

# RELATIONSHIP BETWEEN TAX INCENTIVES OFFERED TO COCHIN SEZ AND ECONOMIC CONTRIBUTIONS OF COCHIN SEZ

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Special Economic Zones intended to encourage exports, promote gainful employment opportunities, and mobilise investments from domestic as well as from foreign sources. For that Indian SEZs can avail exemption from the payment of income tax, custom duties, central excise duties, sales taxes, stamp duties and registration charges. The Correlation Coefficient used for finding out the tax concessions given and the economic benefits received showed that there is a positive relationship between the tax incentives and exports, employments and investment. So the Government losing revenue due to the tax incentives given to the entrepreneurs and the developers in the Cochin SEZ was more than compensated by way of promoting exports, generating investments and creating employment opportunities. So the Government can judiciously administer the tax concession to encourage growth.

**Key Words:** *Economic Benefits, Multi Product Zone, Tax Concession*

## INTRODUCTION

The fundamental economic problems facing the Indian Economy was that there was an all-round scarcity of infrastructural amenities in the country. The labour laws were conservative with little care for a policy of hire and fire by the entrepreneurs. The trade, tariff and taxation rules underwent normal changes creating atmosphere of uncertainty in the market. The Foreign Exchange Regulations of the Reserve Bank of India were too stiff to permit flexibility in trade connections. The Foreign Institutional Investors and Foreign Direct Investors were uncertain and slow in coming with their offers and proposals. The foreign exchange crisis was another important element which affected the plentiful developmental proposals in India. All these structural constraints harmfully affected the investment environment in the country. Since a nationwide reconstruction of infrastructure would be too luxurious and the structural improvements would take a long time under the existing socio-economic set-up, it required a new concept which can solve the prevailing economic problems and also would avoid the diverse blockages which blemished the country's investment environment. In view of the above mentioned shortcomings, the Government of India implemented a scheme called Special Economic Zone (SEZ) in April 2000.

Cochin SEZ is one of the Multi-Product Zones, owned by the Government by the Government of India. The main objective of establishing the Cochin SEZ was to provide an operating environment, liberal rules and regulations for boosting manufacturing, promoting exports of goods and services, mobilising of investment from domestic as well as foreign sources, creating employment opportunities, development of infrastructure facilities and generation of additional economic activities.

The SEZs in India were getting numerous benefits such as tax incentives, provision of standard factories at low rent with extended lease period, provision of infrastructure and utilities, single window clearance, simplified procedures, and exemptions from various obstacles that characterizes the investment climate in the domestic economy. This by implication the Government is losing its

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revenue due to the tax incentives offered to the various industrial units in the SEZs in India. Under these circumstances the pertinent question arising in the mind the researcher is whether the SEZs in India or the Cochin SEZ in particular is able to mitigate tax revenue forgone by way of creating employment opportunities, promoting exports and generating the investments. While considering this researcher would interest to conduct study on various tax incentives offered to the industrial units set up in Cochin SEZ and relationship between tax incentives offered to the Cochin SEZ and the economic receipts of Cochin SEZ in the form of increasing exports, generating investments and creating employment opportunities

## METHODOLOGY

A Case Study Method is used to evaluate the performance of the Cochin SEZ. The secondary data was collected from official records of Cochin SEZ, Ministry of Commerce website, research papers and articles published in the leading journals, RBI publications, text books, working papers and Government notifications. **Correlation Co efficient Analysis** has been used to study the relationship between tax incentives offered to the units in the Cochin SEZ with economic receipts of Cochin SEZ (in the form of generating investments, creating employment opportunities, promoting exports).

The main limitations of the study have been that the data is not publically available and the researcher had to get with much difficulty the data for conducting the study. The Cochin EPZ was converted into SEZ on 1<sup>st</sup> November 2000, so the researcher had undertaken the study from that date, hence the study is limited up to 11 years that is another limitation of the study

## REVIEW ON TAX INCENTIVES OFFERED TO SEZs

Researcher is attempted to study various types of tax incentives given by the Government and benefits earned by it by establishing and functioning units in Cochin SEZ. In addition to that researcher found the amount of revenue foregone due to various types of tax incentives provided to the units located in Cochin SEZ. Before conducting the analysis researcher made the review on following earlier studies under the topic of tax incentives offered to the development and promotion of SEZ in India and outside.

Ministry of Commerce, Government of India defined SEZ is “a specifically delineated, duty free enclave and shall be deemed to be foreign territory for the purpose of trade operations, duties and tariffs”. The industrial units located in the Indian Zones can avail unlimited duty-free imports of raw materials, intermediate inputs, and capital goods for the production of exports and enjoying long-term tax holiday concessions (Dhingra Tarun and Singh Tripti 2009). But the length and extent of tax provisions varies across nations (Madani Dorsati 1999). Yiu Wong Kwan and K. Y. Chu David (1984) reported that Asian Zones availed exemption from customs duties for import of raw material and export of products, concessional rate of profit tax and extended period of tax exemption. Zones located in Asia exempted from normal income tax for a period of three to ten years, duty free import of raw materials, exports without payment of taxes, rebates and duty drawback and there were no sales duties for the domestic transaction of goods and services (Warr G. Peter 1989). Warr G. Peter (1987) pointed out that the incentives provided in Malaysian Free Trade Zones were enjoying duty free imports of raw material and capital equipment, simplified custom formalities and income tax relief which included Pioneer status, Labour utilization relief, Investment tax credit, Export promotion deduction and local incentives instead of Pioneer status and Labour utilization relief if the firm is located in a designated locational incentives area.

China's SEZs offer the lowest tax rate of corporate profit, relatively short period of tax holiday compared to other EPZs in Asia (Wu Wai Man 1990). Chen Xiangming (1995) reported that in Taiwan the firms located in EPZs were normally entitled to get tax reductions and holidays, duty free entry of materials and machinery for producing exports. EPZs in Caribbean and Central American countries offer tariff-free imports and export and free repatriation of profit. EPZs in Costa Rica provided a full income tax exemption for six years (Madani Dorsati 1999). According to Aggarwal Aradhna (2006) among the South Asian countries Bangladesh is providing more tax incentives to the industrial units located in the Zone and followed by India, but restricted incentives were offered by the Sri Lanka. Industrial units located in Malawi can claim free import duties (raw materials, equipment, machinery) for indefinite period and there is no corporate tax (Vincent Nkhoma 2007). Since 1998, Bangladesh EPZ do not pay any Value Added Tax, import duties, stamp duty, cash incentive for agro-industries and additional incentives in the form of subsidy to the industrial units located in the backward regions. Sri Lanka EPZ can avail tax holiday on business income and duty exemption for importing of equipment, construction material and production inputs (Aggarwal Aradhna 2006).

Aradhna (2004) reported that during the inception stages of Zone in India the tax incentives given to firms were the exempted from income tax, central sales tax, central excise duty on procurement of capital goods, raw materials, consumable spares etc. But since 1991 further exemption from the sales taxes, border taxes import charges, duty exemptions on inputs consumed in the production process and duty drawback benefits had made available. Aggarwal Aradhna (2006) found that the tax incentives claimed by the industrial undertakings differ from one Zone to another. For improving the performance of Zones in India the authority had been widening the scope of corporate tax systems (Aggarwal Aradhna 2004). According to SEZ Act 2005, the firms are eligible to get an Income Tax holiday for a period of 15 years, no export and import duties, excise duties, central or state sales tax and service tax and no routine examination of import/export cargo by customs authorities (Ranjan Ram Krishna 2006). Deepak Shah (2009) reported that for achieving the objectives of SEZ in India the authorities are offering duty free import/ domestic procurement of goods for development, tax incentives on export income, exemptions from custom/ excise duties, Minimum Alternative Tax, Dividend Distribution Tax, central sales tax, service tax, state sales tax and other levies as extended by the respective State Governments. In India the incentives can be availed to both the industrial undertaking located in the Zone as well as to the developers. Exemption from Service Tax, Income tax, duties on import of goods for the developmental operations and maintenance of SEZs can also the tax benefits be availed to the SEZ developers Venkitesh Ramakrishnan (2006). Tripathi P Aditya (2009) found that the SEZ policy packages accelerate the process of investment, competitiveness, reduce business entry and operating cost.

Some of the studies revealed that tax incentives offered by the Government of India to the Zones reflected the negative result. Aggarwal Aradhna (2006) point out that the Government of India had revenue losses due to the incentives provided to the development and promotion of Zones in India. According to Arun Kumar (2007) and Jaiswal Ravi and Singh Meera (2009) one of the major issues in Indian SEZs is the loss to Government revenue due to the tax concessions. Loss of Government revenue due to tax incentives and concessions offered by the government and regional imbalance in terms of development are the main economic issues of the SEZs in India (Deepak Shah 2009). Venkitesh Ramakrishnan (2006) point out that due to enormous tax incentives made available to the Zones so the existing industries may also move to the SEZ region that may be leading to unequal trade regime ultimately affecting the country's economic health in the long run.

According to Asher Manshi (2010) the Government of India had incurred tax revenue loss of Rs 805.65 Crores between the financial years 2005-06 and 2008-09 due to custom duty benefits given to the Kandla SEZ in India. Zones can avail both direct as well as indirect tax benefits, Sridhar V (2006) stated that due to the tax incentives provided to SEZ units, the Governments revenue losses amounted to Rs 1,00,000 Crores between SEZ Act 2005 to the financial year 2009-10. But of that 57000 Crores would be from the direct taxes. Finance Ministry reported that the promotion of the SEZ happened in India, with the support of Ministry of Commerce and Industry. The Government loss of revenue amounted to Rs 160000 Crores by 2010. According to the Parliamentary Standing Committee (83rd report), the Ministry of Finance estimated the revenue loss of Rs 1,754,87 Crores from the tax incentives given to the SEZs in India during the five years between 2004-05 to 2009-10.

The Government of India had revenue losses due to tax incentives provided to the SEZ Units on their business profits under section 10AA. The Union Budget reported that the Government of India's revenue losses due to the incentives given to SEZ amounted to Rs 1421 Crores, Rs 1564 Crores, Rs 4568 Crores, Rs 7893 Crores and Rs 8565 Crores respectively during the financial years 2007-08 to 2011-12. Due to the incentives made available to the SEZs developers as per the section 80 IAB, Government of India had incurred revenue losses amounting to Rs 1628 Crores, Rs 1803 Crores, Rs 974 Crores, Rs 989 Crores and 1085 Crores respectively during the financial years 2007-08 to 2011-12.

From the **review of earlier studies** it can be clear that though many studies have been conducted on the tax incentives offered to SEZs in India and even foreign countries, the researcher has not found a detailed study on the tax incentives offered to the Cochin SEZ. So there is a need for conducting a study on the tax incentives offered to the Cochin SEZ. The present study focuses on the various tax incentives made available to Cochin SEZ during the period under study, the amount of tax revenue forgone by the Governments due to the tax incentives given to Cochin SEZ and the relationship between the tax incentives made available to Cochin SEZ and the economic benefits derived from Cochin SEZ in the form of exports promotion, employment opportunities created and investment mobilisation.

## **TAX INCENTIVES AVAILED BY THE COCHIN SEZ**

The following tax incentives can be availed by the units located in the Cochin SEZ and the developers for the development and promotion of economic activities in Cochin SEZ.

### **Income Tax**

The following income tax benefits were made available to the Cochin SEZ

Tax benefits to Cochin SEZ units on business income as per Section 10 AA and 54 GA of Income Tax Act 1961. Tax exemption to Cochin SEZ units on payment of Securities Transaction Tax under the Section 26 (1) (f) of the SEZ Act 2005. As per Section 80LA of Income Tax Act 1961 tax benefits provided on interest receipts of the Offshore Banking Units and the International Financial Service Centre's located in Cochin SEZ. Cochin SEZ units can avail tax exemption on payment of Minimum Alternative Tax as per Section 115JB of Income Tax Act 1961.

The Section 80 IAB of the Income Tax Act 1961 provided tax deduction on 100% of the business profits to Cochin SEZ developers.

As per Section 115O of Income Tax Act 1961, the industrial units located in Cochin SEZ can claim the tax exemptions on dividend distributed from profits.

Tax exemption from capital gains on transfer of assets in case of shifting of industrial undertaking from the urban area to Cochin SEZ can be availed by the entrepreneur under section 54GA of Income Tax Act 1961.

### **Central Excise and Custom Duties**

The following Central Excise and Custom Duty benefits can be availed to Cochin SEZ

As per Section 3(1) (a) of Central Excise Act 1944, goods manufactured in Cochin SEZ were excluded from excisable goods and no excise duty was payable. Cochin SEZ developers and Cochin SEZ Units can claim exemption from Service Tax on taxable service under Chapter V of the Finance Act 1994.

As per Custom Act 1962 the customs benefits can be availed on goods exported or services provided from the Cochin SEZs to any place outside India. Cochin SEZ Units can claim Duty Drawback benefits as per Section 75 of Custom Act when imported materials were used in the manufacture of goods which were then exported.

### **Central Sales Tax Act**

The Section 8(6) of the Central Sales Tax Act 1956 provided the Sales Tax exemption to the Registered Dealers who have been authorized to operate in SEZ. The following State level tax benefits can be availed to Cochin SEZ.

The section 12 of the Kerala Tax on Entry of Goods into Local Areas Act 1994, the Government of Kerala charged Entry Tax. As on 1<sup>st</sup> July 2003 the Units functioning in Cochin SEZ and Cochin SEZ developers were exempted from the payment of Entry Tax for all goods as per Section 3 of Kerala Tax on Entry of Goods into Local Areas Act 1994. On 19<sup>th</sup> December 2006 Kerala High Court declared that “ demand and collection of entry tax for goods brought from outside the state was unauthorized and illegal under the provision of the Kerala Tax on Entry of Goods in to the local Area Act 1994 (The Hindu).

As per Section 9(1) of the Kerala Stamp Act 1959 duty exemption on sale of property in favour of Cochin SEZ Units and the developers were available. The Sections 78(2) of the Registration Act 1908, Government of Kerala provides fee exemption to Cochin SEZ Units and the developers on sale of property.

As per Section 10 of the Kerala General Sales Tax Act 1963 offering exemption on sales tax to the industrial undertakings, trading units and the developers in the Cochin SEZ when the goods were transferred within the state of Kerala. The sales tax exemption can be availed for the sale of goods manufactured by the industrial undertakings, turnover of sale of materials, industrial inputs, plant and machinery, equipment's, spares, tools and consumables. For claiming the exemptions the seller should obtain and produce the certificates to be obtained by the purchase unit from the Development Commissioner and the exemptions can be claimed from 1<sup>st</sup> November 2000.

Section 207 (2) of the Kerala Panchayat Raj Act 1994 states that the Government of Kerala provide the exemptions from the payment of building tax and professional tax to the developers and units established in Cochin SEZ. As per Kerala State Government Order No 71/90/ID dated on 21<sup>st</sup> May 1990, the Government of Kerala provide the Electricity duty exemption to units established in Cochin SEZ for a period of five years from the date of commencement of productions and for the eligible projects, electricity duty exemption for the entire life of the project.

## Tax Revenue Foregone by the Governments due to Incentives Given to Cochin SEZ

Government of India as well as the Government of Kerala provide various types of incentives and facilities for the promotion and development of Cochin SEZ. Income tax, custom duty, excise duty and central sales tax were mainly coming under the purview of Government of India. Kerala state Government offering state level as well as local sales tax, stamp duty, building tax, professional tax and electricity duty for the benefits of the units in Cochin SEZ. Different types of tax revenue foregone are :

### Import Duty Benefits Offered

For calculating the tax revenue foregone by way of offering the import duty benefits given to industrial units located in Cochin SEZ, the researcher collected the rate of import duties and the value of imports. Import duty is calculated by multiplying value of imports with respective years import duty rate. After calculating the same is presented in Table 1.

**Table: 1, Tax Revenue foregone due to Import Duty Benefits offered** (Rs. in Crores)

Years	Imports	Duty Rate	Import duty
2000-01	151.35	.2040	30.88
2001-02	175.51	.1617	28.38
2002-03	140.25	.1488	20.87
2003-04	188.04	.1356	25.50
2004-05	392.02	.1132	44.38
2005-06	482.24	.972	46.87
2006-07	670.57	.1017	68.20
2007-08	4088.6	.0994	406.41
2008-09	10091.5	.0724	730.63
2009-10	17059.1	.0631	1076.43
2010-11	18000	.0810	1458.00
Total	51439.18		3936.55

Source : Computed from the Secondary Data available from Union Budget of the Government of India and Official Records of Cochin SEZ.

The observation of the table shows that the tax forgone amount had increased from Rs. 30.88 Crores in the year 2000-01 to Rs 1458 Crores in the year 2010-11. Total amount of revenue foregone was Rs 3936.55 Crores during the period under study.

## Exports Duty Benefits Offered

For calculating tax revenue foregone due to the exports duty benefits given to industrial units located in Cochin SEZ, we collected the exports duty rate and the value of exports. Export duty is calculated by multiplying value of exports with respective year's exports duty rate. After calculating the same is presented in Table 2.

**Table: 2, Tax Revenue foregone due to Export Duty Benefits offered** (Rs. in Crores)

Years	Exports	Duty Rate	Export duty
2000-01	304.3	.0051	1.55
2001-02	278.82	.0033	0.92
2002-03	311.93	.0030	0.94
2003-04	404.19	.0021	0.85
2004-05	637.19	.0023	1.47
2005-06	696.01	.0019	1.32
2006-07	1037.52	.0016	1.66
2007-08	4651.31	.0053	24.65
2008-09	11549	.0063	72.76
2009-10	17093.2	.0013	22.22
2010-11	18313	.0028	51.28
Total	55276.47		179.62

Source : Computed from the Secondary Data available from Union Budget of the Government of India and Official Records of Cochin SEZ.

The observation of the table shows that the Government had forgone revenue due to export duty benefits given to the industrial units located in Cochin SEZ. Tax revenue forgone amount had increased from Rs. 1.55 Crores in the year 2000-01 to Rs 51.28 Crores in the year 2010-11. Total amount of revenue foregone was Rs 179.62 Crores during the period under study.

## Excise Duty Benefits Offered

For calculating tax revenue foregone due to the excise duty benefits given to industrial units located in Cochin SEZ the researcher collected the rate of excise duty and the value of exports. Excises duty is calculated by multiplying value of production with respective year's excise duty rate. After calculating the same is presented in Table 3.



**Table: 3, Tax Revenue Foregone due to Excise Duty Benefits offered** (Rs in Crores)

Years	Production	Duty Rate	Excise duty
2000-01	2.616	.0692	0.18
2001-02	1.976	.0692	0.14
2002-03	2.88	.0692	0.20
2003-04	3.376	.0692	0.23
2004-05	4.4	.073	0.32
2005-06	8.016	.0752	0.60
2006-07	18.616	.0708	1.32
2007-08	28.648	.0684	1.96
2008-09	51.808	.0587	3.04
2009-10	84.072	.0692	5.82
2010-11	93.808	.0692	6.49
Total	300.216	0.7613	20.3

Source : Computed from the Secondary Data available from Central Statistical Organization, Government of India and Official Records of Cochin SEZ.

The observation of the table shows that Government had forgone revenue due to excise duty benefits given to the industrial units located in Cochin SEZ. Tax forgone amount had increased from Rs.18 Crores in the year 2000-01 to Rs 6.49 Crores in the year 2010-11. The total amount of revenue foregone is Rs 20.3 Crores during the period under study.

### Sales Tax Benefits Offered

For calculating tax revenue foregone due to the Sales Tax benefits given to the industrial units located in Cochin SEZ the researcher collected the rate of sales tax and the value of sales. Sale tax is calculated by multiplying value of sales with respective year's sales tax rate. After calculating the same is presented in Table 4.

**Table: 4, Tax Revenue foregone due to Sales tax Benefits offered** (Rs in Crores)

Years	Sales	Tax Rate	Sales Tax
2000-01	31.53	.0924	2.91
2001-02	26.3	.0826	2.17
2002-03	33.58	.0716	2.41
2003-04	41.28	.0736	3.04
2004-05	59.38	.0721	4.28
2005-06	84.9	.0702	5.96
2006-07	168.2	.0723	12.16
2007-08	411.63	.0694	28.57
2008-09	901.24	.0621	55.97
2009-10	1380.12	.0509	70.25
2010-11	1501.94	.0523	78.55
Total	4640.1	0.7695	266.27

Source : Computed from the Secondary Data available from Kerala State Government Budget and Official Records of Cochin SEZ.



The observation of the table shows that Government had forgone revenue due to sales tax benefits given to the industrial units located in Cochin SEZ. Tax forgone amount had increased from Rs. 2.91 Crores in the year 2000-01 to Rs 78.55 Crores in the year 2010-11. The total amount of revenue foregone is Rs 266.27 Crores during the period under study.

## Income Tax Benefits Offered

For calculating tax revenue forgone due to Income Tax given to the units calculated on the basis of the business profit obtained by the units. Net profit of Cochin SEZ could be estimated as per the formula framed by Kankesu Jayanthakumaran and John Weiss (1997).  $\text{Net Profit} = \alpha (\text{EXPt} - \text{IMPt} - \text{LPt} - \text{Wt} - \text{Dt} - \text{Mt})$ . After calculating the Net profit obtained from Cochin SEZ, the researcher found the income tax amount by multiplying net profit with tax rate and the same is presented in table 5.

**Table: 5, Tax Revenue foregone due to Income Tax Benefits offered** (Rs. in Crores)

Years	Net Profit	Tax Rate	Income Tax
2000-01	84.68	.361	30.57
2001-02	31.26	.361	11.28
2002-03	81.09	.361	29.27
2003-04	109.87	.361	39.66
2004-05	100.47	.361	36.27
2005-06	32.49	.361	11.73
2006-07	50.39	.309	15.57
2007-08	-110.45	.309	0
2008-09	69.88	.309	21.59
2009-10	-1986.43	.309	0
2010-11	-1834.09	.309	0
Total	-3370.84	3.711	195.94

Source : Computed from Union Budget of the Government of India and Official Records of Cochin SEZ.

The observation of the table shows that Government had forgone revenue due to import duty benefits given to the industrial units located in Cochin SEZ. The tax forgone amount had increased from Rs. 30.88 Crores in the year 2000-01 to Rs 1458 Crores in the year 2010-11. Total amount of revenue foregone was Rs 195.94 Crores during the period under study.

**Table: 6, Tax Revenue foregone by Governments due to incentives to Cochin SEZ** (Rs. in Crores)

Years	Imports Duty	Exports Duty	Excise duty	Sales tax	Income tax	Total
00-01	30.88	1.55	0.18	2.91	30.57	66.09
01-02	28.38	0.92	0.14	2.17	11.28	42.89
02-03	20.87	0.94	0.20	2.41	29.27	53.69
03-04	25.50	0.85	0.23	3.04	39.66	69.28
04-05	44.38	1.47	0.32	4.28	36.27	86.72
05-06	46.87	1.32	0.60	5.96	11.73	66.48
06-07	68.20	1.66	1.32	12.16	15.57	98.91
07-08	406.41	24.65	1.96	28.57	0	461.59
08-09	730.63	72.76	3.04	55.97	21.59	883.99
09-10	1076.43	22.22	5.82	70.25	0	1174.72
10-11	1458.00	51.28	6.49	78.55	0	1594.32
Total	3936.55	179.62	20.3	266.27	195.94	4598.68

The State Government of Kerala offering exemption from sales tax, state entry tax, stamp duty, electricity duty, building and professional taxes and registration charges on land transfer for the development and promotions of zones in Kerala. The Government of India offering tax incentives to the Zones which includes import duty, export duty, excises duty and income tax benefits. Total revenue foregone due to incentives provided to Cochin SEZ is presented in table 6.

The observation of the table shows that Government had forgone tax revenue due to the benefits given to the industrial units located in Cochin SEZ have increased from Rs 66.09 Crores in the year 2000-01 to Rs 1594.32 Crores in the year 2011-12. The highest amount of revenue foregone by the Government for the tax incentives given to Cochin SEZ was amounted at Rs 1594.32 Crores during the financial year 2010-11 and the lowest amount was Rs 42.89 Crores during the financial year 2001-02. The Governments had forgone highest amount of tax revenue due to the import duty exemption amounted at Rs 3936.55 Crores and the lowest amount of duty forgone was Rs 20.3 Crores due to incentives given to Cochin SEZ under the heading excise duty. The total tax revenue foregone due to the incentives given to Cochin SEZ was 4598.68 Crores during the period under study.

### Export Contributions from Cochin SEZ

Cochin SEZ had been exporting various kinds of products and services which include Electronics Hardware and Software, Engineering, Food and Agro, Textiles and Garments, Plastic and Rubber, Gem and Jewellery and Miscellaneous. For the purpose of knowing the profile of Cochin SEZ, its exports contribution during the period under study is also analysed. For that purpose the relevant data is collected and presented in the table 7.

**Table: 7, Exports from Cochin SEZ (Rs. in Crores)**

Years	Value of Exports	Growth rate
2000-01	304	-
2001-02	259	-14.80%
2002-03	270	4.25%
2003-04	299	10.74%
2004-05	463	54.85%
2005-06	696	50.32%
2006-07	803	15.37%
2007-08	4471	456.79%
2009-10	11707	161.84%
2010-11	16775	43.29%
2011-12	17982	7.20%
Average	4912	78.99%

Source : Computed from the Secondary Data available from Cochin SEZ Official Records

The observation of the table shows that during the financial year 2000-01 the exports contributed by the Cochin SEZ amounted at Rs. 304 Crores and the value had rose to Rs. 696 Crores during the financial year 2005-06. After 2006-07, the export contributions from the Cochin SEZ had been increasing year after year. During the financial year 2010-11 Cochin SEZ exports had amounted at Rs 17982 Crores. The growth of export had been fluctuating , but on an average it was 4912 Crores, likewise the percentage change is exports over the previous year was also changing and on an average it was 78.99%.

## Employment Generated by the Cochin SEZ

Cochin SEZ has been providing the employment opportunities to skilled and unskilled labours in various sectors which included IT and IT enabled services, Electronics hardware and Software, Engineering, Food and Agro, Textiles and Garments, Plastic and Rubber and Gem and Jewellery, and Miscellaneous. For the purpose of evaluating the employment creation performance of Cochin SEZ, the year wise a detail is made by the Cochin SEZ is taken for analysis.

For the purpose of evaluating the employment creation performance of Cochin SEZ, the year wise a detail is made by the Cochin SEZ is taken for analysis. The relevant data is collected and presented in the table 8.

**Table: 8, Employment generated by the Cochin SEZ**

Years	Number of employment generated	Growth rate
2000-01	3,575	-
2001-02	2133	-40.34%
2002-03	4674	119.13%
2003-04	5207	11.40%
2004-05	5736	10.16%
2005-06	6752	17.71%
2006-07	9129	35.20%
2007-08	10562	15.70%
2009-10	11303	7.02%
2010-11	11633	2.92%
2011-12	12142	4.38%
Average	7532	18.33%

Source : Computed from the Secondary Data available from Cochin SEZ Official Records

The observation of the table shows that the employment created by the Cochin SEZ have grown from 3575 in the year 2000-01 to 12142 in the year 2011-12 and on an average employment in one year is 7532. The analysis further shows that the percentage growth rate of employment generated is fluctuating and on an average the annual percentage growth rate was 18.33 percent. The large number of employment opportunities created during the financial year 2010-11 and the lowest number of employment opportunities created in the financial year 2001-02.

## Investment in Cochin SEZ

Mobilization of investment from both domestic as well as foreign sources is one of the main objectives to set up SEZ in India. But the investment mobilised by Cochin SEZ is mainly in domestic sources. For the purpose of evaluating the investment mobilization capacity in Cochin SEZ, the year wise detail is made by the Cochin SEZ is taken for analysis. The relevant data is collected and presented in the table 9.

**Table: 9, Investments mobilized by the Cochin SEZ**

Years	Cochin SEZ Investments	Growth rate of SEZ Investments	Cochin SEZ foreign Investments	Growth rate of foreign Investments
2000-01	234.36	-	0	-
2001-02	135.8	-42.05%	1.48	-
2002-03	218.14	59.32%	4.38	195.95%
2003-04	246.35	12.93%	3.24	-35.19%
2004-05	414.43	68.23%	2.62	-30.25%
2005-06	325.33	-21.50%	0.64	-.76%
2006-07	348.85	7.23%	3.03	373.44%
2007-08	429.99	23.26%	12.41	309.57%
2009-10	483.19	12.37%	22.33	79.94%
2010-11	464.12	-3.95%	11.44	-60.70%
2011-12	541.3	16.63%	29.11	154.46%
Average	349.26	13.25%	9.068	109.61%

Source : Computed from the Secondary Data available from Cochin SEZ Official Records

The above table exhibits that the investment generated in the Cochin SEZ are mainly in domestic sources. The investment mobilised by the Cochin SEZ have grown from Rs 234.36 Crores in the year 2000-01 to Rs 541.3 Crores in the year 2011-12. The average investment mobilized by Cochin SEZ in one year is Rs 349.26 Crores and from foreign sources was Rs 9.068 Crores during the period under study. The highest value of investments amounted to Rs 541.3 Crores mobilised in year 2011-12 and lowest investment had Rs 135.8 Crores in year 2001-02. The average growth rate of investment mobilized from domestic sources was 13.25% and from foreign sources was 109.61%.

### **Relationship Between Tax Incentives Offered and Economic Receipts from Cochin SEZ**

The Government of India and State Government of Kerala have provided tax incentives towards the promotion and development of Cochin SEZ. Due to the tax incentives offered by the Governments, they were losing their revenues. Whether the Cochin SEZ can mitigate the revenue losses by way of generating enough investment, creating enough employment opportunities and promoting exports? For analysing that the researcher studied the relationship between tax incentives offered to the Cochin SEZ with economic receipts of Cochin SEZ in the form of promoting exports, generating investments and creating employment opportunities. Correlation Co efficient was used to conduct the study on relationship between above mentioned economic variables.

In the tax incentives offered to units in Cochin SEZ and economic receipts, the researcher was interested in testing whether the Correlation Co efficient indicate the statistically significant relationship between tax incentives offered and economic receipts of Cochin SEZ in the form of promoting exports, generating investments and creating employment opportunities. So the researcher made null hypothesis that is there is no correlation between tax incentives offered and economic receipts of Cochin SEZ.

The Correlation Co efficient result between these variables were as follows.

**Table: 10, Correlation Co-efficient Result**

Particulars	Tax	Investment	Export	Employment
Pearson Correlation	1	.814	.988	.867
Sig. (2-tailed)		.002	.000	.001
N	11	11	11	11

Source : Computed from the Secondary Data available from Official Records of Cochin SEZ

The analysis of the table shows that there is a positive correlation between tax incentives offered to the Cochin SEZ with economic receipts of Cochin SEZ in the form of promoting exports, generating investments and creating employment opportunities. And since the P values (.002,.000,.001) are less than 5 % level of significance, so the researcher reject the null hypothesis and leading to the conclusion that there is a relationship between tax incentives offered to the Cochin SEZ with economic receipts of Cochin SEZ in the form of promoting exports, generating investments and creating employment opportunities.

## CONCLUSION

Special Economic Zones intended to encourage exports, promote gainful employment opportunities, and mobilise investments from domestic as well as from foreign sources. For that Indian SEZs can avail exemption from the payment of income tax, custom duties, central excise duties, sales taxes, stamp duties and registration charges. The Correlation Coefficient used for finding out the tax concessions given and the economic benefits received showed that there is a positive relationship between the tax incentives and exports, employments and investment. So the Government losing revenue due to the tax incentives given to the entrepreneurs and the developers in the Cochin SEZ was more than compensated by way of promoting exports, generating investments and creating employment opportunities. So the Government can judiciously administer the tax concession to encourage growth.

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