Research Paper

PERFORMANCE OF EXPORT PROCESSING ZONES IN INDIA – A STUDY

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ABSTRACT

After Import substitution strategy in the early sixties, inward-looking policies are relaxed and exports are promoted through selective import flexibility worldwide. Though India started its liberalization measures since 1991 it has its export promoting measures (though inadequate) since nineteen sixty in the form of Export Processing Zones and in the form of Export Oriented Units since nineteen eighties. The important objectives of the study is to analyze the role of export promotion zones in India, to find out the share of Special Economic Zones export in India's total export and to study the India's Export Promotion Schemes. As a policy means of achieving greater economic openness and growth, the concept of export processing zones (EPZ) has gained noticeable significance during the past few decades. To break away from an inward-looking growth path, to facilitate international flows of trade, capital and technology, and to hasten the pace of economic development and structural transformation, the opening of the EPZs has been taken as the first, albeit partial, step in that direction in India.

KEYWORDS:
Special Economic Zones, Liberalisation and Growth Rate

INTRODUCTION

The Export Led Growth Hypothesis (ELGH) postulates that export expansion is one of the main determinants of growth. It holds that overall growth of countries can be generated not only by increasing the amounts of labour and capital with the economy, but also by expanding exports. According to its advocates, exports can perform as an "engine of growth". But the choice of trade strategy or orientation by a developing country may be viewed as problematic for number of closely related reasons. First there are different perspectives on the relationship between trade and growth in developing countries. Secondly there are alternative views on the way in which trade strategy or orientation influences trade performance. Third there are conflicting attitude towards the appropriate role for government policy and market forces.

The literature on international trade theory assumes that trade is important, because exposure to world prices encourages the efficient allocation of resources and the level of external demand that influences the trade or export performance of developing countries. Whereas those who don't want to tag their economy with world economy consider trade is desirable because it permits the use of potentially idle resources. The neo classical perspective is, associated with advocacy of outward orientation. Outward Orientation can be market – led or intervention – led and the inward orientation can be removed by dismantling protectionist instrument and operating under a free-trade regime. Alternatively exports can be promoted by interventions that explicitly or implicitly subsides exports or exportable production).

OBJECTIVES OF THE STUDY

Following are the important objectives of the present study. They are as follows:

1. To analyze the role of export promotion zones in India,
2. To find out the share of Special Economic Zones export in India's total export and
3. To study the India's Export Promotion Schemes.

METHODOLOGY OF THE STUDY

The study is based on secondary data. The performance of the EPZs will be analyzed with the statistical data available and relating to EPZs exciting and EPZs recently approved by the government of India. Over all India level will be presented in the form of the tables and analyzed. Adam smith attacked the main mercantilists' views and proposed the classical theory of international trade based on the concept of absolute advantage model. He gave importance to human efforts and natural resources. But his theory explains a very small part of the world trade today. But the advantage of his theory is that is showed that the trade can make a nation better off without making another

worse off (Mannur, 1996). This satisfies the Parato Optimality.

Later on the theory articulated by David Ricardo has wider coverage their Adam Smith's theory. The Ricardian Theory was modified by the principle of reciprocal demand formulate by J.S. Mill and later developed by Edgeworth and Marshall. The modification in the classical theory of trade was made by Eli Hecksher and Bartin Ohlin. This theory also criticized on the ground of its several assumptions. This static nature of the neo classical was criticizes and developed new models that explain trade between developed and developing countries.

ROLE OF EPZs IN INDIA

The first objective of the study is to analyze the role of Export Processing Zones in India. In this section role of EPZ is described with different perspectives such as share of export from EPZ in country's export, average annual growth rate, sector wise composition, no of units, employment specially female employment and other such perspectives.

Starting from Rs. 3015.6 million exports from EPZs total export has continuously increased. The annual average growth rate of EPZ export is calculated as 23.94 percent. The details of export from each zone, their percentage share and growth rate is given in the following table.

Table No: 1
EPZs Export, Growth Rate and Percentage Share (Rs in millions)

Year	Total Export	% growth over last year	CEPZ	% growth over last year	KAFTZ	% growth over last year	SEEPZ	% growth over last year
1985-86	3015.16		0 (0)		2249.93 (74.62)		736.78 (24.43)	
1986-87	3310.07	9.78	9.39 (0.28)		2182.03 (65.92)	-3.01	916.79 (27.69)	24.43
1987-88	3203.21	-3.22	39.19 (1.22)	317.35	1813.81 (56.62)	-16.87	1029.57 (32.14)	12.3
1988-89	4886.16	52.53	62.47 (1.27)	59.4	2604.15 (53.29)	43.57	1714.78 (35.09)	66.55
1989-90	7319.6	49.61	109.86 (1.50)	75.86	3446.93 (47.14)	32.36	2766.64 (37.84)	61.34
1990-91	9743.87	33.28	54.46 (0.55)	-50.42	4467.21 (45.84)	29.59	3925.63 (40.28)	41.89
1991-93	11702.27	20.09	285.79 (2.44)	424.77	4270.74 (36.49)	-4.39	4955.3 (42.34)	26.22
1992-93	13683.38	16.92	622.49 (4.54)	117.81	1641.33 (11.99)	-61.56	8133.82 (59.44)	64.14
1993-94	19506.39	42.55	839.16 (8.73)	34.8	2624.62 (27.32)	59.9	11067.34 (56.73)	36.09
1994-95	26507.34	35.89	1034.36 (3.90)	23.26	3256.87 (27.32)	24.08	15412.8 (58.29)	39.26
1995-96	32181.36	21.4	1203.06 (3.73)	16.3	3252.9 (10.10)	-0.12	18760 (58.29)	21.71
1996-97	43095.88	33.91	1653.73	37.46	3747.5 (8.69)	15.2	21899 (50.81	16.73
1997-98	48092.63	11.59	1745.75 (3.62)	5.56	4640.49 (9.64)	23.82	25109.5 (52.21)	14.66
1998-99	52344.6	8.84	2000.5 (3.82)	14.59	2918.1 (7.48)	-15.56	32818.4 (62.69)	30.7
1999-2000	65888.8	25.87	2410 (3.65)	20.46	5436.6 (8.25)	38.75	41465.7 (62.93)	26.34
Average Growth Rate		23.94		73.14		11.05		32.15

Year	MEPZ	% growth	FEPZ	% growth	NEPZ	% growth	VEPZ	% growth
1985-86	5.45 (0.18)		23 (0.76)		0(0)		--	--
1986-87	100.47 (3.03)	1743.48	31.7 (0.95)	37.82	69.69 (2.10)		--	--
1987-88	164.16 (5.12)	63.39	18.6 (0.58)	-41.32	137.88 (4.3)	97.84	--	--
1988-89	240.45 (4.92)	46.47	81.1 (1.65)	336.02	183.21 (3.74)	32.87	--	--
1989-90	295.62 (4.04)	22.94	163.9 (2.24)	102.09	527.65 (7.21)	188.00	--	--
1990-91	612.2 (6.28)	107.09	250.17 (2.56)	52.63	434.2 (4.45	-17.71	--	--
1991-92	1224-71 (11.93)	33.36	182.45	-34.6	1469.91 (10.74)	114.04	--	--

1992-93	1633.38 (11.93)	33.36	182.45 (1.33)	-34.6	1469.91 (10.74)	114.04	--	--
1993-94	2004.5 (20.86)	22.72	355.68 (3.70)	94.94	2615.09 (27.22)	77.90	--	--
1994-95	2813.6 (10.61)	40.36	323.17 (1.21)	-9.14	3666.54 (13.83)	40.20	--	--
1995-96	3756.12 (11.67)	33.49	240.38 (0.74)	-25.61	4968.9 (15.44)	35.52	--	--
1996-97	9938.87 (23.06)	164.60	291.48 (0.67)	21.25	5565.3 (12.91)	12.00	--	--
1997-98	10026.61 (20.84)	0.88	529.28 (1.10)	81.61	6040.9 (12.56	8.54	--	--
1998-99	5359.4	-46.54	727.5 (1.38)	37.42	7520.7 (14.36)	24.49	--	--
1999-2000	5454.2 (8.27)	1.76	2666 (4.04	266.46	8456.3 (12.83	12.44	--	--
2000-01	6908.4 (8.13)	26.66	5199.7 (6.12)	95.03	10342 (12.18)	22.29	2190.8 (2.58)	
2001-02	7639.1 (8.09	10.57	9236.3 (9.79)	77.63	9804.1 (10.39)	-5.20	2509.8 (2.66)	14.56
2002-03	8220.5 (8.37)	7.61	5123.9 (5.21)	-44.52	10011.7 (10.19)	2.11	3572.7 (3.63)	42.34
Average Growth Rate		**132.16**		**58.84**		**41.38**		**18.97**

Source: Offices of the Development Commission

Note: Figures in the parenthesis indicate percentage share

The second objective of the study is to find out the share of special economic zone export in India's total export. This can be briefly explained in the below table.

Table No: 2
SHARE OF SEZ EXPORT IN INDIA'S TOTAL EXPORT

Year	India's Exports (Rs. Crores)	Annual Growth Rate (%)	Export From SEZs (Rs. Crores)	Annual Growth Rate (%)	SEZs Export to Total Exports (%)
2000-01	203571	-	85532	-	4.20
2001-02	209018	2.68	9190	7.46	4.40
2002-03	255137	22.06	10053	9.39	3.94
2003-04	293367	14.98	13854	37.80	4.72
2004-05	375340	27.94	22840	24.75	5.00
2005-06	456418	21.68	22840	24.75	5.00
2006-07	571779	25.27	34615	51.55	6.05
2007-08	655864	14.71	66338	91.64	10.11
2008-09	840755	28.19	99689	50.27	11.68
2009-10	845533	0.57	220711	121.40	26.10
2010-11	1157474	36.89	315867	43.11	27.30
2011-12	1454066	25.62	364748	15.47	25.07
2012-13	1560645	22.26	428443	20.37	26.47

Among the six zones average annual growth rate of MEPZ is highest 132.16 percent followed by CEPZ with 73.14 percent and FEPZ with 58.84 percent per year over previous year. Though average growth of export from these zones is high, actual export has remained at very low level. In some years export growth has shown negative sign for KEPZ, FEPZ and NEPZ, this is due to fall in export may be caused by market fluctuations.

India's Export Promotion Schemes:
The third objective of the study is to find out the India's Export Promotion Schemes. Government of India implemented several schemes of Export Promotion since long back. These schemes cover tax and non tax incentives. An over view of these schemes is given as under.

I. Duty Exemption and Remission Schemes:
1. Advance License Scheme to allow duty free import of inputs, which are physically incorporated in the export product (making normal allowance for wastage) with a specific export obligation in terms of value and quantity.
2. Export Promotion Capital Goods (EPCG) Scheme to allow import of capital goods for pre-production, production and post-production (including CKD/SKD thereof as well as computer software systems) at 5% customs duty subject to an export obligation equivalent to 8 times of duty saved on capital goods imported under the Scheme to be fulfilled over a period 8 years reckoned from the date of issuance

of license. Relaxation in export obligation has been allowed for specific categories such as Units pertaining to agro, SSI, BIFR etc.

3. Duty Free Replenishment Certificate (DFRC) is issued for import of inputs used in the manufacture of goods without payment of basic customs duty after completion of exports.

4. Duty Entitlement Passbook (DEPB) Scheme to neutralize the incidence of customs duty on the import content of the export product and the exporter is entitled for a duty credit as a specified percentage of FOB value of exports, made in freely convertible currency.

5. Schemes related to Gems & Jewellery sector such as Replenishment license, Advance Licence, Diamond Import Licence etc.

6. Deemed Export Duty Drawback and Terminal Excise Duty Refund Scheme for those transactions in which the goods supplied to specific categories of beneficiary, do not leave the country and the payment for such supplies is received either in Indian Rupees or in Free Foreign Exchange.

II. Special Economic Zone Scheme is a specifically delinked duty free enclave and is deemed to be foreign territory for the purposes of Trade Operations and duties and tariffs wherein these units can import/procure from the DTA all types of goods and services without payment of duty.

III. Export Oriented Unit (EOU) Scheme, Electronics Hardware Technology Park (EHTP) Scheme, Software Technology Park Scheme of Bio-Technology Park Scheme to operate under duty – free regime for import/ procreant of all types of goods including capital goods without payment of duty for manufacture of goods for export.

IV. Free Trade and Warehousing Zone (FTWZ) Scheme to create trade related infrastructure to facilitate the import and export of goods and services with freedom to carry out trade transaction in free currency.

V. Served from India Scheme to allow duty free import of capital goods including spared, office equipment and professional equipment, office furniture and consumables related to the main line of business against exports of services.

VI. The Market Access Initiative (MAI) Scheme to provide financial assistance for a whole range of activities as a Medium Term Export Promotion efforts with a sharp focus on a country and product.

VII. The Marketing Development Assistance (MDA) Scheme to provide financial assistance for a range or export promotion activities such as participation in trade fairs and buyer seller needs abroad or in India, export promotion seminars etc.

VIII. Other schemes to promote activities such as Brand Promotion and Quality Improvement etc.

FINDINGS OF THE STUDY

The findings are divided in three categories they are general findings, findings related to role of EPZs and findings related to performance of SEZs. There are several favorable and unfavorable arguments on Import Substitution (IS) and Export Promotion (EP) strategies. But the fast development of Asian countries marked the importance of EP strategy and most of empirical results supported the Export Led Growth (ELG) hypothesis. Setting up of 'zone based industrial infrastructure' like Export Procession Zones (EPZ) is used as a tool of interventionist EP strategy all over the world. The prime objective behind setting EPZs is export promotion through minimizing cost of production. Geographically Asia comprises most of the zones and generated large scale employment. It is found that the EPZ policy played an important role in employment generation (especially for women), creating additional economic activity through the linkage with domestic economy, attracting foreign investment and earning foreign exchange. EPZs are also played an important role in creating industrial infrastructure in various parts of India in general and in the industrially backward areas in particular, KEPZ and FEPZ are the examples of zones established in backward areas like Kandla and Falta.

Apart from EPZ/SEZ there are many other export promotion schemes implemented by government of India. Some of these schemes are Duty Exemption and Remission. Schemes, Export Oriented Unit (EOU) Scheme, Free Trade and Warehousing Zone (FTWZ) Scheme, Served from India Scheme, Targed Plus Scheme, Vishesh Krishi Upaj Yojana Scheme, The Market Access Initiative (MAI) Scheme and The Marketing Development Assistance Scheme. Exports from EPZs have shown high sectoral concentration towards Gem & Jewallary with 39 per cent share and Electronics sector 35percent. Similarly between the zones export is concentrated towards SEEPZ with near about 62 percent share of EPZ export where gem and Jewallary accounts 52 percent in SEEPZ. KEPZ the oldest zone contributed only 8% in total EPZs export as on 1999-2000. MEPZ eight percent and NEPZ performed to contribute nearly about thirteen per cent. Remaining EPZs were not crossed even the limit of five percent only.

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