to attract Investments from abroad. In the globalised era Investments play a crucial role for determining the growth and development of the economy. There are several initiatives taken by the Government both central and state for benefiting those units which are engaged in Investment attracting activities and some of the measures include:

100 per cent FDI is permitted for all investments in SEZs, except for activities included in the negative list. 100 per cent FDI is permitted for SEZ franchisees in providing basic telephone services in SEZs. Facilities in the SEZ may retain 100 per cent foreign-exchange receipts in Exchange Earners Foreign Currency Accounts. SEZ units are required to be positive net foreign-exchange earners and

Table 1

Sample of the Special Economic Zones in the State of Kerala

Location/ Jurisdiction	Total Units	Sample Size For Units	Total Employees	Sample Size For Employees
Trivandrum	55	5 (10%)	6,085	60 (1%)
Kochi/ Ernakulam	216	21 (10%)	15,497	155 (1%)
Kozhikode	6	1 (10%)	75	1 (1%)
Total	277	27(10%)	21,657	216 (1%)

Source: Compiled by the author

are not subject to any minimum value addition norms or export obligations. FDI up to 100 per cent under the automatic route for all manufacturing activities, except arms and ammunition, explosives and allied items of defense equipment. 100 per cent FDI allowed for development of townships including housing, commercial and recreational facilities on a case-by-case basis. Facility to foreign companies to set up manufacturing units in SEZs as branch operations on a standalone basis without approval from the RBI, All proposals for FDI/NRI/OCB investments in EOU/EPZ units qualify for approval through automatic route subject to sectoral norms. Automatic Approval of Investment (FDI) is possible in various sectors Special Economic Zones. Government Approval of Investment (FDI) is possible in various sectors Special Economic Zones other than Automatic Route.

Capital Investment- SEZ Central and State wise

The trend of Investment of SEZ in India and Kerala for 10 years from 2013-2014 to 2022-2023 are shown in Table 2.

The trend line on the Investments of Special Economic Zones in India and

Kerala during the ten years from 2013-2014 to 2022-2023 is fitted and is depicted in figure 1.

The trend value is calculated for the comparison purpose. The first line shows the trend of investments of Indian Special Economic Zones and the second line shows the straight line trend fit to the data. The value of $Y=196.1x-435.6$ and R squared value is 0.561. R Squared (R^2) value shows the ratio of variance in the data (investments), as explained by the figure 5.7, to the total variance in the data. A high R squared value is more stable than low R squared value. It means that export of India during the last ten years is very stable and it shows an increasing trend.

The trend value is calculated for the comparison purpose. The first line shows the trend of investments of Indian Special Economic Zones and the second line shows the straight line trend fit to the data. The value of $Y=26943x$ and R squared value is 0.903. R Squared (R^2) value shows the ratio of variance in the data (investments), as explained by the figure 5.7, to the total variance in the data. A high R squared value is more stable than low R squared value. It means that investment of Kerala during the last ten

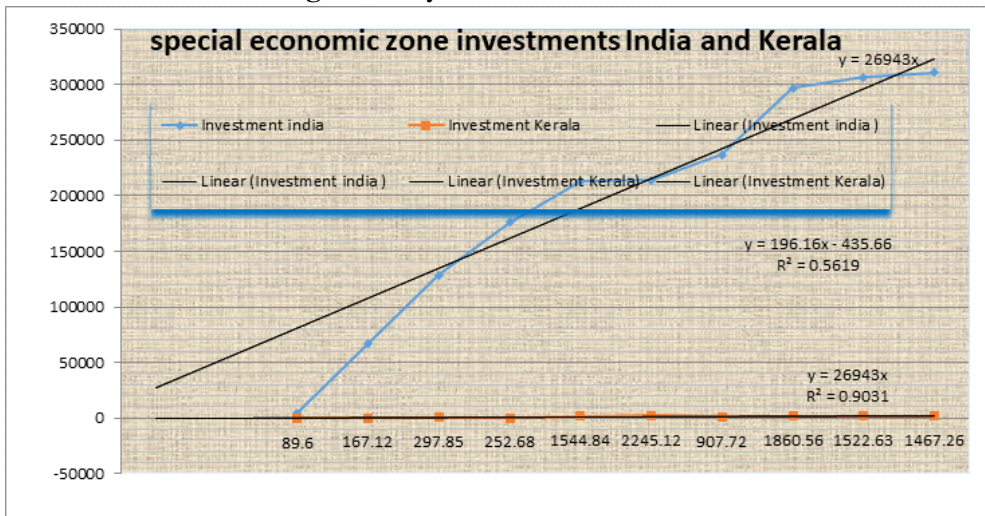
Table 2
Trend of Investments of SEZ in India and Kerala

Years	India		Kerala		Share Of Kerala Towards India (percentage)
	Investments Rs. in crores	Percentage change over years (+/-)	Investments Rs. in crores	Percentage change over years (+/-)	
2013-2014	4958.89	0	89.60	0	1.80
2014-2015	67347.00	1258.10	167.12	86.51	0.25
2015-2016	128385.05	2488.98	297.85	232.42	0.23
2016-2017	176148.00	3452.16	252.68	182.00	0.14
2017-2018	212914.36	4193.58	1544.84	1624.15	0.72
2018-2019	213605.54	4207.52	2245.12	2405.71	1.05
2019-2020	236716.65	4673.58	907.72	913.08	0.38
2020-2021	296663.00	5882.44	1860.56	1976.51	0.63
2021-2022	306642.03	6083.68	1522.63	1599.36	0.49
2022-2023	310468.06	6160.83	1467.26	1537.56	0.47

Source: Data compiled on the basis of annual reports/various issues of working papers of Development Commissioner of Cochin SEZ and Ministry of Commerce and Industry, Govt. of India.

Figure 1

The trend line of Special Economic zone Investments in India and Kerala during the ten years 2013-2014 to 2022-23



years is not stable and it shows a decreasing trend.

The Investments of Special Economic Zones in India for the last ten

years has been taken for the trend analysis. A straight line trend can be fitted to the Investments of Special Economic zones in India are based on the principle of least

squares. The trend line of Total Special Economic zone Investments in India for the last ten years (2013-2014 to 2022-2023) is fitted and is depicted in figure 2.

The trend value is calculated for the comparison purpose. The first line shows the trend of investments of Indian Special Economic Zones and the second line shows the straight line trend fit to the data. The value of $Y=26943x$ and R squared value is 0.903. R Squared value shows the ratio of variance in the data (investments), as explained by the figure 5.8, to the total variance in the data. A high R squared value is more stable than low R squared value. It means that investment of India during the last ten years is very stable and it shows an increasing trend.

Testing the Significance of Relationship

Testing the significance of relationship among the dependent variable i.e., Performance Evaluation of

SEZ units in Kerala and other independent variables Capital Investment

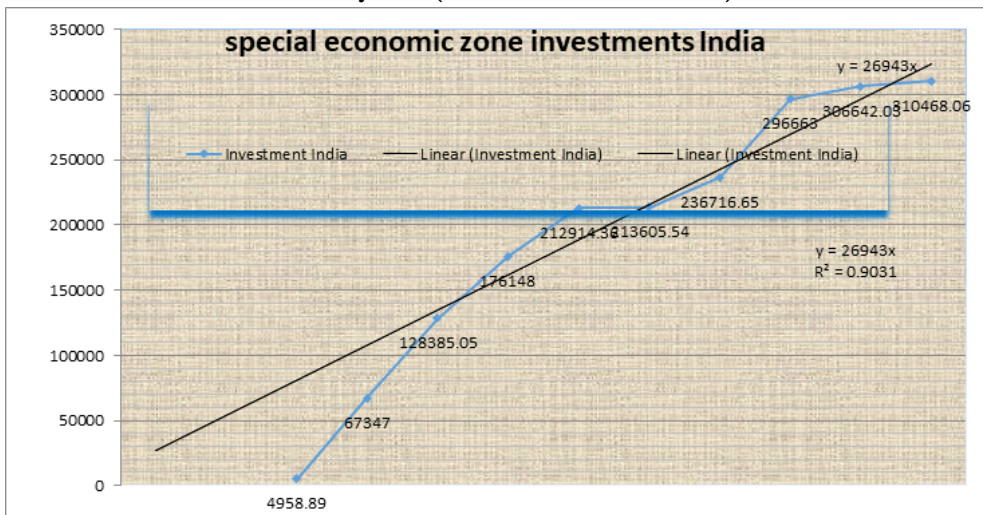
H0: There exists no significant correlation between the independent variable ‘Capital Investment and the dependent variable ‘Performance Evaluation of SEZ Units.

Procedure of Analysis

In order to test the association between dependent variable and its independent variables Karl Pearson’s coefficient of co-relation (r) is used and interpretation is made accordingly. As far as testing the significance of difference is concerned, two methods are administered, viz., (i) for testing the significance of difference between two variables independent t -test is used and (ii) for testing the significance of difference between more than two variables, Analysis of Variance (ANOVA) – One Way Classification is used. Here also the

Figure 2

The trend line of Total Special Economic zone Investments in India for the last ten years (2013-2014 to 2022-2023)



finding is validated and cross checked through Post-Hoc test using computer software package, i.e., Statistical Package for Social Sciences (SPSS).

Hypothesis Testing

Testing the Significance of Relationship

H0: There exists no significant correlation between the independent variable ‘Capital Investment and the dependent variable ‘Performance Evaluation of SEZ Units.

The relationship between the variable Capital Investment and Performance Evaluation of SEZ units has been subjected to statistical test through Karl Pearson’s co-efficient of co-relation as to identify whether there is any significant co-relation between these two variables and thereby the laid down hypothesis is true or not. The result is shown in Table 3.

The Pearson co-relation shows that there exists a significant co-relation between Capital Investment and Performance Evaluation of SEZ units which is 0.401 at 0.01 levels. **Hence, the**

null hypothesis can be rejected and the alternate hypothesis is accepted. It means that there exists a significant co-relation among the relationship between Capital Investment and Performance Evaluation of SEZ units.

Suggestions

The following suggestions are made for improving the performance of SEZ units in Kerala:

- 1 *Participation:* Permit more participation from Foreign Direct Investment in all the sectors of the Special Economic Zone in India.
- 2 *Tax & Fiscal Benefits:* Units enjoy exemptions from Customs Duty (import/export), Central Sales Tax, and Service Tax, alongside income tax holidays (e.g, 100% exemption for first 5 years, 50% for next 5).
- 3 *Minimum Investment Criteria (India):* Establishing a sector-specific SEZ typically requires a minimum investment of ₹250 Crores or a net worth of ₹50 Crores, while multi-product SEZs require ₹1000

Table 3

Co-relation between Capital Investment and Performance Evaluation

		Capital Investment	Performance Evaluation of SEZ Units
‘Capital Investment	Pearson Correlation	1	.401**
	Sig. (2-tailed)		.000
	N	216	216
Performance Evaluation of SEZ	Pearson Correlation	.401**	1
	Sig. (2-tailed)	.000	
	N	216	216

*** Correlation is significant at the 0.01 level (2-tailed).*

Source: Primary Data

Crores investment or ₹250 Crores net worth.

- 4 *FDI & Foreign Exchange:* 100% FDI is permitted through automatic routes for most manufacturing and service activities. Units must achieve Positive Net Foreign Exchange (NFE).
- 5 *Infrastructure & Land:* SEZs provide high-quality, specialized infrastructure (power, water, connectivity). Land requirement for specialized sectors like IT/Biotech can be as low as 10 hectares.

Conclusions on Capital Investment in SEZs

1. **Driver of Economic Growth:** SEZs, especially in developing economies like India and China, have successfully attracted foreign and domestic capital, acting as engines for export-led growth.

2. **Strategic Advantages:** SEZ units often provide 100% income tax exemption on export profits for the first five years, duty-free imports of capital goods, and single-window clearance, lowering operational risks and initial capital expenditures.
3. **Sectoral Concentration:** A significant portion of capital investment, particularly in India, is concentrated in the IT/ITeS, electronics, and semiconductor sectors.
4. **Shift in Policy:** There is a move away from pure, export-only zones towards “Development Hubs” (e.g., India’s proposed DESH legislation) that encourage both export and domestic manufacturing to increase viability.

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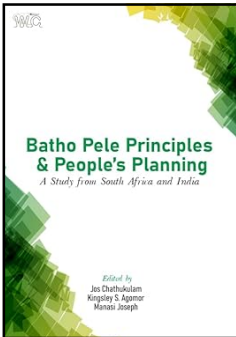
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BOOK REVIEW

**Jos Chathukulam, Kingsley S. Agomor and
Manasi Joseph (Editors),**

Batho Pele Principles and Peoples Planning- *Study from South Africa and India.*

Writers Choice Publications Pvt. Ltd, New Delhi, 2025.

Rs 1195.00. ISBN: 978-93-93082-81-7

This book is a comparative study between South Africa and India on how 'Batho Pele' ('Batho Pele' originates from the Sesotho-Tswana language, meaning 'People First') principles interact with people's participatory planning and community involvement. This is a timely useful contribution to the literature on public reform and participatory governance. This book explores various frameworks on participatory governance, with case studies from both the countries. How people-centric approach in governance ensures transparency and accountability is well narrated in this book, taking cues from People's Planning in India and Batho Pele in South Africa.

The editors of this book Jos Chathukulam, Kingsley S Agomor, and Manasi Joseph are experts in participatory governance. Jos is the former professor of Sri Ramakrishna Hegde Chair on Decentralization and Development, Institute for Social and Economic Change [ISEC] Bengaluru and currently the Director of Centre for Rural Management, Kerala. Kingsley is an Associate Professor at the Ghana Institute of Management and Public Administration [GIMPA], Ghana, Legon. Manasi is a Researcher at the Centre for Rural Management [CRM], Kottayam, Kerala, India.

The contributors of this book are from different countries, hence provides an international outlook. The eminent academicians from the overseas are Dohvani Rackson Thakathi (Member of a several national initiatives including the Nelson Mandela Presidential Review Commission, South Africa), Emmanuel Kgomo (Chief Director in the Department of Public Service and Administration, South Africa), Calvin Naido (completed DBL - Doctor of Business Leadership - from the University of South Africa), William Asante (Lecturer and Researcher at the Department of Public Policy and Management of the Simon Diedong Dombo University of Business and Integrated Development Studies (SDD- UBIDs) in Ghana), Olle Tornquist (Swedish Global Historian and Professor Emeritus of Politics and Development at the University of Oslo, Norway), and Vuyani Goodman Langa (Postdoctoral Research Fellow at Walter Sisulu University). The Scholars from India who made

contributions include J.B.Rajan (former Associate Professor, KILA), Biju.S.K (Professor, Government College for Women, Thiruvananthapuram), Raju John (Alumnus of prestigious institutions like Centre for Development Studies and IIT Madras and Pondicherry Central University), Ramit Basu (Freelance Consultant in Local Governance), Sandra.V.Kurian (Joint Director, KN Raj School of Economics, M.G University, Kottayam), and V.Y.Ghorpade (Entrepreneur in rural development). Considering the contributions of national/international scholars, this book will be good piece of literature in participatory governance and public policy.

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