AN EVALUATION OF THE WORKING OF THE EXPORT PROCESSING ZONES IN INDIA - A CASE STUDY WITH REFERENCE TO THE COCHIN EXPORT PROCESSING ZONE

Thesis submitted to the Cochin University of Science and Technology for the award of the Degree of Doctor of Philosophy in Commerce under the Faculty of Social Sciences

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CERTIFICATE

Certified that the thesis "An Evaluation of the Working of Export Processing Zones in India- A Case Study with reference to the Cochin Export Processing Zone" is the record of bonafide research carried out by V.M.Manoharan under my guidance. The thesis is worth submitting for the degree of Doctor of Philosophy in Commerce under the Faculty of Social Sciences.

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CONTENTS

		Page Nos.
Acknowledgement		i-iii
Chapter I	Introduction	1-10
Chapter II	Literature Survey	11-45
Chapter III	Working of EPZs in India and Abroad	46-71
Chapter IV	The Cochin Export Processing Zone-Special Features	72-131
Chapter V	Similarities and Differences in the working of CEPZ with that of other Indian EPZs on some important aspects	132-175
Chapter VI	General Evaluation of EPZs in India	176-230
Chapter VII	Social benefit cost analysis of CEPZ and Conclusions	231-265
List of Tables		v-xi
List of Figures/Charts		xii
Appendices		A1-A63
Bibliography		B1-B5

CHAPTER I

INTRODUCTION

CHAPTER I

INTRODUCTION

The explosive innovations and developments in Science and Technology have highly influenced the directions and trends in international trade. "Export and flourish" has been the basic slogan adopted by many of the developing countries though the Prebisch-Singer Hypothesis of "Export and Perish" was by and large experienced by them during the early and middle of the twentieth century.

The developed as well as developing nations are striving hard for earning the maximum possible foreign exchange by exporting goods and services of varied nature for meeting their import requirements and foreign liabilities. One of the most important channels devised by these countries for increasing their earnings of the precious foreign exchange was the organisation and setting up of the Export Processing Zones (EPZs).

Concept

The term 'Export Processing Zone' (EPZ) is considered to come into use around three decades ago. It denotes an instrument for widening the net of foreign exchange earnings through export of manufactured goods, consultancy services and technology. In other words, an EPZ is an

industrial estate housing production/processing/consultancy units exclusively for exports. It may be called as an off-shore assembly area because any multinational company can make use of them on account of low wage rates and low production costs for assembling/packing its components produced in some other countries.

An EPZ is different from a Free Trade Zone (FTZ). The FTZs are located in free ports and their main activity is in export trade i.e. goods/components are imported with the exclusive objective of exporting them after repacking or further processing.

An EPZ is also different from a cent per cent Export Oriented Unit (EOU). This type of unit refers to an industrial unit which offers for exports its entire production excluding the permitted level of rejects. They are allowed in industries in respect of which export potential is very high and they may be located anywhere in the country.

The Government of the country and the local administration will give all possible assistance to the units of the EPZ for encouraging their exports. Only those units which fulfil the value-added component (VAC) criterion will be allowed to function within the enclave of the Zone. Higher the volume of production/processing/consultancy service in the EPZ, higher will be the corresponding volume of exports and earnings in foreign exchange.

Genesis of EPZ

The first EPZ was established in Mayagaez, Puerto Rico in 1962. This was followed by one in Kandla, India in 1965[1]. History of FTZ/EPZ is briefly explained in page 1 of Chapter III of this thesis. Some crude form of EPZ was found to be in existence even before 1000 A.D. During the last 30 years, more than 50 developing/developed countries have organised more than 100 modern EPZs. (Also see Appendix 3.1) By 1980, there were 58 EPZs in 31 countries and another 33 EPZs were in the various stages of development in 20 other countries[2]. Nigeria, striving to boost its meagre non-oil export earnings, is hoping to attract local and foreign business to an EPZ being developed near its South-Eastern port of Calabar. The Nigerian Government would allot 800 naira ($80 million) for developing 300 hectares of land for the EPZ[3].

The EPZs of India are located in Kandla (Gujarat), Santacruz (Maharashtra), NOIDA (UP but very near to Delhi). Falta (West Bengal - near Calcutta), Tamabaram (Tamil Nadu -

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1 UNTCTAD (1982), Incentives for International Exports, Trade and Development Board, Geneva,p.18, cited by Rajiv Kumar in India's Export Processing Zones: Oxford University Press, Delhi, 1989.p.1.

2 UNTCTAD (1982), Annexure I, Table I & II, cited in Rajiv Kumar, Ibid.

3 The Economic Times dt. 14-11-1991.

near Madras), Trikkakara (Kerala near Kochi) and Vizaghapatnam (Andhra Pradesh). The Kandla EPZ, established in 1965, is the first Indian EPZ and the one at Vizaghapatnam which came into existence in 1994 is the latest in the line. All EPZs in India are under public sector and is under the Ministry of Commerce. Two EPZs under private sector are being set up, one in Maharastra and the other in Gujarat.

During the post Second World War period many of the war-torn economies were getting liberal assistance from the USA. But many of the nations which attained independence in 1950s were invariably following import substitution strategy for industrialisation and conserving their valuable foreign exchange. In this attempt they experienced severe and, in certain cases, very acute balance of payments problem. This forced them to concentrate their policies on large scale diversification with a view to earn more and more foreign exchange by export diversification. But their efforts were resisted by the importing nations by introducing protectionist policies viz. fixation of quotas and high tariffs. To overcome the impact of tariffs the importing countries introduced fiscal measures like duty drawback, cash compensatory support, import replenishment licences etc. However, these measures were found inadequate to meet their foreign exchange requirements and hence they began to search new methods for securing foreign exchange earnings. It was this search which led to the establishment of EPZs.

The EPZs enabled the countries to go for partial liberalisation in their general economic and/or foreign trade policies by permitting free import and export of products or components by creating certain enclaves. Free flow of foreign and/or national capital is permitted into these enclaves. The enclaves so organised are called as EPZs. They are effectively converted as a part of world market where free trade and world market prices are permitted to prevail. All regulations regarding minimum wages, taxes, controls on production capacities etc. are scrapped. These enclaves are also known as "Product Enclaves", because manufacturing of certain products not permitted in the Domestic Tariff Area (DTA), are permitted here. Tax holiday, subsidised standard design factory space and efficient infrastructural facilities are also made available in these enclaves. Transnationalisation of production by Multinational Corporations (MNCs), availability of cheap and skilled labour, low rent, low energy cost, availability of cheap transportation facilities etc. have attracted a number of foreign enterprises into the EPZs.

Objectives of the EPZs

The major objectives of EPZs are:

a. expansion of net foreign exchange earnings of the country.

b. attraction of foreign private investment and new technology.

c. maximum utilisation of the resources of the host country - especially unskilled labour.

Review of Literature

The voluminous growth in the literature on EPZs is found to be unique. These studies range from analysis of the economic performance of EPZs in relation to the objectives set out to the complete socio-anthropological analysis of these Zones[4]. But only a few studies have examined the economic logic and welfare aspects[5] of EPZs. "India's Export Processing Zones" by Rajiv Kumar[6] is such a study in the Indian context.

The mobile nature of the EPZ units and their foot-loose character have been revealed by Peter G. Warr in his article, "Export Processing Zones: The Economics of Enclave Manufacturing"[7]. L.M. Rodricks in his book, "FTZ:

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4 Guerrero and Endencia(1984), and Lee Ki Suk et al (1984); cited in Rajiv Kumar op cit.

5 Hamada (1974), Rodriguez (1976), and Grubel (1982). cited in Rajiv Kumar, Ibid.

6 Rajiv Kumar, Ibid.

7 The World Bank Research Observer, Vol.4, No.1, Jan. 1989. p. 65.

Cat's Paw and Beachheads of Imperialism" has severally criticised the establishment of EPZs.[8]

It is observed in this context that the industrial units in EPZs are importing at concessional rates from the General Currency Area (GCA) and the goods produced using such facility are exported to Rupee Payment Area (RPA). This results in net foreign exchange outgo and hence defeats the basic objectives of establishing the EPZs. Critics cite the case of Kandla Free Trade Zone(KFTZ) to confirm their view mentioned above. It is claimed that about 90 per cent of the total exports of KFTZ were made to USSR during the period 1974-75 to 1989-90. India had bilateral trade relations with the USSR and its allies of the Eastern Europe and the export-import trade between them were governed by special agreement for conversion of Rupee and Rouble. The KFTZ exports to USSR were criticised on the ground that these exports were earning only non-convertible Roubles instead of convertible currencies which can be used for meeting the import requirements of essential goods, chemicals and machinery. As the earnings of Rupees from the RPA (USSR and her allies) were also used for meeting our import requirements of essential goods such as oil, chemicals, fertilizers and defence equipments, the above criticism has no validity.

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8 L.M.Rodricks, FTZs: Cat's Paw and Beachheads of Imperialism, Occassional Papers, Build Documentation Centre, Bombay 1985, p.136.

Moreover, as many of the developing countries of the GCA were not prepared to extend necessary assistance on soft terms for our continued and increasing import requirements of petroleum products, chemicals and defence equipments, the country had no option but to have bilateral agreements with RPA countries for procuring the above mentioned essential items. If we analyse the destination wise exports of SEEPZ during 1980-81 to 1983-86 it can be seen that only an average of 13 per cent of the total exports were made to the RPA countries. So the argument that the EPZs are causing depletion of the foreign exchange is not valid.

Objective of the Study

The objective of this study is confined to an evaluation of the working of the Cochin Export Processing Zone(CEPZ) in Kochi (Kerala). As no systematic study has so far been made about CEPZ, this study is expected to throw some light on a few relevant points which are useful for the entrepreneurs and the policy makers in future.

Methodology

The study is descriptive as well as analytical. Data for the study were collected both from the primary and the secondary sources. Primary data were collected through

questionnaires and personal interviews. Secondary data were collected from the following sources:

1. Official publications of the Government of India, the Directorate of Commercial Intelligence and Statistics, Calcutta and the Annual Reports of the Ministry of Commerce, Government of India.

2. Annual Reports, other publications and office records of the various EPZs working in India.

3. Indian Institute of Foreign Trade (IIFT) , New Delhi and Indian Council for Research in International Economic Relations (ICRIER), New Delhi.

4. News papers and journals.

Scope of the Study

The scope of the study is limited to an evaluation of the EPZs in general and the performance of the CEPZ in particular. The period of the study is from 1986-87 to 1994-95 in general and to 1995-96 in some select cases. For a few points the study was limited to 1993 as the data were available only upto that period.

Limitation of the Study

The units working in EPZs were reluctant to provide correct data. The study is forced to be carried out with whatever data the units have provided and the official machinery was prepared to divulge. The study could have been more valuable and fruitful if the various agencies involved were prepared to provide correct information which they have but not systematically maintained.

The social benefit cost analysis conducted to ascertain the social benefit acrued to the nation by the establishment of CEPZ is also limited by paucity of data.

Scheme of the Study

The study is organised under seven chapters. The first chapter provides an introduction to the study. It includes statement of the problem, objective of the study, methodology, scope, limitations and scheme of the study. The second chapter presents a review of literature on the subject. The Working of Export Processing Zones in India and abroad is analysed in the third chapter. Next chapter discusses the working of the CEPZ. The similarities and differences in the working of CEPZ with some EPZs in India on some important aspects are explained in the fifth chapter. The sixth chapter evaluates the general working of EPZs in India. The social benefit cost analysis of CEPZ and conclusions of the study are given in the last chapter.

CHAPTER II

LITERATURE SURVEY

CHAPTER II

LITERATURE SURVEY

Introduction

In the first Chapter a brief introduction on the evolution about the EPZ is presented. Since EPZs were established as instruments of foreign exchange earnings and they are involved in internetional trade some background information and knowledge about international trade theories will be of great use in analysing and evaluating the working of EPZs. So an atempt is made in this Chapter in that direction.

Nations trade with each other because they benefit from it. Other motives may be involved, of course, but the basic motivation for international trade is that of gain. The gain from international trade, like the gain from all trades, exists because specialisation increases productivity[1].

International Trade and Economic Development

It is generally believed that international trade promotes economic growth and development and thereby economic welfare of people. However, economists are not unanimous on

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[1] James C. Ingram, International Economic Problems, John Wiley and Sons, New York, 1928,p.4.

this issue. For example, while Haberler, Cairncross and Robertson hold the view that foreign trade leads to economic growth and development, Myrdal, Prebisch and Singer hold the view that the benefits of international trade are largely biased and is in favour of developed countries.

Haberler[2] enumerates the following benefits from trade.

i) Trade provides material means indispensable for economic development.

ii) Trade is the means and vehicle for dissemination of technological knowledge and the transmission of ideas.

iii) Trade is the vehicle for the international movement of capital.

iv) Free international trade is the best guarantee for free competition.

After seeing some of the benefits of international trade it is proposed to discuss in brief the different theories on international trade. First let us discuss the classical theory and then the refinements on classical theory and other theories.

Classical Theory of International Trade

In the opinion of Adam Smith, trade between two countries would be mutually advantageous if one country could

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2 Gottfried von Haberler, Dynamic Benefits of Trade, Oxford University of Press, Stanford 1971, p.494.

produce one commodity at an absolute advantage (over the other country) and the other country could, in turn, produce another commodity at an absolute advantage over the first. David Ricardo, in his book "Principles of Political Economy and Taxation", has propounded the comparative cost theory. This was later refined by J.S. Mill, Marshall and Taussig. The theory of comparative cost states that if trade is left free, each country, in the long run, tends to specialise in the production and export of those commodities in whose production it enjoys a comparative advantage in terms of real costs, and to obtain by importation those commodities which could be produced at home at a comparative disadvantage in terms of real costs, and that such specialisation is to the mutual advantage of the countries participating in it[3].

Refinements in the Classical Theory

The theory of comparative cost was severely criticised for its wrong assumptions. But even under wrong assumptions the theory was found to be valid. So attempts were made to elaborate the theory with certain modifications by economists like J.S. Mill, Alfred Marshall and Taussig. As remarked by Haberler, in a modern economy ....

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3 Jacob Viner, Studies in the Theory of International Trade, London: George Allen and Unwin Ltd., 1964, p.438.

" goods are not strictly exchanged with other goods but goods are bought with money ..... The flow of international trade is determined directly by absolute differences in money prices and not by comparative differences in labour cost"[4].

The Ricardian theory assumes that no cost is involved for the transfer of goods between two countries. If the transfer cost is also taken into account the international division of labour will be considerably reduced. If the cost of transfer of a commodity is more than the difference in the costs of production between two countries, it will not be traded between them as there is no comparative advantage. The theory can also be applied when more than two commodities are exchanged. If two countries are exchanging a number of commodities between them, one country may be enjoying a comparative advantage over the other in all its exports. The theory is also applicable when more than two countries are involved in the trade. Under this situation each country will specialise in the commodities in the production of which it has comparative advantage over the others.

Ricardian theory assumed the situation of constant prices. But if variable costs are also taken into account the substance and spirit of the theory are not eroded. However,

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4 GottFried Von Haberler, The Theory of International Trade, London: William Hodge and Co., Ltd., 1961, p.132.

production under increasing costs condition will certainly reduce the chance for international specialisation. The mere existence of "non-competing" groups does not influence the theory so long as the relative wages in each country is the same.

As pointed out by Taussig, considerable pressure is exerted by interest charges on international trade as long as different quantities of capital are involved in the production of different commodities. A country reaps comparative advantage for those goods which are produced with much capital but with less interest rate. However, high or low interest does not in itself act as an independent factor; it excercises an influence only so far as it enters to a greater degree in one commodity than in another[5].

Opportunity Cost Theory

The major shortcoming of the comparative cost theory was its assumption that the price of a commodity was equal to the amount of labour time expended on the production of the commodity. Gottfried von Haberler tried to rectify this defect by restating the theory in terms of opportunity costs.

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5 F.W. Taussig, International Trade, The MacMillon Co., Inc. New York; 1941, p.66.

The opportunity cost of a commodity is the amount of a second commodity that must be given up in order to make available the required factors of production, in order to enable the production of one additional unit of the first commodity. According to the opportunity cost theory, a nation with a lower opportunity cost for a commodity has a comparative advantage in that commodity and a comparative disadvantage in the other commodity. The theory has an additional merit and hence superior to the classical theory as it recognises the existence of various factors of production other than labour.

The Prebisch-Singer Paradigm

The Prebisch-Singer hypothesis adds a new dimension to the classical theory. It foresees a declining trend for the exporters of primary commodities and an improving trend for exporters of manufactures. The hypothesis revealed a tendency towards worsening terms of trade for developing countries with international trade, thus contributing to a widening gap between the rich and the poor countries and with the benefits of international trade being very unequally distributed between the two groups of countries. The assumptions[6] of the hypothesis are:

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6 Rameshwar Tandon, Prebisch Hypothesis and Terms of Trade: Peripheral Capitalism in the 1980's, Ashish Publishing House, Delhi, 1985. p.26.

i) It is a"two country World" with the centre and periphery.

ii) The centre exports industrial goods and the periphery exports raw materials only.

iii) Higher level of production (is generally found) in the centre.

iv) The periphery does not consume its own products and there is no change in the real income with the fall in the prices of primary goods.

v) Periphery has price inelastic demand facing it.

vi) In the centre there is no distinct exporting sector and the manufactures produce both for domestic consumption and export.

vii) The centre's pricing decisions are affected by the wage levels in both markets.

viii)The diverse market structures(exist) in the centre and periphery - the centre has oligopolistic market and in periphery perfect competition.

ix) In the periphery there is well defined 'export sector', where prices are decided by world markets. As the prices rise in the upswing, the incomes are increased, but as prices fall in the downswing, incomes remain rigid.

So, the theory states that development has been unequal and that the backward areas' technical progress is usually penetrated, where it was needed to produce foodstuff and raw materials at low cost for delivery to the great industrial centers". Prebisch and Singer have also questioned the mutual profitability of international division of labour for the periphery when trade is guided by comparative costs.

From Ricardo to Keynes, the conventional wisdom for more than a century was that abstracting from 'cyclical' ups and downs, the terms of trade of primary products vis-a-vis

manufactures would be subject to an improving tendency.[7] Given a niggardly nature, as population expanded and/or consumption per head increased, agricultural production and mineral extraction would show diminishing returns and, in a market economy, this decline will be reflected in rising relative prices for primary goods.[8] Prebisch and Singer challenged this view. Their firm belief was that the commodity prices could show decline in the long run. Since 19th century, Britain was the 'centre' country, the centre was visualised as buying primary goods from the periphery and also selling them manufactures.

Criticising the Prebisch-Singer theory, Kindleberger observes that there is no long-run tendency for the terms of trade to move against primary products in favour of manufactures. He also points out that if allowance is made for the improvement in quality of manufactures, "the terms of trade may have turned against manufactures and in favour of raw materials per unit of equal quality[9]. So the difficulties in shifting resources should not be related with primary production as such but with the economic backwardness. "As a

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7 Ibid, p.155.

8 Ibid.

9 Kindleberger,C, Terms of Trade, European Case Study, cited in Rameshwar Tandon, Prebisch Hypothesis and Terms of Trade: Pripheral Capitalism in the 1980's, Delhi, 1985, p.166.

country really becomes adult, it develops the capacity to innovate".[10]

According to Hans Singer[11], the specialisation of less developed countries (LDCs) on exports of food and raw materials to industrialised countries, largely as a result of investments by the latter, has been unfortunate for the LDCs:

a) because it removes most of the secondary and cumulative effects of investments from the country in which the investment took place to the investing country.

b) because it diverts the LDCs to activities having less technical progress

c) because it reduces the benefits of LDCs of foreign trade cum-investment based on export specialisation.

Kindlerberger[12] reiterated: if, however, the response to an equal increase in productivity in two countries is a shift out of exports in the developed, but no comparable shift in the LDCs, due to inelasticity of supply with respect to price decrease, the terms of trade would turn against the latter.

W.A. Lewis, Colin Clark, Atallah and Michaely contributed much for the interpretation of the Prebisch-Singer theory. While we do not survive by gains of trade alone it is certain that the terms of trade affect in a big way the share

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10 Ibid.

11 Hans Singer and J.A.Ansari, Rich and Poor Countries, GAU, London, 1978, p.36.

12 Kindleberger, C., op.cit.

of world income going to the periphery.[13] This phenomenon in a big way results long period transfers of income from periphery to the 'centre' countries. All the efforts of the periphery to improve productivity of primary goods export industries are self-defeating, as some of the points of technical progress will usually be transferred to the outer world in the form of lower prices of primary goods exports.[14]

Raul Prebisch held that the conventional theories continue to disregard systematically the social structure.[15]

> "we allowed ourselves to be mesmorized by prosperity of the centres....we gave up a policy that was producing results viz., import substitution not confined narrowly to individual countries but extended where possible to inter-regional trade. The great prosperity of the centres spread quickly to Latin American countries. Something fundamental to the economic development has been missed because of the wastage of capital accumulation potential caused by more and more research, fritted away on the privileged forms of consumption which have taken root in Latin America periphery. In conclusion I recognise that market forces have great

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13 Ramesh Tandon, op.cit., p.216.

14 Ibid.

15 Raul Prebisch , "The Crisis of Capitalism and the Periphery in Trade and Development", UNCTAD Review, No.4, Winter 1992, p.4.

importance but they do not solve basic problems for us ..... These forces must be combined with state intervention. .... a new nationalism must be sought but one based on dominant interests. It is not a question simply of a new international economic order but a new internal, ethical and social economic order."[16]

Modern Theories of International Trade

Here an attempt is made to briefly explain the modern theories of international trade.

Factor Endowment Theory

The Factor Endowment theory propounded by E.H. Heckscher and Bertil Ohlin was refined further by Paul Samuelson and Wolfgang Stopler. The theory consists of the Hockscher-Ohlin theorem and the factor price equalisation theorem. The Hockscher-Ohlin Theory states that a country will specialise in the production and export of goods whose production requires a relatively large amount of the factor with which the country is relatively well endowed. The Factor Price equalisation theorem states that free international trade equalises factor prices between countries relatively and absolutely and this serves as a substitute for

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16 Ibid p 4.

international factor mobility. International trade increases the demand for abundant factors and decreases the demand for scarce factors because when nations trade, specialisation takes place on the basis of factor endowments[17]. International trade tends to equalise the prices of internationally traded goods in all the regions of the world as the movement of goods from areas where they are abundant to the areas where they are scarce under the influence of trade. International trade will expand upto that point at which prices of the commodities are found to be equal in all regions. International trade also tends to equalise factor prices all over the world.

Leontief Paradox

Wassily W. Leontief made an exhaustive study on the Heckscher-Ohlin theory. According to the factor proportions theory, the US should have been exporting capital intensive goods and importing labour intensive goods. This hypothesis was disproved in Leontief's test and showed that the US was actually exporting labour intensive goods and importing capital intensive commodities. This paradox was popularly called as "Leontief paradox". Leontief in his test, proved that the ratio of capital to labour was higher in the import substitution industries than that in export industries in the US. He substantiated that the country resorted to foreign

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17 Francis Cherunilam, International Economics, Tata McGraw Hill Publishing Co.Ltd., New Delhi, 1994, p.39.

trade in order to economise its capital and dispose of its surplus labour. In his explanation, Leontief has stated that though labour was numerically small in relation to the capital stock in the US, the effective supply of labour was relatively greater on account of the superior quality of the US labour force. He also pointed out that the productivity of an American worker is almost three times higher than that of a foreign worker. So Sodersten rightly observed: If production functions are identical between countries, if factor reversals are ruled out and if factors of production are homogeneous and identical between countries except for a multiplication constant, Leontief's explanation might be valid[18]. P.T. Ellsworth has showed an important shortcoming in Leontief's analysis. He stated that the capital intensity of US import replacement industries is irrelevant to the comparison as production functions are not similar and identical between countries. According to W.P. Travis, factor endowment cannot be expected to influence trade pattern in a tariff-ridden world.

The study made by R. Bharadwaj[19] has revealed that Indian exports to US were capital intensive, while its imports from that country were labour intensive. The analysis of

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18 Bo Sodersten, International Economics, MacMillan, London, 1972, p.105.

19 Sidney J Wells, International Economics, cited in Francis Cherunilam, International Econoics,p.44.

German trade done by Stopler and Roskamp[20] pointed out that exports are capital intensive while imports are labour intensive. The study made by Tatemoto and Ichimura[21] on Japanese international trade indicated that the trade pattern is more or less in accordance with the Heckscher-Ohlin theory. Due to the divergent opinions and circumstantial support received from various quarters no conclusion could be finally arrived at regarding the applicability of the Heckscher-Ohlin theory.

Complementary Trade Theories

The Heckscher-Ohlin theory failed in explaining a substantial portion of the international trade. The important theories which are extending the Heckscher-Ohlin trade model are summarised below:

Intra-Industry Trade

The Heckscher-Ohlin theory is not commenting on the intra-industry trade on products which are similar but not completely identical in nature. A large volume of such trade is taking place between industrialised countries. On the intra-industry trade, producers cater to the 'majority tastes' within each country leaving the 'minority tastes' to be

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20 Ibid.

21 Ibid.

satisfied by imports. Such minor market segments called 'niche' often throw open the opportunity for entering the market by new/small players. In this connection it may be remembered that the Japanese companies have successfully employed the niche marketing strategy for capturing markets for their products. Different strategies are needed in foreign markets primarily because those merkets exist in different sets of environments.[22]

Consumer tastes and preferences and demand pattern are likely to change over a period of time. The demand for fuel-efficient small cars has increased considerably on account of the increase in the price of oil. After consolidating their position in a market segment with the strength of reputation they have built in, the Japanese companies systematically moved to other segments.

Technology, skill and management may also be included under the definition of factor endowments. In that case the Heckscher-Ohlin theory can be extended to the inter-industry trade provided the recognition of a number of segments within an industry.

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22 William, J.Stanton, Michael J.Etzel and Bruce J.Walker, Fundamentals of Marketing, Mc Graw Hill Inc., New York, 1991, p.527.

Economies of Scale

The Heckscher-Ohlin model depends on the assumption of constant returns to scale. In times of increasing return to scale mutually beneficial trade can be made even when two nations are identical in every respect. If one country is specialising in the production of one commodity and another country is specialising in the production of another commodity the cost of production can be reduced if the production is subject to increasing returns to scale.

Even if production capacities remain the same for two or more countries when tastes differ, mutually beneficial international trade can take place.

Technological Gaps and Product Cycles

According to the technological gap model enunciated by Posner, technological innovations form the basis of trade. Companies having monopoly of patents and copyrights of technological innovations can export these products to other countries. Due to certain favourable factors like low labour cost the foreign producers may acquire the technology and their products may be more competitive than the innovator. Unless the level of technology is frequently upgraded by the advanced countries they may be forced to import from the countries which have acquired the technology.

According to the product cycle model developed by Vernon, an innovative product is often introduced in developed countries. The product is then exported to other developed countries. As the market in these countries are expanded more production facilities are established through subsidiaries. The developing countries, which have production facilities would start exporting to the developed countries. Companies are generally pursuing new product strategies that are less costly and risky than developing completely new brands.[23]

Availability and Non-availability of Goods

This approach to the theory of international trade indicates the pattern of trade in terms of domestic availability and non-availability of goods. According to the availability approach, a nation would tend to import those commodities which are not readily available domestically and export those whose domestic supply can be easily expanded beyond the quantity needed to satisfy the domestic demand. Natural resources, technological progress and product differentiation tend to increase the volume of international trade. According to Kravis[24] the absence of free competition tends to limit trade to goods that cannot be manufactured by the importing nation. Thus the availability approach is

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23 Philip Kotler and Gary Armstrong, Principles of Marketing, Prentice-Hall of India Pvt. Ltd., New delhi, 1991, p.287.

24 Francis Cherunilam, op.cit., p.52.

adding new meritorious dimension in the exploration on the pattern of trade.

Export Processing Zones

Having discussed the different theories about international trade it is proposed to deal with EPZs in a little detail.

In order to earn more and more foreign exchange, many developing countries were trying to stimulate exports of nontraditional manufactures since the middle of the 1960s. The establishment of EPZs was one of the measures taken in this direction. 'EPZs are special enclaves, outside a nation's normal customs barriers. The majority of firms inside them are mostly foreign and enjoy favoured treatment with respect to imports of intermediate goods, taxation and infrastructure. The product decision must be made on the basis of careful analysis and review.[25]

Inspite of various studies on EPZs the economic and welfare effects of these were not given proper attention. Mr. Peter G. Warr[26] tries, in his article, to clarify the issues and to draw out the general relationship between the benefits

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25 Subhash C.Jain, International Marketing Management, CBS Publishers and Distributors, New Delhi, 1989. p.409.

26 The World Bank Research Observer , op.cit., pp. 65-85.

and costs of establishing EPZs, and the overall trading regime of the host country.

Electronic assembly, garment production, assembly of light electrical goods and similar labour intensive light manufacturing processes are undertaken in common by many of the EPZ units. According to Peter G. Warr a notable feature of the firms in these Zones is their international mobility. Firms leaving an EPZ in one country often migrate to an EPZ in another in which conditions are more favourable.

The 'footloose' character of EPZ firms was not given any attention in the early theoretical works. While the classical Heckscher-Ohlin model treats capital as being internationally mobile, it fails to identify the international mobility of capital goods. Empirical work on EPZs has also often overlooked the footloose character of EPZ firm. Most of the empirical work includes detailed time series of exports, imports, employment, use of utilities, infrastructure and administrative costs. 'What the empirical studies have lacked has been an analytical framework, so that the benefits and the costs of EPZs can be identified conceptually and quantified empirically.

Under standard conditions, the international trade theory treats the factors of production viz. land, labour and capital as mobile domestically but immobile internationally.

Commodities are mobile internationally. The footloose EPZ firms exploit the international mobility of capital goods with the use of domestic labour. The EPZ firms move their capital equipment to countries in which they can earn the highest rate of return.

The international mobility of capital is represented by the models developed by Jones in 1980 and taken by Caves and Jones[27] in 1985. In his article Peter G. Warr has brought out an amended version of the Caves and Jones model for revealing the essential features of EPZs. The inputs of processing activity in an EPZ are traded intermediate goods, capital goods and labour. The prices of these goods, the wages paid and the return to the capital goods used are formally related by

$$(1) \quad P_j = \Sigma_i \, a_{ij} \, P_i + a_{kj} \, R_j + a_{Lj} \, W$$

where,

P_j = the price of the final goods j

P_i = the price of the intermediate input i

a_{ij}, a_{kj} and a_{Lj} are the amounts of intermediate good i, capital goods and labour respectively, required to produce a unit of good j and

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27 Caves R.E and R.W Jones. World Trade and Payments: An Introduction, Little Brown, 1985.

W =the wage rate

These variables determine R_j, the rate of return to capital goods resulting from the production of good j in an EPZ.

The value added per unit of production of good j, Vj by

(2) $V_j = P_j - \Sigma_i a_{ij} P_i$

and now (1) can be rearranged

(3) $V_j = a_{kj} R_j + a_{Lj} W$

Figure 2.1 represents equation (3) [value added] for two countries named 'poor' and 'rich'. In the poor country unit labour costs, $a_{Lj}W$ are lower than that in a rich country. But unit requirements of capital goods a_{Kj} are lower in a rich country. The rich country's schedule thus has a higher vertical intercept (unit labour costs) - that is point B lies above point C - and has lower slope (unit capital good requirement) than that of the poor country. "A footloose manufacturer moves to the country where the highest value of R_j can be realised[28]. This is shown by the shaded surface in the diagram. "When unit value added is high, implying high returns to the capital goods specific to commodity j, the rich country is able to attract the processing activity"[29]. The rich country uses the scarce capital more efficiently. But if unit value added falls indicating reduction in the rate of

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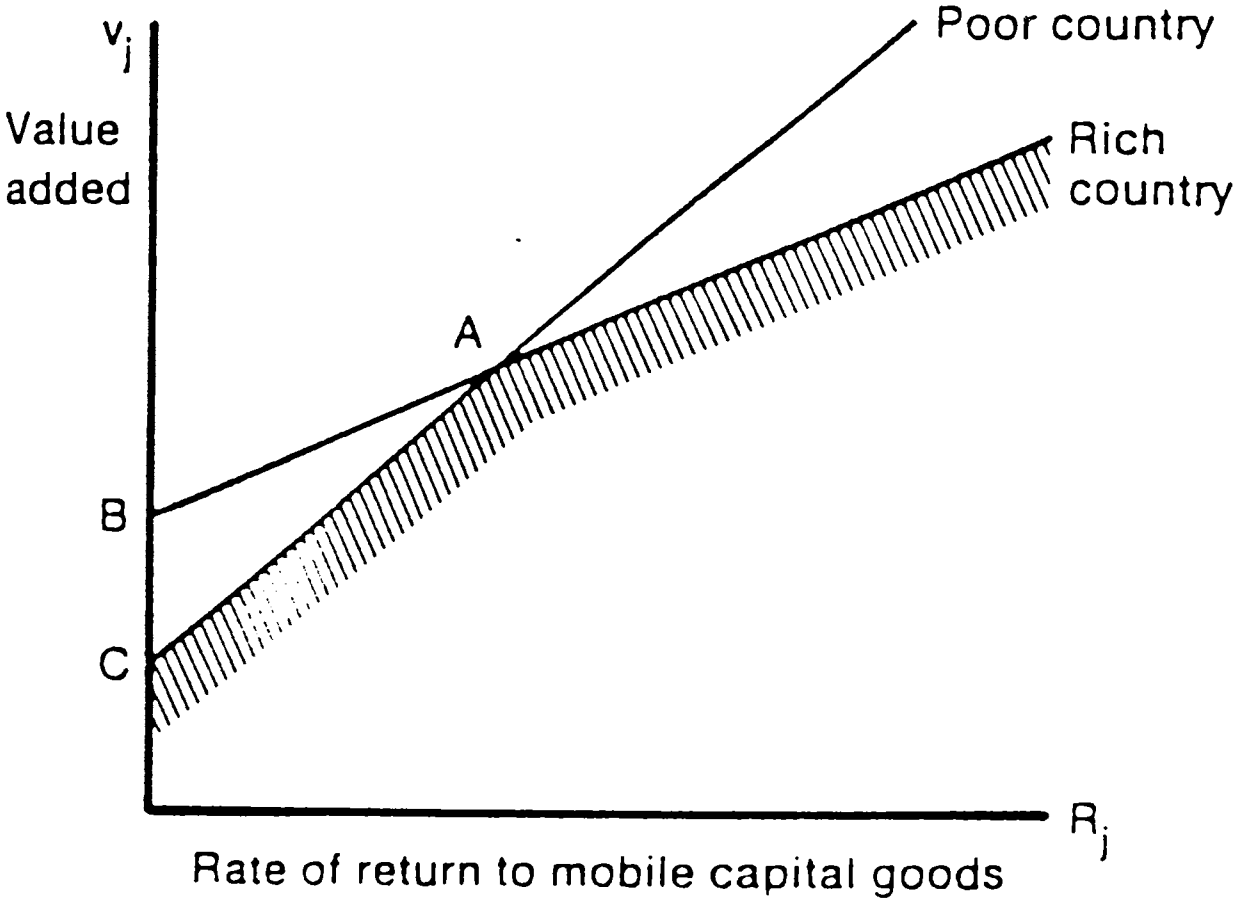
28 The World Bank Research Observer, op cit, p.68.

29 Ibid.

return, unit labour cost becomes more important. So below point A, the processing activity moves to the poor country.

Fig. 2.1

Migration of MNC manufacturers from EPZs



The analysis is consistent with the "product cycle" process identified by Vernon[30] in 1966. It supports a gradual migration of newly developed manufactured processes from rich countries (where scarce capital goods are used more efficiently) to poor countries (where unit labour costs are lower) as international competition forces down the unit value added generated by these processes.

Indian Conditions

Under the Indian conditions the foot-loose character of the industrial units in EPZs is not found to be very relevant. Though the mortality has occurred to a few units none of them were due to migration to the EPZs in other countries. Moreover, the industrial units involving bulk-breaking, repacking, labelling and assembly of semi-knocked-down products are not given approval for their operations by Indian EPZs.

Free Trade Zones

According to an American business man in Seoul

"Free Trade Zones are like Hilton Hotels. When you are inside one, you don't know what country you are in, and

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30 Vernon R. International Investment and International Trade in the Product Cycle, cited in Warr, P.G. The World Bank Research Observer, Vol 4 No. 1 Jan 1989.

the hassels of the country don't touch you. It is a businessman's dream. And the workers are polite and obedient and almost look alike - sometimes you wonder if, they are Mexican, Philipinos, Malays or Arabs"[31].

The Zone is treated as a separate country; the Zone Administration is the Government[32]. According to a Japanese industrialist "The Free Trade Zone is a new form of foreign settlement adopted to the new (post classical colonialism) situation".

FTZs overcome the problem of geographical distances by cheaper but faster transportation method and computerised telecommunication network. Production centres are established in third world countries by devising new technologies which were able to take advantage of the comparatively cheap unskilled and semiskilled labour. Fast changing consumer tastes and production methods have resulted in heavy investments that can be assembled by cheap labour at different end points. According to the U.S. Tariff Commission[33] "The combined use of semi-conductor production and manual processing is important to the producers who supply a rapidly increasing market, characterised by new technology, product

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31 L.M. Rodricks, op cit, p.1.

32 Ibid, p.8.

33 Ibid.

innovation and swift obsolescence of the products". The combined effect of all these trends was the dawn of EPZs with global assembly line owned by Multinational Corporations (MNCs).

> Mr. Rodricks[34] accuses that the FTZs "are in fact the brain children of the Transnational Corporations (TNCs), a new colonial device incubated in corporate board rooms and economic think-tanks, an outgrowth of 'their export-oriented industrialisation thesis' inculcated into the economic policy planners and technocrats of the third world. ..... As artificially inseminated industrial clones, they have now mushroomed in various countries of the third world."

But UNIDO, international financial institutions, foreign investors, local industrialists and host Governments consider FTZs and EPZs as a panacea for third world industrialisation problems. These agencies are of the firm view that these Zones will boost export earnings, ease trade deficits and ends balance of payments problems and over reliance on export of a few primary products. So third world countries are found to be competing with each other in

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34 Ibid p. 128.

inviting the MNCs for making massive investments in their countries.

The Peoples Republic of China, even though it is under a totalitarian regime, has established four Special Economic Zones (SEZs) under the inspiration from the utterances of its premier, Deng Xiaoping. He said "If we can increase production, it doesn't matter whether operations are run privately - if a cat catches mice, it doesn't matter whether it is white or black"[35].

The Counter view

A number of international agencies like ESCAP, UNCTAD, ILO, World Federation of the Trade Unions and Women's and Labour - rights groups criticised the Zones. According to an UNCTAD study, the contribution of the Zones to the economic development of the third world has been disappointing if their economic impact is measured against rather ambitious objectives laid down by the developing countries in establishing such Zones. Besides, they have not led to any major transfer of technology. The report also states that foreign investors locate or relocate production activities in the third world countries because of the availability of hard working labour and easily trained manpower whose wages are low compared to those paid in capitalist countries.

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35 Ibid, p.21.

ILO criticised on the ground that in some of the Zones the enterprises are exempted from stipulations of so many labour laws and that key issues either remain unregulated or left to the individual contract of employment. The Geneva based International Union of Food and Allied Workers Association attacked against the no-union, no-strike guarantees as investment incentives in the Zones[36].

Criticism against the Zones in India

Rangnekar and Bhaduri, two eminent economists and members of the Tandon committee which was appointed to report on the opening of EPZs in the country, deplored the facilities extended to FTZs on the plea that they subserve only the interests of free enterprise and multinationals. They warned against an attendant danger of freeing the most powerful sectors and industrial superstructure - the MRTP and the FERA companies - from all restrictions in the name of exports; to the extent that exports are given top priority in respect of licensing, credit facilities, raw material supplies, budgetary support and tax exemption. This, in turn, will give them vastly increased leverage and lobbying power for bending domestic policy in other areas to their liking"[37].

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36 Ibid, p.23.

37 Ibid.

They were also of the view that the concept of balanced development and self-reliance is undermined. Even the policy of regional dispersal of industry and protection of small industry were to be scrapped on the recommendation of the Tandon Committee. They warned that free access to technology and wide-ranging concessions will have the effect of defeating the purpose of protecting the society from being subject to monopolies and multinationals and prevent the country from reaching the goal of technological and economic self-reliance[38].

United Nations Economic and Social Commission for Asia and Pacific (ESCAP) in its report states that the benefits from EPZs to national economies are minimal when compared to the huge investments of public funds required to set up the infrastructure of the Zones and provide subsidised services and a host of tax incentives. So it characterised the Zones as costly public expenditure in support of private enterprise. The report also reveals that the tax related incentive schemes of the Zones in introducing new investment were either slight or unknown. If the revenue forgone were invested it would have provided more value added goods and created more employment opportunities.

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[38] Ibid, p.25.

Employment Generation

The Zones are started as a means to generate employment. But instead of creating more job opportunities the Zones lead to wide-spread unemployment in times of recession. It was estimated that a total of 15000 workers were laid off by the units working in Singapore alone. In 1980 according to a survey conducted by Hong Kong Electronics Workers' Union, half the workers in electronics industry were either retrenched or underemployed in 1981 owing to slight recession and the decision of MNCs to commence operation in lower labour-cost countries.

Another point that is highlighted is that the employment structure in export production is also marked by a profound imbalance as largely women in the younger age groups are employed in this sector.

Minimum Foreign Exchange Inflow

The EPZs were started with a view to earn maximum foreigh exchange. But many of the Zone units failed in this aspect. This is largely because of the fact that many of the MNCs can adjust prices on their intra-company sales according to a deliberate plan, so that shipment to high-tax countries are priced high, while products shipped to low-tax countries are priced low. As a result of this the profit generated

becomes nil or minimal. Transfer-pricing practices within TNCs produce profits abroad rather than in the exporting country. Again the profits in the branch plants located in third world countries are not allowed for further investment in the country concerned but are sent back to corporate headquarters. Thus, whilst the host country does earn foreign currency it results in an escalating import bill, loss of potential revenue through exemption from taxes and customs duties and through repatriation of profits, paying for amortization and debt servicing. Some of the production units of KFTZ are found to import goods and components from the GCA and export to RPA thus providing for steady draining of the foreign exchange of the country.

Mechanics of Economic Imperialism

In his book, "FTZ: Cat's paw and Beachheads of Imperialism" L.M. Rodricks[39] alleges that neocolonialism is practised by the former colonial powers in the newly independent third world countries. This is practised through a type of dependent capitalism – through bank loans, manipulations of the terms of trade, increased exploitation of irreplaceable natural resources and militarisation of the economies.

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[39] Ibid, p. 102.

Because of neocolonialism the newly independent third world countries were dragged into the world trade. They were compelled to earn foreign exchange through the export of their traditional primary products, while their terms of trade began to show steady deterioration. The imperialist countries began to dump their agricultural produce at very low prices in third world countries. The third world countries were experiencing high prices for their industrial imports and low prices for their primary exports. Moreover, the shipping, banking and insurance companies of the developed countries were exploiting the LDCs by charging high rates for their services. So it is estimated that the terms of trade of third world countries deteriorated by 20 per cent between 1954 and 1963. The MNCs were able to earn enormous profits by their trade with the third world countries.

Import Substitution Industrialisation

The ever widening gap of imports and exports compelled the newly industrialised countries to adopt a new strategy or model for their international trade called "import substitution industrialisation. This strategy was propounded by Raul Prebisch, based on his experience in Latin America during 1950s. This strategy got wide support from development ideologists from capitalist countries.

It was found that as the import substitution proceeds to the areas not traditional to the existing local production patterns, the import of raw materials from advanced capitalist countries increases. It was experienced that the import of raw materials and capital goods has resulted in foreign currency costs as high and sometimes in excess of the savings made on the imports of finished goods. The actual experience was found to be contrary to the expectations that the foreign exchange gap will be reduced considerably. So the countries which adopted this strategy were more dependent on foreign capital than what was the position earlier. While inducting foreign investment, the TNCs moved behind tariff barrier to produce locally what they had imported earlier. Thus, this strategy solved no problems connected with foreign exchange earnings, but only increased the contradictions inherent in what was known as the centre periphery relationships.

Export- Oriented Industrialisation

As the foreign exchange position began to reduce considerably many countries were forced to shift their strategy from import substitution industrialisation to export-oriented industrialisation. The new strategy was part of the process of globalisation and reorganisation of industrial production by the TNCs. The additional exports are expected to be generated by changed conditions of capital

expansion. The strategy was a step towards independence between the rich and the poor countries and the increasing co-operation between the MNCs and developing countries for mutual benefits. Under the changed system the capital expansion is providing for using the supply of unemployed cheap labour in the third world. So the availability of cheap labour and the suitable technology provided for relocation of industries and production began to be less dependent on geographic distances. Another determinant of relocation is the development and refinement of technology which makes it possible to decompose complex production processes into elementary units, so that unskilled workers can be easily trained to perform otherwise complex operations. The large movement of capital expansion coupled with unlimited supply of cheap labour and the development of transport, communication, organisation and new technologies have provided for large scale industrialisation in the third world. Thus the developing countries can absorb the latest technology and compete with the advanced industrialised countries. The protectionist policies are to be abandoned and the third world economies are to be integrated with the global situations with the help of foreign capital, technology and managerial skill. In order to invite foreign investments and to produce for meeting the demands of the world markets new laws and systems were made by the developing countries. The FTZs, SEZs and EPZs were formed in the above background in many developing

countries. Thus FTZs/EPZs/SEZs are essentially the product of export-oriented industrialisation thesis.

According to L.M. Rodricks, institutions like UNIDO, Asian Productivity Organisation, Asian Development Bank and the ICRIER were implanting the idea of FTZs in Asian countries. UNIDO, established in 1967 by a UN General Assembly resolution, promoted industrialisation in developing countries. It provided assistance for the formation of FTZs in the form of survey and feasibility studies.

L.M. Rodricks thinks that many of the FTZs are yet to achieve the objectives for which they are established. He further states that the TNCs, monopolies and local capitalists are exploiting the concessions given to them by suppressing the rights of workers. He pinpoints the experience of Srilanka where 3500 workers are left with no job in 1984 when 10 FTZ units in Colombo owned by foreign firms were closed down. He points out the following three major defects with respect FTZs:

1. International sub contracting
2. Repatriation of a large portion of income by way of dividend, interest, royalties and a system of transfer pricing.
3. The concept of 'corporate borders' provides for the shipping of products from one factory to another

belonging to the same owner but within two countries without payment of duties, and many of the products are not entered in the international markets for actual consumption.

L.M. Rodricks alleges that Rajiv Kumar, in his study entitled "Export Processing Zones in India: An Evaluation", has cleverly and convincingly skirted an analysis of the most sensitive issues concerning the role and performance of FTZs in India. The study has revealed that the KFTZ and SEEPZ have contributed only marginally to foreign exchange earnings and in generating employment. However, L.M. Rodricks admits that Rajiv Kumar has made a number of suggestions for the improvement in the functioning of FTZs/EPZs.

CHAPTER III

WORKING OF EPZs IN INDIA AND ABROAD

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WORKING OF EPZs IN INDIA AND ABROAD

History of FTZ/EPZ

Alfred the Great, the King of England, is considered to be the founding father of FTZ. In 898 A.D. he granted Plegmund, Archbishop of Canterbury, the right to land ships at Queenhithe in London without paying import duties. The U.S.A. can be considered as the leader in the creation of FTZs. During 1930s she granted FTZ status to the International ports and airports, applied for that status. It was the success of a FTZ at Shannon Airport, Eire that has given real impetus in the organisation of similar projects elsewhere in the world.

The third world countries of Asian and the Caribbean region started FTZs as a means to earn hard currency to meet their requirements connected with industrialisation. These Zones are expected to attract investments, help to upgrade technology and create job opportunities. It is estimated that now there are more than 300 FTZs/EPZs in the world if the old fashioned ones are also taken into account. The FTZ/EPZ are known as Special Economic Zones (SEZ) in China. The details of EPZs in various countries of the world are given in an abridged form in Appendix 3.1.

The Lloyd's International Free Trade Zone Directory does not make any distinction between a FTZ and an EPZ. Trading is given more importance in the former, while processing of raw materials or semifinished products is given weightage in the latter.

Export Processing Zones in India

As on 1st January, 1996 India had seven export processing Zones located in various parts of the country. The Kandla Free Trade Zone (KFTZ) set up in 1965 in the backward area of Kutch, situated 10km away from the Kandla port in Gujarat State, is the first of its kind. Santacruz Electronics Export Processing Zone (SEEPZ), established in 1974, 6km away from the Santacruz Airport in Bombay, Maharashtra state, is the second one. Four more EPZs were set up in 1985-86, one each in Madras (Tamil Nadu State), Kochi (Kerala State), Noida (New Okhala Industrial Development Area in U.P. State) and Falta (near Calcutta in West Bangal State). They all are now fully operational. The 7th EPZ established near the port of Vizaghapatnam (Andhra Pradesh State) has also become operational now. All the above EPZs in India are under the Government of India's ownership. Private sector EPZs are also being set up in recent years in Gujarat and Maharashtra States.

Incentive Packages Available at EPZs

The various policy incentives available at the Indian EPZs are:

1. Duty-free import of capital goods and equipments from preferred sources.
2. Exemption of customs duties on raw materials, components and tools.
3. Exemption of import licences for all imports into the EPZs are placed under Open General Licence (OGL).
4. Export incentives even for locally procured supplies from the DTA.
5. Blanket foreign exchange sanction for business trips abroad.
6. Repatriation of capital upto the extent of original investment.
7. Repatriation of profits and dividends after payment of tax.
8. Cent per cent foreign equity participation and majority foreign equity participation with Indians on a case to case basis.
9. The EPZ Boards act as nodal agencies for clearance and approval of applications and licences.
10. The EPZs are declared public utilities. Trade union activities are restricted. Minimum wage laws are not applied.
11. Priority release of cement, steel, telephone and telex connections.

Fiscal Concessions to EPZs

The fiscal concessions made available to the various EPZs in India are:

1. Tax holiday for five years on all corporate profits.

2. Exemption from central excise duties on the manufactured items.

3. Exemption from central sales tax, states sales tax, octroi, property taxes, stamp duties on lease of the plots etc.

4. Credit at preferential rates from Central and State financial agencies.

5. Subsidised rentals and lease rates for built-up sheds, factory space in standard design factories and industrial plots.

6. Exemption from electricity duty.

7. Transport subsidy.

8. Capital subsidy.

9. Packaging credit facilities for a period of 180 days without production of firm export orders or letters of credit.

10. 25 per cent of the produce for sale in India against a valid import licence.

11. Some portion of the waste, seconds and scrap can be sold in the DTA subject to payment of regular export duties but without licences.

Discussion with entrepreneurs working in the EPZ revealed that the above incentives were made available only on a piecemeal basis and hence they were not actually available to many of the units in its earlier years of operation. The exemption from state sales tax was announced by the Gujarat Government only in 1974. Central sales tax was levied on all units until 1978. The tax-holiday was implemented only in

1982. The piecemeal, staggered and changing nature of incentives prevented the Zone management from issuing the incentive package effectively for attracting investment from Indian and foreign businesses. Investors clearly prefer a degree of predictability in policies over a relatively long period of time. Unabsorbed depreciation, investment allowance and development rabate are not permitted to carry forward. The Tandon committee has recommended tax-holiday for a 10 year period for all EPZ units. As it applies today the holiday is effective only for three years. But it may be noted that a unit may find it difficult to earn profit within a short period of one or two years from its inception. Hence for the accrual of the benefit of tax holiday for the new units, either the period should be extended further from five years or it should be made effective only from 3rd year of operation of the unit. This demand of units has not been accepted by the Government of India. But later they were given the discretion of opting for any five years tax holiday within a period of first eight years of the commencement of business by the unit.

Selection Criteria

A uniform criterion applicable to all EPZs in the selection of units are found to be lacking. The Board of Approvals(BoA) concerned with each EPZ are found to favour the proposals which

1. show a high percentage of value added per unit of exports,
2. bring in new or sophisticated technology,
3. involve manufacturing processes which attempt to exclude assembly of "semi-knocked-down" (SKD) units, bulk-breaking activities and repacking and labelling,
4. provide evidence of a marketing arrangement with or without equity participation by a foreign partner,
5. have a large scale of operation and
6. substantial capital investment.

The entrepreneurial quality, pollution possibilities, suitability of the unit to be located in the Zone assured market and possibility of linkages into the DTA may also be considered in the 'overall judgement' However, the approval criteria will be based on the main objectives of the EPZs namely,

i) a minimum scale of net foreign exchange earnings for a period of five years.
ii) a minimum share of foreign equity participation
iii) a minimum creation of additional employment opportunities

Approvals granted

The number of approvals granted and units established in the premier EPZs are given in Table 3.1:

Table 3.1

Details of Approvals granted in KFTZ and SEEPZ

Name of EPZ	Period	Total No.of application	No approved	No rejected
KFTZ	1965-66 to 1983-84	515	127	388
SEEPZ	1973-74 to 1984-85	260	170	90

Source: Rajiv Kumar, op cit, p.22.

Table 3.1 reveals that a substantial portion of the Government's money and effort have been wasted. It also points out that

1) details of selection criteria are not clearly known to potential investors

2) the profitability in real terms are found to be more in other export encouraging ventures and

3) lack of transperency in the processing of applications.

High mortality of the units in the Zones can also be brought down if the selection criteria are strictly observed. It may be noted that the mortality rate between 1973-74 and 1983-84 has been in the order of 33% in KFTZ and 25% in SEEPZ. Studies have further shown that (1) mortality among units with foreign equity participation is lower than others (2) large domestic units are comparatively healthy than others and (3) the worst performers are the small, independent and purely domestic firms. So the minimum requirement norm prescribed

under selection criteria, described earlier, will take care of the due weightage desirable for low mortality. The minimum turnover of Rs.1.5 crores for garment units selected for NOIDA EPZ can be considered as a right step in this direction.

Value-Added Component Criterion

Generally the main condition for selecting units in EPZs has been the expected value-added component (VAC) of exports generated by the units. VAC has been used to monitor the performance of the individual Zones and of units therein. A minimum VAC of 30% of f.o.b export value has been laid down both for KFTZ and SEEPZ, which comes to roughly 43% of the c.i.f. value of imports. Application of lower VAC will be permitted only if they show large scale transfer of technology, assured market and proven expertise.

But it can be easily demonstrated that the VAC has no real bearing on the performance of the EPZ units. Of the seven largest units in SEEPZ with cumulative exports of Rs. 10 crores until March 1985, five had a cumulative value-added component of less than 30% of the f.o.b. value. These seven units accounted for 69.3% of the total SEEPZ exports in 1984-85 and more than 60% in 1985-86. In these two years also in these five units the VAC was only around 20% of the f.o.b. value. But the VAC ensures a certain minimum for net foreign exchange earnings per unit of exports from the Zone.

The value addition criterion was also recommended by the Empowered Committee of Secretaries (ECS), which submitted its report in 1985. Some of its recommendations have already been implemented by the Government of India. The Committee recommended that the value of locally purchased inputs should be deducted along with the value of all foreign-exchange outflows from the total foreign exchange earnings of a unit to estimate the VAC. According to the Committee 'value-addition' has been redefined as the gross foreign exchange inflows less total imports of the unit, whether from outside the country or from DTA, expressed as a proportion of the former. The Committee also recommended that the minimum value addition fixed by the BoA should be within a range of 20-30%. The Value-Addition Criterion recommended by the Empowered Committee (VAC-EC) induces EPZ units to increase the use of primary factors and minimise the use of locally procured or imported inputs.

The most successful EPZs are those which progress from the stage of importing all their input requirements to that of using an increasing proportion of domestic supplies. EPZs will create greater welfare effects for the economy if the backward linkages with the rest of the country are intensified.

Table 3.2

List of select Commodities with more than 20 per cent gross value added to gross output for 1984-85

	Commodity	Per cent
1.	Cosmetics	26.62
2.	Machine tools	25.82
3.	Insecticides	24.53
4.	Cement	23.99
5.	Paper	23.49
6.	Cotton textiles	21.89
7.	Iron and steel	20.98
8.	Plastics and synthetic rubber	20.93
9.	Other chemicals	20.41

Source: "Intermediate use and final demands for the Indian Economy" (table 4), Technical note on the VIth plan of India, 1980-85, Government of India, cited in Rajiv Kumar, op.cit.,p.34.

VAC-EC also rightly limits the choice of industries to be located in EPZs. Tables 3.2 and 3.3 provide the list of industries, where value addition has been estimated to be higher than 20 and 30 per cent respectively. It may be remembered that the stipulated range for VAC-EC is 20-30 per cent of exports. From Tables 3.2 and 3.3 it can be seen that many units are disqualified to become export earners and units

in the EPZs[1]. High value addition is practically earned by large capital and labour intensive industries. If the predominant selection parameter is the VAC-EC criterion the units that can be established in Indian EPZs will be highly restricted. So it is recommended that the BoA should continue to use the earlier VAC and exclude DTA purchases from the computation of value-addition. Ignoring the special problems of a few units the overall position of all units in the EPZs should be considered while determining the VAC.

Table 3.3

Select List of Commodities with more than 30 percent of gross value added to gross output for 1984-85

	Commodity	Per cent
1.	Carpet weaving	83.09
2.	Tractors & other agricultural implements	56.50
3.	Ships and bodies	56.50
4.	Office, domestic and commercial equipments	56.18
5.	Motor vehicles	56.18
6.	Art silk fabrics	48.96
7.	Batteries	48.42
8.	Readymade garments	48.20
9.	Wood products	44.78

Source: Rajiv Kumar op.cit. p.35.

1 Cited in Rajiv Kumar, op cit p 34.

The aim of the Empowered Committee was how to prevent the use of EPZs for transferring export activity from the DTA, while ensuring a net increase in the foreign exchange earnings of the EPZs. Units which procure a major share of their import requirements from the DTA could undertake their exports from the DTA itself. By shifting their export operations to the EPZs they merely transfer and do not add to export earnings by making use of the incentives and concessions for increasing their profits. So the VAC-EC does nothing to prevent EPZs from being used as conduits for higher profitability.

From the analysis of the working of the units in KFTZ and SEEPZ it is generally found that those having some foreign equity participation are functioning well due to the well-defined marketing arrangements. By taking into account the highly successful functioning of the units in some foreign EPZs like Masan and Bayan Lepas (Malaysia), it is recommended that the Indian EPZs need permit only those units having some foreign equity participation. Such a policy can surely prove the way for capturing international markets by Indian EPZs.

Administrative Set-up

The EPZs in India are organised as departmental undertakings under the Ministry of Commerce, Government of India. The chief executive and controlling authority of each

Zone is the Development Commissioner(DC), who is generally drawn from the Indian Administrative Service(IAS) cadre. Detailed chart showing the administrative structure of control by Government of India on each Zone is given in chart 3.1. The rules and policies applicable to the Zone are not always uniform. The EPZs in India were originally conceived by the State Governments. They will be given assistance from the Government of India when they are sanctioned. But this set-up was not followed. The highest decision-cum-policy making body of each Zone is the concerned Zone Authority which is headed by the Cabinet Minister or the Minister of State for Commerce, Government of India and consisting of Central and State Secretaries, other officials and the respective Development Commissioners for attaining the 'single-window' clearance.

The 'single-window' clearance is found to be often impractical since the power of the BoA is only of recommendatory in nature. All units are to get their applications and proposals cleared by the DC or the Secretariat of Industrial Approvals(SIA), according to the nature of the business.

The procedural delays can be overcome only when the management of the Zone is equipped with necessary powers. An independent and autonomous body called Export Processing Zone

Chart 3.1

ADMINISTRATIVE STRUCTURE OF AN INDIAN EPZ

AUTHORITY

Minister of State for Commerce (Chairman)
Ministers of Industries (Province) (Co-chairman)*

Addnl. Sec., Ministry of Commerce (GOI)	Sec. Industries and Power (Province)	Member, CBEC; Ministry of Finance (GOI)	Jt. Sec., Dept. of Eco. Affairs, Ministry of Finance (GOI)	Financial Jt. Advisor, Ministry of Commerce (GOI)	Sec., Dept. of Industrial Development (GOI)	Chairman, Kandla Port Trust*	Planning Commission (GOI)	Development Commissioner of of EPZ	Director-in-Charge of EPZ Ministry of Commerce (GOI)

↓

BOARD

Additional Secretary, Ministry of Commerce (Chairman)

Jt. Sec., Dept. of Eco. Affairs, Ministry of Commerce (GOI)	Jt. Sec., Dept. of Company Affairs (GOI)	Jt. Sec., Dept. of Industrial Development Ministry of Commerce (GOI)	Jt. Sec., Dept. of Heavy Industry (GOI)	DG, SSI (GOI)	Deputy DG, DGTD (GOI)	Chairman, Kandla Port Trust*	Industries Commissioner (Province)	Director (Finance), Ministry of Commerce (GOI)	Development Commissioner of EPZ	Collector of Customs and Excise (Province)

DEVELOPMENT COMMISSIONER'S OFFICE

Controller of Imports and Exports	Assistant Collector of Customs Security Officer — Export Intelligence Cell Section Officer — Fire Prevention	Accounts Officer	Administrative Officer**

NOTES: * For KFTZ
** In SEEPZ the Administrative Officer is helped by a Public Relations Officer and an Estate Manager.
CBEC = Central Board Excise and Customs
SSI = Small Scale Industries
DGTD = Director General of Technical Development

SOURCE: Kaul Committee Report (1978), Annexure I, pp.2 and 3, quoted in Rajiv Kumar, Ibid. pp. 56 and 57

Authority of India (EPZA)[2] should be constituted and it should be vested with powers to mobilise its own funds in India and abroad. It should have a full-time Secretary General and the members should be top officials of the Central and State Governments and its meetings should be invariably chaired by the Cabinet Minister in charge of Commerce. The EPZA should be the sole agency for planning, establishing, promoting and efficient running of all the EPZs in India. The Comptroller and Auditor General of India(CAG) or Parliamentary Committees should periodically evaluate the performance of EPZA at regular intervals.

Export Earnings and Employment Generation

A comprehensive picture of the growth and employment in the two premier EPZs of Kandla and Santacruz are presented in tables 3.4, 3.5, and 3.6.

Table 3.4

Compound Percentage Growth Rates of Exports and Employment in KFTZ and SEEPZ

Year	KFTZ		SEEPZ	
	Export	Employment	Export	Employment
1973-74 to 1982-83	62.9	4.2	110.4	39
1980-83	150.06	NA	68.37	NA

Source: Rajiv Kumar, op cit, p.73.

[2] Rajiv Kumar, Ibid., p.186.

Table 3.5

EPZ Exports as percentage of Total Exports in Select Asian Countries

Year	Taiwan	Rep. of Korea	Philippines	India
1975	8.6	3.5	0.32	0.13
1976	8.3	3.9	0.89	0.22
1977	8.1	3.5	1.30	0.30
1978	7.4	3.8	1.10	0.33
1979	7.5	4.0	2.46	0.58
1980	NA	3.9	2.90	1.27
1981	NA	3.6	4.1	2.50
1982	NA	3.0	5.0	NA

Source: Rajiv Kumar, Ibid.,p.73.

The share of the two major EPZs in India was 2.5 per cent in 1981. In 1982-83 it stood at Rs.196.9 crores (roughly US$196 million). These were far below the levels reached by many of the successful Zones in the world. Exports from South Korean, Malaysian and Taiwanese Zones amounted to US$21,616 million, 2000 million, and 5600 million respectively in 1982.

An overview of the employment generated in select Asian countries and their respective share in the manufacturing sector is given in table 3.6. Asian EPZs account for 59% of global employment in EPZs which is

estimated to be 47.4 million. About 90% of the total employment in Asian EPZs is concentrated in South Korea and Taiwan. The share of India is found to be very nominal, only 0.12 percent.

Table 3.6

Employment in Select Asian EPZs in 1982

Country	No. employed	Employment in EPZ as percentage of employment in manufactured industries
India	7,500	0.12
Malaysia	80,920	11.0
Philippines	19,300	2.0
S.Korea	1,20,000	4.0
Sri Lanka	5,200	4.0
Taiwan	77,400	NA
Indonesia	7,742	NA

Source: Rajiv Kumar, Ibid, p.74.

Composition and Destination of EPZ Exports

From table 3.7 it is found that exports to USSR is increasing from year after year from a percentage level of 83.74 in 1981-82 to 92.84 in 1985-86. During the period 1980-81 the export to USSR/East Europe from the SEEPZ was 3% of the total, but it increased to 13% in 1985-86 as can be

seen from table 3.8. The percentage of trade with the USA and Canada and the countries of Far East by the KFTZ and SEEPZ remained almost steady during the period 1981-82 to 1985-86 (See tables 3.7 and 3.8).

Table 3.7

Destination-wise Exports of KFTZ

(Percentage)

Country	Years 1981-82	1982-83	1983-84	1984-85	1985-86
USSR	83.74	90.25	87.75	87.91	92.84
USA	0.93	0.61	1.39	0.60	1.53
UK	1.28	0.66	1.89	2.31	0.65
Middle East	9.80	4.39	6.18	3.36	3.09
Holland	1.53	1.07	0.45	0.96	0.27
Others	2.72	3.02	2.34	4.86	1.62
Total	100.00	100.00	100.00	100.00	100.00

Source: Rajiv Kumar, Ibid., p.91.

Table 3.8

Destination-wise Exports of SEEPZ

(Percentage)

Country	Years 1981-82	82-83	82-83	83-84	84-85	85-86
USA/Canada	39	33	30	35	33	38
UK/W.Europe	25	23	10	6	9	7
USSR/E.Europe	3	9	15	4	8	13
Far East	30	32	37	52	48	40
Other Countries	3	3	8	3	2	2
Total	100	100	100	100	100	100

Source: Rajiv Kumar, Ibid., p.91.

The increasing quantum of Indian EPZs' exports to the USSR and the other RPA covered by bilateral trade agreements have created some problems with regard to the earnings of foreign exchange. There is an argument that due to such arrangements the country is suffering net loss in foreign exchange earnings. The units in the various EPZs earn non-convertible Roubles/Rupees through exports, while they pay hard currencies for the import of inputs which are embodied in these exports.

The growing dependence of our EPZs on the exports to USSR was leading to the creation of monopolistic power, thereby eroding the bargaining power of Indian units. Our

continued dependence on USSR for oil and defence equipment imports has given an edge to that country to create such dependence and then to use it for extracting the imports at lower prices.

Though the quantum of exports from EPZs in India are increasing to USSR/East Europe, exporters are of the view that their products are not competitive in the international markets. While prices given by USSR are comparable to international standards, they think, the quality is substantially lower than that of similar products. It is also pointed out that some of its imports are not meant for internal consumption in the USSR but were diverted to other friendly countries. Though the exports to the USSR may be beneficial to the economy as the trade will be having some sort of protection. Hence the EPZ units may shut them out from the international markets by neglecting their cost-structure.

The emphasis of Indo-Soviet trade is the result of a conscious policy decision at the highest levels. From all accounts it is found that this trade is beneficial for India. It has helped India to escape from the successive global recession of the Seventies. India exports mainly manufactured goods to the USSR. Our exports to the USSR enabled us to meet our import requirements of oil, chemicals, fertilizers, machinery and nonferrous metals and minerals. So, the exports

to USSR and other RPA should be continued. However, the recent disintegration of the USSR, the serious foreign exchange crunch and the nose-dived value of the Rouble have resulted in the large scale default of payment of the value of exports to that country, mainly from the KFTZ. Now attempts are being made by the Government of India (GOI) to recover the amount due, particularly the sizeable cost of exports from KFTZ, through the diplomatic channels of the RPA countries. The agreement signed between India and Russia is found to be against our interests as the new exchange rate between Rupee and Rouble is unrealistic.

Exports and Sickness

Information on the export performance of Indian EPZs and the sickness of the EPZ units are furnished in tables 3.9 and 3.10.

Table 3.9 shows that the aggregate exports from various EPZs in India from 1987-88 to March 1995 amounted to Rs.9816 crores. During the period 1989-90 to 1994-95 SEEPZ stood at the top in aggregate exports (Rs.4935 crores), followed by KFTZ (Rs.2620 crores), NEPZ (Rs.996 crores) and MEPZ (Rs.896 crores). The aggregate exports of CEPZ was Rs.304 crores compared to Rs.165 crores by FEPZ during the same period. The total exports from all the EPZS in India increased from Rs.332 crores in 1987-88 to Rs.2737 crores in

1994-95. The exports from all the Zones have been steadily increasing from year to year except in the case of KFTZ. The exports from KFTZ had dropped from Rs.457 crores in 1990-91 to Rs.427 crores in 1991-92 and to Rs.167 crores in 1992-93. Thus it slightly increased to Rs.270 crores in 1993-94 and again moved upto Rs.404 crores in 1994-95.

Table 3.9

Export Performance of EPZs in India during 1987-88 to 1994-95

(Rs. in Crores)

Year	KFTZ	SEEPZ	MEPZ	FEPZ	NEPZ	CEPZ	VEPZ	Total
1987-88	185.00	108.30	16.40	1.90	16.00	3.92	-	331.52
1988-89	271.00	185.20	24.00	8.10	21.30	6.25	-	515.85
1989-90	338.50	288.20	29.60	16.40	51.90	11.00	-	735.60
1990-91	456.55	389.86	44.58	24.95	61.32	5.46	-	982.72
1991-92	427.18	500.17	122.47	27.90	70.84	28.57	-	1177.13
1992-93	167.21	806.24	177.13	18.25	145.23	62.25	-	1376.31
1993-94	270.36	1107.36	200.20	35.56	262.62	83.81	-	1959.91
1994-95	404.15	1549.66	281.38	32.31	366.69	102.53	0.40	2737.12
Total	2619.95	4934.99	895.76	165.37	995.90	303.79	0.40	9816.16

Source: 1. CEPZ Publications of the respective years

2. N.Ravi Sankar, A.S.Rajarao and B.P.Raju,"Export Performance, Problems and Prospects of Indian Export Processing Zones" Indian Journal of Marketing, Vol.24, Nov-Dec. 1995, p.27.

Table 3.10

Number of units in Operation and Number of Sick Units in Indian EPZs during 1993-94

Name of the EPZ	No of units in operation	No.of sick units	Percentage of sick units to total units
KAFTZ	91	4	4.39
SEEPZ	137	9	6.56
MEPZ	67	12	17.91
FEPZ	19	-	- -
NEPZ	105	8	7.61
CEPZ	36	5	13.88
VEPZ	-	-	- -
Total	455	38	8.35

Source: Office records of Indian EPZs and EPZ Division, Ministry of Commerce, Government of India.

Table 3.10 reveals that 38 units were sick compared to 455 working units of all the Zones in 1993-94. The average sick units were found to be 8.35% of working units. Out of 67 operating units 12 were found to be sick in MEPZ during that year. The percentage of sick units was found to be the highest in MEPZ (17.91). This is followed by CEPZ (13.88) and NEPZ (7.61) during the year 1993-94.

Some trends

The latest estimates of exports from the EPZs indicate no significant contribution to the nation's export efforts. The share of exports from EPZs of India's total exports increased marginally from 2.5% in 1988-89 to 2.7% in 1989-90, but again declined to 2.3% in 1990-91[3]. The Currency and Finance Report of the Reserve bank of India for 1989-90 has put the total exports from the EPZs at Rs.735.6 crores in 1989-90 as revealed by table 3.11.

It has been observed in several cases that while imports are made at concessional or zero duty rates from general currency area, exports are directed to RPA Area, resulting in net foreign exchange outgo, thereby defeating the very fundamental objective of establishing the EPZs. The Comptroller and Auditor General of India (CAG) reported that the KFTZ had squandered foreign exchange worth Rs.600 crores in this fashion in 1988.

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3 The Financial Express, dt. 22nd March, 1991.

Table 3.11

Export Performance of Indian EPZs

(Rs.in Crores)

Name of EPZ	1987-88	1988-89	1989-90	No.of units operating as on 31 March, 1990
1. KFTZ	185.0 (55.8)	271.0 (52.5)	338.5 (46.0)	137 (37.1)
2. SEEPZ	108.3 (32.7)	185.2 (35.9)	288.2 (39.2)	96 (26.1)
3. MEPZ	16.4 (4.9)	24.0 (4.7)	29.6 (4.0)	64 (17.3)
4. FEPZ	1.9 (0.6)	8.1 (1.6)	16.4 (2.2)	8 (2.2)
5. NEPZ	16.0 (4.8)	21.3 (4.1)	51.9 (7.1)	48 (13.0)
6. CEPZ	3.9 (1.2)	6.2 (1.2)	11.0 (1.5)	15 (4.3)
6. Total	331.5 (100.0)	515.8 (100.0)	735.6 (100.0)	369 (100.0)
Variation over previous year	-8.1	+55.6	+42.6	+12.4

Note : Figures in brackets represent percentage share in the total

Source: RBI Report on Currency and Finance 1989-90, cited in The Financial Express dated 22-03-'93.

Recently the Government of India has extended further concessions to the EPZs. Now third parties including Export Houses have been permitted to export products of Cent per Cent EOUs and EPZs. EOUs and EPZs that utilise more than 75% indigenous raw materials will be entitled to full Cash Compensatory Support(CCS) benefits. These units are also

exempted from the verification of Export Inspection Agency. Moreover, the DCs of the EPZs are given more powers. The Cent Per Cent EOUs are also brought under their control. Now the DCs will act as the single nodal agency and they will take up the issues on behalf of the export units with the State Governments and their agencies, legal bodies, financial institutions and Customs and Excise authorities. A committee under the chairmanship of Mr.Raunaq Singh, an eminent industrialist, has been set up for giving necessary suggestions for further liberalisation of the policies for the benefit of Cent per Cent EOUs and EPZs.

CHAPTER IV

THE COCHIN EXPORT PROCESSING ZONE - SPECIAL FEATURES

CHAPTER IV

THE COCHIN EXPORT PROCESSING ZONE - SPECIAL FEATURES

A brief account of the EPZs in India and abroad was furnished in the last chapter. Now an attempt is made to bring out the special features of Cochin Export Processing Zone(CEPZ) in this chapter. The CEPZ was set up in 1985-86 along with three other Zones[1]. CEPZ is located in Kakkanad in the city of Kochi(formerly known as Cochin, Ernakulam District) - the industrial and commercial capital of Kerala. Kochi having a natural and all-weather port is strategically positioned on international ocean trade routes. A network of internal roads link Kochi to National Highway(NH)47 and NH17. It also 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. The commissioning of the International Airport at Nedumbassery, 30 Km away from the CEPZ will directly link the CEPZ with international business centers.

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1 The other EPZs set up along with CEPZ were NEPZ, MEPZ and FEPZ

A Brief History of CEPZ

The Government of India resolved to set up the CEPZ on 28th June, 1983. The notification concerned was published in the Gazette on 24th September 1983. The site selection commission visited Kochi on 20th January 1984. The present site was selected by the CEPZ Authority on 4th February 1985. The construction and development of the site at an estimated cost of Rs.15 crores, were commenced on 1st May 1985.

The CEPZ office started functioning in May 1984. The Zone area was declared as a Free Trade Zone vide notification No.397/86. It was declared as a customs area by a notification dated 13th June 1986. The first CEPZ Board meeting for considering applications for setting up units was held on 7th July 1986. M/s D.V. Deo, the first unit set up in the Zone started exporting in October 1986.

Facilities

The EPZs established as enclaves, separated from DTA by fiscal barriers, are intended to provide international competitive duty-free environment for export production. The basic objectives of EPZs are to enhance foreign exchange earnings, develop export industries, stimulate domestic and foreign investments and generate employment opportunities.

The CEPZ is such an enclave within the national customs territory.

The entire operations of the CEPZ are executed under customs bond for reducing the time-consuming customs formalities. Any industrial venture can be put up at CEPZ provided it envisages for a minimum value addition of 30 percent in terms of export earnings. CEPZ provided a number of concessions and incentives to the industrial units located within its jurisdiction. 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 CEPZ entrepreneurs.

Production Units

Electronics, computer software, readymade garments spices, glass products, wood products, leather products, rubber products, coir-based products, food-processing, pharmaceuticals, light engineering goods, sports goods, printing, gems and jewellery, electrical appliances, hand

tools, automobile parts etc. are broadly identified for production and export from CEPZ. Any product having an export potential and value addition of 30 per cent will be permitted here. In some deserving cases value addition criterion is reduced to 20 per cent by the CEPZ authorities.

CEPZ Authority

The GOI has reconstituted the CEPZ with the Secretary/Special Secretary, Ministry of Commerce, GOI as the chairman and the DC, CEPZ as the member-secretary with effect from 22nd January, 1991. The other members are:

1) The Chief Secretary, Government of Kerala.
2) The Secretary, Industries and/or Labour and/or Power Department, Government of Kerala.
3. The Secretary, Department of Economic Affairs, Ministry of Finance, GOI.
4. The Secretary, Department of Revenue, Ministry of Finance, GOI.
5. The Secretary, Ministry of Urban Development, GOI.
6. The Secretary, Department of Industrial Development, Ministry of Industry, GOI
7. The Chairman, Cochin Port Trust, Kochi.
8. The Additional Secretary and Finance Adviser, Ministry of Commerce, GOI.

9. The Additional Secretary in charge of EPZ Division, Ministry of Commerce, GOI.

The Authority will meet once a year. The chairman of the Authority is authorised to co opt on adhoc basis any representative of any other Department/Agency, the association of which is cosidered essential to its working. The chairman may appoint subcommittees as and when required.

The Cochin Export Processing Zone Authority(CEPZA) is a single governing body. This policy making body is in charge of the overall supervision and control of the CEPZ. All the needs of the industrial units of the CEPZ are met by the CEPZ office under the direction of the Development Commissioner(DC). Presently V. Somasundaran IAS is the Development Commissioner who is also in-charge of the Cent per cent Export Oriented Units (EOU) in the States of Kerala, Karnataka and the Union Territory of Lakshadweep. The CEPZ office functions as a nodal agency for all matters pertaining to CEPZ.

CEPZ Board

Decisions on application for setting up units are taken up by the CEPZ Board (an inter-ministerial body). The Government of India have constituted an inter-Ministerial body to be called CEPZ Board to take decisions on all applications

for setting up Industries in the CEPZ and take decisions on all other issues pertaining to the Zone.

Additional Secretary in charge of Free Trade Zones, Ministry of Commerce, New Delhi, will be the chairman and the DC, CEPZ will be the member secretary. The other members are:

1. Member (Customs, CBEC, Ministry of Finance),
2. Joint Secretary, Department of Economic Affairs,Ministry of Finance,
3. Joint Secretary (SIA), Department of Industrial Development, Ministry of Industry,
4. Secretary, Export Promotion of the State Government or representative of State Government,
5. Industrial Adviser, DGTD,
6. Director (Finance), Ministry of Commerce,
7. Export Commissioner, Office of the Chief Controller of imports and exports,
8. Representative of IDBI,
9. Officer-in-charge of EPZ, Ministry of Commerce,

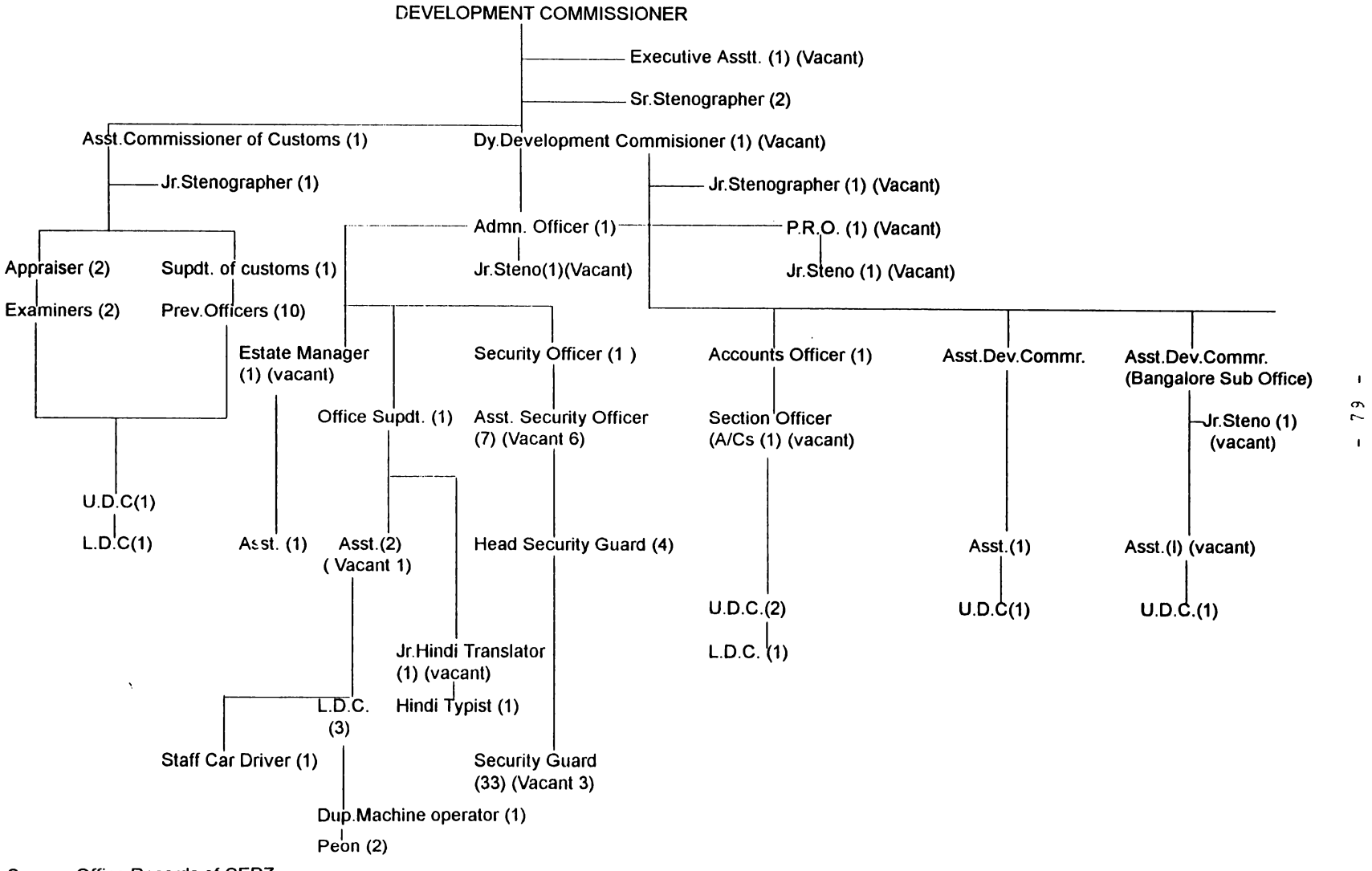
The chairman of the Board is authorised to co-opt any representative of any other Department/Agency whose association with the Board is considered essential and to appoint sub-committees as and when required.

Monthly meetings are held by the Board for clearing the applications and other matters relating to industrial license, import of capital goods and raw materials, foreign technical and financial participation. The clearance on the part of the Kerala State Government is done by the "Single Window" committee under the chairmanship of the Chief Secretary to Government of Kerala.

A self explanatory organisational chart of CEPZ is given as Chart 4.1.

The CEPZ was declared a "Public Utility" under the Industrial Disputes Act, so that the disputes could be settled amicably. A CEPZ co-ordination committee was formed by the Government of Kerala with the DC as the convener for ensuring a peaceful atmosphere in the Zone. The District Collector of Ernakulam, the City Commissioner of Police, Kochi and the Joint Labour Commissioner, Ernakulam are members of the committee.

Chart 4.1
Organisational Chart of CEPZ



Source: Office Records of CEPZ

Performance of CEPZ

The deatils of CEPZ exports are furnished in table 4.1.

Table 4.1

Export Performance of CEPZ from 1986-87 to 1995-96

(Rupees in lakhs)

Year	Exports
1986-87	94
1987-88	392
1988-89	625
1989-90	1100
1990-91	546
1991-92	2857
1992-93	6225
1993-94	8381
1994-95	10253
1995-96	12031
Total	42504

Source: Records of CEPZ Office.

From table 4.1 it can be seen that the general performance of CEPZ is very encouraging as its exports have increased from Rs.94 lakhs to Rs.12031 lakhs during the ten year period from 1986-87 to 1995-96. The export trend was upward in all the years except 1990-91. The deceleration in 1990-91 was largely due to large scale cancellation of export

orders from the USSR, decrease in prices of rubber products in the international market and the Gulf war. The aggregate exports during the period stood at Rs.428.04 crores.

The internal infrastructure development for the Zone such as land development, road formation, construction of compound wall, drainage, water supply, power lines, street lights and factory sheds have already been completed according to the planned schedule. The total capital expenditure incurred by the Government of India in this regard is Rs.38.45 crores as on 31.01.96. An electronic complex of 3064 sq.m. to house both hardware and software industries at an estimated cost of Rs.199 lakhs has been constructed. Two floors of this have already been allotted to the units. The construction of a five-storied three-block garment complex, having a carpet area of 27855 sq.m. with an estimated cost of Rs. 1015.31 lakhs is in progress. About 75 per cent of the work has been completed and three floors have already been allotted.

The external infrastructure facilities like road, water supply, power supply and drainage are provided by the Government of Kerala. Tarred road access of NH standard from CEPZ to NH 47 is provided. Water supply lines at a cost of Rs.92 lakhs have already been made available. The underground sump and overhead tank constructed inside the Zone are sufficient to meet the present water requirements of the production units. The power demands of the CEPZ units are

fully met by commissioning a 66/11 K.V sub station. However, the process of work of the external drainage system under the supervision of the Kerala Water Authority is found to be not very satisfactory. The details regarding the expenditure incurred by Governments of India and Kerala are given in table 4.2.

Table 4.2

Details of Capital Expenditure Incurred by Governments of India and Kerala as on 31st March 1996

A. Government of India		(Rs. in lakhs)
1.	Land acquisition	552.40
2.	Enhanced compensation for land	1180.93
3.	Internal infrastructure	2079.77
4.	Advance deposit with Post & Telegraph Department	20.20
5.	Cost of flats purchased	5.54
6.	Payment for V-Sat facility	7.00
	Total	3843.84
B. Government of Kerala		
1.	Cost of 66/11 K.V sub station	115.00
2.	Water supply	092.00
3.	Roads	148.00
	Total	355.00
C. Total capital expenditure of Central and State Governments		4200.84

Source: Records of CEPZ office.

Performance

The export performance of CEPZ is found to be highly encouraging. During 1986-87 to 1995-96 exports have increased from Rs.94 lakhs to Rs.12031 lakhs. The net foreign exchange earnings during the period is found to be Rs.200 crores at 47 per cent of total exports. In US dollar terms the net foreign exchange is found to be $ 47.70 million at 32 per cent of exports during the same period. Table 4.3 shows the CEPZ exports from 1986-87 to 1995-96 to RPA and GCA.

Table 4.3

Details of Exports to Rupee Payment Area(RPA) and General Currency Area(GCA) during the period 1986-87 to 1995-96

(Rs. in lakhs)

Year	RPA	GCA	Total
1986-87	84	10	94
1987-88	314	78	392
1988-89	248	377	625
1989-90	616	484	1100
1990-91	66	480	546
1991-92	179	2678	2857
1992-93	NIL	6225	6225
1993-94	0.10	8371	8381
1994-95	194	10059	10253
1995-96	NIL	12031	12031
Total	1711	40801	42504

Source: Records of CEPZ office.

The export performance of CEPZ was found to be steady during 1986-87 to 1995-96 except in 1990-91 as revealed by table 4.3. The reasons for the sudden drop in exports in 1990-91 have already been mentioned earlier. However, the rate of growth in 1995-96 was 15 per cent in Rupee terms and 13 per cent in US Dollar terms. It may also be noted that the CEPZ exports to RPA, which was at 56 per cent of the total exports in 1989-90, has decreased considerably from 1992-93 onwards (See table 4.13 also).

Active Units

Upto 31st March 1996 the CEPZ Board has considered 156 applications of which 123 have been approved. Of the 123 approved, 69 have been withdrawn or cancelled and 7 units were closed down.

Table 4.4.

Details regarding the present position of CEPZ's units approved

Details of Units	Number
Exporting units	36
Under implementation	9
Closed down/not active	9
Cancelled/withdrawn	69
Total	123

Source: Records of CEPZ office.

The large number of cancellations/withdrawals of the units were owing to poor perception of the applicants regarding EPZ units.

The information relating to the functional units of CEPZ and their export performance as on 31st March 1994 is given in tables 4.5, 4.6, 4.7 and 4.8.

Table 4.5

Industry wise details of functional units in CEPZ

as on 31st March, 1994

Sl. No.	Name of industry	Name of exporting units	units under implemen-tation	Defu-nct units
1.	Plastics and allied products	3	--	--
2.	Rubber products	8	--	--
3.	Readymade garments	5	4	1
4.	Electronics	7	2	1
5.	Gem and jewellery	2	1	1
6.	Tools and dies	1	--	--
7.	Medical equipments	1	--	--
8.	Bio technology	1	--	--
9.	Essential/spice oils	3	--	1
10.	Wooden products	1	--	--
11.	Chemicals	--	1	--
12.	Food processing	--	2	--
13.	Ceramics	--	2	--
14.	Marine products	1	--	--
15.	Packing materials	1	--	--
16.	Spices	--	1	--
17.	Musical equipments	--	1	--
18.	Video cassettes	--	1	--
19.	Toys	--	1	--
	Total	34	16	4

Source: Records of CEPZ office.

Readymade garments, rubber products, gem and jewellery and plastics and allied products are the important industrial units successfully operating in the CEPZ. The number of units exporting examination gloves (rubber products) is eight and it is the most dominating group in CEPZ as revealed by table 4.5. If the units under implementation are also considered the number of garment units and electronics units will account nine. Except rubber products, electronics and garments all other industries have only one or two units.

Table 4.6 shows that electronics group with nine units having exports of Rs.3373.88 lakhs is the most dominating industrial group in 1995-96. Examination gloves with eight units (Rs.2507.28 lakhs)and readymade garments with six units (Rs.2457.51 lakhs) are other important exporters during the same period. The performance of the sole ceramics unit has increased by more than 10 times from Rs.6.50 lakhs in 1994-95 to Rs. 667.65 lakhs in 1995-96. However, the total exports of readymade garments group declined by Rs.573.70 lakhs between 1994-95 and 1995-96.

Table 4.6

Industry-wise Export Performance of CEPZ Units During 1994-95 & 1995-96

(Rs. in lakhs)

Sl No	Item of export	No.of exporting unit	Exports	
			1995-96	1994-95
1.	Readymade garments	6	2457.51	3031.21
2.	Marine products	1	1234.71	1198.85
3.	Electronics	9	3373.88	2857.13
4.	Examination gloves	8	2507.28	1439.23
5.	Spices oil etc	3	1018.48	1102.42
6.	Plastic items	3	373.25	227.71
7.	Tissue culture plants	1	164.12	188.58
8.	Gem & jewellery	3	14.08	108.75
9.	Wood products	1	100.61	55.09
10.	Disposable needles	1	nil	0.84
11.	Video cassettes	1	84.24	12.53
12.	Musical equipments	1	20.28	1.30
13.	Ceramics	1	667.65	6.50
14.	Packing materials	1	12.10	22.90
15.	Frozen foods	1	2.40	Nil
	Total	41*	12031.00	10253.00

* including 5 units remaining closed as on 31.3. 1996.

Source: Office Records of CEPZ.

Table 4.7

Details of the exporting units of CEPZ as on 31st March, 1994

	Name of the unit	Item of Manufacture	Date of Commencement of Export	Exports (Rupees in lakhs) During 1993-94	Since inception
1.	D.V. Deo (Phase I)	Essential oils	1.10.86	-	1373
2.	D.V. Deo (Phase II)	Perfumes	19.11.87	37	1167
3.	D.V. Deo (Phase III)	Aromatic oils	17.3.88	267	1053
4.	Sheveroy Estates	Tissue culture	1.10.88	318	894
5.	Tams Garments	Garments	1.11.88	-	58
6.	Cochin Stones	Gem & jewellery	22.8.89	-	69
7.	Otee Frini	Telescopic antennae	1.7.88	-	3
8.	Kerala Rubber	Gloves	26.3.92	85	141
9.	Asma Rubbers	Gloves	12.3.90	230	435
10.	Taba Gloves	Gloves	11.7.90	174	334
11.	Overseas Latex	Gloves	25.9.89	32	61
12.	Dantex Rubber	Gloves	21.1.90	65	102
13.	Universal Gloves	Gloves	28.12.89	206	521
14.	AVT Rubber Products	Gloves	7.8.90	534	1106
15.	Aark Synthetics	Disposable containers	29.12.89	24	141
16.	Nikasu Pak	Feeding bottles	4.4.90	104	230
17.	Veera Treatwood	Wood products	24.9.90	88	150
18.	Zoetic Polymers	Gloves	17.9.92	50	71
19.	Trend Setters	Garments	19.3.91	611	2280
20.	Poly Fibre Products	Padding materials	27.3.91	89	242
21.	Integrated Computing	Software	13.2.91	15	61
22.	We are Jewellers	Jewellery	14.3.91	155	362
23.	Sun Fibre Optics	Electronics	22.4.91	1587	3037
24.	Mode Creazone	Garments	31.3.92	411	1282
25.	Associated Medical Equipments(P) Ltd.	Hypodermic needles	1.6.92	479	744
26.	Cochin Spices	Spices	1.6.92	6	16
27.	Crysind Electronics	Crystal ovens	27.7.92	34	36
28.	AMP Tools	Precision tools and dies	31.8.92	218	277
29.	Covema Filaments	Fishing lines	1.10.92	110	227
30.	Abad Exim	Marine products	26.11.92	1892	3142
31.	Trend Designs	Garments	2.2.93	446	486
32.	Nort Pak Fibre Optics	Optical switches	8.3.93	32	33
33.	Bimbino Garments	Garments	7.8.93	54	54
34.	Mahalakshmi Jewellery	Jewellery	1.9.93	23	23
		Total		8381	20220

Note : Intra Zone sale of Penta Pack is not inclued in the exports.

Source: Office records of CEPZ.

Table 4.7 reveals that the total exports during 1993-94 amounted to Rs. 83.81 crores and the aggregate exports since inception of CEPZ to 1993-94 came to Rs.202.20 crores. Abad Exim which was established only on 26.11.92, has made a cumulative exports of Rs.31.42 crores and stands as the leading exporter among the units. The second position was occupied by Sun Fibre Optics with Rs.30.37 crores. This is followed by Trend Setters with Rs.22.80 crores. However, as a single group of industrial units, D.V. Deo had earned Rs.35.93 crores in foreign exchange from 1.10.1986 to 31.3.1994. Of the units exporting rubber based items, AVT Rubber Products which commenced production on 7.8.1990 had earned foreign exchange to the tune of Rs.11.06 crores during the period. Sheveroy Estates (tissue culture),Cochin Spices and Universal Gloves are the other important foreign exchange earners during the period under review.

Table 4.8

Export Performance of CEPZ Units During 94-95 & 95-96

Sl. no.	Name of the units	Item of manufacture	Date of commencement of comm. production	Exports (Rs. in lakhs)	
				1994-95	1995-96
1.	Tata Ceramics Ltd.	Ceramics	01/04/95	6.50	667.65
2.	Otee Frini (India) P Ltd.	Electronics	22/08/89	0.00	0.00
3.	Chelur Satellite Communication	Electronics	01/11/94	3.64	0.00
4.	Integrated Computing Environs	Electronics	01/12/89	17.43	10.42
5.	Sun Fibre Optics P Ltd..PH.I	Electronics	01/04/91	2089.68	2300.91
6.	AMP Tools (India) (P) Ltd.PH.I	Electronics	01/07/92	358.47	398.02
7.	Crysind Electronics	Electronics	01/04/93	66.71	84.20
8.	Nortpak Fibre Optics	Electronics	01/04/93	229.57	258.20
9.	Sun Fibre Optics (P) Ltd.PH.II	Electronics	01/06/94	16.72	51.75
10.	AMP Tools (India) (P) Ltd.PH.II	Electronics	01/07/94	3.59	54.27
11.	Sun Generic Cablles (P) Ltd	Electronics	10/10/94	71.32	216.11
12.	A Frozen Foods Ltd	Frozen Foods	01/02/96	Nil	2.40
13.	* Tams Garments	Garments	04/07/88	0.00	0.00
14.	Trend Textiles Ltd.	Garments	05/04/91	342.12	127.40
15.	Trend Setters Instyle	Garments	01/04/91	40.66	97.00
16.	Mode Creazone (P) Ltd.	Garments	01/04/92	1072.14	219.81

(Contd....)

Sl. no.	Name of the units	Item of manufacture	Date of commencement of comm. production	Exports (Rs. in lakhs)	
				1994-95	1995-96
17.	Bimbino Garments (P) Ltd	Garments	15/07/93	65.82	42.16
18.	Trend Designs Ltd	Garments	01/04/93	1491.00	1966.25
19.	Project Garments (P) Ltd.	Garments	24/03/95	7.27	4.89
20.	* Cochin Stones	Gem & Jwellery	01/07/88	0.00	0.00
21.	* We Are Jewellers	Gem & Jwellery	01/03/91	86.34	8.54
22.	* Mahalaxmi Jewellers	Gem & Jwellery	09/07/93	22.41	0.00
23.	Bluechip Diamonds	Gem & Jwellery	01/02/96	Nil	5.54
24.	Taba Gloves	Gloves	22/12/89	222.35	170.31
25.	Overseas Latex	Gloves	22/08/89	227.63	478.24
26.	Janco Polymers (Zoetic)	Gloves	01/10/91	69.77	59.43
27.	Sterilix (India) (P) Ltd. (K.S.S.R)	Gloves	01/11/89	10.90	659.18
28.	Universal Gloves	Gloves	01/12/89	88.42	10.60
29.	Danntex Rubber (P) Ltd.	Gloves	28/12/89	0.00	1.41
30.	Asma Rubber Products	Gloves	11/12/89	246.64	338.89
31.	AVT Rubber Products	Gloves	28/08/89	573.53	789.22
32.	Abad Exim (P) Ltd	Marine Products	23/11/92	1198.85	1234.71
33.	Associated Medical Equipments	Medical Equipments	01/06/92	0.84	0.00
34.	Mak Games & Musical Equipments	Musical Equipments.	01/11/94	1.30	20.28

(Contd....)

Sl. no.	Name of the units	Item of manufacture	Date of commencement of comm. production	Exports (Rs. in lakhs)	
				1994-95	1995-96
35.	Penta Packs (*Supply to EPZ/EOU)	Packing mat.	18/01/93	22.90	12.10
36.	* Aark Synthetics	Plastics	12/12/89	3.30	2.21
37.	Nikasu Pack (P) Ltd	Plastics	31/03/90	90.69	116.82
38.	Covema Filaments	Plastics	01/10/92	145.92	254.22
39.	* Deo D.V.I	Spices	01/10/86	0.00	0.00
40.	Deo D.V.II	Spices	01/05/87	39.41	91.67
41.	Deo D.V.III	Spices	01/03/88	230.17	256.96
42.	Cochin Spices Ltd	Spices	02/06/92	832.84	669.85
43.	Sheveroy Estates Ltd	Tissue Culture	01/08/88	188.58	164.12
44.	India Cassettes (P) Ltd	Video Casettes	01/09/94	12.63	84.24
45.	Veera Treat-wood Ltd	Wood	05/03/90	55.09	100.61
	Total			10253.14	12030.59

* defunct units

Source: Office Records of CEPZ

Table 4.8 reveals that the aggregate exports of various industrial units of CEPZ amounted to Rs.10253 lakhs and Rs.12030 lakhs respectively during 1994-95 and 1995-96. Sun Fibre Optics (P) Ltd Phase I is the largest exporter in 1994-95 (Rs.2089.69 lakhs) and in 1995-96 (Rs.2300.91 lakhs). Trend Designs Ltd (ready made garments) and Abad Exim (P) Ltd (marine products) are other leading exporters of CEPZ during these two years. Tata Ceramics Ltd, AVT Rubber Products,

Steriltx (India) P. Ltd, Covema Filaments and India Cassettes (P) Ltd are found to be the other important exporters during 1995-96. Mode Creazone (P) Ltd, Trend Textiles, Trend Setters Instyle, Taba Gloves and Cochin Spices Ltd could record only lesser exporters in 1995-96 than that they achieved in the previous year.

Value addition of CEPZ units

The performance of CEPZ units is assessed in terms of the achievements they have made in value addition compared with the norm determined by the CEPZ authorities. The periodic review of the performance of the units is made by the Chairman and Board of Approvals. The position of CEPZ units on the value addition achieved by them during the two years ending 31.3.93 and 31.3.94 are given in table 4.9.

Table 4.9

Overall performance of CEPZ units on their value addition during the year ending 31.3.93 and 31.3.94

Category	Particulars	Number of units	
		31.3.93	31.3.94
A	Units which have achieved value addition prescribed by CEPZ	8	8
B	Units having shortfall of only less than 10% of the prescribed value addition by CEPZ but above industry norms	0	2
C	Units having shortfall of less than 10% of the prescribed value addition and below industry norms	1	2
D	Units with shortfall of more than 10% of the prescribed value addition of CEPZ, but above industry norms	0	2
E	Units having shortfall of more than 10% of the prescribed value addition by CEPZ and less than industry norms	24	22
	Total	33	36

Source: Records of CEPZ office.

Table 4.9 shows that out of the 36 operating units only 8 had achieved the value addition norms prescribed by the CEPZ authorities. Six of the units which are working below the norms prescribed by the CEPZ authorities, however, achieved the norms prescribed for the industry concerned. But majority of the units (22 out of 36) were working below the

value addition norms prescribed by both the CEPZ authorities and the industry.

Closure and Eviction

The CEPZ units functioning not in consonance with the norms prescribed by the CEPZ authorities are referred to Director General of Foreign Trade (DGFT) for appropriate action. Units which are showing satisfactory progress in their performance are given show cause notice seeking reason why action shall not be initiated against them for the withdrawal of approval and closure of the business.

The non-implementation of the approval given to units in CEPZ can be of two types. The first category is that which have not initiated any step for commencement of production and processing. The second category is those units which have commenced production, but closed down their business on account of poor value addition. Table 4.10 shows the details of the units which had not commenced production.

Table 4.10

Details of the units which did not commence production and the area of land allotted and occupied by them as on 31.3.94

Sl. No.	Name of the unit	Land area allotted and occupied
1.	Golconda Diamonds	0.82 acres
2.	Sea World Nylon	0.89 acres
3.	Parkem Agrico	0.53 acres
4.	Fashion Jewellery	0.10 acres
5.	Global Latex	1.24 acres
	Total	3.58 acres

Source: Records of CEPZ Office.

Out of the total 3.58 acres allotted to the units (see table 4.10) 2.86 acres have been resumed/recovered after completing all the legal formalities. The entrepreneurs of Global Latex were permitted to use 0.72 acres of land for another venture under a fresh application approval. Revenue recovery proceedings had already been initiated against the units from which rent was due.

Information on the CEPZ units under the process of winding up their businesses is given in Table 4.11.

Table 4.11

Details of the units which commenced production but in the process of winding-up business as on 31.3.1994

Sl. No.	Name of the units	Area occupied	Remarks
1.	Cochin Stones	0.07 acres	No export after first consignment in 1988-89. Land allottment cancelled and recovered on 18.7.94.
2.	Otee Frini	0.78 acres	Closed down after some exports. Referred to DGFT.Eviction proceedings started.
3.	Veera Treat Wood	1.24 acres	Referred to DGFT for poor value addition but performance improving.
4.	Tams Garments	2500 Sq.m. of SDF	Taken over by another garment unit of CEPZ
5.	Aark Synthetics	1207 Sq.m	Last export in Feb. 94. Referred to DGFT. Eviction proceedings started.

Source: Records of CEPZ Office.

Poor perception about EPZ units by entrepreneurs, inefficient management, very bad marketing arrangements, stringent value addition norms prescribed and enforced by the CEPZ authorities etc. are considered to be the major reasons for the failure of the units in CEPZ.

Table 4.12

Exports and Net Foreign Exchange Earnings of CEPZ Units from 1986-87 to 1993-94

Year	Exports				Net foreign exchange earnings			
	Rupees in lakhs	Percentage of growth over pre. year	In US $ million	Percentage of growth over pre. year	Rupees in lakhs	Percentage of growth over pre. year	In US $ million	Percentage of growth over pre. year
1986-87	93.87	-	0.73	-	57.12	60.85	0.50	68.49
1987-88	391.90	317	3.02	314	234.37	59.80	2.00	66.22
1988-89	624.66	60	4.32	43	386.57	61.88	3.00	69.44
1989-90	1098.63	76	6.60	53	249.97	22.75	2.00	30.30
1990-91	544.56	-50	3.04	-60	64.18	11.79	0.30	9.86
1991-92	2857.86	424	11.68	284	1199.60	41.98	4.30	35.62
1992-93	6224.85	118	20.55	76	2832.59	45.69	7.32	35.62
1993-94	8381.32	35	27.04	32	4973.05	59.33	16.04	59.31
Total	20217.65	-	76.98	-	9997.45	49.44	35.46	46.06

Source : Office records of CEPZ.

Table 4.12 shows that the total exports of CEPZ during 1986-87 to 1993-94 was Rs.20217.65 lakhs. The percentage of growth in exports over previous year is varying between (-)50 and 424. Total exports in US $ amounted to 76.98 million and the percentage of growth over the previous year varied between (-)60 and 314 during the above period. Net foreign exchange earnings of CEPZ in Rupee terms during the period 1986-87 to 1993-94 amounted to Rs.9997.45 lakhs and the average growth percentage over the previous year stood at 49.44. The total net foreign exchange earnings of CEPZ units in US Dollar terms during the same period was 35.46 million and the average growth percentage over previous year stood at 46.06. The exports recorded a sharp dip by 50 per cent in 1990-91 and in Dollar terms it was 60 per cent. The sharp decrease in exports during that year was mainly on account of the Kuwait war and disintegration of the USSR. The sudden jump in the percentage of growth over previous year at 424 per cent during 1991-92 has substantiated the above inference. The backlog in export commitments during 1990-91 was made good in the following year and hence the sudden jump in the percentage of export growth compared with the previous year.

Details of sector-wise exports and imports including capital goods and raw materials are given in tables 4.13 and 4.14.

Table 4.13
Sector-wise yearly exports from CEPZ units during the period from 1986-87 to 1993-94 and the percentage of growth in 1993-94 over 1992-93

(Rs. in lakhs)

Sl. No.	Item	Years								Growth percentage in 1993-94 over 1992-93
		1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	
1.	Spices and oil	94	392	569	1036	300	525	639	782	22.38
2.	Readymade garments	-	-	17	7	21	1063	1681	1613	-4.04
3.	Marine products	-	-	-	-	-	-	1251	1892	51.24
4.	Electronics	-	-	-	2	48	445	1133	1886	66.46
5.	Rubber products	-	-	-	11	92	362	933	1378	47.7
6.	Tissue culture	-	-	35	43	58	242	197	318	61.42
7.	Plastic	-	-	-	-	16	71	273	238	-12.82
8.	Gem and jewellery	-	-	3	-	3	115	90	178	98
9.	Wooden products	-	-	-	-	8	35	18	89	394.44
10.	Medical equipments	-	-	-	-	-	-	10	6	-40
	Toal	94	392	624	1099	546	2858	6225	8381	34.63

Source: Office records of CEPZ.

Table 4.14

Aggregate exports and imports including capital goods and raw materials in terms of Rupees and US Dollars in CEPZ for the period from 1986-87 to 31st Aug.1994

	Aggregate exports (Rs. in lakhs)	US $ millions	Import of capital goods (Rs. in lakhs)	US $ millions	Import of Raw Materials (Rs. in lakhs)	US $ millions	Aggregate imports (Rs. in lakhs)	US $ millions
1986-87	93.87	0.73	-	-	36.75	0.288	36.75	0.288
1987-88	391.90	3.02	-	-	157.53	1.215	157.53	1.215
1988-89	624.66	4.32	374.54	2.587	249.53	1.724	624.08	4.311
1989-90	1098.63	6.60	670.59	4.03	688.59	4.139	1359.18	8.169
1990-91	544.56	3.04	255.19	1.424	270.09	1.506	525.28	2.93
1991-92	2857.86	11.68	1053.48	4.306	1394.5	5.699	2447.98	10.005
1992-93	6224.85	20.55	1740.37	5.745	2752.08	9.083	4492.45	14.828
1993-94	8381.32	26.80	3115.28	9.874	2792.89	8.852	5908.17	18.726
1994-95*	4017.62	12.85	25.17	0.798	1534.72	4.865	1559.89	5.663
Total	24535.27	89.592	746.16	28.764	9876.68	37.371	17337.84	66.135

* upto 31st August, 1994.
Source : Office Records of CEPZ.

102

Table 4.13 shows that almost all industries except medical equipments in CEPZ are showing steady progress in their export performance. Due to poor performance the medical equipments producing industrial unit is facing closure of its business. Readymade garments and plastic units, though they were showing negative growth in 1993-94 compared to that of 1992-93, were showing encouraging results in early years of their business.

Table 4.14 shows that the increase in the imports of capital goods and raw materials were commensurate with the increase in exports. No office equipments and consumables were imported during the period under review.

Table 4.15

Export target and actual exports of CEPZ to GCAand RPA during the period 1986-87 to 1995-96

(Rs. in lakhs)

Year	Targeted exports	Actual exports		Total
		GCA	RPA	
1986-87	--	10	84	94
1987-88	500	78	314	392
1988-89	850	377	248	625
1989-90	1500	484	616	1100
1990-91	2000	480	66	546
1991-92	2400	2678	179	2857
1992-93	5000	6225	NIL	6225
1993-94	14000	8371	10	8381
1994-95	12000	10059	194	10253
1995-96	13500	12031	NIL	12031
Total		40793	1711	42504

Source: Records of CEPZ Office.

From Table 4.15 it can be seen that there has been steady increase in the total exports of CEPZ from Rs.94 lakhs in 1986-87 to Rs.12031 lakhs in 1995-96. It may also be pointed out that the actual exports have exceeded the target in 1991-92 and in 1992-93. Except in these two years the target fixed for exports was not achieved in all other years. The export targets fixed by CEPZ authorities were also found to be unrealistic in the case of many units. The actual

exports were only around 1/4th of the target fixed for 1990-91 at Rs.2000 lakhs. The reasons for this sharp fall in exports have already been explained earlier. Another important feature of the exports from CEPZ is that the dominance of exports to RPA has dwindled considerably from Rs.616 lakhs in 1989-90 to nil in 1992-93, though it has gained momentum in 1993-94 and in 1994-95 at a slower pace. However, there were no exports to RPA from CEPZ. The exports to GCA has been growing steadily except in 1990-91 from Rs.10 lakhs in 1986-87 to Rs.12031 lakhs in 1995-96. The overall export performance was found to be satisfactory during the period under review.

Information regarding industry-group wise performance appraisal is given in tables 4.16 to 4.22.

From Table 4.16 it can be seen that all the units engaged in the production and processing of plastic and allied goods have not achieved the prescribed value addition. The first unit mentioned above, Nikasu Pak (P) Ltd. was showing considerable improvement in its performance as it has already gone above the industry norm and had shown only a marginal shortfall of 7 per cent in the value addition prescribed by the CEPZ authorities. The performance of Covema Filaments was found to be slightly encouraging during the period 1993-94 as the actual deficiency in achievement of value addition has been reduced by half [from (-)126 percent to (-)63 per cent]. As the performance of Aark Synthetics is continuously bad the unit is under the process of winding up its business.

Table 4.16

Performance appraisal of CEPZ units manufacturing plastics and allied products during the two years ending 31.3.93 and 31.3.94

Sl. No.	Name of the unit	Year ending 31.3.93	Year ending 31.3.94	Change during the years	Growth over the year	Industry Norm	Prescribed in CEPZ	Year ending 31.3.93	Year ending 31.3.94	Excess or shortfall
		(Rupees in lakhs)						(Per cent)		
1.	Nikasu Pak (P) Ltd	106.93	123.89	16.96	15.86	20	30.33	18.02	23.25	-7.08
2.	Covema Filaments	-183.37	-131.06	52.31	-28.53	20	21	-125.94	-62.51	-83.51
3.	Aark Synthetics	-72.03	-78.47	-6.44	8.94	20	36	-65.13	-65.94	-101.94

Source: Office records of CEPZ.

Table 4.17

Performance appraisal of CEPZ units engaged in the processing of rubber products during the two years ending 31.3.93 and 31.3.94

Sl. No.	Name of the unit	Year ending 31.3.93	Year ending 31.3.94	Change during the years	Growth	Industry Norm	Prescribed in CEPZ	Year ending 31.3.93	Year ending 31.3.94	Excess or shortfall
		(Rupees in lakhs)			(Per cent)					
1.	Taba Gloves	113.01	204.29	91.28	80.77	40	39.18	20.57	32.36	-6.82
2.	Overseas Latex	-14.87	37.32	52.19	350.98	40	50.66	-143	-33.23	-83.27
3.	Zeotic Polymers	5.66	30.97	25.21	447.17	40	51	-42.34	-12.36	-63.36
4.	Kerala Rubber	24.41	53.11	28.7	116.15	40	49.32	-52.74	-25.51	-74.83
5.	Universal Gloves	117.55	192.62	75.07	63.86	40	45.07	1.74	6.38	-38.69
6.	AVT Rubber Products	489.22	635.98	146.76	30	40	48.34	39.07	40.33	-8.01
7.	Asma Rubber Products	238.26	322	83.74	35.15	40	53.52	28.28	29.48	-24.04
8.	Danntex Rubber (P) Ltd	141.06	248.52	107.46	76.18	40	43.84	8.29	22.16	-21.68

Source: Office records of CEPZ.

Table 4.18

Performance Appraisal of CEPZ units Manufacturing Garments

During the Two years ending 31.3.93 and 31.3.94

Sl. No.	Name of the unit	Year ending 31.3.93	Year ending 31.3.94	Change during the years	Growth	Industry Norm	Prescribed in CEPZ	Year ending 31.3.93	Year ending 31.3.94	Excess or shortfall
		(Rupees in lakhs)					(Per cent)			
1.	Mode Creazone (P) Ltd	448.81	523.62	74.81	16.67	40	40.14	37.33	37.31	-2.83
2.	Trend Setters in style	1156.9	1109.38	-47.52	-4.11	40	40.02	35.23	31.04	-8.98
3.	Trend Design Ltd.	87.37	177.19	89.82	102.8	40	41	32.18	24.32	-16.68
4.	Tams Garments	7.51	7.51	0	0	40	48.85	26.47	26.41	-22.38
5.	Bimbino Garments	20.18	41.81	21.63	107.19	40	40	45.23	43.39	3.39

Source: Office records of CEPZ.

Table 4.19

Performance appraisal of electronics units in CEPZ

during the two years ending 31.3.93 and 31.3.94

Sl. No.	Name of the unit	Year ending 31.3.93	Year ending 31.3.94	Change during the years	Growth	Industry Norm	Prescribed in CEPZ	Year ending 31.3.93	Year ending 31.3.94	Excess or shortfall
		(Rupees in lakhs)			(Per cent)					
1.	Integrated Computing Environ	46.91	56.62	9.71	20.7	60	75	89	91.83	16.83
2.	Sun Fibre Optics (P) Ltd.	807	1175.89	368.89	45.71	20	20	23.17	21.22	1.22
3.	Crysind Electronics	6.25	28.14	21.89	350.24	20	39.04	59	70.15	31.11
4.	NortPak Fibre Optics	-1.39	35.05	36.44	2621.58	20	24	-10.08	39.31	15.31
5.	Otee Frini (I) Pvt. Ltd.	-90.48	-101.62	-11.14	12.31	20	36.76	-130.8	-146.91	-183.67

Source: Office records of CEPZ.

All the eight units engaged in the production of rubber products as revealed by table 4.17 were found to be in the red as all of them were showing shortfalls in the value addition. Taba Gloves and AVT Rubber Products were having less than 10 per cent of shortfall from the value addition prescribed by the CEPZ authorities. Asma Rubber Products and Danntex Rubber (P) Ltd. having achieved more than half of the prescribed value addition were found to be limping. The performance of Universal Gloves was found to be nominal. The performance of Overseas Latex, Zeotic Polymers and Kerala Rubber were found to be dismal during the year 1993-94.

All the garment units of CEPZ were found to be earning sizeable foreign exchange as revealed by table 4.18. Three units were showing shortfalls at less than 10 per cent and another two units were showing shortfalls above 10 per cent of the value addition prescribed by CEPZ authorities. Though there were shortfalls in the value addition prescribed by CEPZ authorities, the general performance of garment units was found to be encouraging due to high demand in the international market.

Of all the electronics units of the CEPZ, as revealed by table 4.19 Crysind Electronics has achieved value addition more than 90 percent above the prescribed level by the CEPZ authorities and more than 150 per cent above the level prescribed for this industry by the Government of India.

All the other units belonging to this category except Otee Frini (India) Private Ltd. were performing well as they had achieved more than the value addition prescribed by the CEPZ authorities, Otee Frini (India) Pvt. Ltd. which had sustained heavy losses was under the process of winding up its business.

Among the three units in table 4.20 'We Are Jewellers' have already exceeded the value addition level prescribed by the CEPZ authorities. Cochin Stones was lagging behind the prescribed value addition for the industry. It may be noted here that the leading gem and jewellery merchants of Kerala are opening their branches in various foreign countries. The reason why they are not attracted in starting units in CEPZ will have to be enquired into.

As shown in table 4.21 'Deo DV II' had exceeded the value addition percentage prescribed by CEPZ authorities by 6.67 per cent whereas all the other units under the same group were lagging behind the prescribed limit. Cochin Spices Ltd. had to prove its capacity in the years to come as it had recorded a shortfall in the value addition prescribed by CEPZ authorities by 22.23 per cent.

Table 4.20

Performance appraisal of gems and jewellery units in CEPZ

during the Two years ending 31.3.93 and 31.3.94

Sl. No.	Name of the unit	Year ending 31.3.93	Year ending 31.3.94	Change during the years	Growth	Industry Norm	Prescribed by CEPZ	Year ending 31.3.93	Year ending 31.3.94	Excess or shortfall
		(Rupees in lakhs)				(Per cent)				
1.	We are Jewellers	30.06	87.29	57.23	190.39	10	16	10.67	23.77	7.77
2.	Mahalakshmi Jewellers	0.11	-3.23	-3.34	-3036.36	10	16	0.45	-13.66	-29.66
3.	Cochin Stones	1.12	1.03	-0.09	-8.04	20	38.34	33.73	31.89	-6.65

Source: Office records of CEPZ.

Table 4.21

Performance appraisal of CEPZ units producing essential oils and spices

during the two years ending 31.3.93 and 31.3.94

Sl. No.	Name of the unit	Year ending 31.3.93	Year ending 31.3.94	Change during the year	Growth	Industry Norm	Prescribed in CEPZ	Year ending 31.3.93	Year ending 31.3.94	Excess or shortfall
		(Rupees in lakhs)			(Per cent)					
1.	Deo DV II	780.54	756.64	-23.9	-3.06	20	20.69	29.09	27.36	6.67
2.	Deo DV III A	183.71	168.33	-15.38	-8.37	20	22.09	25.38	10.07	-12.02
3.	Deo DV III B	450.85	637.6	186.75	41.42	20	45	46.6	40.5	-4.5
4.	Deo DV I	527	534.91	7.91	1.5	20	25.92	16.14	16.14	-9.78
5.	Cochin Spices Ltd.	502.02	706.94	204.92	40.82	20	23.8	9.11	1.57	-22.23

Source: Office records of CEPZ.

113

Table 4.22

Performance appraisal of unclassified units in CEPZ

during the two years ending 31.3.93 and 31.3.94

Sl. No.	Name of the unit	Product	Year ending 31.3.93	Year ending 31.3.94	Change during the year	Growth	Industry Norm	Prescribed in CEPZ	Year ending 31.3.93	Year ending 31.3.94	Excess or shortfall
			(Rupees in lakhs)			(Per cent)					
1.	Poly Fibre Products	Padding	195.66	261.62	65.96	33.71	40	40.75	31.17	34.72	-6.03
2.	Abad Exim	Marine	2732	2961.99	229.99	8.42	20	39	12.32	5.52	-33.48
3.	Penta Packs	Packaging	3.12	5.76	2.64	84.62	20	41	16.07	39.27	-1.73
4.	Veera Tretwood Ltd.	Wood	-76.48	-38.53	37.95	-49.62	20	47	-141.34	-72.21	-119.21
5.	Associated medical Equips	Needles	-13.95	-30.49	-16.54	118.57	20	64.43	-85.45	-199.76	-264.19
6.	Sheveroy Estates Ltd.	Tissue culture	663.14	720.94	57.8	8.72	20	61.96	61.29	59.74	-2.02

Source: Office records of CEPZ.

Of the six unclassified units presented in table 4.22, Penta Packs, Sheveroy Estates and Poly Fibre Products have achieved value addition very near to the norm prescribed by the CEPZ authorities. Associated Medical Equipments was facing the threat of winding up due to poor export performance, whereas Veera Treatwood was picking up its business after undergoing a major financial restructuring. Abad Exim, the only unit exporting marine products was found to have turned the corner as it is poised for substantial export commitments.

A scrutiny of tables 4.16 to 4.22 reveals that even though many units have achieved value addition above the industry norms, they are working marginally below the value addition prescribed by CEPZ authorities. But it is gratifying to note that their performance had considerably improved over the years both in terms of value addition and earning of net foreign exchange.

Investment Pattern

Information regarding sector-wise and source-wise investments, foreign and Non Resident indian(NRI) investments is furnished in tables 4.23, 4.24 and 4.25.

Table 4.23

Details of sector-wise and source-wise investments made by CEPZ units as on 31.3.1994

(Rs. in lakhs)

Sl No.	Name of the product group	Foreign	NRI	Indian	Total
1	Plastics and allied products	15.00	213.48	979.65	1208.13
2.	Rubber product	--	15.33	1217.75	1233.08
3.	Readymade garments	--	397.27	601.37	998.64
4.	Electronics	9.00	22.80	714.22	746.02
5.	Gems & jewellery	--	2.00	145.85	147.85
6.	Medical equipments	--	101.88	225.37	327.25
7.	Bio-technology	--	--	240.91	240.91
8.	Essential oils &spices	12.00	--	627.91	639.91
9.	Wooden products	--	--	558.73	558.73
10.	Ceramics	509.00	--	4201.00	4710.00
11.	Tools & dies	681.00	--	200.00	881.00
12.	Chemicals	--	368.13	255.00	623.13
13.	Packing materials	--	--	2.50	2.50
14.	Marine products	111.22	--	303.50	414.72
15.	Video cassettes	--	67.39	36.05	103.44
16.	Musical equipments	--	--	31.86	31.86
	Total	1337.22	1188.28	10341.67	12867.17

Source: Records of CEPZ Office.

Table 4.23 reveals that out of a total investment of Rs.12867.17 lakhs as on 31.3.94, Rs.1337.22 lakhs were foreign, Rs. 1188.28 NRI and the remaining Rs.10341.67, Indian. Tools and dies, ceramics and marine products were the units which had attracted the lion's share of foreign investments. Readymade garments, chemicals and plastics and allied products were the major sectors attracted the NRI investments. Indian investments were mainly in ceramics, rubber products, plastics and allied products, electronics and essential oil and spices.

Table 4.24

Details of industries and their foreign collaborators as on 31.3.1994

Sl. No.	Name of country	Product group						
		Plastic	Electronics	Medical	Chemical	Crockery	Others	Total
1.	USA	-	3	1	1	-	4	9
2.	Italy	1	1	-	-	-	-	2
3.	UK	-	-	-	-	2	1	3
4.	Switzerland	-	-	-	-	-	1	1
	Total	1	4	1	1	2	6	15

Source: Records of CEPZ office.

Table 4.24 reveals that majority of the enterprises are having collaboration with units in the US. For example, of the 15 units nine have collaboration with firms in the US. Of these three are electronic units, one chemical unit, one medical equipment unit and four others. Two units have

collaboration with Italian firms, three units with that of UK and one with that of Swiss.

Table 4.25 reveals that the NRIs of Hongkong had investments in garments and video cassette industries, whereas the US NRIs were interested in rubber, medical and chemical units.

Table 4.25

Details of interest of non resident Indians in CEPZ units as on 31.3.1994

Sl. No.	Name of the country	Gar-ments	Rubber products	Frozen vege-tables	Plas-tics	Medi-cals	Chemi-cals	Video cassetts	Tot-al
1.	USA	-	1	-	-	1	1	-	3
2.	UK	-	-	1	-	-	-	-	1
3.	Hongkong	4	-	-	-	-	-	1	5
4.	Italy	-	-	-	1	-	-	-	1
	Total	4	1	1	1	1	1	1	10

Source: Records of CEPZ office.

Foreign Collaborators

The details of CEPZ units, their products and the names of their foreign collaborators are given in an abridged form in table 4.26. The table is self explanatory. Of the 15 units, Affiliated Medical Equipments(P) Ltd., Otee Frini(India) Ltd. and Aarc Synthetics Ltd. were found to be in trouble due to withdrawal of support by their foreign collaborators.

Table 4.26

Details of CEPZ Units, their Products and their Foreign Collaborators as on 31-3-94

Sl. No.	Name of the CEPZ unit	Name of the Product	Name of the Foreign Collaborator
1.	Chelur Satellite Communication systems Ltd	IRD-TVRO Systems	Elite Electronics Inc. 1408, Plano, Texas, USA
2.	Integrated Computing Environment	Software	Integrated Computing Environment 1033 Madinx Pola Alto CA94303 USA
3.	Zelcron Industries Ltd.	Activated carbon	Zelcron Industries Inc. USA
4.	Amp Tools (India) Ltd.	Tools and dies	AMP INC Harrisburg, USA
5.	Cochin Spices Ltd.	Spice powder	Tone Brothers INC, USA
6.	Crysind Electronics Private Ltd.	Crystal oscillators	Indtech Ltd., USA
7.	Nort Pak Fibre Optics Pvt. Ltd.	Optical switches	Kapton Inc., USA
8.	Lotus Spices Ltd.	Sterilised pepper powder	Newlyweds Foods, USA
9.	Affiliated Medical Equipments (P) Ltd	Hypodermic needles	Bharat Equipment Ltd., USA
10.	Tata Ceramics Kerala Ltd.	Bone china table ware	Advanced Product Technology, UK
11.	Mak Games and Musical Equipments Ltd.	Bows for musical Instruments	P & H Enterprises, UK
12.	Muthoot Estate Investments	Sanitary wares	APT, UK
13.	Elen Bock	Key board/switches	Joseph Bock, Switzerland
14.	Otee Frini (India) Ltd	Telescopic antennae	Frini Antennae, SNC, Italy
15.	Aark Synthetics Ltd.	Disposable containers	Nuo Covemaa, Spa, Italy

Note : Units with Sl.Nos. 9,14 and 15 were in the process of winding up their business due to some difference of opinion between the Indian promoters and foreign collaborators.

Source: Office records of CEPZ.

Table 4.27

Details of capital expenditure, maintenance expenditure,rent receivable,actual rent received and as percentage of return on capital investments during 1986-87 to 1993-94 (Rupees in lakhs)

Year	Aggregate capital expenditure	Mantenance expen-diture	Rent recei-vable	Annual % age of return on investment on rent receivable	Actual rent received	Annual % age of return on investment on actual rent received	Rent due from units
1986-87	1073	-	1.6	0.15	1.6	0.15	
1987-88	1213	2.5	10.61	0.87	9.38	0.79	1.03
1988-89	1283	2.05	27.66	2.16	24.77	1.93	2.89
1989-90	1333	4.5	29.76	2.23	8.29	0.62	21.47
1990-91	1417	4.5	34.63	2.44	12.39	0.87	22.24
1991-92	1649	2.0	40.00	2.43	20.74	1.26	19.26
1992-93	1857	6.5	53.74	2.89	55.66	2.99	1.92
1993-94	2557	10.2	104	4.06	55.42	2.17	48.62

Source : Office records of CEPZ.

From Table 4.27 it can be seen that the rent due from units is increasing from year to year due to the lethargic attitude of the CEPZ authorities. When necessary steps were taken in 1992-93 the actual collection of rent has exceeded the rent receivable for that year. The excess collection relates to arrears. While the rent receivable as annual percentage of return on capital invested had increased from 0.15 per cent to 4.06 per cent between 1986-87 and 1993-94, as the actual rent received as the percentage of return on investments had improved only from 0.15 to 2.17 during the same period. However, due to stringent measures adopted by the CEPZ authorities lease rent collection has substantially increased in 1994-95 (Rs.94.30 lakhs) and in 1995-96 (Rs.129.05 lakhs).

Capacity Utilisation

Information on the utilisation of capacity of some select CEPZ units is given in table 4.28.

Table 4.28 showed that all the units in CEPZ commenced production in December 1989 or after. But they commenced exports only from March, 1990. Of the nine units, three were producing and exporting readymade garments. The main product of the garment units was winter jackets and the subsidiary products were shirts, T shirts and shorts. The installed capacity of the garment units was four pieces per

Table 4.28

Some physical details of selected CEPZ units as in October 1993

Sl. No.	Name of the CEPZ production	Main product	Subsidy product	Installed capacity	Break-even capacity	Present Utilisation	Date of LOA	Commencement of Production	Date of commencement of exports
1.	Trend Setters in Style India Ltd	Winter Jackets	Shirts, T.shirts shorts	4 Piece/ machine	2.25/ machine	90%	25.9.90	11.2.91	19.3.91
2.	Trend Designs Ltd.	Winter Jackets	Shirts, T.shirts shorts	4 Piece/ machine	2.25/ machine	90%	19.11.92	10.2.93	18.2.93
3.	Mode Creazone India Ltd	Winter Jackets	Shirts, T.shirts shorts	4 Piece/ machine	2.25/ machine	90%	30.7.91	10.6.92	8.7.92
4.	Poly Fibre Products (P) Ltd.	Polyster Padding and Hangers (Plastics)	-	65 lakhs yards	3500 yards per shift	20%	14.12.90	2.3.91	28.3.91
5.	Integrated computer Environments Ltd.	Software	-	-	-	-	28.11.87	10.12.89	15.1.91
6.	Nikasu Pack (P) Ltd	Baby Feeding Bottles	-	30 lakh bottles	10 lakh bottles	40%	3.6.88	1.4.90	21.4.90
7.	We are Jewellers	Plain and studded Gold Jewellery	-	195 kg	100 kg	60 kg	10.10.88	1.3.91	15.3.91
8.	Aarma Rubber Products (P) Ltd.	Latex Examination gloves	-	300 lakh	-	-	30.8.88	28.4.89	14.3.90
9.	Abad Exim (P) Ltd.	Marine Products	-	8 MT/day	-	-	26.10.92	-	-

Source: Office records of the respective units collected through questionnaire

machine in a working day and the break-even point was calculated at 2.25 pieces per machine in a working day. All these units were utilising 90 per cent of their installed capacity. The installed capacity of the polyster padding unit was 65 lakh yards per annum and its break-even capacity was estimated at 3500 yards per work shift. The actual utilisation of production capacity was found to be only 20 per cent. The unit producing baby feeding bottles was utilising only 40 per cent of the installed capacity of 30 lakh bottles per annum. The break-even production of this unit was estimated at 10 lakh bottles in a year. The actual utilisation of the jewellery unit was only 60 kg of gold in spite of the installed capacity at 195 kg and break-even point of 100 kg per annum. The glove unit and the unit connected with marine products had furnished data of their installed capacity at 300 lakhs per annum and 8 metric tonnes per day respectively, but they have not furnished data of their break-even capacity and the present utilisation. Abad Exim (P) Ltd. occupied the largest area at 2367 sq. metres followed by Mode Creazone India Ltd. at 2030 sq. metres and Trend Setters in Style at 1460 sq. metres. The smallest area was occupied by Nikasu Pak (P) Ltd. at 375 sq.metres.

Long-Term Funds

Details of long-term funds of some select CEPZ units are given in table 4.29.

Table 4.29
Details of capital investments in selected CEPZ units at the end of October, 1993
(Rupees in lakhs)

Sl. No.	Name of the Business	Org. set up	Promoters Contribution				Other own funds				Loan			
			1990-91	1991-92	1992-93	Total	1990-91	1991-92	1992-93	Total	1990-91	1991-92	1992-93	Total
1.	Trend Setters in Style India Ltd	Public Ltd Co.,	0.020	25.918	28.755	54.693	3.025	1.838	-	4.863	90.000	50.000	-	140.000
2.	Trend Designs Ltd.	Public Ltd Co.,	-	-	46.164	46.164	-	-	0.006	0.006	-	-	81.800	81.800
3.	Mode Creazones India Ltd	Public Ltd Co.,	-	99.998	-	99.998	-	0.002	-	0.002	-	90.000	-	90.000
4.	Poly Fibre Products (P) Ltd.	Private Ltd. co.,	0.005	-	49.302	49.307	0.005	0.010	0.498	0.513	78.000	-	-	78.000
5.	Integrated computer Environments Ltd.	Public Ltd Co.,	-	-	-	50.000	-	-	-	-	-	-	-	24.000
6.	Nikasu Pack (P) Ltd	Private Ltd. co.,	-	-	-	12.000	-	-	-	14.620	-	-	-	48.100
7.	We are Jewellers	Partner-ship	6.800	8.650	8.000	23.450	2.600	2.100	2.500	7.200	26.920	26.660	27.000	80.580
8.	Asma Rubber Products (P) Ltd.	Private Ltd Co.,	-	-	-	26.198	-	-	-	-	-	-	-	49.750
9.	Abad Exim (P) Ltd.	Private Ltd Co.,	-	-	238.773	238.773	-	-	-	-	-	-	-	-
	Total		6.825	134.566	370.994	610.583	5.63	3.95	3.004	27.204	194.920	166.660	108.800	592.200

Table 4.29 (continued from the previous page)

Name of the Business	Foreign Collaboration				NRI Investments				Long Term Total Funds				Remarks
	1990-91	1991-92	1992-93	Total	1990-91	1991-92	1992-93	Total	1990-91	1991-92	1992-93	Total	
Trend Setters in Style India Ltd	-	-	-	-	-	-	-	-	93.045	77.756	28.755	199.556	
Trend Designs Ltd.	-	-	-	-	-	-	-	-	-	-	127.970	127.970	Commenced in 1992-93
Mode Creazones India Ltd	-	-	-	-	-	-	-	-	-	190.000	-	190.000	Commenced in 1991-92
Poly Fibre Products (P) Ltd.	-	-	-	-	-	-	-	-	78.010	0.010	49.800	127.820	
Integrated computer Environments Ltd.	-	-	-	-	-	-	-	-	-	-	-	74.000	Commenced in 1989-90
Nikasu Pack (P) Ltd	-	-	-	-	-	-	-	-	-	-	-	74.720	Commenced in 1989-90
We are Jewellers	-	-	-	-	2.000	2.000	3.200	7.200	36.320	37.410	37.500	113.230	NRI investments included in promoters contribution
Asma Rubber Products (P) Ltd.	-	-	-	-	-	-	-	-	-	-	-	75.948	Since inception
Abad Exim (P) Ltd.	-	-	111.227	111.227	-	-	-	-	-	-	350.000	350.000	Commenced in 1992-93
Total	-	-	111.227	111.227	2.000	2.000	3.200	7.200	207.375	305.176	594.025	1333.244	

Source: Data collected through questionnaire and personal interview

Table 4.29 reveals the details of capital investments in selected CEPZ units as in October, 1993. The total long term funds of all the nine units which had furnished details were found to be Rs. 13.33 crores of which promoters contribution accounted Rs. 6.1 crores. The rest is accounted by own funds (Rs.0.27 crores), loan (Rs. 5.92 crores), foreign collaborators share(Rs.1.11 crores) and NRI investments (Rs. 0.07 crore). The promoter's contribution has increased from Rs. 6.8 lakhs in 1990-91 to R.135 lakhs in 1991-92 and Rs.371 lakhs in 1992-93. On the other hand, the importance of loan has been dwindling from Rs.195 lakhs in 1990-91 to Rs.167 lakhs in 1991-92 and Rs.109 lakhs in 1992-93. The foreign investment was found only in one unit--Rs.111 lakhs in 1992-93. The NRI investment was also found in one unit which was Rs.2.00 lakhs each in 1990-91 and Rs.1991-92, but increased to Rs.3.2 lakhs in the subsequent year. The NRI investments were also found to be part of the promoter's contribution.

Dollar Earning Cost

From the date of inception to 31.3.96 CEPZ had earned a net foreign exchange of US $ 47.7 million. As the revenue income was found to be meeting the revenue expenditure the same can be taken as the basis for calculating the cost of earning of foreign exchange. The aggregate earnings of CEPZ in hard currency was US $ 47.7 million and the total capital

expenditure was Rs.30.45 crores and so the cost of earning one dollar of net foreign exchange worked out is at Rs.8.06 on 31.3.96 compared to that of Rs.11.49 on 31.3.93. As the capital expenditure is likely to remain constant and earnings of net foreign exchange are likely to go up the cost of earning one dollar is expected to go down substantially in future.

Labour Cost

Information regarding skilled, semi skilled, unskilled total number and total labour cost of the various production units of CEPZ from 1986-87 to 1993-94 is given in table 4.30.

Table 4.30 shows the composition and classification of labour force in CEPZ units(viz skilled, semi-skilled, unskilled) and the average labour cost during the years from 1986-87 to 1993-94. During the period, the average labour cost per annum had increased from Rs. 10729 in 1986-87 to Rs.15607 per annum in 1993-94. Thus the increase in average labour cost was found to be 45 per cent during the period. The aggregate labour cost had increase from Rs.0.75 lakhs to Rs.632.86 lakhs during the same period. Mode Creazone(P) Ltd, the unit producing ready made garments, had been the topmost single employer giving jobs from its inception. It employed 624 persons in 1991-92 and 792 persons in 1992-93. The labour

Table 4.30

Composition of Labour Force and Labour Cost

Name of the unit	1986-87 SK	SM	US	T	LC	1987-88 SK	SM	US	T	LC	1988-89 SK	SM	US	T	LC	1989-90 SK	SM	US	T	LC
DEO D V I	3	2	2	7	0.88	3	2	2	7	0.75	2	2	2	6	0.86	2	3	2	7	1.06
DEO D V II						5	3	2	10	1.34	5	3	2	10	1.47	5	3	3	11	1.70
DEO D V IIIA						5	2	2	9	1.09	5	2	2	9	1.89	6	3	3	12	1.69
DEO D V IIIB						6	5	2	13	1.52	6	5	2	13	1.66	7	7	3	17	2.43
TARS										0.00	5	12	28	45	5.32	6	13	28	47	6.23
TREND SETTERS										0.00					0.00					0.00
MODE CREAZON										0.00					0.00					0.00
TREND DESIGNS										0.00					0.00					0.00
COCHIN STONES										0.00	5	2	2	9	0.34					0.00
WE ARE JEWELLERS										0.00					0.00					0.00
OVERSEAS LATEX										0.00					0.00	3	10	22	35	4.79
ZOETIC POLYMERS										0.00					0.00					0.00
KERALA RUBBER&RECLAIMS										0.00					0.00	4	12	11	27	3.78
UNIVERSAL GLOVES										0.00					0.00	6	12	3	21	3.10
DANTEX RUBBER(P)LTD.										0.00					0.00	4	16	18	38	3.93
ASHA RUBBER										0.00					0.00	5	12	21	38	5.15
AVT RUBBER										0.00					0.00	2	2	11	15	2.19
PENTA PACKS										0.00					0.00					0.00
AARK SYNTHETICS										0.00					0.00	8	8	19	35	4.75
ANANT JAIN										0.00					0.00					0.00
OTEE PRINI										0.00					0.00	3	2	4	9	1.45
SHEVEROY ESTATES LTD.										0.00	18	22	39	79	9.95	20	10	42	72	10.09
NIKASU PACK										0.00					0.00	2	4	7	13	1.95
INTEGRATED COMPUTERS										0.00					0.00	2	2	5	9	3.09
VEERA TREAT WOOD										0.00					0.00	4	3	6	13	1.97
SUN FIBRE										0.00					0.00					0.00
CRYSIND ELECTRONICS										0.00					0.00					0.00
NORTPAK FIBRE										0.00					0.00					0.00
POLY FIBRE										0.00					0.00					0.00
ABAD FISHERIES										0.00					0.00					0.00
AMP TOOLS										0.00					0.00					0.00
COCHIN SPICES										0.00					0.00					0.00
COVENA										0.00					0.00					0.00
TABA GLOVES										0.00					0.00	4	8	14	26	3.55
BINBINO GARMENTS										0.00					0.00					
MAHALAKSHMI JEWELLERS										0.00					0.00					
TOTAL				7	0.75				39	4.84				172	21.48				503	57.61

(Contd....)

Table 4.30
(Contd from previos page)
Composition of Labour Force and Labour Cost

Name of the unit	1990-91					1991-92					1992-93					1993-94				
	SK	SM	US	T	LC	SK	SM	US	T	LC	SK	SM	US	T	LC	SK	SM	US	T	LC
DEO D V I	2	3	2	7	1.14	2	3	3	8	1.36	2	3	3	8	1.43	2	3	4	9	1.64
DEO D V II	5	3	3	11	1.86	5	3	3	11	1.99	5	3	5	13	2.40	5	4	5	14	2.62
DEO D V IIIA	6	3	3	12	1.81	6	4	3	13	2.06	6	4	4	14	2.31	6	4	4	14	2.41
DEO D V IIIB	7	7	3	17	2.51	7	7	4	18	2.78	7	7	7	21	3.36	7	8	7	22	3.66
TAMS	6	13	28	47	6.80	6	14	35	55	8.29	6	13	38	57	8.73	3	7	17	27	4.73
TREND SETTERS					0.00	6	10	470	486	68.22	7	11	582	600	86.31	8	12	****	1108	147.23
MODE CREAZON					0.00	5	22	597	624	87.01	6	24	762	792	113.19	6	24	766	796	116.64
TREND DESIGNS					0.00					0.00					0.00	4	7	558	569	86.03
COCHIN STONES					0.00					0.00					0.00	0	0	0	0	0.00
WE ARE JEWELLERS	24	1	2	27	4.07	25	5	10	40	6.17	24	5	13	42	6.76	22	7	14	43	7.21
OVERSEAS LATEX	4	11	22	37	5.48	4	12	29	45	6.91	4	16	30	50	7.87	4	15	32	51	8.28
ZOETIC POLYMERS	4	4	11	19	2.90	4	4	15	23	3.63	4	4	17	25	2.85	4	4	19	27	4.50
KERALA RUBBER&RECLAIMS	6	24	27	57	8.02	6	24	33	63	8.68	6	24	36	66	10.05	6	24	39	69	10.84
UNIVERSAL GLOVES	7	20	53	80	11.38	6	22	61	89	13.43	5	23	65	93	14.55	5	26	65	96	15.29
DANNTEX RUBBER(P)LTD.	6	22	51	79	11.15	6	24	72	102	15.14	6	25	75	106	16.25	7	20	40	67	10.69
ASHA RUBBER	7	24	64	95	13.33	7	23	70	100	13.51	7	22	74	103	15.67	6	23	77	106	16.67
AVT RUBBER	8	23	55	86	12.32	8	24	107	139	20.71	8	25	110	143	22.32	10	25	110	145	23.21
PENTA PACKS					0.00					0.00	2	2	3	7	1.48	2	3	4	9	1.86
AARK SYNTHETICS	4	12	30	46	6.80	4	13	33	50	7.74	4	14	40	58	9.25	3	12	30	45	7.63
ANANT JAIN					0.00					0.00	4	10	41	55	8.81	3	8	12	23	3.96
OTEE FRINI	6	5	7	18	3.15	6	5	7	18	6.86	6	6	12	24	4.44	3	2	3	8	1.70
SHEVEROY ESTATES LTD.	22	38	72	132	19.36	22	40	91	153	23.59	25	40	100	165	26.21	25	41	100	166	27.06
NIKASU PACK	5	4	14	23	2.23	5	5	15	25	4.12	5	5	15	25	4.29	5	5	15	25	4.46
INTEGRATED COMPUTERS	11	1	1	13	3.70	12	1	2	15	4.60	12	1	2	15	4.98	12	1	2	15	6.58
VEERA TREAT WOOD	10	12	88	110	15.16	10	12	144	166	24.59	9	15	161	185	28.46	8	12	131	151	24.05
SUN FIBRE					0.00	21	20	56	97	14.34	21	19	81	121	18.64	20	18	81	119	19.03
CRYSIND ELECTRONICS					0.00					0.00	0	0	0	0	0.00	3	7	12	22	5.89
NORTPAK FIBRE					0.00					0.00	0	0	0	0	0.00	10	8	8	26	4.94
POLY FIBRE					0.00	4	7	12	23	3.72	4	8	17	29	4.81	4	8	15	27	4.72
ABAD FISHERIES					0.00					0.00	3	7	8	18	3.01	3	8	9	20	3.43
AMP TOOLS					0.00					0.00	12	8	20	40	7.55	13	8	22	43	8.44
COCHIN SPICES					0.00					0.00	3	4	13	20	3.44	3	3	13	19	3.44
COVENA					0.00					0.00	10	7	60	77	11.77	10	7	62	79	12.50
TABA GLOVES	6	25	47	78	11.022	6	24	57	87	13.074	6	25	60	91	14.139	6	24	67	97	15.56
BIMBINO GARMENTS																4	10	47	61	10.02
MAHALAKSHMI JEWELLERS																27	5	3	35	5.93
TOTAL				994	144.216				2450	382.53				3063	465.21				4055	632.86

Note: SK-Skilled; US-Unskilled; SM-Semiskilled; T-Total number; LC-Labour Cost in lakhs of Rupees
Source: Office records of CEPZ and CEPZ Industries Association

cost of the unit accounted for Rs.87.01 lakhs and Rs.113.19 lakhs during the respective years. But in 1993-94 it was relegated to the second position by another unit namely Trend Setters In Style which employed 1108 persons with a labour cost of Rs.147.23 lakhs. As against this Mode Creazone (P) Ltd. could provide jobs only to 796 persons with a labour cost of Rs.116.64 lakhs in that year. The aggregate number of employees in CEPZ units went up from 7 in 1986-87 to 4055 in 1993-94.

Table 4.31

Average wage rates of CEPZ units during 1986-87 to 1995-96

(in Rupees)

Year	Male	Female	Executives
1986-87	800	760	1500
1987-88	900	850	2000
1988-89	975	900	2250
1989-90	1075	1000	2400
1990-91	1150	1100	2600
1991-92	1200	1150	2900
1992-93	1250	1175	3150
1993-94	1300	1200	3400
1994-95	1325	1240	3450
1995-96	1400	1300	3650

Source: Records of CEPZ office and information gathered from the personal interview with selected entrepreneurs of CEPZ.

Table 4.31 reveals that the average monthly salary rate of executives of CEPZ units more than doubled during the period 1986-87 to 1995-96 from Rs.1500/- to Rs.3650/-. On the other hand, the average monthly wage rate of male workers increased from Rs.800/- to Rs.1400/- and that of female employees increased from Rs.760/- to Rs.1300/- during the same period. So the CEPZ units are found to be paying reasonable remuneration to their work force. No serious complaint has so far been recorded on the exploitation of female workers in CEPZ's industrial units.

The information on the following items is given as Appendices.

1. Details of industrial units under implementation in CEPZ as on 01-01-1996 (Appendix 4.1).
2. Specimen questionnaire used for the collection of data from CEPZ units (Appendix 4.2).
3. Specimen form of legal agreement to be executed by the industrial units with CEPZ authorities (Appendix 4.3).
4. Procedural formalities for setting up units in CEPZ (Appendix 4.4).
5. Statutory requirements to obtain certain facilities and services (Appendix 4.5).
6. Export-import clearance formalities (Appendix 4.6).
7. Labour enactments applicable to CEPZ units (Appendix4.7).
8. Order issued by Government of Kerala on investment subsidy available to new industrial units(Appendix 4.8).
9. Demands of the Federation of Indian EPZs'Industries Association (Appendix 4.9).

CHAPTER V

SIMILARITIES AND DIFFERENCES IN THE WORKING OF CEPZ WITH THAT OF OTHER INDIAN EPZs ON SOME IMPORTANT ASPECTS

CHAPTER V

SIMILARITIES AND DIFFERENCES IN THE WORKING OF CEPZ WITH THAT OF OTHER INDIAN EPZS ON SOME IMPORTANT ASPECTS

The overall performance of the EPZs in India are found to be highly encouraging as they have earned Rs.2737 crores of exports in 1994-95. This earning is 109.48 per cent of the export earning target of Rs.2500 crores fixed for 1994-95 as can be seen from Table 5.1.

Table 5.1

Export Target and Actual Performance of the Export Processing Zones in 1994-95 (Rs.in crores)

	Target	Exports
KFTZ	350	404.15
SEEPZ	1350	1549.66
FEPZ	50	32.31
MEPZ	270	281.38
CEPZ	120	102.53
NEPZ	350	366.69
VEPZ	10	0.40
Total	2500	2737.12

Source: Office records of CEPZ and N.Ravisankar et al "Export Performace, Problems and Prospects of Indian Export Processing Zones", Indian Journal of Marketing, Vol.XXIV, November-December 1995, pp. 12-28.

Information on some important aspects of the similiarities and differences among the seven public sector EPZs is furnished in table 5.2.

Table 5.2 shows that CEPZ has 37 active exporting units, whereas NEPZ has 105, MEPZ 80, SEEPZ 137, KFTZ 91 and FEPZ 19 during 1993-94. The number of units which have achieved the value addition criteria prescribed by the authorities are eight in CEPZ, 15 in MEPZ and 74 in SEEPZ. So in efficiency SEEPZ stood first. The details of the units belonging to the same group but pertaining to other Indian Zones are not available. The number of units under various stages of implementation is 12 in CEPZ compared to 20 in NEPZ, 27 in MEPZ, 23 in KFTZ,4 in FEPZ and 3 in VEPZ. The mortality rate of production units was found to be very high in KFTZ at 26 and SEEPZ at 14 compared to 4 in CEPZ and 3 in FEPZ. The sickness of production units is found to be at a high order in MEPZ at 12 compared to nine in SEEPZ, eight in NEPZ, five in CEPZ and four in KFTZ. The number of withdrawal from implementing the project by the entrepreneurs and the cancellation of the letter of approval given by the DCs were found to be very high in CEPZ, at 65 compared to only four in MEPZ. Perhaps, this trend may be due to the poor perception of the EPZs by the entrepreneurs who proposed to commence business in CEPZ. However, similar details from other Zones were not available.

Table 5.2

Some Important Aspects of Similarities and Differences among the Seven Indian Export Processing Zones as on 31-03-1994

Name of the Zone	No. of export units	Units achieved value addition	Units under implementation	Units closed down	No. sick units	Units cancelled or withdrawn	Investment made (Rs. in crores)				Export earnings (Rs. in crores)	Employment generated No.
							Indian	NRI	Foreign	Total		
CEPZ	37	8	12	4	5	65	103.00	12.00	13.00	128.00	83.81	4300
NEPZ	105	—	20	—	12	—	238.00	19.00	33.00	290.00	262.62	6100
NEPZ	80	15	27	10	13	4	—	—	37.64	37.64	200.20	7200
SEEPZ	137	74	—	14	9	—	—	—	—	—	1107.36	22600
KFTZ	91	—	23	26	4	—	74.68	3.19	4.08	81.95	270.36	10500
FEPZ	19	—	4	3	—	—	—	—	—	—	35.56	1300
VEPZ	—	—	3	—	—	—	—	—	—	—	—	11
Total	469	97	89	57	43	69	415.68	34.19	89.72	537.59	1959.91	52011

Source : Office records of EPZ division, Ministry of Commerce, Government of India and office records of respective Indian EPZs.

The total foreign investments made in CEPZ was Rs.13 crores as on 31.3.1994 compared to Rs.37.64 crores in MEPZ and Rs.4.08 crores in KFTZ. The details pertaining to other Zones were not available. The highest contribution of export earning was made by SEEPZ at Rs. 1107.36 crores, compared to Rs. 106 crores by CEPZ, Rs. 263 crores by NEPZ, Rs.200 crores by MEPZ and Rs.36 crores by FEPZ. The oldest EPZ in India, KFTZ could earn only Rs.270 crores through exports. This was largely due to high fluctuations in the demand for the products and of the markets. SEEPZ provided the largest employment opportunities at 22600, whereas the oldest EPZ, KFTZ employed only 10,500 owing to financial and marketing problems of a number of units of that Zone. The number of persons employed in CEPZ was 4300, but the same for NEPZ was 6100, MEPZ 7200, FEPZ 1300 and VEPZ, the latest Indian EPZ was only 11. The details on export performence, investments, employment opportunities provided and other revelant information on Indian EPZs as on 31-3-1995 are discussed in the next chapter.

Madras Export Processing Zone (MEPZ)

The MEPZ was established along with other three EPZs in 1984 at Thambaram, six km away from Nungambakkam Airport and 25 km away from the port, Madras. It is one of the largest in terms of acreage of land available and it is one of the fast growing EPZs in India. Out of 126 units granted approval, 74 units have become operational. Of this, 19 units

are NRI investors and another 31 units are partly/wholly owned by foreigners[1]. Now an attempt is made to compare the CEPZ with MEPZ on some important aspects.

Table 5.3
Details of some important aspects of CEPZ and MEPZ as in 1993-94

Items	Unit	CEPZ	MEPZ
Size of the EPZ	acres	103	261
Standard design factory	sq.m	30919	50,000
Employees	No	4300	7200
Domestic entrepreneurs' investments	Rs crores	103	217
Foreign/NRI investments	Rs. crores	25	37.64
Return on investment	%	4.6	6.8
Net earnings in foreign exchange	$ million	38	62
Units in operation	No	39	80
Units under implementation	No	12	27
Units withdrawn/cancelled	No	65	14
Units achieved value addition	No	8	15
Units with shortfall of less than 10 per cent of approved VA but above industry norms	No	2	6
Units with shortfall of less than 10 per cent of approved VA but below industry norms	No	2	13
Units with shortfall of more than 10 per cent of approved VA but above industry norms	No	2	18
Units with shortfall of more than 10 per cent of approved VA but less than industry norms	No	22	14

Note : VA = Value Addition

Source: Publications of CEPZ and MEPZ, 1994.

[1] The Indian Express dated 26.8.1995.

Table 5.3 shows the details on some selected aspects of CEPZ and MEPZ during 1993-94. The total acreage of land available was 103 for CEPZ and 261 for MEPZ. The carpet area of the built-in Standard Design Factory was 30919 square metres and 50,000 square metres for CEPZ and MEPZ respectively. CEPZ provided employment for 4300 persons, whereas MEPZ 7200 though both commenced operations in 1986-87.

The quantum of domestic investments in CEPZ were Rs.103 crores compared to Rs.217 crores in MEPZ. Foreign/NRI investments amounted to Rs.25 crores and Rs.38 crores respectively in CEPZ and MEPZ. The return on investments (ROI) was estimated at 4.6 and 6.8 per cent respectively in CEPZ and MEPZ. The net earning of foreign exchange were found to be at $ 38 million and $ 62 million respectively for CEPZ and MEPZ.

The number of units in operation was 39 in CEPZ and 80 in MEPZ. Another 27 units were at various stages of implementation in MEPZ and 12 in CEPZ. Sixtyfive letters of approvals were cancelled due to poor response of the entrepreneurs after filing the applications in CEPZ, while only 14 similar cases were reported in MEPZ. The wrong perception about the concept and the failure in finalising marketing arrangements were found to be the major reasons for such widespread cancellations in CEPZ.

The number of units which have achieved the value addition criterion prescribed by the authorities while setting up the units was found to be high in MEPZ, at 15 compared to that of eight in CEPZ during 1993-94. The number of units with a shortfall of less than 10 percent of the approved value addition criterion but above the norms prescribed for the industry in general was two in CEPZ and six in MEPZ. The number of units with a shortfall of less than 10 per cent of the approved value addition criterion and below the norms prescribed for the industry in general was 13 in MEPZ and 2 in CEPZ.

Eighteen MEPZ units had recorded deficiency of more than 10 per cent of the approved value addition criterion and more than the prescribed norms of the industry concerned in general, but the same category was only two in CEPZ. Twentytwo CEPZ units had attained more than 10 per cent of the approved value addition and less than the norms applicable to the industry concerned. The number of such units was 14 in MEPZ.

From the above analysis it is concluded that the general performance of MEPZ was better than that of CEPZ during 1993-94.

Performance of Some Selected Major Industries in CEPZ and MEPZ

Garments, rubber products, gems and jewellery and computer and electronics were found to be contributing to the export earnings of CEPZ and MEPZ. Tables 5.4 to 5.10 show the export performance of the sector-wise industrial units of both the Zones. The aggregate export earnings of MEPZ and CEPZ since their inception to 31.3.93 stood at Rs.614.38 crores and Rs.201.26 crores respectively. The share of garments to this was Rs.182.43 crores and computer and electronics Rs.99.26 crores, whereas the share of rubber products was Rs.15.92 crores and gems and jewellery Rs.6.74 crores during the same period in MEPZ. The share of exports from CEPZ from its inception to 31.3.93 was as follows:

Garments	Rs.27.89 crores
Computer and electronics	Rs.15.69 crores
Rubber products	Rs.13.97 crores
Gems and jewellery	Rs.2.11 crores

Table 5.4

Performance of Garment Units in MEPZ

Name	Date of commence-ment of production	Exports upto 31.3.93 (Rs. in lakhs)
Hallmark Industries	1.12.87	390.81
P.S. Apparels Ltd.	1.12.86	1908.88
Prakash Garments	1.5.89	327.01
R. Designs Exports	1.7.87	1505.66
Vastra Apparels	1.9.90	497.80
Vertiments IP Ltd.	1.3.87	514.80
Gupta and Co.	1.8.87	804.87
Hindustan Lever Ltd.	1.4.88	608.40
Madras Knitwear	1.1.91	3079.89
Well-Knit Apparels	1.6.89	3864.34
All India Handloom	1.1.89	1025,61
Ambassador Garments	1.12.87	412.21
Excelsior Exports	1.10.88	189.27
Tatia Intimo	1.10.90	17.65
Vijay Garments	1.1.89	1434.40
Auroknit Textiles	1.10.89	124.06
Samwoo vasovi	1.1.93	3.73
Total		18243.29

Source: Office Records of MEPZ

Table 5.5
Performance of Garment Units of CEPZ

Name	Date of commence-ment of production	Exports upto 31.3.93 (Rs.in lakhs)
Tams Garments	11.1.88	58.15
Poly Fibre Products	4.1.91	152.60
Trend Setters Instyle	4.1.91	1668.17
Mode Creazone (P) Ltd.	4.1.92	870.64
Trend Designs Ltd.	2.1.93	39.83
Total		2789.39

Source: Office Records of CEPZ

Tables 5.4 and 5.5 reveal the export performance of garment units in MEPZ and CEPZ respectively. As agaist 17 garment units in MEPZ, there are only five such units in CEPZ. Well-knit Apparels which commenced production on 1.6.1989 stands top in aggregate exports at Rs.3864 lakhs in MEPZ. Trend Setters Instyle which commenced operations on 4.1.1991, is the largest exporter in garment group in CEPZ with exports of Rs.1668 lakhs. Samwoo Vasovi, which commenced production on 1.1.1993 in MEPZ, could record only an aggregate export of Rs.3.73 lakhs. As against this, Trend Designs Limited, which commenced operations on 2.1.1993 in CEPZ, could export Rs.40 lakhs upto 31.3.1993.

Table 5.6

Performance of Units Manufacturing Rubber Products in MEPZ

Name	Date of commence-ment of production	Exports upto 31.3.93 (Rs. in lakhs)
Shaw Wallace Aoki	1.9.89	805.10
Mukundh Rubber	24.7.89	24.50
Glove (I) Pvt. Ltd.	19.2.90	148.17
MM rubber Co. Ltd.	1.2.90	121.63
Shiva Medicare	1.12.92	179.71
Sai Latex (P) Ltd.	1.2.90	247.07
Glovelines Pvt. Ltd.	1.12.90	4.36
Marshall Latex	1.4.90	61.86
Total		1592.40

Source: Office Records of MEPZ

Table 5.7

Performance of Units Manufacturing Rubber Products in CEPZ

Name	Date of commence-ment of production	Exports upto 31.3.93 (Rs.in lakhs)
Taba Gloves	12.12.89	160.00
Overseas Latex	8.12.89	28.83
Zeotic Polymers	1.1.91	20.76
Kerala Rubber and Reclaims Ltd	11.1.89	56.29
Universal Gloves	12.1.89	315.23
Danntex Rubber (P) Ltd.	12.8.89	35.77
Asma Rubber Products	12.8.89	205.40
AVT Rubber Products	11.1.89	574.39
Total		1396.67

Source: Office Records of CEPZ

Tables 5.6 and 5.7 show that there were eight units each in MEPZ and CEPZ producing rubber items. The largest exporter in MEPZ is Shaw Wallace Aoki (Rs.805 lakhs) and in CEPZ, AVT Rubber Products (Rs.574 lakhs) as on 31-3-1993. Zeotic Polymers, the lowest export earner in CEPZ in this line, could earn Rs.21 lakhs against Rs.4 lakhs earned by Glovelines (P) Ltd. in MEPZ during the same period.

Table 5.8

Performance of Gems and Jewellery Units in MEPZ

Name	Dateofcommence- mentofproduction	Exports upto 31.3.93 (Rs.in lakhs)
Rajanikant Schneider	1.2.90	491.51
RK Goldsmiths	1.3.90	131.66
Sunrise Jewellers	14.2.90	50.65
Total		673.82

Source: Office Records of MEPZ

Table 5.8 brings out that out of the aggregate exports of Rs.674 lakhs upto 31.3.1993 by the Gems and Jewellery units of MEPZ, Rs.492 lakhs were made by Rajanikant Schneider which commenced operation on 1.2.1990.

Table 5.9

Performance of Computer and Electronics Units of MEPZ

Name	Date of commence- ment of production	Exports upto 31.3.93 (Rs.in lakhs)
Nova Electromanetics	1.1.91	6735.89
International Software (I) P.Ltd.	28.7.88	63.65
Modular Electronics	1.8.88	1807.47
STG Ltd.	1.1.90	751.28
Total Business	2.6.88	191.45
Badri Electronics	1.4.91	147.52
Comtec Components	1.4.92	229.03
Total		9926.29

Source: Office Records of MEPZ

Table 5.10

Performance of Computer and Electronics Units of CEPZ

Name	Date of commence-ment of production	Exports upto 31.3.93 (Rs.in lakhs)
Otee Frini (India) Pvt. Ltd.	8.2.89	69.17
Integrated Computer Environs	12.1.89	46.21
Sun Fibre Optics (P) Ltd.	4.1.91	1450.48
Crysind Electronics	7.7.92	2.12
Nortpak Fibre Optics	1.4.93	1.47
Total		1569.45

Source: Office Records of CEPZ

Tables 5.9 and 5.10 furnish the details of computer and electronics units in MEPZ and CEPZ respectively. The aggregate exports of this sector upto 31.3.1993 were Rs.9926 lakhs in MEPZ compared to that of Rs.1569 lakhs in CEPZ. The exports of The Sun Fibre Optics (P) Ltd., top-most exporter in CEPZ earned Rs.1450 lakhs. As against this, Nova Electromanetics, the largest exporter in this line in MEPZ, could earn Rs.6740 lakhs upto 31.3.1993.

Table 5.11

Composition of the Percentage Contribution of Major Industrial Units in CEPZ and MEPZ from their Inception to 1992-93

Name of Industry	CEPZ		MEPZ	
	Aggregate exports	% share in total	Aggregate exports	% share in total
Garments	27.89	13.86	182.43	29.69
Rubber products	13.97	6.94	15.92	2.59
Computer and electronics	15.69	7.80	99.26	16.16
Gems and Jewellery	2.11	1.04	6.74	1.10
Marine products	12.50	6.21	--	--
Others	129.10	64.15	310.30	50.46
Total	201.26	100.00	614.38	100.00

Source: Office Records of CEPZ and MEPZ

Table 5.11 reveals that though the share of exports from the garment sector was the highest in both CEPZ and MEPZ their per centage contribution in exports was different in these two Zones during the year 1992-93. While garments sector contributed 29.69 per cent to the total exports from MEPZ, its contribution in CEPZ was only 13.86 per cent. The contribution of the gems and jewellery sector in both the Zones was found to be just above one per cent only of the total exports. The percentage shares of computer and electronics sector and rubber products sector were found to be about half of MEPZ in CEPZ during the year 1992-93.

While India's exports registered a compound growth rate of 26.2 per cent during the seven years (1985-86 to 1991-92) the exports of MEPZ registered a compound growth rate of 147 per cent. If MEPZ keeps up the same growth rate in the days to come, it requires neither the sagacity of Socrates nor the prophecy of a Delphic Oracle to say with vehemence that great future awaits the Madras Export Processing Zone.[2]

Noida Export Processing Zone (NEPZ)

The NEPZ is growing at a very fast rate and it has exceeded the export target of Rs.350 crores in 1994-95. The exports of that Zone during 1986-87 to 1994-95 are presented in table 5.15. The information pertaining to investments and imports is furnished in Tables 5.12, 5.13 and 5.14.

Of the exports from electronic goods industry, computer software accounted for 25 per cent, gems and jewellery 33 per cent, and engineering goods 14 per cent of the total exports in 1994-95. Garments, leather goods, rubber products, drugs and chemicals were the other important products exported from this Zone. The size of the export

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2 B.P.Raju, R.Karunakar Reddy and N.Ravishankar,"Role of Export Processing Zones in India's Exports with Particular Reference to Madras Export Processing Zone", Indian Journal of Marketing, January 1995, pp. 23-30.

earnings compared with the import payments in foreign exchange is found to be highly favourable to NEPZ, compared to the other similar Zones established along with the NEPZ.

Table 5.12

Investment Made in NEPZ Units (Cumulative) During 1986-87 to 1994-95

Years	Indian	NRI	Foreign	Total
1986-87	20.00	2.00	3.00	25.00
1987-88	39.00	4.00	5.00	48.00
1988-89	56.00	6.00	8.00	70.00
1989-90	78.00	7.00	10.00	95.00
1990-91	100.00	9.00	13.00	122.00
1991-92	112.50	10.50	15.00	138.00
1992-93	145.00	12.00	18.00	175.00
1993-94	178.00	15.00	22.50	215.50
1994-95	238.00	19.00	33.00	290.00

Source: Office Records of NEPZ

Table 5.12 shows that the aggregate investments in NEPZ as on 31.3.95 amounted to Rs.290 crores. Of this the shares of Indian entrepreneurs' amounted to Rs.238 crores, NRIs Rs.19 crores and foreigners Rs.33 crores. The average Indian investments stood at Rs.26.44 crores, while the average NRI investments stood at Rs.2.11 crores and the average

foreign commitments stood at Rs.3.66 crores during the nine year period ending 31.3.1995. The flow of investments from various categories of entrepreneurs was found to be steady during the period 1986-87 to 1994-95 in NEPZ.

Table 5.12 also shows that NEPZ is attracting more and more entrepreneurs for setting up units. Newly approved projects envisage diverse manufacturing activities from garments to high-tech areas. The Zone is found to be attracting a number of medium size industrial units. Many of the units that were started during the post liberalisation period are joint ventures. They had also built-in buyback arrangements. This saved the Indian exporter from bothering about marketing his products abroad.

Table 5.13

Government Investments (Year-wise) in NEPZ

(Rs. in crores)

Year	Central Govt. investment		Expenditure by U.P. State Govt.
	Capital	Revenue	
1984-85	1.95	0.11	Nil
1985-86	3.21	0.14	Nil
1986-87	5.00	0.21	Nil
1987-88	2.94	0.29	Nil
1988-89	2.94	0.44	Nil
1989-90	3.75	0.53	Nil
1990-91	2.09	0.60	Nil
1991-92	2.00	0.61	Nil
1992-93	2.00	0.77	Nil
1993-94	7.00	0.88	Nil
1994-95	6.50	1.03	Nil
Total	39.38	5.61	Nil

Source: Office Records of NEPZ

Table 5.13 reveals that aggregate capital expenditure of Government of India (GOI) in NEPZ during the period 1984-85 to 1994-95 amounted to Rs.39.38 crores and aggregate revenue expenditure stood at Rs. 5.61 crores during the period. The Uttar Pradesh State Government had not made any commitment for the development of NEPZ.

Table 5.14

Details of Imports (year-wise) of NEPZ

(Rs. in crores)

Year	Capital goods	Raw materials	Total
1986-87	0.14	0.70	0.84
1987-88	2.69	5.75	8.44
1988-89	3.73	9.21	12.94
1989-90	9.31	25.65	34.96
1990-91	11.09	12.27	24.26
1991-92	15.08	30.61	45.69
1992-93	109.25	79.64	188.89
1993-94	23.21	156.87	180.08
1994-95	30.90	221.90	252.80
Total	206.30	542.60	748.90

Source: Office Records of NEPZ

Table 5.14 shows that the aggregate imports of NEPZ stood at Rs.748.90 crores. Of this capital goods accounted for Rs.206.30 crores and raw materials Rs.342.60 crores during the period 1986-87 to 1994-95. The yearly import of capital goods steadily increased from Rs.0.14 crores in 1986-87 to Rs.30.90 crores in 1994-95 crores. Similarly the yearly import of raw materials recorded an accelerated growth from Rs. 0.70 crores in 1986-87 to Rs.221.90 crores in 1994-95. But the yearly increase in raw material imports was fully justified as it was the base for the steady increase in exports.

Table 5.15

Details of Exports (Year wise) from NEPZ During 1986-87 to 1994-95

(Rs. in crores)

Year	Physical exports			Deemed exports	DTA sale
	GCA	RPA	Total		
1986-87	5.58	1.43	7.01	---	---
1987-88	10.48	5.57	16.05	---	---
1988-89	8.71	12.47	21.18	---	---
1989-90	21.88	30.02	51.90	---	0.17
1990-91	33.69	10.98	44.67	---	0.28
1991-92	60.15	11.99	72.14	---	0.49
1992-93	143.19	3.65	146.84	---	0.46
1993-94	262.59	0.03	262.62	---	5.99
1994-95	364.55	2.14	366.69	---	8.13
Total	910.82	78.28	989.10	---	15.52

Source: Office Records of NEPZ

Table 5.15 shows that the aggregate exports from NEPZ stood at Rs.989.10 crores during 1986-87 to 1994-95. Of this Rs.910.82 crores came from GCA and Rs.78.28 crores from RPA. The yearly exports to GCA has increased from Rs.5.58 crores in 1986-87 to Rs.364.55 crores in 1994-95. The exports to GCA was found to be growing steadily, while there was sudden expansion and contraction in the case of RPA. The

exports to RPA increased from Rs.1.43 crores in 1986-87 to Rs.30.02 crores in 1989-90, but came down to mere Rs.0.03 crores in 1993-94. These wide variations were on account of the disintegration of the USSR and trade policies of the Governments concerned.

Having seen the imports and exports of NEPZ it is proposed to discuss the different aspects of imports and exports of selected EPZs. This is presented in Table 5.16.

Table 5.16

Size of Exports and Imports, the Percentage of Imports to Exports and Exports to Imports in Selected EPZs in India During 1992-93.

(Rs. in crores)

Name of zone	Exports	Imports	percentage of imports to exports	percentage of exprots to imports
NEPZ	262.62	156.00	59.40	168.34
FEPZ	35.00	18.00	51.42	194.44
MEPZ	200.00	177.00	88.50	112.99
CEPZ	62.25	44.08	70.81	141.22

Source: Office Records of NEPZ, MEPZ, CEPZ and FEPZ.

Table 5.16 reveals that when NEPZ used only 59.40 per cent of the total exports for meeting its imports bill, MEPZ used 88.50 per cent and CEPZ 70.81 per cent for meeting their import bills during the year 1992-93. Though FEPZ used

only just above 50 per cent of its export earnings for meeting its import obligations the size of its exports and imports were of very small amounts i.e. Rs.35 crores and Rs.18 crores respectively compared to those of the other Zones established along with that.

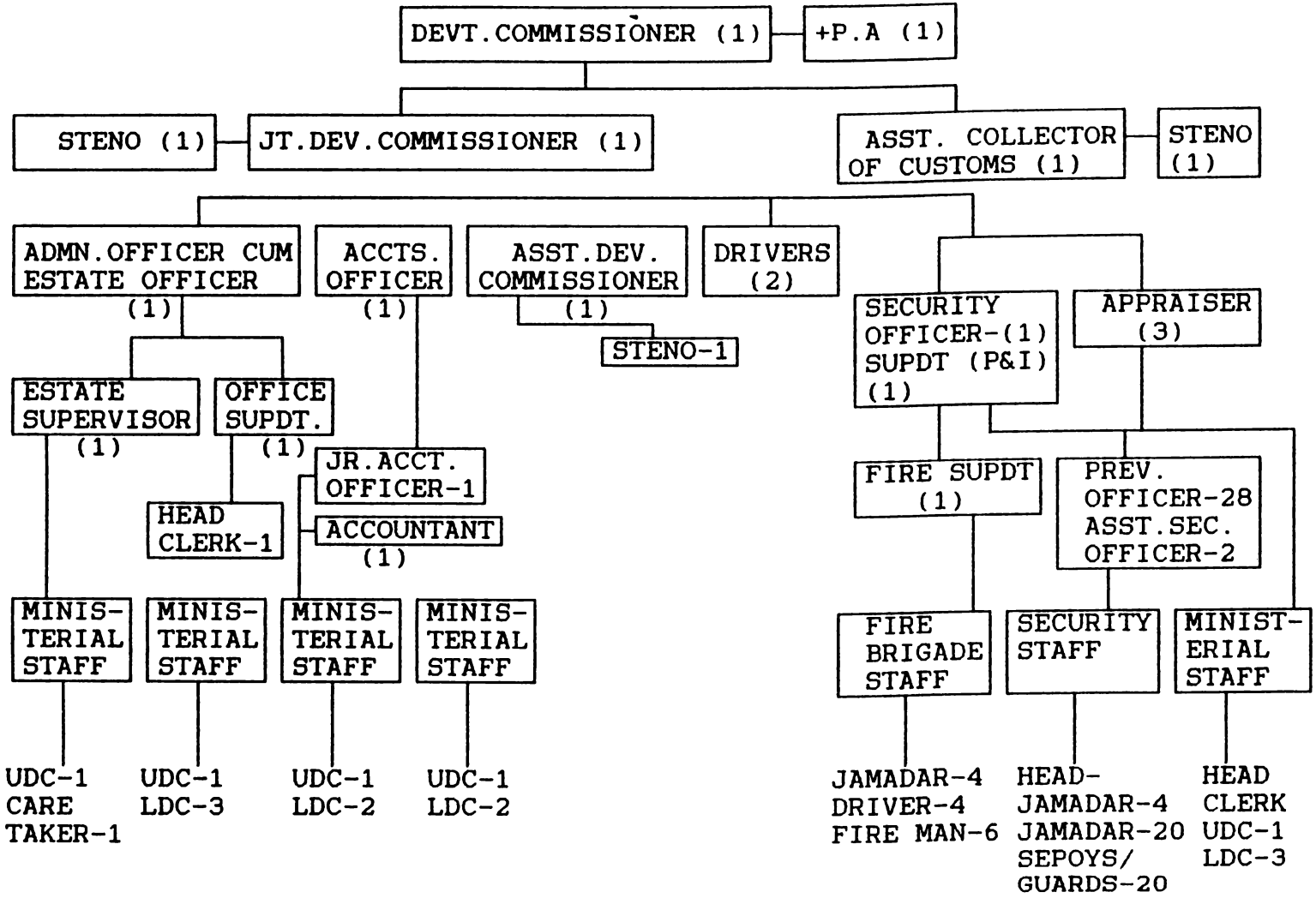
The infrastructure facilities have been strengthened further in the Zone during recent years by setting up a foreign Mail Post office, upgrading the status of the SBI branch, arranging special electric power connection from UP Electricity Board, commissioning of new Electronic Exchange and International Computer Links through satellite channels and construction of new multi-storey standard design factories. So NEPZ is found to be poised for further expansion in exports.

Kandla Free Trade Zone (KFTZ)

Kandla Export Processing Zone, better known as Kandla Free Trade Zone(KFTZ) is the oldest EPZ in India. It is located in Gujarat State. It was started with the objective of giving employment opportunities to the displaced persons from West Pakistan. The export performance of KFTZ had been widely fluctuating owing to changes in international market, poor technology employed and disintegration of the USSR. The organisation chart of KFTZ is shown in chart 5.1

CHART 5.1

ORGANISATION CHART OF KFTZ



Source: Office of KFTZ

The important aspects of KFTZ compared with CEPZ are explained in Tables 5.17, 5.18, 5.19, 5.20 and 5.21.

Table 5.17

Ownership Structure of Processing Units in CEPZ and KFTZ During 1993-94

Name of EPZ	Fully foreign owned(percentage of total)	Joint ventures (percentage of total)	Domestically owned(percentage of total)	No.of enterprises
CEPZ	3.63	32.72	63.65	55
KFTZ	3.57	9.52	86.91	84

Source: Office Records of CEPZ and KFTZ.

Table 5.17 shows that out of a total of 55 units in CEPZ during 1993-94, 63.65 per cent were purely Indian, 32.72 per cent joint ventures with foreign collaboration and only 3.63 per cent foreign. Out of the 84 working units in KFTZ, 86.91 per cent were purely Indian, 9.52 per cent joint ventures with foreign collaboration and 3.57 per cent owned by foreigners.

Table 5.18

NRI/Foreign Investments in Select EPZs in 1993-94

(Rs. in lakhs)

Name of EPZ	NRI	Foreign	Total
CEPZ	1188	1337	2525
KFTZ	320	408	728
NEPZ	1500	2250	3750

Source: Office Records of NEPZ, CEPZ and KFTZ.

NEPZ had the highest foreign and NRI investments (Rs.37.5 crores) compared to that of CEPZ (Rs.25.25 crores)and KFTZ (Rs.7.28 crores) in 1993-94 as revealed by table 5.18. The quantum of NRI and foreign investments were also the largest in NEPZ comapred with that of CEPZ and KFTZ.

Table 5.19

Sectoral Investments in CEPZ and KFTZ During 1993-94

(Rs. in lakhs)

Name of EPZ	Electro-nics and computer	Gems and and jewe-llery	Engg. goods	Gar-ments	Drugs	Others	Total
CEPZ	1627	147	--	998	--	7076	9848
KFTZ	--	--	2773	1260	2593	842	7468

Source: Office Records of CEPZ and KFTZ.

Table 5.19 reveals that out of a total investment of Rs.9848 lakhs in CEPZ during 1993, Rs.1627 lakhs were shared by electronic and computer units, Rs.998 lakhs by garments and Rs.147 lakhs by gems and jewellery. Out of a total investment of Rs,7468 lakhs in KFTZ during the same period Rs.2773 lakhs were in engineering goods, Rs.2593 lakhs in drugs and pharmaceuticals and Rs,1260 lakhs in garments.

Table 5.20

Origin of Foreign Investment in CEPZ and KFTZ During 1993-94

(Rs. in lakhs)

Name of EPZ	UK	USA	Canada	Japan	Hong-Kong	Italy	Spain	UAE
CEPZ	509	711	--	--	--	14	111	--
KFTZ	5496	558	--	--	6	--	--	1166

Source: Office Records of CEPZ and KFTZ.

Table 5.20 brings out that USA with Rs.711 lakhs investment was the major investor in CEPZ. This is followed by UK (Rs.509 lakhs) and Spain (Rs. 111 lakhs). But in the case of KFTZ, UK is the major investor with Rs. 5496 lakhs. This is followed by UAE (Rs.1166 lakhs) and USA (Rs.558 lakhs).

Table 5.21

Details of Subcontracts in CEPZ and KFTZ in 1993-94

(Rs. in lakhs)

Name of EPZ	No. of units giving subcontracts				Average value of sub contracts
	Electronics and computers	Garments	Engg. goods	Others	
CEPZ	4	3	--	5	5 lakhs for electronics and 20 lakhs for garments
KFTZ	—	3	1	--	--

Source: Office Records of CEPZ and KFTZ.

As revealed by table 5.21 only a limited number of firms were giving subcontracts for manufacturing/producing/ supplying components. In CEPZ the total number of manufacturing units giving such subcontracts was 12 compared to only four in KFTZ. The average amount involved in the subcontract in CEPZ was Rs. 5 lakhs per consignment in electronics sector and Rs. 20 lakhs in garments sector. The average value of subcontracts in KFTZ units was not available.

Details on equity investments and joint ventures pertaining to KFTZ are explained in Table 5.22.

Table 5.22

Pattern of Equity Investment in Joint Ventures of Selected KFTZ Units as on 31.3.1994

(Rs. in lakhs)

Name of the unit	Item of Manufacture	Total equity investment	%age share	
			Dome-stic	Fore-ign
Lalit Steel	Utensils	55.00	45	55
Alfa Strips	Recycled scrap	95.00	75	25
NCC Prefab	Prefab. homes	115.00	78	22
Mysore Fine agarb	Agarbarthies	27.42	75	25
Defiance Clothing	Knitted wear	92.05	40	60
Mayfair Knitting	Knitted wear	29.27	80	20
Ratan Knitted	Knitted wear	23.43	50	50
Nuclear Packaging	Cartons	122.81	50	50
Ambika Scrap	Recycled scrap	50.00	50	50
Silverster Naromhia	Plastics	180.27	50	50

Source: Office Records of KFTZ

Table 5.22 reveals that four units had 50 per cent equity participation with their foreign investors/collaborators. Only two foreign investors had majority shares in the equity in their Indian participating units, compared to majority equity retained by the Indian entrepreneurs in four units.

Santacruz Electronic Export Processing Zone (SEEPZ)

SEEPZ has attracted many foreign collaborations in the financial, technical and marketing sectors. Many of the manufacturing units have tie-ups with firms in the US, Japan, Germany, UK and Taiwan. Fiftyone units of SEEPZ have also foreign equity participation.

As on March 31, 1993 the number of electronic units operating in SEEPZ has gone upto 102. Of this, 66 units have completed three years of operations. There are five Standard Design Factories (SDF)) for electronic units and two complexes for gem and jewellery. The construction of an additional SDF having an area of 21000 sq. m. is being completed.

The nonimplementation of single-window clearance in its true spirit, the rigidity of the labour laws, poor infrastructure facilities with regard to communication and transportation do create bottlenecks in the efficient working of the Zone. The total exports for 1993-94 from SEEPZ amounted to Rs.1107.36 crores.

Out of the 102 electronics units operating in SEEPZ as on 31st March 1993, 66 have completed five years of operations while the rest 36 have not completed five years. Out of the 66 units which have completed five years of operations, 40 have already achieved stipulated value

addition, while another 10 had achieved value addition with a 10 per cent shortfall from the prescribed level. Information regarding the value addition attained by SEEPZ units is given in tables 5.23 to 5.34.

Table 5.23 makes it clear that of all the 40 units which have completed five years of operations in SEEPZ, Tata Unisys stood top in exports with a sum of Rs. 7801.58 lakhs and net foreign exchange earnings of Rs.5898.43 lakhs during the year 1993-94. This was followed by Digital Export with Rs.6582.49 lakhs in exports and Rs.4564.01 lakhs in net earnings in foreign exchange during the same period. The table also shows that the highest volume in value addition at 124.62 per cent was achieved by Tata Unisys in spite of the high value addition rate prescribed by SEEPZ authorities at 73.50 per cent during the same period. The second position in value addition was achieved by Data Computer at 105.31 per cent as against 92.52 per cent prescribed by the authorities. The table also reveals that the highest rate of value addition was achieved by Intersil at 83.64 per cent against a very low value addition prescribed at 13 per cent. This was followed by Cherook at 98.75 per cent against the prescribed value addition of 25 per cent during the same period.

Table 5.23

SEEPZ Units Which Have Completed Five years of Operations and Achieved Value Addition Prescribed as on 31.3.93

(Rs.in lakhs)

Name of unit	Total exports	Net earnings	Value addition % Achieved	Value addition % Prescribed
Clarostat	793.76	418.74	52.75	53.00
Semcon	1490.64	1398.84	93.84	36.00
Semiconductor	764.20	758.67	99.28	31.00
Unisound	2164.10	1251.63	57.84	44.00
Saha Electricals	1453.99	795.45	54.71	39.00
Peerless	1547.01	978.49	63.25	60.00
Intel	1624.21	957.86	58.97	51.00
Intersil	2272.48	1900.78	83.64	13.00
Tata Unisys	7801.58	5898.43	124.62	73.50
Pentagon	103.29	80.99	78.41	57.00
ATE	1552.41	372.75	24.01	24.00
Orson	1026.66	535.92	52.20	46.00
VGP	2068.85	1766.99	85.41	45.00
TCS	3779.55	3396.35	89.86	60.00
MPO	582.30	216.06	37.11	35.00
Datamatics	1472.38	1128.44	76.64	72.00
Sonodyne	1635.64	566.21	34.62	30.00
Interra	487.86	279.01	57.19	52.00
Emca	360.96	281.34	77.94	59.00
Home Video	233.77	191.76	82.03	49.00
Device India	112.71	67.51	59.90	43.00
Blue Star	967.20	893.68	92.40	60.00
Asho Tech	19.71	19.71	100.00	71.00
Patni	1839.38	1613.88	87.74	78.00
Cherook	581.74	575.66	98.75	25.00
Murphy	3729.87	1151.64	30.88	30.00
Citicorp	6582.49	4564.01	69.34	60.00
Digital Exp	242.20	194.80	80.43	62.00
Nirvan	271.63	113.91	41.93	37.00
Deodhar Elec	161.48	96.21	59.58	45.00
Data Computer	1875.16	670.59	105.31	92.52
Gulf Comp	181.64	144.38	79.49	70.00
Sandharbha	124.25	116.03	93.38	91.00
Sifa	4002.28	2069.23	51.70	44.00
Globatronix	145.78	137.29	94.18	35.00
Princeton	155.52	139.67	89.81	67.00
Systems and Soft	256.55	166.50	64.90	62.00
Sebalab	400.94	305.43	76.18	31.00
Unomat	20.86	10.91	52.30	44.00
EEG systems	457.43	195.67	42.78	32.51

Source: Office Records of SEEPZ.

Table 5.24

SEEPZ Units Which Have Completed Five Years of Operations and Achieved Value Addition With 10% Shortfall of the Prescribed Limit as on 31.3.93

(Rs.in lakhs)

Name of unit	Total exports	Net earnings	Value addition percentage		
			Achieved	Prescribed	Shortfall
Indicos	574.77	473.61	82.40	92	-10
Tandon Motors	2910.03	655.41	22.52	25	-2
Tancom	13879.11	3159.50	22.76	27	-4
Saha Elec Comp.	7437.72	2956.71	39.75	43	-3
N.N. Khanna	1651.76	424.59	25.71	34	-8
Bee Electronics	4753.03	1325.09	27.88	30	-2
Datalab	2070.26	578.78	27.96	36	-8
Baruah	27.74	13.75	49.57	55	-5
Interface	413.18	352.58	85.33	93	-8
Esquire	2134.89	839.67	39.33	42	-3

Source: Office Records of SEEPZ.

Table 5.24 shows that of all the 10 units which have completed five years of operations, Tancom stood top in exports with Rs.13879.11 lakhs and in foreign exchange earnings of Rs. 3159.50 lakhs during the year 1993-94. It was followed by Saha Electronic Company with Rs.7437.72 lakhs and Rs.2956.71 lakhs respectively during the same period. The shortfall in value addition was only nominal, at (-)2 per

cent, in the case of two units viz. Tandon Motors and Bee Electronics during the period under review. Saha Electronic Company and Esquire recorded only (-)3 per cent shortfall in the value addition criterion prescribed by SEEPZ authorities in 1993-94.

Table 5.25

SEEPZ Units Which Have Completed Less than Five Years of Operations and Achieved Value Addition With a 10% Shortfall of the Prescribed Limit as on 31.3.93

(Rs.in lakhs)

Name of unit	Total exports	Net earnings	Value addition percentage		
			Achieved	Prescribed	Shortfall
Reesan	977.83	626.96	64.12	67.67	-4
Softec	10.90	9.56	87.71	91.00	-3
Decibel	1171.18	397.88	33.97	37.67	-4

Source: Office Records of SEEPZ.

Table 5.25 reveals that all the units, which have not completed five years of operations, had nearly achieved the value addition prescribed limit with shortfalls varying between three per cent and four per cent.

Table 5.26

SEEPZ Units Which Have Completed Less than Five Years of Operations and Achieved Value Addition in 1992-93

(Rs.in lakhs)

Name of unit	Total exports	Net earnings	Value addition percentage	
			Achieved	Prescribed
Terr Infn	84.79	63.23	74.57	63.90
Hindi Tran Ser	42.65	28.07	65.83	68.35
Bann Inf	217.90	206.28	94.67	90.62
Boshu Tech	29.17	23.02	78.92	76.69
Digiteque	447.77	372.03	83.09	74.69
Kilobytes	1365.05	1109.45	81.28	30.50
Goldenage	6.21	5.71	91.88	81.52
Pro Sound	650.15	227.69	35.02	29.00
IHIND	77.85	67.25	86.38	67.08
Saimag	16.68	16.14	96.76	31.00
Origin	158.52	130.53	82.34	68.00
Foundation	125.85	119.55	94.99	62.00
Posdatg	36.61	30.31	82.80	74.32
Access	9.56	9.56	100.00	80.99
Hexaware	155.36	154.08	99.17	92.73
Syntel	109.68	109.68	100.00	34.36
Silvershine	198.04	148.28	74.87	62.00
Gebdata	32.77	11.70	35.70	21.06
Hindten	65.80	54.16	82.31	78.25
Sujata	301.39	78.98	26.20	25.00
Neptune	2642.41	544.38	20.60	15.00

Source: Office Records of SEEPZ.

Table 5.26 shows that of all the 21 units which have completed five years of operations and realised the value addition criterion prescribed, Neptune stands at the top with exports of Rs.2642.41 lakhs during 1992-93. On the other hand, the maximum foreign exchange earnings were realised by Kilobytes (Rs.1109.45 lakhs) during the same period, from exports worth Rs.1365.05 lakhs. The table also reveals that the highest rate of value addition was achieved by Saimag at 96.76 per cent against 31 per cent prescribed by SEEPZ. This position was followed by Syntel at 100 per cent against the value addition prescribed by SEEPZ (34.36 per cent).

Table 5.27

SEEPZ Units Which Have Completed Less Than Five Years of Operations and Have More Than 10% Shortfall of the Prescribed Value Addition on 31.3.93

(Rs.in lakhs)

Name of unit	Total exports	Net earnings	Value addition percentage		
			Achieved	Prescribed	Shortfall
Mahendra BT	2063.97	1023.98	64.88	49.61	-15
Powerohm	136.48	8.55	47.30	6.26	-41
Mastek	305.61	247.57	93.82	81.01	-13
Chenab	277.86	100.28	65.00	36.09	-29
Digitool	9.01	3.24	82.00	35.91	-46
Airline	50.54	26.23	72.14	51.90	-20
Royal	262.30	21.27	15.00	8.11	-7
Bently NE	5.62	4.16	86.88	74.08	-13

Note: The last six units have not completed three years of operations

Source: Office Records of SEEPZ.

Table 5.27 reveals that of all the eight units which have completed less than five years of operations and which had more than 10 per cent shortfall of the prescribed value addition as on 31.3.93, Digitool stands at the lowest level at (-)46 per cent shortfall. This is followed by Power Ohm at (-)41 per cent shortfall. The operations of all the units are expected to improve considerably within a short period according to the study made by SEEPZ authorities.

Table 5.28

Units Which Have Completed Less Than Five Years of Operations but Achieved Only Negative Value Addition as on 31.3.93

(Rs.in lakhs)

Name of unit	Total export	Net earnings	Value addition percentage	
			Achieved	Prescribed
Compurite	25.46	-46.77	Negative	35.00
Octopussy	18.49	-6.89	Negative	59.58
Fineline	59.25	-65.66	Negative	43.00

Source: Office Records of SEEPZ.

The negative value addition achieved by the units shown in table 5.28 are mainly due to marketing problems. Of the three units, Fineline recorded the maximum negative value addition at (-)65.66 per cent during the year ending 31.3.93.

Table 5.29

SEEP2 Units Which Have Completed 5 Years of Operations and Which Have Sustained More Than 10% Shortfall in the Prescribed Value Addition as on 31.3.1993 (Rs. in lakhs)

Sl	Name of the unit	Total exports	Net earnings	Percentage of value addition prescribed	achieved	shortfall
1.	Saha Electronics Industries	735.48	312.61	68.00	42.50	-25
2.	Advanced Power Display System	6977.30	1543.26	42.00	22.12	-20
3.	Systim Computer Systems	242.43	136.32	77.00	56.23	-21
4.	Simic Electronics (P) Ltd.	398.05	233.89	95.00	58.76	-36
5.	Super Electronic Components	256.86	148.09	70.00	57.66	-12
6.	Eastern Peripherals Ltd	25297.32	3751.52	26.00	15.00	-11
7.	Electron Fab Engineering	343.49	176.45	83.00	51.37	-32
8.	Dynacomp (I) Pvt Ltd	1087.95	231.58	35.00	21.29	-14

(Contd....)

Sl	Name of the unit	Total exports	Net earnings	Percentage of value addition prescribed	achieved	shortfall
9.	Minicomp Pvt Ltd	5719.97	1578.83	70.00	27.60	-42
10.	Chaudhary Intl	252.51	44.46	38.00	17.61	-20
11.	Andvance Technology Devices	11054.03	1658.64	35.00	15.00	-20
12.	Matrix Electronics Pvt. Ltd.	212.13	46.75	36.00	22.04	-14
13.	Ultra Tech Devices (P).Ltd.	9979.64	1365.16	31.00	13.68	-22
14.	Saha Computer and Communication Pvt. Ltd.	6284.39	949.16	39.00	15.10	-24
15.	Jotin Electronics Pvt. Ltd.	0.72	-2.77	72.00	--	-72
16.	Toptocolor Electronics Pvt Ltd	69.93	-18.73	34.00	-26.78	-61

Source: Office records of SEEPZ.

Table 5.29 shows that among the 16 units which have completed five years of operations and had more than 10 per cent shortfall from the prescribed value addition stipulated by the SEEPZ authorities as on 31.3.93, Minicomp Pvt. Ltd. recorded the maximum shortfall at (-)42 per cent followed by Simic Electronics (P) Ltd. at (-)36 per cent. Eastern Peripherals Ltd., though recorded exports of Rs. 25297.32 lakhs, could earn only Rs.3751.32 lakhs in foreign exchange and hence had a shortfall of (-)11 per cent compared to the norm prescribed by the SEEPZ authorities. Jotin Electronics Pvt. Ltd. could generate only the lowest quantum of exports(Rs.0.72 lakhs) and had Rs.2.77 lakhs foreign exchange deficiency and hence had the maximum value addition shortfall (-72 per cent).

Table 5.30 shows that out of the eight gems and jewellery units which completed five years of operations as on 31.3.93 Intergold earned the highest exports of Rs.275 crores and net foreign exchange of Rs.59 crores. This is followed by Suraj with Rs.166 crores and Rs.24 crores respectively. On the other hand, the highest rate in value addition was achieved by B.V. Jewels at 52 per cent against the prescribed value addition of 20 per cent. Three units viz. R.G. Jewellery, Fine Jewellery and Dalpatlal recorded shortfall from the prescribed norms to the tune of (-)4 per cent, (-)5 per cent and (-)6 per cent respectively during the same

period. The overall performance of all the other units is found to be satisfactory.

Table 5.30

Export Performance Appraisal of Gems and Jewellery Units of SEEPZ Which Have Completed Five Years of Operations as on 31.3.93

(Rs.in lakhs)

Name of unit	Total exports	Net earnings	Value addition percentage		
			Achieved	Prescribed	Shortfall
Intergold	27408.60	5909.65	15.00	21.56	
B.V. Jewels	4565.66	1425.66	19.79	51.09	
Suraj	16615.63	2362.50	15.95	17.50	
R.G. Jewellery	5436.59	938.46	21.00	17.26	-4
SB & T	2864.61	926.78	22.85	34.79	
Goldiam	11266.66	2643.59	19.79	23.46	
Fine Jewellery	3538.66	565.64	20.56	15.99	-5
Dalpatlal	1661.48	264.71	21.00	15.16	-6

Source: Office Records of SEEPZ.

Table 5.31

Export Performance Appraisal of Gems and Jewellery Units of SEEPZ Which Have Completed Three Years of Operations as on 31.3.93.

(Rs.in lakhs)

Name of unit	Total exports	Net earnings	Value addition percentage		
			Prescribed	Achieved	Shortfall
Diastar	6016.64	1699.37	22.30	21.20	-1.10
Triastar	2930.55	551.53	15.00	16.62	
MMK	1251.81	206.76	16.20	16.67	
Neelkamal	947.66	267.10	38.15	25.02	-13.13

Source: Office Records of SEEPZ.

Table 5.31 reveals that among the four units which had completed three years of operations as on 31.3.93, only two units viz. Triastar and MMK achieved marginal increase in value addition over that prescribed by the SEEPZ authorities. Of the other two units, Disastar recorded a nominal shortfall in value addition, whereas Neelkamal could earn a value addition below 13 per cent of what is prescribed by SEEPZ authorities.

Table 5.32

Export Performance of Gems and Jewellery Units of SEEPZ Which Have Completed Less Than Three Years of Operations as on 31-3-1993

(Rs.in lakhs)

Name of unit	Total exports	Net earnings	Value addition percentage		
			Prescribed	Achieved	Shortfall
Goldstar	1784.42	350.68	27.28	19.64	-8
Chubb	169.74	65.57	19.74	25.45	
Interjewel	1692.21	266.69	15.00	15.76	
Mayur	466.06	69.22	15.00	14.85	
Ramkala	11.91	-4.50	31.66	-36.16	Negative
Shankar	57.07	10.50	25.06	18.40	-7
Sun Jewel	66.90	22.95	15.00	33.31	
Gemplus	209.27	32.60	19.11	15.56	-4
Rosy Jewel	148.97	40.40	27.94	27.12	
Shernuj	152.34	-10.84	15.00	-7.12	Negative
Trojan	635.12	35.12	30.67	5.66	25
Jeweltech	233.34	39.69	27.56	17.09	-10
Bombay Jew	24.50	9.01	15.46	66.67	--
Addision	11.02	-20.34	29.66	-164.61	Negative

Note: Sl. Nos. 6 to 14 are to complete 12 months of operation.
Source: Office Records of SEEPZ.

Table 5.32 makes it clear that out of the 14 units which have completed only less than three years of operations

as on 31.3.93, Gold Star had the highest export (Rs.18 crores) and net foreign exchange earnings (Rs.3.5 crores). This is followed by Interjewel (Rs.17 crores and Rs.2.6 crores respectively). Ramkala and Shernuj recorded only negative value addition as these units had only negative net foreign exchange earnings during the period. However, the units like Gold Star, Shankar, Gemplus and Jeweltech had recorded shortfall in value addition than the prescribed limit varying between 4 to 10 per cent during the period.

The other details pertaining to Indian public sector EPZs are analysed in the next chapter.

CHAPTER VI

GENERAL EVALUATION OF EPZs IN INDIA

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The working of the EPZs are to be evaluated on the basis of their achievements vis-a-vis their objectives. The major objectives of EPZs are:

(i) to expand the net foreign exchange earnings
(ii) to attract direct foreign investment and
(iii)to generate employment opportunities.

To a querry by the Public Accounts Committee(PAC) [1991-92] headed by A.B.Vajpayee, the Ministry of Commerce indicated that the local advantages that are likely to accrue must also be taken into account in evaluating EPZs. To support this point the Ministry clarified that KFTZ was expected to stimulate development in the backward region and help in rehabilitation of refugees from Pakistan. Injection of new technology and the exploitation of the international demand for electronic goods were the additional objectives in setting up the SEEPZ.

In the following pages an attempt is made to evaluate the working of EPZs on the basis of their major objectives and the local advantages that they have generated. Table 6.1 presents data with reference to their achievements vis-a-vis their major objectives.

Table 6.1

Achievements of the Indian EPZs in Terms of Their Main Objectives

Name of zone	Objective I Net foreign exchange earnings upto 31.3.90 (Rs.in crores)	Objective II Foreign investment including NRI up to 30.9.90 (Rs.in crores)	Objective III No.of employment upto 30-9-90 (Number)
KFTZ	774.65	2.41	10,000
SEEPZ	319.53	10.56	10,500
MEPZ	17.74	8.65	5,146
NEPZ	38.88	3.70	3,200
CEPZ	0.16	1.30	1,000
FEPZ	11.02	0.07	200
Total	1161.98	28.69	30046

Source : Report of the Indian Council for Research on International Economic Relations, 1991.

Table 6.1 shows that KFTZ, the oldest EPZ, had made a net foreign exchange earnings to the tune of Rs. 774.65 crores upto 31.3.1990 with a foreign investment (including NRI investment) of Rs.2.41 crores. The SEEPZ, on the other hand, could earn only Rs.319.53 crores worth of net foreign exchange with a foreign (including NRI investment) of Rs.10.56 crores during the same period. So also KFTZ could generate employment to the tune of 10,000, while SEEPZ could generate

only 10500 employment in spite of the fact that the investment in SEEPZ was above four times more than that in KFTZ. The contribution of other EPZS were not that creditable either in the case of net foreign exchange earnings or in the case of employment generation.

The net foreign exchange earnings of SEEPZ, MEPZ, NEPZ, CEPZ and FEPZ during the same period were Rs.319.53 crores, Rs. 17.74 crores, Rs. 38.88 crores, Rs.0.16 crores and Rs.11.02 crores respectively. The data show that the net foreign exchange earnings of MEPZ, NEPZ, CEPZ, and FEPZ are not that significant. Of all the EPZs, the performance of CEPZ with reference to net foreign exchange earnings was not satisfactory.

With reference to the second objective, viz. attraction of foreign investment, SEEPZ stands first with Rs.10.56 crores as on 30.9.1990. Next comes MEPZ with Rs.8.65 crores. The other Zones, viz. KFTZ, NEPZ, CEPZ and FEPZ attracted only very low foreign investments.

Like the net foreign exchange earnings and attraction of foreign investment, the different EPZs vary widely in the case of employment generation. KFTZ has generated 10,000 employment, while SEEPZ 10500. MEPZ and NEPZ created employments of 5146 and 3200 respectively. CEPZ

created 1000 employment, while FEPZ has created only 200 employment opportunities.

However, after the liberalisation of the economic policies of the country in July 1991, there is slight progress in the export performance of Indian EPZs as can be seen in Table 6.13.

Table 6.2 presents year-wise information regarding exports, imports and net foreign exhange earnings of KFTZ and SEEPZ from 1966-67 to 1994-95

Table 6.2

Year-wise Exports, Imports and Net Foreign Exchange Earnings of KFTZ and SEEPZ as on 1.4.1995

(Rs. in crores)

Year	KFTZ			SEEPZ		
	EXP	IMP	NFE	EXP	IMP	NFE
1966-67	0.07	0.07	0.00	--	--	--
1967-68	0.90	0.14	-0.05	--	--	--
1968-69	0.32	0.30	0.02	--	--	--
1969-70	0.60	0.50	0.10	--	--	--
1970-71	0.34	0.44	-0.10	--	--	--
1971-72	0.80	0.36	0.44	--	--	--
1972-73	1.51	0.49	1.02	--	--	--
1973-74	1.77	0.60	1.17	--	--	--
1974-75	1.80	1.00	0.80	0.05	0.19	-0.14

1975-76	2.19	0.87	1.32	0.56	1.61	-1.05
1976-77	3.52	1.35	2.18	3.01	3.36	-0.35
1977-78	4.72	2.11	2.61	4.06	2.96	1.10
1978-79	5.53	3.23	2.30	6.34	4.01	2.33
1979-80	9.40	6.77	2.63	11.69	8.88	2.81
1980-81	25.51	14.26	11.25	19.49	13.80	5.69
1981-82	70.05	30.04	39.95	32.33	23.44	8.89
1982-83	142.44	91.58	50.86	62.51	46.86	15.65
1983-84	107.46	67.44	40.02	91.91	85.83	6.08
1984-85	237.08	141.69	95.39	101.92	69.92	32.00
1985-86	236.86	141.10	95.76	95.07	54.51	40.56
1986-87	236.27	150.37	85.89	102.92	78.34	24.32
1987-88	185.03	104.24	80.80	110.27	78.34	31.93
1988-89	271.59	156.82	114.77	187.09	154.02	33.07
1989-90	338.58	189.24	149.27	290.34	223.16	67.18
1990-91	456.55	234.26	222.29	393.65	203.11	190.54
1991-92	427.18	239.49	187.69	513.87	348.00	165.87
1992-93	167.21	72.31	94.91	821.73	521.91	299.82
1993-94	270.36	86.21	184.15	1107.36	833.48	273.88
1994-95	404.15	186.88	217.27	1549.46	1122.54	426.92
Total	3609.79	1924.18	1685.61	5505.37	3888.27	1617.10

Note : SEEPZ commenced exports only in 1974-75

Source: Offices of the Development Commissioners of KFTZ and SEEPZ

From table 6.2 it can be seen that KFTZ has earned an aggregate Net Foreign Exchange(NFE) to the tune of Rs.1686 crores during the period 1966-67 to 1994-95. The highest NFE earnings of KFTZ in a single year was in 1990-91 (Rs.222.29 crores) and of SEEPZ was in 1994-95 (Rs.426.92 crores). The aggregate exports of KFTZ from 1966-67 to 1994-95 amounted to Rs.3610 crores and imports during the same period stood at Rs.1924 crores.

Table 6.2 also reveals that the overall performance of SEEPZ was highly encouraging as it has earned a NFE earnings to the tune of Rs.1617 crores during 1974-75 to 1994-95 against an aggregate exports of Rs.5505 crores and aggregate imports of Rs.3888 crores during the same period. The highest NFE in a single year, earned by SEEPZ was Rs.427 crores in 1994-95, followed by Rs.300 crores in 1992-93. The aggregate NFE earnings were higher by Rs.88 crores for SEEPZ which started exports in 1974-75, compared to that of KFTZ which commenced exporting in 1966-67.

Table 6.2 also shows that the performance of KFTZ was better compared to SEEPZ in terms of investments made .

Table 6.3 presents information regarding exports, imports and net foreign exchange earnings of five EPZs in India.

Table 6.3

Exports, Imports and Net Foreign Exchange Earnings of Five Indian Export Processing Zones as on 1.4.95

(Rs.in Crores)

Year	NEPZ			MEPZ			CEPZ			FEPZ			VEPZ		
	Exp	Imp	NFE	Exp	Imp	NFE	Exp	Imp	NFE	Exp	Imp	NFE	Exp	Imp	NFE
1986-87	7.01	0.84	6.76	10.05	NA	NA	0.94	0.37	0.57	3.17	2.05	1.12	--	--	--
1987-88	16.05	8.44	7.61	16.41	NA	NA	3.92	1.58	2.34	1.86	1.59	0.27	--	--	--
1988-89	21.10	12.94	8.16	24.04	43.44	NA	6.25	6.03	3.86	8.11	5.96	2.15	--	--	--
1989-90	51.89	34.96	16.93	33.26	21.00	12.26	11.00	13.60	-2.49	16.38	9.61	6.77	--	--	--
1990-91	44.67	24.96	19.71	61.32	61.11	17.09	5.46	5.25	0.64	25.02	14.79	10.23	--	--	--
1991-92	72.14	45.69	26.46	122.47	85.21	52.02	28.57	24.48	11.99	27.90	8.69	19.21	--	--	--
1992-93	146.84	188.89	-42.05	163.32	117.24	75.92	62.25	44.08	28.32	18.25	11.92	6.33	--	--	--
1993-94	282.62	180.08	82.54	200.20	171.02	91.00	83.81	59.08	49.71	35.56	20.06	15.50	--	--	--
1994-95	366.69	252.80	113.89	281.38	189.52	98.84	102.53	50.75	55.78	32.31	12.94	19.37	0.40	0.49	-0.09
Total	1009.01	749.70	240.01	912.45	688.54	347.13	304.73	205.32	150.72	168.56	87.61	80.95	0.40	0.49	-0.09

Note: Import Data on MEPZ upto 1989-90 is cumulative

Source: 1. EPZ Division, Ministry of Commerce, Government of India
2. Office records of the Development Commissioners of various EPZs in India.

Table 6.3 shows that among the four EPZs commenced operations during 1986-87, MEPZ earned the highest aggregate NFE viz. Rs.347.13 crores. This was followed by NEPZ (Rs.240.07 crores) and CEPZ (Rs.156.7 crores). NEPZ witnessed negative NFE earnings to the tune of Rs.42 crores during 1992-93. The aggregate exports from NEPZ from 1986-87 onwards amounted to Rs.1009.01 crores. The same for MEPZ, CEPZ and FEPZ were Rs.912.4 crores, Rs.304.73 crores and Rs.168.56 crores respectively. The performance of VEPZ was negligible as it commenced exports only in 1994-95.

Thus tables 6.2 and 6.3 reveal that the aggregate NFE earnings of all the Indian EPZS in 1994-95 amounted to Rs.934 crores. The tables have also shown that the aggregate NFE earnings of all the seven Indian EPZs during the period 1966-67 to 1994-95 were Rs.3972 crores. If the EPZs were not set up in India the country might have lost the opportunity to bag nearly Rs.4000/- crores of NFE earnings during 1966-67 to 1994-95. So the setting up of EPZs in India is fully justified by their export performance in collecting a sizeable NFE resources for the nation.

Information on sources of investments made in Indian EPZs is given in Table 6.4.

Table 6.4

Details of Investments made as on 31.3.1990

(Rs.in crores)

Zone	Govt's capital expenditure	Indian private investment	Foreign/ NRI investment
KFTZ	9.59	58.00	2.41
SEEPZ	22.27	20.00	10.56
NEPZ	19.79	33.20	5.70
MEPZ	15.94	51.09	8.65
CEPZ	13.32	21.42	1.30
FEPZ	16.82	2.50	0.07
Total	97.73	186.21	28.69

Source: Government of India, Report of the Public Accounts Committee, 1991-92.

Table 6.4 shows that a total amount of Rs.312.63 crores have been invested in the six EPZs by Government, private agencies and foreign (including NRIs) investors.

Table 6.5 presents information regarding the number of job opportunities generated by the EPZs from 1985-86 to 1994-95.

Table 6.5

Number of Job Opportunities Generated by Various Indian Export Processing Zones During 1985-86 to 1994-95

Year	KFTZ	SEEPZ	NEPZ	MEPZ	CEPZ	FEPZ	VEPZ
1985-86	8510	7500	--	150	--	20	--
1986-87	8500	7500	500	700	4	30	--
1987-88	8250	8000	1500	2640	23	30	--
1988-89	10000	8500	2000	3353	583	100	--
1989-90	10000	10500	3000	3967	405	200	--
1994-95	12000	16775	6800	12334	4300	1600	11

Source: 1. Ibid, p.5.

2. Office records of various Indian EPZs.

Table 6.5 shows that there is a continuous upward trend in generation of employment opportunities by all the EPZs except SEEPZ in 1986-87 and KFTZ in 1987-88. The job opportunities opened by the ancillary units during the construction period of the units are not included in the figures given in the table. As many of the units are small in size and their scale of operation is limited, the capacity of the industrial units in creating employment opportunities is found to be highly encouraging. This view is largely endorsed by the PAC and the Government. The total employment opportunities generated by Indian EPZs was found to be 53820

in 1994-95. VEPZ, which started operations in 1993, has given employment only for 11 persons, whereas SEEPZ is found to be the largest employer at 16775 during 1994-95.

Table 6.6 presents information regarding the physical features of EPZs in India.

Table 6.6

Physical Features of Indian EPZs as on 1.4.95

(Rs. in crores)

Name	Location and state	Year of establi-shment	No.of valid appr-ovals	No.of units in op-eration	Employ-ment gi-ven	Govt. invest-ment	Pri-vate invest-ment	Re-marks
KFTZ	Kandla Gujarat	1965	161	82	12000	21.00	75.00	
SEEPZ	Santacruz Maharashtra	1974	177	155	16775	55.33	175.45	Electr-nics 103+ Gems & Jewel-lery 52
NEPZ	Nodia UP	1984	165	113	6800	44.99	288.00	
MEPZ	Madras Tamil Nadu	1984	123	71	12334	28.38	102.91	
CEPZ	Cochin Kerala	1984	55	39	4300	42.27	126.20	
FEPZ	Falta West Bengal	1984	59	21	1600	22.43	31.00	
VEPZ	Vizaghapatnam Andhra Pradesh	1993	9	2	11	18.63	69.00	
	Total		749	483	53820	233.03	867.56	

Source: 1. EPZ Division, Ministry of Commerce, Governemnet of India
2. Office records of various Indian EPZs.

Table 6.6 reveals some of the important features pertaining to Indian EPZs. All the Zones set up under the ownership of the Government of India are widely scattered throughout the country. KFTZ was established in 1965 followed by SEEPZ in 1974 compared to all other Zones (except VEPZ) set up in 1984. VEPZ was established in 1993. As on 1.4.95, 483 units were in operation in all the EPZs put together. The largest number of units in operation were in SEEPZ (155) which consisted of 103 electronics units and 52 gems and jewellery units. Among the aggregate 749 valid approvals of all the Zones put together, the largest was in SEEPZ at 177 followed by 165 in NEPZ. The total number of persons employed in all the Zones put together as on 1.4.95 was found to be 53820, of which the share of SEEPZ was the largest(16775) followed by MEPZ(12334) and KFTZ(12000). Of the total investments of Rs.233 crores made by Government of India as on Ist April 1995, the largest share was received by SEEPZ(Rs.55 crores) followed by NEPZ(Rs.45 crores) and CEPZ(Rs.42 crores). The share of the oldest EPZ, KFTZ amounted to only Rs.21 crores, whereas the recently started VEPZ got an investment of Rs.19 crores. The aggregate private investments accounted for Rs.868 crores in all the Zones put together as on 1.4.95. The largest share of this was accounted for by NEPZ at Rs.288 crores followed by SEEPZ at Rs.175 crores and CEPZ at Rs.126 crores. Even the youngest Indian EPZ under the public sector, VEPZ was able to attract private investments to the quantum of

Rs.69 crores, compared to that of only Rs.31 crores by FEPZ which was established in 1984.

Norms for Starting the Units

The criteria on which an industrial undertaking is granted permission for setting up an EPZ unit are:

1. The general standing of the entrepreneurs -- their reputation and financial background.
2. The level of manufacturing and the volume of turnover expected.
3. Reasonable value addition proposed during the course of manufacture of the product and
4. Technical and marketing arrangements made.

According to the Government these norms do not stand in the way of expected expansion of EPZs, both in terms of number of units and turnover. There is no other restriction in the size of the units to be located and exports to be made.

Mortality of Units

Table 6.7 presents data regarding mortality of units in EPZs

Table 6.7

Details of Units Approved, Established, Cancelled Closed down and Working as on 31.3.1988

Name of zone	Approvals accorded	Withdrawn or cancelled after approval	Units established	Units closed down	Units working
KFTZ	679	81*	173	44	129
SEEPZ	227	128	97	23	74
NEPZ	73	16	15	--	15
MEPZ	124	37	23	--	23
CEPZ	29	2	3	--	3
FEPZ	41	NA	2	--	2

* During 1982 to 1987.

Source: EPZ Division, op.cit.

Table 6.7 reveals that the number of units actually established fell far short of the number of approvals accorded by the Board of Approval(BOA). Generally approvals are granted on the basis of the details incorporated in the project report submitted by the entrepreneur. Wherever necessary, the time of validity of the approval is extended if the delay in implementation of the project is on valid grounds. The delay on the part of the entrepreneur is found to be in connection with:

i) finalisation of foreign collaboration,

ii) finalisation of technical and marketing tie ups,

iii) finalisation of buy-back arrangements,

iv) finalisation in institutional finance and

v) change in international market conditions.

The Zone administration is constrained to cancel those approvals which cannot be implemented in spite of their best efforts and supports. In many cases the entrepreneurs withdraw their projects which are found to be not viable. Constant watch by the Zone authorities are ensured in the progress made in the implementation of the projects approved so as to minimise the cancellation and withdrawal.

Table 6.8 presents information regarding mortality rates of units in EPZs

Table 6.8

Percentage of Mortality Rate of the Units in KFTZ and SEEPZ between March 1982 and March 1988

Name of zone	Mortality rate 1982	Percentage 1988
KFTZ	30.2	25.4
SEEPZ	17.4	23.7

Source: Ibid, p.7.

Table 6.8 shows that mortality rate has decreased in KFTZ, while it has gone up in SEEPZ during the period under consideration.

Reasons for High Mortality

It is seen from table 6.7 that failure of the units set up in the two major EPZs are very high. According to Indian Council for Research on International Economic Relations (ICRIER), the high rate of mortality of the units have been a cause of grave concern not only in India, but also in many other countries. The important reasons for the closure of the units are found to be:

1. Failure of marketing arrangements
2. Withdrawal of foreign collaboration
3. Financial and managerial problems
4. Shortage of export orders
5. Obsolete technology on which production is made
6. Stiff international competition
7. Recession in the international market
8. Changes in international economic relations
9. Changes in the Government policies of the trading countries.

The performance of an EPZ unit depends on the international market situation which may be quite unpredictable. Disagreement with the foreign collaborator and marketing problems may also be sometimes beyond the control of the entrepreneurs. So the success of an EPZ unit largely depends on the farsight and entrepreneurial talent and skill of the men at the helm of affairs. Some marketing arrangements with Export Houses, Trading Houses, Star Trading Houses, TDA, STC and MMTC will surely be a support to the young units.

Return on Investments

Table 6.9 presents information regarding return on investments:

Table 6.9

Government Expenditure and Return on Investments of the EPZS as on 31.3.1990

(Rs. in crores)

Name of the zone	Total Government expenditure	return on investment - percentage
KFTZ	9.59	7.90
SEEPZ	22.27	8.80
NEPZ	19.79	6.50
MEPZ	15.94	10.59
CEPZ	13.32	3.39
FEPZ	16.82	1.38

Source: Ibid, p.53.

The return on capital of an EPZ is calculated on the total Government expenditure incurred. It is reckoned as a percentage of the net annual receipts earned by the Zone to the net progressive capital expenditure at the end of each financial year. Table 6.9 shows that the rate of return varied from 1.38 per cent for FEPZ to 10.59 per cent for MEPZ. Even in the case of SEEPZ, which is considered to be the most efficient and earning the highest amount of NFE among the EPZs, the rate of return on capital invested varied from four per cent to eight per cent between 1974 and 1989 as compared to a reasonable rate of return at 12 per cent.

Outstanding Rent

The report of the Comptroller and Auditor General of India (CAG) for the year ended 31.3.1988 has brought out that the total outstanding lease rent due from the units stood at Rs.2.44 crores. As an incentive the rent is charged from new units only at 30 per cent of the normal rent during the first three years of operation. The details of lease rent due and recoveries made and the earliest date of rent outstanding are given in table 6.10.

Table 6.10

Details of Lease Rent Due, Recoveries Made and the Date of Oldest Outstanding Rent of Each Zone as on 31-3-1988

(Rs.in lakhs)

Name of zone	Outstanding rent	Rent recoveries made	The date from which rent is due
KFTZ	45.02	16.05	May 1970
SEEPZ	138.22	78.65	January 1979
NEPZ	24.11	22.35	November 1987
MEPZ	32.78	19.23	June 1986
CEPZ	1.00	--	January 1988
FEPZ	2.89	1.61	October 1986

Source: Ibid, p.54.

Table 6.10 shows that rent dues were very high at SEEPZ at Rs.138.22 lakhs as on 31-3-1988. The outstanding rent dues in KFTZ was Rs.45.02 lakhs and in MEPZ, it was Rs.32.78 lakhs. The outstanding rent recovered was the highest in SEEPZ at Rs.78.65 lakhs followed by Rs.19.23 lakhs in MEPZ and Rs.16.05 lakhs in KFTZ. Even rent accrued in May 1970 had not been collected in KFTZ, whereas the rent due in January 1979 had not been collected or recovered in SEEPZ. The default in lease rent payment by the units was mainly due to their financial problems. Apart from taking legal action the Zone authorities were also recovering the dues by adjusting the cash assistance claims of the units, wherever possible.

Targets and Achievements

The efficiency of an EPZ can be evaluated on the basis of the targets achieved by it. Table 6.11 shows that there are marked fluctuations in the export performance of KFTZ during the period 1985-86 to 1989-90. It can also be seen that the target of exports fixed for KFTZ was Rs.30,000 lakhs during the years 1985-86, 1987-88 and 1989-90. The target was below that level in all the other years. On the other hand the target of exports fixed was progressively increasing in the case of SEEPZ from Rs.11000 lakhs to Rs.20,000 lakhs in 1989-90 except in 1986-87, when it was only

Table 6.11

Targets and Export Performance of the Indian EPZs During 1985-86 to 1989-90

(Rs.in lakhs)

Name of EPZ	1985-86			1986-87			1987-88			1988-89			1989-90		
	Target	Actual	%	Target	Actual	%	Target	Actual	%	Target	Actual	%	Target	Actual	%
KFTZ	30000	23686	78.9	25000	23627	94.5	30000	18503	61.6	20000	27159	135.73	30000	33121	112.7
SEEPZ	11000	8449	76.9	10000	10236	102.3	12000	11017	91.8	14000	18731	133.7	20000	29035	145.01
NEPZ	300	55	18.33	3000	1004	33.4	3000	1645	54.8	3000	2404	801	4000	2956	73.9
NEPZ	-	-	-	1000	701	70.1	2000	1605	80.2	3000	2134	71.1	3500	5190	148.2
CEPZ	-	-	-	-	94	-	500	394	78.8	850	625	73.3	1500	1100	73.5
FEPZ	500	230	46	3000	318	10	1000	186	186	2000	811	40.5	1500	1638	109.2

Source: Ibid, p.10.

Rs.10,000 lakhs. SEEPZ has exceeded the target of exports in 1986-87, 1988-89 and 1989-90. The parameters adopted by the EPZ authorities concerned in determining the target of exports were found to be unrealistic as the actual exports of the EPZs were not very near to the target. Cancellation of export order by USSR and discouraging policy of the Government of India for making exports to RPA were found to be the major reasons for the fall in exports of KFTZ. The sharp fall in the prices of latex gloves in the international market was the main reason for the poor performance of MEPZ and CEPZ. So the pre-liberalisation period (of the economic policies of the country in July 1991) was marked by dismal performance by all Indian EPZs.

Import Content

Information on import contents in EPZ's exports is explained in Table 6.12.

Table 6.12

Percentage of Import Content (Cost) in the Commodity Groups of EPZS during 1989-90

Product groups	NEPZ	MEPZ	CEPZ	FEPZ	Average
Garments	77.25	55.95	65.58	--	66.26
Chemicals	25.75	25.76	51.61	--	39.70
Electronics	56.40	--	--	58.99	57.70
Engineering	--	80.33	--	--	80.33
Gems & Jewellery	75.66	--	--	60.52	68.09

Source: Ibid, p.12.

Table 6.12 shows that the cost percentage of the import content in the total cost of various product groups were generally high. It varied between 25.75 per cent in NEPZ and 51.61 per cent in CEPZ as for chemical and allied product group was concerned. In KFTZ the average cost of import content in total cost was found to be around 60 per cent. High import content increases the foreign exchange outflow and it decreases the competitive pricing of the product. So inorder to reduce the import content the Board of Approvals (BOA) of the Zone incorporated conditions providing for phased indigenisation of raw materials and other inputs wherever possible[1].

[1] Ibid, p.13.

Role of Foreign Capital

The report of the CAG of India for the year ended on 31st March, 1988 (Nov.16 of 1989), revealed that nine per cent of the total number of working units of KFTZ and SEEPZ accounted for the lion's share of the exports of these Zones. The main reason for this lopsided export contribution was that 73 per cent of the total number of units of KFTZ was small having export turnover ranging between Rs.20 lakhs and Rs.75 lakhs. In order to ensure that the export obligations prescribed at the time of granting approval, the Zone authorities were constantly monitoring the performance of each unit. On the basis of the reviews of export performance the units were advised suitably to improve their working, where shortfall in the exports or value addition prescribed were noticed[2]. The Directorate of Foreign Trade will also impose penalties on the units through adjudication proceedings if deliberate default on the part of the entrepreneur is proved. It is also pointed out that among the total 1.5 lakh exporters of the country only less than three per cent or 3500 in number account for 80 per cent of the total exports of the country and so the small units were permitted to operate in the Zone.

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2 Ibid, p.31.

A study by ICRIER on KFTZ and SEEPZ revealed that units with foreign equity participation have consistently performed better than their purely domestic counterparts as marketing problems are the least in the case of the former[3]. The Government officials, by and large, endorse the above view on the basis of the experience of SEEPZ. Better and higher level of infusion of foreign capital and latest technology were the hidden secrets behind the SEEPZ's success story.

The international movement of capital to various EPZs scattered throughout the world are found to be on account of:

i virtual free trade regime, availability of excellent infrastructure and cheap skilled labour; and

ii access to the domestic market.

To a query made by the PAC (1991-92) the officials of the Ministry of Commerce stated that the multinational corporations are found to be generally interested in the increased access to the domestic markets. They also revealed that the large flow of foreign capital to China and South Korea is due to the above factors. In this context the GOI is already considering:

1. Relaxation of duty structure on DTA sales, so that the product will be allowed to be locally competitive.

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3 Ibid, p.40.

2. Tax free repatriation of dividends on foreign investments.

The 'single window' clearance system for the early implementation of the project and wide publicity through advertisements and through exhibitions of the TDA, Indian Investment Centre and Indian Trade Missions and Embassies abroad have already started measures to attract more foreign capital.

Important Observations of the Public Accounts Committee 1991-92 on Indian Export Processing Zones

The major observations of the PAC Committee under the chairmanship of Atal Behari Vajpayee relating to the EPZs are listed below:

1. The minimum condition in the selection process of a unit for giving approval by the BOA shall be more clearly quantified.

2. The main objective of earning NFE by the EPZ remained largely unfulfilled during the 80s. During the period 1981-82 to 1987- 88 there was a net outflow of foreign exchange to the tune of Rs.601.13 crores. The outflow of foreign exchange was Rs.597.48 crores from KFTZ compared to a marginal inflow made by SEEPZ at Rs.9.56 crores during the same period. During 1981-82 to 1987-88 exports from MEPZ, CEPZ and FEPZ were mainly to RPA region, whereas the bulk of imports were from GCA countries.

3. The annual export targets fixed in respect of various Zones were consistently not achieved except by SEEPZ. The actual exports varied between 10.6 per cent and 94.5 per cent of the targets set. The major portion of KFTZ and SEEPZ was concentrated in nine per cent of total number of units. Though exports from KFTZ and SEEPZ increased at current prices by 29.9 per cent and 102.6 per cent respectively during 1982-88, in real value terms, taking 1960 as the base year, the exports declined by 13.4 per cent from KFTZ and increased only by 35 per cent from SEEPZ.

4. The contribution of EPZs to total exports of the country is very insignificant ranging between 2 per cent to 3 per cent as against the target set at 8 per cent to 10 per cent.

5. The import content for broad commodity groups during 1989-90 in respect of different Zones widely varied.

6. No study has so far been made on the experience of similar EPZs of other countries.

7. The prevailing high rate of mortality of units in KFTZ and SEEPZ must be viewed with concern.

8. The EPZ authority which is the highest policy making body in respect of each EPZ has not met for the five years between 1985-90 though it was supposed to meet twice in a year.

9. Some units in the EPZ did not undertake any manufacturing activity with the imported materials after availing customs duty exemption and resorted to commercial activity without any value addition, resulting considerable loss of revenue.

10. The rate of return on capital invested by GOI in various EPZs ranged between 1.38 per cent to 10.59 per cent only as on 31.3.90 as against a reasonable rate of return of 12 per cent.

11. The dues from the units in respect of lease rent which was normally recovered on month to month basis had fallen into large arrears.

12. No lease agreements were executed with units which were given approval.

13. In each Zone a number of plots/sheds have not been allotted so far, thereby incurring loss of revenue on the capital invested for the development and construction of the plots and sheds.

14. Advances amounting to Rs.31.25 paid to various agencies for the construction and maintenance works in all the Zones had not been finally adjusted or settled even though the works had been completed long back.

15. A railway siding in KFTZ connecting it with the Gandhidham railway station was constructed in 1969 at a cost of Rs.10.56 lakhs and it had to be dismantled as it had never been used since its commissioning. The committee also noted that funds of CEPZ authority was unnecessarily blocked in procuring materials by revising the design of the factory proposed to be constructed.

16. Non recovery of vegetable oil cess amounting to Rs. 11.87 lakhs was pending from two units in KFTZ.

17. Substandard and rejected goods including computer accessories valued at Rs.1.93 crores lying with the units in SEEPZ had not been disposed of.

The observations of the PAC helped to throw some light on unnecessary and wasteful expenditure incurred by the Zone authorities.

Recommendations of the Public Accounts Committee, 1991-92

The PAC 1991-92 recommended the following measures for improving the working of the EPZs.

1. Export targets to DTA and GCA shall be fixed for each unit by the Development Commissioner(DC) concerned. The DC shall take special care for the close linkage of the units with their foreign markets.

2. A detailed study on the working and experiences of EPZs in other countries is to be conducted. A suitable strategy for attracting foreign capital and technology into EPZs in

relation to exports and earning of foreign exchange is to be evolved. The outcome of the experience of foreign EPZs can be suitably modified in India for accelerating the pace of development of various EPZs.

3. An independent study is to be undertaken to identify the reasons for the high mortality rates prevailing in KFTZ and SEEPZ. On the basis of the above study corrective actions are to be taken in all the EPZs.

4. The Zone administration shall take all steps to remove constraints that are likely to arise in the successful operation of the units.

5. A comprehensive review for upgrading the quality of the product and constant monitoring of the pricing of the products shall be undertaken by the DCs for encouraging the exports to GCA.

6. More powers including the powers of the Collector of Customs should be given to the DCs. The duality of control and consequential delays could considerably be reduced if more powers were vested with the DCs.

7. Clearly spelt out customs notifications are to be issued for avoiding confusions and for avoiding chances of taking advantage of the loopholes by the EPZ units or private parties.

Recent Trends in the Performance of Indian EPZs

Now an attempt is being made to incorporate the recent trends in the working of Indian EPZs. It may be noted that even though India's exports witnessed a quantum jump during the post-liberalisation period the contribution of EPZs to India's exports remained at low level. The remarkable achievements attained by EPZs in the post-liberalisation period is transparent and is virtually visible. A comparison

of data produced in tables 6.13, 6.14 and 6.15 projects the achievement.

Contribution of EPZs in India's Exports

Table 6.13

Contribution of EPZ Exports to India's TotalExports During the Period from 1980-81 to 1994-95

(Rs. in crores)

Year	India's total exports	Exports of all EPZS	
		Amount	Percentage of India's total exports
1980-81	6711	44.00	0.66
1981-82	7860	100.00	1.28
1982-83	8803	197.00	2.24
1983-84	9771	196.00	2.00
1984-85	11744	333.00	2.84
1985-86	10895	324.00	2.97
1986-87	12452	360.00	2.89
1987-88	15674	333.00	2.12
1988-89	20302	517.00	2.55
1989-90	27681	732.00	2.64
1990-91	32527	986.00	3.03
1991-92	43978	1193.00	2.71
1992-93	53350	1380.00	2.58
1993-94	69548	1980.00	2.85
1994-95	82338	2737.00	3.32

Source: 1. Ibid, p.11.
2. Office records of various EPZs in India.

Table 6.13 shows that the share of EPZs in India's total exports was only nominal. The Public Accounts Committee[4] observed that the contribution of EPZs to total exports (of the country) was quite insignificant. It was two to three per cent during the period 1982-83 to 1989-90 as against the target of 8 to 10 per cent. The product-wise comparison revealed that the percentage contribution of EPZs (excluding SEEPZ) to the total exports during 1989-90 constituted 10.69 in the case of electronic items, 8.17 in the case of chemicals and allied products and 2.96 in the case of readymade garments[5]. The shares of food products and gems and jewellery were quite insignificant, but engineering goods stood at 2.01 per cent.

Post-Liberalisation Period

Table 6.13 also reveals that the export performance of the country viz-a-viz that of the EPZs have made some progress after the opening up of the economy in 1991. During 1990-91 the country was going through an unprecedented foreign exchange crisis in spite of an export earnings of Rs.32527 crores. During the same year the share of Indian EPZs in the country's total exports stood at only 1.68 per cent(Rs.986

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4 Ibid, p.2

5 Ibid, p.1.

crores). Consequent on the liberalisation of the economic policies of the country total exports began to show positive response and it increased from Rs.43978 crores in 1991-92 to Rs.82338 crores in 1994-95. The exports from Indian EPZs did not show any perciptibe change and their contribution to the country's exports remained at a low level. The exports from EPZs accounted only for 2.71 per cent of the total exports of the country(Rs.1193 crores in 1991-92). During 1993-94 and 1994-95 the share increased marginally (2.85 and 3.32 per cent respectively). During these years the exports from EPZs amounted to Rs.1918 crores and Rs.2737 crores respectively. The Indian EPZs are really finding it difficult to achieve a share of eight to ten per cent in the country's export earnings.

Economists hold the view that twenty per cent contribution by the EPZs in the country's aggregate exports is necessary to support the existence of such Zones[6]. For that the present international market strategy is to be thoroughly and drastically overhauled. The 'Product-Country Matrix'[7] initiated by the Ministry of Commerce, Government of India, is found to be a right step in this direction.

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6 Ibid, p.9.

7 Sushama Ramachandran, "Keeping Pace with the the World", The Hindu, dated 17th March 1996.

Table 6.14

Cumulative Performance and Some Select Details of Indian Export Processing Zones from 1985-86 to 1994-95

(Rs.in crores)

Name of EPZ	Exports		Imports		NFE		Percentage of value addition	No. of units	Empt. provided (No.)	Investments made	Ratio between investments and exports
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total					
KPZ	2990.86	28.33	1468.61	21.47	1517.13	39.34	49.8	82	12000	101.22	1:29.5
SEEPZ	5191.92	48.99	3617.41	52.66	1495.85	38.77	79.8	155	16725	232.39	1:22.5
KEPZ	1014.75	9.61	749.84	10.96	260.09	6.67	44.5	113	6800	334.91	1:3.02
NEPZ	903.19	8.55	708.54	10.36	347.15	8.99	19.42	71	12334	157.03	1:5.75
CEPZ	304.79	2.13	205.22	3	155.5	4.03	46.88	39	4300	164.08	1:1.85
FEPZ	170.64	1.64	89.19	1.55	81.67	2.13	39.3	21	1000	95.38	1:1.78
VEPZ	0.4	--	0.49	--	0	--	--	2	15	108.10	--

Source: N.Ravi Sankar, A.S.Rajarao, B.P.Raju, "Export Performance: Problems and Prospects of Indian Export Processing Zones", Indian Journal of Marketing, Vol.24, Nov-Dec. 1995, p.24.

Table 6.14 reveals that of all the seven public sector EPZs in India, SEEPZ stood top in aggregate exports with Rs.5172 crores, followed by KFTZ with Rs.2991 crores during the period 1985-86 to 1994-95. NEPZ with Rs.1015 crores and MEPZ with Rs.2991 crores stood third and fourth during the same period. The performance of VEPZ was only nominal as it began to export only in 1994-95. The aggregate exports of CEPZ and FEPZ were only at Rs.305 crores and Rs.171 crores respectively during the above mentioned period.

During the period under consideration, the highest percentage of total exports was recorded by SEEPZ at 49 followed by KFTZ at 28, NEPZ at 10 and MEPZ at 9. Similarly the highest import was accounted for by SEEPZ(Rs.3617 crores), followed by KFTZ(Rs 1469 crores), NEPZ(Rs.750 crores) and MEPZ(Rs.709 crores). The aggregate imports of CEPZ was Rs. 205 crores, compared to Rs.89 crores by FEPZ and only Rs.49 lakhs by VEPZ during the period under review. The highest import percentage was recorded by SEEPZ at 53, followed by NEPZ at 11 and MEPZ at 10 during 1985-86 to 1994-95. The import percentage of CEPZ to total imports was very insignificant at 3 and that of FEPZ was only 1.55, compared to their export percentage at 2.13 and 1.64 respectively during the same period.

The net foreign exchange earnings in absolute terms and in percentage to the total were the highest in the case of KFTZ at Rs.1517 crores (39.34%). This was followed by SEEPZ with Rs.1496 crores (38.77%). The net foreign exchange earnings of NEPZ stood at Rs.260 crores (6.67%) followed by MEPZ at Rs.347 crores (9 %) during the period under review.

Table 6.14 also shows that the highest percentage of value addition component was achieved by SEEPZ at 80, compared to that of 50 by KFTZ during the period 1985-86 to 1994-95. Of the four EPZs commenced operations in 1986-87, the highest value addition was achieved by CEPZ at 47%, followed by NEPZ at 45%, FEPZ at 39% and MEPZ at 19% during the period under consideration.

Table 6.14 reveals that the maximum number of units in operation was 155 in SEEPZ. This is followed by 113 in NEPZ, 82 in KFTZ, 71 in MEPZ, 39 in CEPZ 21 in FEPZ and 2 in VEPZ during the period 1985-86 to 1994-95. It also showed that SEEPZ was the largest employer with 16725, followed by MEPZ (12334) and KFTZ (12000). NEPZ provided employment for 6800 persons, compared to that of 4300 in CEPZ, 1000 in FEPZ and only 15 in VEPZ during the period under review.

Table 6.14 also shows that the largest investment was made in NEPZ (Rs. 335 crores), followed by Rs.232 crores

in SEEPZ and Rs. 164 crores in CEPZ during the same period. The table also reveals that the highest ratio between investments and exports was achieved by KFTZ at 29.5 during the period under review. This figure was 22.25 for SEEPZ, followed by MEPZ (5.75), NEPZ (3.02), CEPZ (1.85) and FEPZ (1.78) during the same period. However, if the time factor is also taken into consideration these figures may change substantially.

Information regarding investments in Indian EPZs is given in table 6.15.

Table 6.15

Investments in Indian EPZs as on 31-3-1995

(Rs.in crores)

Name of EPZ	Govt. invest-ments	Private Investments			Total
		Domestic	NRI	Foreign	
KFTZ	26.49	72.32	2.41	--	101.22
SEEPZ	58.39	115.00	45.00	14.00	232.39
NEPZ	44.91	238.00	19.00	33.00	334.91
MEPZ	37.18	76.21	9.48	28.16	151.03
CEPZ	38.76	100.95	11.00	13.37	164.08
FEPZ	25.55	67.90	1.93	--	95.38
VEPZ	18.94	83.69	5.28	0.19	108.10
Total	250.22	754.07	94.10	88.72	1187.11

Source: Ibid, p.26.

Table 6.15 reveals that the highest share out of the total Government's investments of Rs.250 crores, as on 31st March 1995 went in favour of SEEPZ (Rs.58.39 crores). This was followed by NEPZ (Rs.45 crores), CEPZ (Rs.39 crores), MEPZ (Rs.37 crores), KFTZ and FEPZ (Rs.26 crores each) and VEPZ (Rs.19 crores). Of the total domestic private investments of Rs.754 crores, the largest share was accounted by NEPZ (Rs.238 crores). This was followed by SEEPZ (Rs.115 crores), CEPZ (Rs.101 crores), VEPZ (Rs.84 crores), MEPZ (Rs.76 crores), KFTZ (Rs.72 crores) and FEPZ (Rs.68 crores) in that order. Out of the total NRI investments of Rs.94 crores the largest share was accounted by SEEPZ at Rs.45 crores, followed by NEPZ at Rs. 19 crores, CEPZ at Rs.11.00 crores, MEPZ at Rs.9 crores and VEPZ at Rs.5 crores. The share of NRI investments was very insignificant as far as KFTZ and FEPZ were concerned.

Out of the total foreign investment of Rs.89 crores as on 31.3.1995, (see Table 6.15), the largest share was attracted by NEPZ (Rs.33 crores). This was followed by MEPZ (Rs. 28 crores), SEEPZ (Rs. 14 crores) and CEPZ (Rs. 13 crores) in that order. The other Zones were not able to attract any substantial foreign investments. Of the total investments made at Rs. 1187 crores, both by Government and by entrepreneurs, the largest share was enjoyed by NEPZ (Rs.335 crores). This was followed by SEEPZ (Rs.232 crores), CEPZ (Rs.164 crores), MEPZ (Rs.151 crores), VEPZ (Rs. 108 crores), KFTZ (Rs.101 crores) and FEPZ (Rs.95.38 crores) respectively.

Table 6.16

Sector-wise (Industry Group wise) Contribution to Indian EPZ Exports from 1985-86 to 1994-95

(Rs.in Crores)

Sector	KFTZ		SEEPZ		NEPZ		MEPZ		CEPZ		FEPZ	
	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total	Amount	Percentage of total
Electronics	--	--	3014.25	58.28	292.92	28.86	295.95	32.76	63.28	20.89	19.82	11.61
Gems & Jewellery	--	--	2157.67	41.72	260.63	25.69	16.28	1.80	4.98	1.63	13.99	8.19
Engineering Goods	525.50	17.57	--	--	119.43	11.74	78.56	8.69	--	--	1.34	0.78
Textiles & Garments	725.65	24.26	--	--	77.31	7.51	394.50	43.67	74.20	24.35	12.88	7.54
Drugs& Pharmaceuticals	1696.15	56.71	--	--	140.56	13.85	47.70	5.28	--	--	14.68	8.20
Others	43.56	1.46	--	--	123.78	12.25	70.23	7.80	161.86	53.15	107.93	63.68
Total	2990.86	100	5171.92	100	1014.75	100	903.19	100	304.72	100	170.64	100

Source: Ibid, p.28.

Information relating to sector-wise (industry group-wise) contribution to Indian EPZ exports is furnished in table 6.16.

Table 6.16 reveals that out of a total exports of Rs. 2991 crores emenated from KFTZ, drugs and pharmaceuticals contributed the maximum share (Rs. 1696 crores). This was followed by textiles and garments (Rs.726 crores) and engineering goods (Rs.526 crores). The share in total exports of these industry-group accounted for 57%, 24% and 18% respectively. Out of the total exports of Rs.5172 crores from SEEPZ, electronic goods accounted for 58% (Rs.3014 crores) and gems and jewellery 42% (Rs.2158 crores). Of the total of Rs.1015 crores of exports from NEPZ, electronics contributed Rs.293 crores followed by gems and jewellery, Rs.261 crores. Drugs and pharmaceuticals and engineering goods contribute Rs.141 crores and Rs.119 crores respectively. Out of the total exports of Rs.903 crores from MEPZ, textiles and garments accounted for Rs. 395 crores (44 %). This was followed by electronics (Rs. 296 crores) and engineering goods (Rs. 79 crores). Others (unclassified group) accounted for 53 per cent of the total exports (Rs.162 crores) from CEPZ. This was followed by textiles and garments (Rs.74 crores) and electronics (Rs.21 crores). Again others (unclassified groups) accounted for 64 per cent of the total exports from

FEPZ (Rs.171 crores) followed by electronics, drugs and pharmaceuticals, gems and jewellery and textiles and garments.

Details of information on the destination of Indian exports are given in table 6.17.

Table 6.17

Share of GCA and RPA Countries in the Total Exports from Indian EPZs during the Period 1985-86 to 1994-95

(Rs. in crores)

Year	Exports	Percentage Share	
		GCA	RPA
1985-86	334.76	30.52	69.48
1986-87	360.09	31.08	68.92
1987-88	333.60	43.13	56.87
1988-89	518.64	35.74	54.26
1989-90	737.84	44.78	55.22
1990-91	986.67	47.08	52.92
1991-92	1192.50	59.25	40.75
1992-93	1379.60	95.44	4.56
1993-94	1979.71	95.56	4.44
1994-95	2736.92	93.16	6.84

Source: Ibid, p.25

Table 6.17 reveals that the main destination of Indian exports was the RPA countries, compared to the GCA countries during the early stages of Indian EPZs'functioning. The share of RPA countries were more than 2/3rd of the total exports in 1985-86 and 1986-87. The exports of Indian EPZs began to slowly divert from RPA countries to GCA countries and gradually the momentum for export to GCA has taken place at a faster rate. So in 1993-94 the percentage share of exports to GCA stood at 95.56, compared to that of 4.44 for the RPA countries. The conscious and concerted efforts for encouraging exports to GCA countries and the collapse of the U.S.S.R and its subsequent disintegration are found to be the major reasons for this fall of exports to RPA. Under the negotiation of trade agreements with Russia, exports of Indian EPZs to RPA countries are slowly picking up .

Foreign Investment Inflow in general and to Indian EPZs

Here an attempt is made to establish the relationship between the actual inflow of foreign investments to India and to Indian EPZs. Table 6.18 is able to give a general picture on the relationship between the actual inflow of foreign investments towards the country and the foreign investments made in Indian EPZs.

Table 6.18

Foreign Investment Inflows to India and Foreign Investments in Indian EPZs During 1991 to 1995

(Rs.in crores)

Year	Total foreign investments	Foreign investments in Indian EPZs
1991	351.4	--
1992	675.2	--
1993	1786.0	--
1994	2969.9	--
1995	6393.0	88.72*
Total	12175.5	88.72

Note: * - Foreign investments made in Indian EPZs are the aggregate amounts from 1985-86 to 1994-95.

Source: 1. Government of India, Economic Survey, 1994-95, p.90

2. N.Ravi Sankar and others, op cit, p.26

3. The Economic Times dt. 16.2.96.

It is roughly estimated that the foreign investments made in Indian EPZs are only below 0.73% of the total inflow of foreign investments received by the country. This is a very insignificant amount indeed.

Reasons for the insignificant inflow of foreign investments

The important reasons for the nominal inflow of foreign investments in Indian EPZs are given below:

1. Vast and developed land area for setting up large industrial units by foreign investors is not available inside the Zones. The developed land area and the standard design factories of large size have already been allotted to the existing Indian entrepreneurs on "first come first served basis" by the EPZ authorities. The unoccuppied plots and standard design factories are not able to cater to the needs of foreign investors.

2. The foreign investors are in need of large quantity of extra-high tension electric power for meeting their production requirements. The Indian EPZs are not in position to arrange and supply the same to them within the time frame stipulated by the foreign investors.

3. Many of the industrial units in which the foreign investors are interested cannot be setup in the Indian EPZs due to enviornmental factors and pollution problems.

4. Bulk-breaking, repacking and labelling facilities enjoyed by MNCs in foreign EPZs are not permitted in Indian EPZs owing to low value addition made to the end product.

Employment in the Organised Sector and Employment in Indian EPZs

An attempt is made here to establish the relationship between the employment in the organised sectors in India and that of Indian EPZs. Table 6.19 throws some light on this aspect.

Table 6.19

Details of Aggregate Employment in Indian Organised Sector, Public Sector and Indian EPZs in 1990 to 1995

(lakhs of persons)

Year	Organised sectors (public and private)	Public sector	Indian EPZs		
			No.	Percentage of Org. sector	Percentage of public sector
1990*	263.53	187.72	0.30	0.11	0.16
1993	271.77	193.26	0.45	0.17	0.23
1995**	274.09	192.94	0.54$	0.20	0.28

Note: * As on 30th September 1990

** Quick Estimates

$ Relating to 1994-95.

Source: 1. Government of India, Economic Survey, 1995-96, p. S-56.

2. Report of the ICRIER, 1991.

Table 6.19 reveals that the total employment under the organised public and private sectors together stood at 263.53 lakhs in 1990. The share of public sector alone stood at 187.72 lakhs, compared to only 0.30 lakhs in all Indian EPZs put together in the same year. The percentages of Indian EPZs' employees to that of the organised sectors and public sector stood at 0.11 and 0.16 respectively during that year. The aggregate employment of the organised sectors and public

sector put together increased to 274.09 lakhs and 192.94 lakhs respectively compared to that of 0.54 lakhs in Indian EPZs during 1995. The percentages of the employees of EPZs in relation to that of the organised sector and public sector are found to be 0.20 and 0.28 respectively during that year. So the share of employment opportunities of Indian EPZs in the total employment provided by the organised sector is showing considerable improvement during the period 1990 to 1995.

Information Connected with Indian EPZs

With liberalisation of the economic policies of the country a number of policy changes has been effected in the organisation and management of various production units in Indian EPZs. Some of the changes are found to be far-reaching in nature, whereas some others were adopted as short-term measures. So the steps taken by the Government of India for redressing the grievances of EPZ units and other bits of information which are found to be relevant to Indian EPZs are incorporated in the following pages:

Recent Policy Changes for the Redressal of the Grievances of the EPZ Units

The representatives of the EPZ Units Association pointed out that the drastic reductions in customs tariffs, expanding the Open General Lisence (OGL) list of imports and

the introduction of partial convertibility of rupee together have wiped out the differential advantages enjoyed by them. So the Parliamentary Standing Committee (PSC) on Commerce has asked the Ministry to look into the grievances of the EPZ units.

The share of exports from the EPZ units was found to be short of their expectations. In recent years the share of EPZ exports remained only around 2.6 per cent of the total exports. It is also found that the export growth of EPZ units in 1992-93 was only 18.7 per cent, compared to 22.2 per cent growth of non-EPZ exports during the same period.

The PSC also observed that the EOU and EPZ units in countries like China and Taiwan are performing well due to sound and well-organised infrastructural support. The PSC recommended that the canalising agencies like MMTC, STC, PEC, TTCI and MITCO should be geared upto the changing exim policies. These agencies are to be reorganised on the lines of large export houses.

The PSC also expressed concern over the declining budgetary support given for Market Development Assistance. It reiterated its earlier recommendation for trade fairs, exhibitions and commercial publicity which should be augmented and linked with the quantum of exports.

The PSC also recommended that efforts in developing eco-friendly and export worthy packaging should be strengthened as it is going to be the future trend in the world packaging industry. The PSC expressed concern over the slow pace of the formation of the proposed National Centre for Trade Information. The PSC stressed the need for harmonising tax structures in different states of the country to overcome complications.

2. Committees to Study VEPZ and FEPZ

The Ministry of Commerce has set up two Commitees to *work out promotional strategies for FEPZ and VEPZ. The Committees are required to submit their report within two* months.

3. EPZ Units given option to quit

The EPZ units will be permitted to exercise one-time option to quit the status and to become a DTA unit. The EPZ units which are at a disadvantageous position due to liberalisation of tariff can convert themselves, so that they can function as Export Promotion Capital Goods Scheme (EPCGS) unit with the attendant export obligations. (See 9. Exim Policy and EPZ units in this chapter).

The EPZ units were given this option upto 30th September 1994. The units which exercised the option were permitted to remain in the Zone itself. The status of those units which are not opting to be DTA units will be examined on the merit of each case.

It has also been decided that the total export turnover of the small units, particularly from the leather sector, will be excluded from the ceiling limit of Rs.30 lakhs for central excise exemption.

4.New Policy Initiatives on EPZs

The Government of India has permitted the setting up of the EPZs in the private/joint sector for increasing the infrastructure facilities for export production. This decision was taken on the recommendations of the Committee which was asked to examine the alternative model for development of EPZs in the context of overall liberalisation. So, now the development of EPZs may be made by privately or jointly or by Government and a private agency or exclusively by the State Governments or their agencies. Private, joint or state sector investment may also be made to develop infrastructural facilities, including construction of standard design factory buildings in existing EPZs. The policy and procedures applicable to the units under the EOU scheme will

be strictly applied to the units to be established in the private/joint EPZs. Applications for setting up of EPZ units under the private/joint sector are to be given to the DC of EPZ in whose jurisdiction the proposed Zone is to be located.

5. India's Private EPZ Coming up at Surat

India's first private sector EPZ, promoted by the Diamonds and Gems Development Corporation is coming up at the Diamond Industrial Park at Sachin about 12 kms south of Surat. The Surat Export Processing Zone (SEPZ) would come up in an area of 208 acres of land. 241 plots of about 1000 square yards each will be ready for sale in the Zone shortly.

The Diamond Industrial Park already has the necessary infrastructure such as paved internal roads, street lights, water supply, container space on rental basis, customs clearance centre, office premises in the International Trade Centre and residential units within the park. A school, health centre, recreational club, theatre and a hotel owned by an international chain are also at the various stages of completion.

6. Maharashtra's First Private EPZ

The first private sector EPZ in Maharashtra will be set up at Kandivli in Bombay. According to A.L. Bongirwar, Development Commissioner of SEEPZ, the new Zone promoted by Kay Foam Ltd. will be exclusively meant for gems and jewellery. The Zone will be developed on land leased by the Government of Maharashtra and owned by Kay Foam Ltd. Compared to SEEPZ and KFTZ this private sector EPZ will be small in area (7100 sq.m.) and can accommodate only 16 units.

7. Sectoral EPZs

The GOI has agreed in principle to the proposals of the State Governments for organising EPZs on a sectoral basis. The new Zones for bio-technology parks, chemical parks and such high-tech areas are a part of the strategy to provide competitions to existing EPZs and to re-orient and update their working. The Planning Commission and the Ministry of Commerce will provide financial support through the Export Intensive Areas Sub-Plan Scheme.

8.Export Promotion Industrial Parks

With the approval of Export Promotion Industrial Parks (EPIP) in four more states of the country the total

number of such institutions have gone upto 11. The EPIPs, more flexible than EPZs, are mooted to involve State Governments in a larger way in export promotion and infrastructure development. The cost of land and seed money for parks are to be raised and invested by the State Governments. The GOI will give a grant upto Rs.10 crores or 75 per cent of the project cost, whichever is lower for setting up of such parks. The cost of an EPIP, which is expected to be located in a reasonably developed area, is estimated at Rs.25 crores.

Units set up under the EPIP scheme are required to export only one-third of their production compared to the EOU/EPZ units which have to export 75 per cent of their production. However, each unit of EPIP have to undertake a minimum export commitment of Rs.100 crores. A grant of two per cent of the turnover will be given by the GOI for each Park every year.

9. Exim Policy and EPZ Units

A number of imaginative steps have been taken by the GOI to rationalise and standardise the functioning of EOUs and EPZ units in the export-import policy announced on 1st April, 1995. A link between EPCGS has been established with EOU and EPZ units. In the wake of liberalisation the comparative low

duty on capital goods imports and the attraction of the Advanced Licensing Scheme (ALS)are giving stiff competition.

The permissible sale into the DTA of electronic hardware products have been increased by five per cent to a maximum of 40 per cent on value addition above 25 per cent. In addition, bonding and conversion to EPCGS is also allowed. Now an EOU/EPZ unit can come under the EPCGS by paying 15 per cent duty on the capital goods imported. But the export obligation will continue to be four times the import to be made over five years. Conversely, an EPCGS unit can also become an EOU under the supervision of the DC of the area concerned. By permitting the change from one scheme to the other, business unit can survive for a longer time. As the market conditions are changing very fast the new units can adjust themselves accordingly and hence the mortality rates can be considerably reduced.

Private bonded warehouses are also permitted under the revised exim policy. Established importers having strong financial base can now tieup with the EPZ and stock up bulk import items without paying duty. The user can clear the items according to his manufacturing demands.

The new exim policy envisages a uniform value addition formula. The Electronic Hardware Technology Parks

(EHTPs), Software Technology Parks (STP)and EOU and EPZ units will be on par on matters relating to value addition and DTA sales. This measure is expected to compensate to a large extent the damage suffered by the units under the EPCGS.

10. Norms for approval eased

The procedure for approval of EPZ units and cent per cent EOUs has been simplified. According to the revised guidelines all proposals conforming to the prescribed parameters will be automatically approved within two weeks by the Secretariat for Industrial Approvals (SIA) of the Ministry of Industry in case of EOUs and by the DC concerned for EPZ units. Some of the conditions for attaining automatic approval are enumerated below:

1. The project is not included in schedule I and II of notification issued on July 25, 1991.

2. The project is located either within an EPZ for which availability of space and conformity with environmental standards for EPZ units and the locational conditions stipulated by the Department of Industrial Development in the case of EOUs.

3. The projects undertake to achieve value addition according to the stipulated norms of 15 per cent for

electronics hardware manufacturing units or 20 per cent in the case of other industries.

4. The CIF value of imported capital goods is financed through foreign equity or foreign exchange required for import of plant is within the ceiling of Rs.10 crores. Import of second-hand capital goods may also be permitted, provided an import license is not required.

5. The foreign technology agreement, if any, is limited to a lumpsum payment of Rs.1 crore or eight per cent royalty over a period of five years from the commencement of production.

6. The exports are to be made to the GCA.

7. Where there is no outstanding export obligation under the EPCGS or ALS a DTA unit can be converted into EOU provided the unit satisfies the other parameters for automatic approval.

8. The requirements of Customs Department in regard to bonding, nature of activity carried out and sub contracting are met.

All other proposals will be considered by the BoA and will be disposed of within 45 days through SIA.

11. Additional Powers to Development Commissioners

1. The DCs are authorised:

   To allow increase in the total value of imported capital goods to the extent of 50 per cent of the approved value subject to a maximum of Rs.10 crores, whether by imports of additional items or by increase in the price of permitted items.

2. To allow increase in the value of capital goods imports in terms of rupees owing to foreign exchange rate fluctuations.

3. To permit capacity enhancement of the EPZ units/EOUs without any limit in respect of delicensed industries only, provided the requirements do not exceed 50 per cent of approval value subject to a maximum of Rs.10crores.

4. To permit broad-banding subject to the condition that it does not result in procurement of additional capital goods imports beyond 50 per cent.

CHAPTER VII

SOCIAL BENEFIT COST ANALYSIS OF CEPZ AND CONCLUSIONS

CHAPTER VII

SOCIAL BENEFIT COST ANALYSIS OF CEPZ AND CONCLUSION

Introduction

In the previous chapters the working of EPZs and their contribution to the economy have been highlighted. This chapter is devoted to a social benefit-cost analysis of CEPZ. The chapter also presents the conclusions of the study.

The real advantages accrued to the country through the operations of CEPZ can be estimated only through a large scale social benefit cost analysis. Methodologies for conducting such analysis are developed by economists and agencies like UNCTAD, ESCAP, UNIDO and the World Bank. But paucity of data did not permit to undertake a full-fledged social benefit-cost analysis using any one of the above methods.

The methodology adopted for social benefit-cost analysis in the present study is as follows: Net benefit of CEPZ in each year is estimated by deducting all costs from the export earnings. The net benefit values are then converted to 1991-92 prices (constant prices). Annual net benefits so determined are discounted at social discount rates of 12 and 18 per cent and the resultant values are added together for

all the years to estimate the Net Present Value (NPV). The NPV will be capable of showing whether the operations of CEPZ are positive or negative. The positive NPV indicates benefits received.

For estimating the benefits, the life of CEPZ is assumed to be 30 years. It is also assumed that the net benefit in future years will be at the level of the average net benefits of the last five years. This will reveal the contribution of CEPZ in the future years of its working.

The data collected for the social benefit cost analysis are mainly from the official publications, press releases of CEPZ authorities issued from time to time from the CEPZ office and CEPZ Industries Association. The response from the individual units of CEPZ was found to be lukewarm and unreliable to a great extent. Due to shortage of resources and time full-fledged estimation of some variables such as shadow exchange rates, social opportunity cost of labour and social value of rented space was not carried out. The assumptions made for the analysis are based on sound reasoning and empirical verification when they are found to be feasible.

Methodological Assumptions

The definition and methodology used for including various variables in the social benefit cost analysis are briefly explained below.

Net Foreign Exchange (NFE) Earnings

The NFE earnings of the CEPZ units are the direct benefit to the economy. To ascertain the NFE earnings all outflows of foreign exchange at shadow exchange rates are deducted from export earnings which is also calculated at shadow exchange rates.

The official and unofficial or social exchange rates are found to be quite different in India until the opening up of the economy in July 1991. Till then the unofficial, shadow or social exchange rates are found to be 25 per cent higher than that of the official rates. So it is assumed that earnings or spending of US $ 1 is actually worth of US $ 1.25. Following estimates by Deepak Lal[1] and the Indian Planning Commission it is assumed that 45 per cent of the value of capital goods supplied by the DTA (local economy) represent dollar import costs to the economy directly or indirectly.

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[1] Deepak Lal, Prices for Planning : Towards the Reform of Indian Planning, 1980, London.

The value of replenishment licences (REP) issued against deemed exports from DTA is treated as a component of foreign exchange outflow and its social worth is estimated at shadow exchange rate upto 1990-91. Cash Compensatory Support(CCS) and Duty Drawback(DDB) are taken as rupee cost incurred for exports from CEPZ. The cost of advertising and publicity given abroad and the cost of foreign travel incurred by CEPZ are found to be very nominal and hence ignored. In order to evaluate the real value and to make them reasonably comparable, the NFE earnings are converted into shadow exchange rate and they are again converted into constant prices. So GNP deflator at constant prices (at 1991-92 prices) is used for estimating the value of NFE earnings.

Expenditure and Income of CEPZ

Costs and incomes in connection with the running of CEPZ are summarised below.

1. Capital outlay: The GOI, through its budgetory provisions, provide for infrastructure facilities of CEPZ. The view of Rajiv Kumar[2] that 20 per cent of the capital expenditure is to be taken as foreign exchange outflow is not applicable to CEPZ, since its capital outlay did not, in any way, involve any foreign exchange outgo.

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2 Rajiv Kumar, op.cit, p.163.

2. Revenue expenditure: Revenue expenditure of CEPZ, provided through budgetory provisions of the GOI, include salaries to Zone administration personnel, expenditure on office equipments, repairs and maintenance, travel expenses etc. The outlay on account of advertisement and publicity shall also be included here against the opinion expressed by Rajiv Kumar[3] as no foreign exchange outflow is involved.

3. Credit subsidy: The CEPZ units receive term loans on two-thirds of their total fixed investments. The one and half per cent interest subsidy on term loans to CEPZ units is a cost to the economy. As the amount involved is very small it is not considered in the present analysis.

4. CST exemption and CCS: They are given to the suppliers of local inputs from DTA. These items also form part of the rupee cost of CEPZ to generate NFE. These incentives are extended over and above the import REP licenses included in foreign exchange outflow.

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3 Ibid.

Transport Subsidy: This facility was given to KFTZ units to offset the additional transport costs incurred by them in routing their consignments through Bombay Port. But this type of subsidy is not applicable to CEPZ as it is not given to any units in this Zone.

Investment Subsidy: Investment subsidy ranging from 10 per cent to 15 per cent on total fixed assets is given by the Government of Kerala and hence this cost is to be deducted from the gross benefits of CEPZ.

Power Subsidy: Small scale units of CEPZ are given power subsidy by the Government of Kerala and this subsidy is another cost to be reckoned while calculating the net benefit accrued to CEPZ. This cost is also not taken into account in the analysis as it is found to be nominal.

Rental Income: The main income of the CEPZ administration is the rent received from the industrial units which have hired the plots, sheds or space in standard design factories. The opportunity cost of these rented areas will be highly relevant in the social benefit-cost analysis. The unofficial or social worth of rented areas is likely to be higher than the rent actually levied and collected. Moreover, the rent is

charged at subsidised rate and it shall be a component of rupee costs of CEPZ.

Net Benefit or Cost of Employment Generation

If the economy is under full employment new job opportunities provide for only transfer of labour and skill from one production unit to another output-generating activity. In the above environment the net social benefit will be the wages received in the new jobs minus the output loss (approximately by the previous wages received) in the economy, which is often found to be nominal. On the other hand, in a labour surplus economy the social opportunity cost of fresh job is found to be zero as unemployed and unskilled labour contribute nothing to the national economy. However, in a labour-surplus situation the economy is to bear some extra costs like higher consumption of new recruits and their families, migration costs and the nominal output contributed by them, while they were not employed. The social opportunity cost of employment of unskilled workers has been estimated for different regions in the country and it ranges from 0.4 to 0.7 of the wage received depending upon cost of migration and cost of living[4].

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4 Ibid, p.165.

Above 70 per cent of the total labour force employed in CEPZ are females. Majority of the labourers are fresh entrants to the field. However, a limited social opportunity cost is involved which may be lower than that estimated by Deepak Lal[5] for unskilled workers. So it may reasonably be assumed that one half of the wage bill on account of additional employment to unskilled and semiskilled labour in CEPZ will be beneficial to the economy and the other half will be the social cost to the economy. For skilled workers it may be assumed that 30 per cent of the wage bill in CEPZ will be beneficial to the economy and the remaining 70 per cent, social cost. As the social worth or opportunity cost of the skilled labour to the economy is the same as the wages earned by them in CEPZ, no net benefit is found to be accrued to the economy by them. However, in the present analysis half of the total labour cost per annum in general is assumed to be social cost.

The social benefits earned by CEPZ in each year is estimated from the gross earnings from which all costs like foreign exchange outflows, Government expenditure and subsidies, social cost of employment and local supplies are deducted. The annual estimates of net benefits are then converted to constant prices (1991-92 level) by using the GNP

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5 Deepak Lal, op.cit.

deflator. These are then discounted using rates of 12 and 18 per cent for assessing the benefit. The sum total of annual discounted net benefit flows at constant prices provides the estimates of NPV generated by CEPZ since its inception in 1986-87 to 1994-95.

Role of External Factors

External influences on account of the operations of CEPZ are not taken into account in this analysis. Additional employment generated outside the Zone, development of backward region, import of new technology, and indepth knowledge in international marketing techniques are certainly important external factors contributing towards the gain of CEPZ. Pollution of the environment, congestion of infrastructure, rise in the general price level in the local market and the imbalance created in the social system are some of the negative external factors influencing the functioning of CEPZ. Notional adjustments to the estimated NPV can be made on the basis of net impact of the positive and negative externalities. Due to paucity of data, such an analysis is not done in this study and that is considered to be a major limitation of this study.

The estimate of NPV can also be made in another way. Here, the NPV is estimated as the NFE earnings which are

necessarily retained in the economy. In other words, NFE earnings are estimated by aggregating the wage bill (W), DTA purchases (DTA), factory rent (RR), charges for various utilities (U), and interest costs (IC) of the various CEPZ units.

Government's Costs and Benefits from CEPZ

An important objective of this analysis is to estimate the costs including financial incentives given by Government and the benefits earned by it by establishing and running CEPZ. The benefits accrued to Government can be quantified in terms of foreign exchange earnings of the Zone. However, the NFE is paid at official rate of exchange to the various industrial units of the Zone and no net benefit is earned by Government as a separate entity. But the net benefit to Government is earned on foreign exchange from the premium prevailing over the official rate of exchange and this is estimated at 25 per cent of the NFE before the liberalisation of the economic policies in July 1991. Rentals collected, service and miscellaneous charges levied and taxes on corporate profits of the units and on personal incomes generated will be net benefits to Government. As the CEPZ units are not able to compete in the international market after paying import duty and customs duty and all the CEPZ units are enjoying tax holidays for a specific period, there

is no rationale for computing the volumes of duty foregone as notional cost to Government. [However, the progressive reduction in import duties since 1991 may be noted.]

Estimation of Tax revenue foregone by Government is found to be difficult on account of the following problems:

1. Financial information of almost all CEPZ units except those set up as public limited company is very closely guarded.

2. The CEPZ units which are found to be subsidiaries do not keep independent books of accounts and so their financial results are consolidated with those of their parent companies located in DTA or abroad.

3. The financial statements published by the limited number of units do not reveal the true and correct picture of the financial situations as many details are found to be suppressed.

4. The volume of exports of the units which have operations in the DTA cannot be ascertained precisely on account of inter-transfer of products or components from one unit to another.

As pointed out by Rajiv Kumar[6] the only possible method to estimate revenue forgone is to assume a profit rate as a fixed percentage of the value of annual exports. Due to the arbitrary nature of this estimate, tax revenue forgone is not included as a component in Government's benefit-cost analysis. As long as a unit of NFE is below the shadow exchange rate, the Government stands to gain from CEPZ's operations. It may also be noted that the importance of shadow exchange rate has been considerably reduced consequent on the liberalised economic policy of the GOI effected in July 1991.

Result of the Analysis

The benefit-cost analysis of CEPZ presented in tables 7.1 to 7.5 is broadly based on the methodology adopted by Rajiv Kumar[7]. However, certain changes in the assumptions and calculations have been independently made by taking into account the characteristic features of CEPZ. For example, cost on account of REP has been ignored completely as the amounts involved are found to be very nominal.

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6 Rajiv Kumar, op.cit. p.172.

7 Ibid p.166

Table 7.1

Social cost incurred by CEPZ During

1986-87 to 1995-96

(Rs. in lakhs)

Year	No.of workers employed	Labour cost	Social opportunity cost (50% of labour cost) C3
1	2	3	4
1986-87	7	0.751	0.375
1987-88	39	4.836	2.418
1988-89	172	21.475	10.738
1989-90	503	69.228	34.614
1990-91	994	144.526	72.108
1991-92	2450	382.526	191.263
1992-93	3063	465.206	232.603
1993-94	4300	632.856	316.428
1994-95	4800	802.748	401.374
1995-96	5750	946.975	473.487

Source: From the records of CEPZ Industries Association.

Table 7.2

Foreign Exchange Outflow of CEPZ During

1986-87 to 1995-96

(Rs. in lakhs)

Year	Import of raw materials a1	Import of capital goods a2	Total imports a1+a2 B1	Dom. capital goods a3	Outflow due to DTA cap. goods a3 x 0.45 B2	Total outflow C1 (B1+B2)
1	2	3	4	5	6	7
1986-87	36.75	-	36.75	2.11	0.95	37.70
1987-88	157.53	-	157.53	1.86	0.84	158.37
1988-89	249.53	374.54	624.08	1.34	0.60	624.68
1989-90	688.59	670.59	1359.18	1.33	0.59	1359.77
1990-91	270.09	255.19	525.28	10.39	4.67	529.95
1991-92	1394.5	1053.48	2447.98	3.97	1.78	2449.76
1992-93	2752.08	1740.37	4492.45	5.11	2.30	4494.75
1993-94	2792.89	3115.28	5908.17	1.15	0.51	5908.68
1994-95	4384.06	609.21	4993.27	*170.87	76.89	5070.16
1995-96	6429.18	844.37	7273.55	*119.04	53.57	7327.12

Note : Capital goods supplied from DTA to CEPZ is assumed to have an import content of 45 percent ofsuch goods.

* Provisional

Source: Office records of CEPZ

Table 7.3

Costs Incurred for CEPZ's Operations (Costs to Government)
During 1986-87 to 1995-96

(Rs.in crores)

Year	Capital Expenditure		Total	20% of total cap. exp. towards other expenses	Revenue exp.	Central sales tax	Rental sub-sidy	Investment subsidy	Total cost to Govt.
	Govt. of Kerala	Govt. of India							
1	2	3	4	5	6	7	8	9	10
1986-87	2.55	10.73	13.28	2.66	0.11	-	0.0053	0.0042	2.78
1987-88	1.00	1.40	2.40	0.48	0.21	-	0.0353	0.0037	0.73
1988-89	-	0.70	0.70	0.14	0.19	0.0027	0.0992	0.0027	0.42
1989-90	-	0.50	0.50	0.10	0.31	0.0073	0.0992	0.0026	0.52
1990-91	-	0.84	0.84	0.17	0.39	0.0112	0.1154	0.0206	0.69
1991-92	-	2.32	2.32	0.46	0.39	0.0039	0.1333	0.0078	0.99
1992-93	-	2.08	2.08	0.42	0.42	0.0123	0.1791	0.0102	1.03
1993-94	-	7.00	7.00	1.40	0.59	0.0362	0.3468	0.0022	2.37
1994-95	-	2.35	2.35	0.47	0.60	2.5626	0.6487	*0.2704	4.55
1995-96	-	3.00	3.00	0.60	0.83	5.3033	0.9234	*0.2985	7.96
Total	3.55	30.92	34.47	6.90	4.04	7.9395	2.5857	0.6239	22.04

Note :1. 20% of the total capital expenditure is assumed to be the quantum of other expenses
2. Central sales tax includes duty drawback and terminal excise duty.
3. Investment subsidy is given by Government of Kerala.
* Provisional

Source: Office records of CEPZ

Table 7.1 reveals that the number of workers and aggregate labour cost of the CEPZ units and CEPZ office increased from 7 and Rs.0.75 lakhs respectively to 5750 and Rs.946.97 lakhs during 1986-87 to 1995-96. It also reveals the social cost incurred by CEPZ during the period 1986-87 to 1995-96. The social opportunity cost is assumed to be one half of the total labour cost for each year. In other words, out of the total income received by the employees of CEPZ half of that amount is lost to the economy consequent on the shift in jobs from elsewhere to CEPZ. This amount is found to be Rs.473.49 lakhs in 1995-96 as revealed by table 7.1.

Table 7.2 shows the foreign exchange outflow of CEPZ during the period 1986-87 to 1995-96. The foreign exchange outflow here consists of imports of raw materials, capital goods and the import content of the capital goods supplied to CEPZ from the DTA. Imports of raw materials has increased from Rs.36.75 lakhs to Rs.6429.18 lakhs during the period. The import of capital goods increased from Rs.374.54 lakhs in 1988-89 to Rs.3115.28 lakhs in 1993-94 but decreased to 844.37 lakhs in 1995-96. However, a steep rise in total imports from Rs.36.75 lakhs to Rs.7273.55 lakhs was recorded during the period 1986-87 to 1995-96. The consumption of domestic capital goods widely varied between Rs.1.15 lakhs in 1993-94 and Rs.170.87 lakhs in 1995-96. It is estimated and assumed that 45 per cent of the DTA supplies of capital goods to CEPZ

possess import content. In other words, these supplies are made of goods imported to DTA earlier. Table 7.2 also reveals that total outflow of foreign exchange remarkably varied between Rs.37.70 lakhs in 1986-87 to Rs.7327.12 lakhs in 1995-96.

Table 7.3 shows the total costs incurred for CEPZ's operations or costs incurred by the Government for the period 1986-87 to 1995-96. Here it is assumed that 20 per cent of the total capital expenditure incurred by the Government will be the volume of other expenses.

The total capital expenditure of Rs.34.47 crores incurred during the period 1986-87 to 1995-96 consisted of Rs.3.55 crores from the Government of Kerala and the balance of Rs.30.92 crores from the GOI. The aggregate revenue expenditure during the period amounted to Rs.4.04 crores and it varied between Rs.0.11 crore and Rs.0.83 crore during 1986-87 to 1995-96. The total central sales tax claims including DDB and terminal excise duty during the period under review was only Rs.7.94 crores. The cumulative investment subsidy was only Rs.0.62 crore during the same period. The aggregate rental subsidy amounted to Rs.2.59 crores showing wide variations at Rs.53,000 in 1986-87 and Rs.0.92 crore in 1995-96. The cumulative cost to Government was Rs.22.04 crores which varied between Rs.0.42 crore in 1988-89 and Rs.7.96 crores in 1995-96.

Table 7.4

Government's Benefit Cost Analysis for the years 1986-87 to 1994-95

(Rs.in crores)

Year	Export	Rent received	Interest received	Gross earnings	Imports	Export benefits	Total cost to Govt.	Net benefit to Government			
								current prices	constant prices (1991-92)	constant prices but at social discount rates	
										12%	18%
1	2	3	4	5(2+3+4)	6	7	8	9	10	11	12
1986-87	0.94	0.02	Nil	0.96	0.37	0.59	2.78	(-)2.19	(-)3.54	(-)3.54	(-)3.54
1987-88	3.92	0.12	Nil	4.04	1.58	2.46	0.73	1.73	2.57	2.30	2.18
1988-89	6.25	0.27	Nil	6.52	6.03	0.49	0.42	0.07	0.10	0.08	0.07
1989-90	11.00	0.15	Nil	11.15	13.60	(-)2.45	0.52	(-)2.97	(-)3.77	(-)2.68	(-)2.30
1990-91	5.46	0.18	Nil	5.64	5.25	0.39	0.69	(-)0.30	(-)0.34	(-)0.22	(-)0.18
1991-92	28.57	0.24	Nil	28.81	24.48	4.33	1.00	3.33	3.33	1.89	1.46
1992-93	62.25	0.69	Nil	62.94	44.08	18.86	1.04	17.82	16.35	8.28	6.06
1993-94	83.81	0.66	Nil	84.47	59.08	25.39	2.37	23.02	19.31	8.74	6.06
1994-95	102.53	1.33	Nil	103.86	49.93	53.93	4.55	49.38	37.32	15.07	9.93
Total	304.73	3.66	Nil	308.39	204.40	103.99	14.10	89.89	71.32	29.91	19.74

Source: Office records of CEPZ.

As GNP deflator for 1995-96 is not available, analysis in tables 7.4 and 7.5 are done only upto 1994-95.

Table 7.4 shows Government's benefit for the period 1986-87 to 1994-95. It shows the net benefits accrued to the Government at current and constant prices(1991-92). Discounted benefits at 12 per cent and 18 per cent are also shown. Instead of imports alone, total outflow of foreign exchange is also taken into account, so that there will be slight reduction in the net benefits accrued to the Government both according to current prices and according to constant prices.

Table 7.4 also reveals that the net benefit received by the Government at current prices varied between (-)Rs.2.97 crores in 1989-90 and Rs.49.38 crores in 1994-95. During the post liberalisation period it has moved from Rs.3.33 crores in 1991-92 to Rs.49.38 crores in 1994-95. The aggregate net benefit accrued to Government at current prices during 1986-87 to 1994-95 was found to be Rs.89.89 crores and hence the average benefit per year during the same period was found to be around Rs.9.98 crores.

Table 7.4. brings out that the net benefits are received by Government at constant price level (1991-92)

oscillated between (-)Rs.3.77 crores and Rs.37.32 crores during the nine year period 1986-87 to 1994-95. The average benefit accrued in a year during the same period is found to be Rs.7.92 crores.

Table 7.4 also reveals that the net benefits are received by Government at constant prices even after discounted at social discount rates of 12 and 18 per cent respectively. The result of the discounted rates are highly positive. The negative benefits received in 1986-87, 1989-90 and 1990-91 are completely wiped out by the increase in positive benefits accrued in the remaining years of the period of the study. The average benefits accrued to Government from CEPZ at constant prices discounted at 12 and 18 per cent respectively during the period are found to be 3.32 and 2.19 respectively. After liberalisation of the economic policies of the country the net benefit of CEPZ at constant prices and at 12 per cent social discount rate has moved up from 1.89 in 1991-92 to 15.07 in 1994-95. The net benefit at 18 per cent discount rate has also increased from 1.46 to 9.93 during the same period.

As pointed out earlier in this chapter, the life of CEPZ is assumed to be 30 years. The average net benefit accrued to Government at current prices during the last five

years of the study from 1990-91 to 1994-95 is taken as an indicator for the benefits which are likely to accrue in future years. As revealed by table 7.4 the average benefit is calculated at Rs.18.65 crores even after setting off the negative benefits during 1990-91. Even if the average benefit accrued to Government is calculated at constant prices(1991-92) it is found to be at Rs.15.19 crores during the same period. In the above circumstances, it can be concluded that the operations of CEPZ in future years will also be beneficial to the economy and Government. So the existence of CEPZ is found to be fully justified.

Table 7.5 reveals the results of benefit-cost analysis of CEPZ for the period 1986-87 to 1994-95. The inflow and outflow of foreign exchange are calculated both at current exchange rate and at shadow exchange rate. Shadow exchange rate is the unofficial exchange rate or the market rate. The market rates and unofficial exchange rates were found to be generally 25 per cent more than that of the official rate of exchange. The net benefits are calculated both at current and at constant prices (1991-92). The net benefits at constant prices are then discounted at 12 per cent and 18 per cent. If the NPV is found to be positive, it is sure that the operations of CEPZ will be beneficial to the economy.

Table 7.5

Results of benefit cost Analysis of CEPZ for the Period 1986-87 to 1994-95

(Rs. in crores)

Year	Exports (d1)	Foreign equity (d2)	Gross receipts (B)	Receipts at shadow exchange rate	Total outflows at current prices C1	Total outflows at shadow exchange rate	Gross benefits	Social opportunity cost at cur.prices C3	Net benefit at current prices	Net benefit at constant prices (1991-92)	Net benefit at constant prices but at social discount rate	
											12%	18%
1	2	3	4(2+3)	5	6	7	8(5-7)	9	10(8-9)	11	12	13
1986-87	0.94	0.60	1.54	1.93	0.37	0.46	1.47	0.00	1.47	2.38	2.38	2.38
1987-88	3.92	1.50	5.42	6.78	1.58	1.98	4.80	0.02	4.78	7.10	6.34	6.02
1988-89	6.25	2.90	9.15	11.44	6.25	7.81	3.63	0.11	3.52	4.83	3.85	3.47
1989-90	11.00	2.40	13.40	16.75	13.60	17.00	(-)0.25	0.34	(-)0.59	(-)0.75	(-)0.53	(-)0.46
1990-91	5.46	2.02	7.48	9.35	5.30	6.63	2.72	0.72	2.00	2.29	1.46	1.18
1991-92	28.57	1.02	29.59	29.59	24.50	24.50	5.09	1.91	3.18	3.18	1.80	1.39
1992-93	62.25	2.56	64.81	64.81	44.95	44.95	19.86	2.33	17.53	16.08	8.15	5.96
1993-94	83.81	0.00	83.81	83.81	59.09	59.09	24.72	3.16	21.56	18.09	8.18	5.68
1994-95	102.53	3.24*	105.77	105.77	50.70	50.70	55.07	4.01	51.06	38.59	15.59	10.27
Total	304.73	16.24	320.97	330.23	206.34	213.12	117.11	12.60	104.51	91.79	47.22	35.89

Note : Inflow and outflow of foreign exchange were calculated at shadow exchange rate of 1.25 only upto 1990-91 due to changes in the economic policies of the Government of India in July 1991. Since that period the official and unofficial exchange rates are found to be more or less the same.

* Provisional

Source: Office records of CEPZ

The NPV calculated as net benefits at constant prices(1991-92) and adjusted at social discount rates at 12% and 18% shows positive results for eight years out of the nine year period of the study. Negative result is received only in 1989-90. The average NPVs at social discount rates of 12% and 18% during the period of study from 1986-87 to 1994-95 are found to be 5.25 and 3.99 respectively. During the post-liberlisation period(1991-92 to 1994-95) NPVs at the same social discount rates, on an average, are found to be 8.43 and 5.82 respectively. So on the basis of the above analysis, it can be concluded that the working of the CEPZ is beneficial to Government and the Indian economy.

The annual net benefit flows for the future years can be assumed to be the same value which is earned on an average for the last five years of CEPZ's operations. The sharp fluctuations can be set off if the average figures of the last five years are taken. The annual net benefit flows of the CEPZ during the five year period, 1990-91 to 1994-95, on an average, both at current and constant prices(1991-92) are found to be Rs.19.06 crores and Rs.15.64 crores respectively as shown by table 7.5. The upward trend of the benefits accrued also indicates that these rates are likely to go up reasonably further. In the above circumstances it can be concluded that the existance of CEPZ is fully justified.

EVALUATION OF INDIAN EPZs AND CONCLUSIONS

The working of Indian EPZs can be evaluated in terms of the achievements they have attained in fulfilling the objectives for which they are established in the country. An attempt in this direction is made in the following paragraphs.

Foreign Exchange Earnings

The expansion of the NFE earnings of the country is one of the major objectives of Indian EPZs. During the ten-year period 1985-86 to 1994-95, the yearly exports of Indian EPZs have increased from Rs.324 crores to Rs.2737 crores. The aggregate exports of Indian EPZs from 1980-81 to 1994-95 amounted to Rs.10253.00 crores(see table 6.13). The aggregate NFE earnings of Indian EPZs increased from Rs.137 crores in 1985-86 to Rs.3857 crores in 1994-95 (see table 6.14). If the EPZs were not established an aggregate NFE earnings of Rs. 3857 crores and an aggregate exports of Rs 10,253 crores would have been lost to the country during the period 1985-86 to 1994-95.

The percentage of Indian EPZs' exports to the total exports of the country has moved from 0.66 in 1980-81 to 3.32 in 1994-95 (see table 6.13). As against the envisaged level of 8 to 10 per cent of the total exports of the country, the Indian EPZs were able to achieve only just below half of the

level expected to be achieved. So, on the basis of the degree of achievements made on account of exports the India EPZs are found to be poor performers.

Foreign Private Investments

The aggregate foreign investment inflows into the country between the years 1991 and 1995 amounted to Rs.12175.50 crores. The aggregate foreign investments gone into the Indian EPZs, from their inception to 1994-95 was only Rs.88 crores(see table 6.18). From this it is roughly estimated that Indian EPZs were able to attract only 0.73 per cent of the total foreign investments made in the country. The relationship between aggregate foreign investment inflows to the country and foreign investments made in Indian EPZs is found to be insignificant. So, in fulfilling the objective of attracting foreign investments the performances of Indian EPZs are not at all satisfactory.

Generation of Employment Opportunities

The aggregate job opportunities created by Indian EPZs increased from 16180 in 1985-86 to 53820 in 1994-95. The job opportunities generated in the industrial units of DTA supplying raw materials, semi-finished goods and components and other service sectors are not taken into consideration,

while calculating the employment generated. So if the EPZs were not there so much of skilled, semi-skilled and unskilled persons would not have received proper employment opportunities. The percentages of Indian EPZ employees to that of organised sector and public sector are found to be only 0.20 and 0.28 respectively during 1995(see table 6.19). Even though these are 45 per cent and 75 per cent respectively higher than what they were in 1990, the contribution of EPZs in creating employment opportunities is not that significant.

The development of backward region, infusion of new technology in production units, in-depth knowledge of international marketing techniques and linking of global market with domestic economy were some of the other objectives to be achieved by Indian EPZs. The study shows that the Indian EPZs have attained only limited success in achieving these objectives.

Genral Conclusions

The setting up of EPZs may be justified on account of the following factors:

1. They have contributed an additional aggregate export earnings of Rs.10253 crores during the period 1987-88 to

1994-95. As observed by R.B.Ramaiah[8], president of the Confederation of Export Units, there is tremendous potential for development of EOU/EPZ sector which at present contributes nearly 18 per cent of the exports (of the country per year) estimated at Rs.10,000 crores.

2. They are providing additional job opportunities to 53820 persons as on 31.3.95.

3. They were instrumental for foreign and NRI capital investments to the tune of Rs.183 crores in seven public sector Zones put together as on 31.3.95.

Besides the above they were instrumental for:

1. the transplantation of the state of the art of technology in the production and processing of the products through technical collaborations,

2. linking of the production units with international market through buy-back arrangements and other marketing tie-ups with their foreign collaborators,

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[8] The Hindu dated 8.8.1996.

3. for infusing confidence amongst the Indian entrepreneurs for entering in the highly risky, competitive and unpredictable international markets,

4. for assuring quality goods and after sales service for Indian products in world markets and

5. for creating an environment of better understanding through exchange of trade missions.

Evaluation of CEPZ and Conclusions

The aggregate contribution of CEPZ to the total exports of the country from its inception in 1986-87 to 1995-96 was found to be Rs.425 crores. As the exports had steadily grown from Rs.0.94 crores in 1986-87 to Rs.120.31 crores in 1995-96, the Zone is found to be moving on healthy grounds. The net foreign exchange earning of CEPZ has increased considerably from Rs.0.57 crores in 1986-87 to Rs.47.58 in 1994-95. The aggregate foreign exchange earnings of CEPZ were Rs.247 crores between the period 1986-87 to 1995-96 (also see table 4.1). If CEPZ was not there the country would have missed the opportunity for exports and for earning valuable foreign exchange to the tune of Rs.425 crores. Even though the amount is very small compared with

the total foreign exchange earnings of the country from trade, taking into account the size of the Zone, it cannot be considered as a mean achievement.

From 1986-87 to 1995-96 CEPZ was able to attract foreign investments to the tune of Rs.19 crores and NRI investments of another Rs. 19 crores. This amount is too small when compared with the total foreign investment that has flowed to the country during the period.

The various production units housed in CEPZ had generated additional direct employment opportunities to 5750 persons till March 1996. The indirect job opportunities created in the auxiliary units of DTA is estimated to be 3000. In attaining the objective of generation of additional employment opportunities the working of CEPZ is found to be reasonably successful.

The high degree of infusion of latest technology in the production processes with foreign collaboration particularly from the U.S.A., the U.K, and Hong Kong was considered as commendable achievements in respect of CEPZ. CEPZ was also found to be successful , to a great extent, in linking the DTA with international markets by drawing a sizable portion of raw materials and components from the local economy for production and processing in its units.

The social benefit cost analysis has also revealed that the operations of CEPZ is beneficial to the economy and the Government of India. The aggregate net benefit accrued to Government at current prices from 1986-87 to 1994-95 was found to be Rs 89.89 crores and hence the average benefit per year during the same period works out to Rs.9.98 crores. The average benefits accrued to Government from CEPZ at constant prices, discounted at 12 % and 18 % respectively during the above period are found to be 3.32 and 2.19 respectively (see table 7.4). The average net benefit flow of the CEPZ during the five-year period between 1990-91 to 1994-95, on an average, both at current and at constant prices are found to be Rs.19.06 crores and Rs.15.65 crores (see table 7.5). The study also brings out that the positive benefits are likely to arise from the operations of CEPZ to the economy and Government in future also. So the general performances of CEPZ is found to be encouraging as it has opened a new channel for earning valuable foreign exchange for the country.

Recommendations

1. The weaknesses of Indian EPZs in interneational marketing shall be eliminated at any cost. For augmenting the international marketing relations a revised market strategy is to be evolved and implemented. While the "hardware" on Indian exports are internationally

acceptable the "software" are not so. India's attributes in marketing, packaging, finishing, shipping and customer services are found to be far from the satisfactory level.[9]

2. The diplomatic missions and Embassies of our country functioning in foreign countries are to be given a foreign trade orientation, in addition to their conventional functions. The services of a number of talented top officials of these missions are to be made use of as "Indian Special Ambassadors" for the promotion of our trade with other countries.

3. In order to attract foreign investments on a large scale the foreign investors may be given access to domestic market on a limited scale, but in a phased manner. A large volume of foreign capital, otherwise going to China, Taiwan, Vietnam, Indonesia, Philippines and South Korea can be attracted to India if such a liberal policy is evolved besides making the Indian industry competitive.

4. The value addition criteria, while processing the application of a unit for starting the business, are to be liberalised further. Any large scale unit providing

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9 C. Sarat Chandran, "India's Global Marketing Profile - A View from Outside", The Hindu, dt.27-3-1996.

for net foreign exchange earnings of a reasonable volume per year may be permitted.

5. Bulk-breaking, repacking and labelling activities may also be permitted in Indian EPZs provided these processes are providing for reasonable value addition. A number of MNCs can be attracted if these facilities are granted. This will provide for substantial inflow of foreign capital and creation of job opportunities.

6. An independent body called Export Processing Zone Authority (EPZA)[10] may be created for supervising and coordinating the establishment, management and other allied policies of EPZs in India. It shall be a statutory body under the chairmanship of the Minister of Commerce, GOI and it shall consist of the top brass of the Ministries concerned, RBI, CBDT and DCs. It shall have a separate research and monitoring wing which shall study the problems of the units and shall issue directions for corrective measures. The officials of this wing is to be stationed in important international marketing centres for collecting, analysing and reporting the latest trends in international trade through commercial intelligence. It is high time that a

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10 Rajiv Kumar: op.cit., p.186.

"Corporate Image" is built up for Indian EPZs and better each EPZ be named as an EPZ Corporation and let these be attached to one National EPZ Corporation of India, at the top of this corporate organisation structure.[11] The authority must also ensure transparency in the working of the units in EPZs.

7. New EPZs under public/private/joint sector may be established near good port towns of the country. For example, Surat in Gujarat, Paradweep in Orissa, Mangalore in Karnataka, Tuticorin in Tamil Nadu, Vizhinjam and Calicut in Kerala can be identified as potential regions for setting up new EPZs.

8. Infrastructure facilities like developed plots, standard design factories and sheds, roads, drainage, water supply, electricity, pollution control arrangements, warehouses, banks, post offices, telephone exchanges, fully staffed offices, medical, educational, recreational facilities etc. shall be made available before the approval for setting up the industrial unit is granted. Otherwise, it will create a bad and wrong impression amongst the potential foreign entrepreneurs.

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11 Bombay Chamber of Commerce and Industry, How India can get more out of EPZs, 1990, p.10.

9. The concept of 'Single-window' clearance is to be strengthened further. A situation is to be created under which the entrepreneurs of the unit need approach only the DC for all purposes including imports, tax concessions, customs clearance and other facilities.

10. The production units of EPZs may be permitted to take their machineries/parts/components for repair/service outside the Zone by relaxing the existing stringent customs formalities.

11. All DTA purchases by EPZ units may be exempted from central excise duty in order to make the product highly competitive in the international market.

12. The DCs may convene periodical meetings with the EPZ units for chalking out necessary steps to cope with the international marketing problems. The production units may be asked to maintain proper and classified records of all transactions in a scientific and systematic manner.

An improved international marketing strategy will enable Indian EPZs to achieve better performance in the economy and global markets. This study, to a large extent, has made it clear that the Indian EPZs are technical feasible, financially viable and socially beneficial. As pointed out by

the Federation of Indian Chamber of Commerce and Industry[12] the country can earn one per cent share in the global trade and achieve trade surplus by 2002, if the Ninth Plan (1997-2002) aims at an export growth of 25 per cent per annum and contains import growth to 20 per cent. So it is upto the GOI to take further liberal steps for infusing the Indian EPZs new confidence for enabling them to compete in the highly volatile international market.

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[12] The Hindu, op.cit.

LIST OF TABLES

Table No.	Title	Page No.
3.1	Details of approvals granted in KFTZ and SEEPZ	52
3.2	List of select commodities with more than 20 per cent gross value added to gross output for 1984-85	55
3.3	Select list of commodities with more than 30 per cent gross value added to gross output for 1984-85.	56
3.4	Compound percentage of growth rates of exports and employment in KFTZ and SEEPZ.	60
3.5	EPZ exports as percentage of total exports in select Asian countries	61
3.6	Employment in select Asian EPZs in 1982	62
3.7	Destination-wise exports of KFTZ	63
3.8	Destination-wise exports of SEEPZ	64
3.9	Export performance of EPZs in India during 1987-88 to 1994-95	67
3.10	Number of units in operation and number of sick units in Indian EPZs during 1993-94	68
3.11	Export performance of Indian EPZs	70
4.1	Export performance of CEPZ from 1986-87 to 1995-96	80
4.2	Details of capital expenditure incurred by Governments of India and Kerala as on 31st March 1996	82
4.3	Details of exports for Rupee Payment Area and General Currency Area during the period 1986-87 to 1995-96	83
4.4	Details regarding the CEPZ units as on 31st March 1996.	85
4.5	Industry wise details of functional units in CEPZ as on 31st March 1994.	86

Table No.	Title	Page No.
4.6	Industry wise export performance of CEPZ units during 1994-95 and 1995-96.	88
4.7	Details of exporting units of CEPZ as on 31st March 1994.	89
4.8	Export performance of CEPZ units during 1994-95 and 1995-96	91-93
4.9	Overall performance of CEPZ units on their value addition during the year ending 31.3.93 and 31.3.94	95
4.10	Details of the units which did not commence production and the area of land allotted and occupied by them as on 31.3.1994.	97
4.11	Details of the units which commenced production but in the process of winding up business as on 31.3.1994	98
4.12	Exports and net foreign exchange earnings of CEPZ units 1986-87 to 1993-94	99
4.13	Sector-wise yearly exports from CEPZ units during the period from 1986-87 to 1993-94 and the percentage of growth in 1993-94 over 1992-93	101
4.14	Aggregate exports and imports including capital goods and raw materials in terms of Rupees and US Dollars in CEPZ for the period from 1986-87 to 31st August, 1994	102
4.15	Export target and actual exports of CEPZ to GCA and RPA during the period 1986-87 to 1995-96	104
4.16	Performance appraisal of CEPZ units manufacturing plastics and allied products during the two years ending 31.3.1993 and 31.3.1994.	106
4.17	Performance appraisal of CEPZ units engaged in the processing of rubber products during the two years ending 31.3.1993 and 31.3.1994	107
4.18	Performance appraisal of CEPZ units manufacturing garments during the two years ending 31.3.1993 and 31.3.1994	108

Table No.	Title	Page No.
4.19	Performance appraisal of electronics units in CEPZ during the two years ending 31.3.1993 and 31.3.1994	109
4.20	Performance appraisal of gems and jewellery units in CEPZ during the two years ending 31.3.1993 and 31.3.1994	112
4.21	Performance appraisal of CEPZ units producing essential oils and spices during the two years ending 31.3.1993 and 31.3.1994	113
4.22	Performance appraisal of unclassified units in CEPZ during the two years ending 31.3.1993 and 31.3.1994	114
4.23	Details of sector-wise and source-wise investments made by CEPZ units as on 31.3.1994	116
4.24	Details of industries and their foreign collaborations as on 31.3.1994	117
4.25	Details of interest of non resident Indians in CEPZ units as on 31.3.1994	118
4.26	Details of CEPZ units, their products and their foreign collaboration as on 31.3.1994.	119
4.27	Details of capital expenditure, maintenance, expenditure, rent receivable, actual rent received and as percentage of return on capital investments during 1986-87 to 1993-94	120
4.28	Some physical details of selected CEPZ units as in october 1993.	122
4.29	Details of capital investments in selected CEPZ units at the end of october 1993	124-125
4.30	Composition of labour force and labour cost	128-129
4.31	Average wages rates of CEPZ units during 1986-87 to 1995-96	130
5.1	Export target and actual performance of the Export Processing Zones in 1994-95	132

Table No.	Title	Page No.
5.2	Some important aspects of similarities and differences among the seven Indian Export Processing Zones as on 31.3.1994.	134
5.3	Details of some important aspects of CEPZ and MEPZ as in 1993-94	136
5.4	Performance of Garment units in MEPZ	140
5.5	Performance of Garment units in CEPZ	141
5.6	Performance of units manufacturing rubber products in MEPZ	142
5.7	Performance of units manufacturing rubber products in CEPZ	143
5.8	Performance of gems and jewellery units in MEPZ	144
5.9	Performance of Computer and electronics units in MEPZ	144
5.10	Performance of computer and electronics units in CEPZ	145
5.11	Composition of the percentage contribution of major industrial units in CEPZ and MEPZ from their inception to 1992-93	146
5.12	Investments made in NEPZ units (cumulative) during 1986-87 to 1994-95	148
5.13	Government investments (year-wise) in NEPZ	150
5.14	Details of imports (year-wise) of NEPZ	151
5.15	Details of exports (year-wise) from NEPZ during 1986-87 to 1994-95	152
5.16	Size of exports and imports, the percentage of imports to exports and exports to imports in selected EPZs in India during 1993-94	153
5.17	Ownership structure of processing units in CEPZ and KFTZ during 1993-94	156

Table No.	Title	Page No.
5.18	NRI/foreign investments in select EPZs in 1993-94	157
5.19	Sectoral investments in CEPZ and KFTZ during 1993-94	157
5.20	Origin of foreign investment in CEPZ and KFTZ during 1993-94	158
5.21	Details of subcontracts in CEPZ and KFTZ in 1993-94	159
5.22	Pattern of investment in joint ventures of selected KFTZ units as on 31.3.1994	160
5.23	SEEPZ units which have completed five years of operation and achieved value addition prescribed as on 31.3.1993.	163
5.24	SEEPZ units which have completed five years of operations and achieved value addition with 10% shortfall of the prescribed limit as on 31.3.1993	164
5.25	SEEPZ units which have completed less than five years of operations and achieved value addition with a 10% shortfall of the prescribed limit as on 31.3.1993	165
5.26	SEEPZ units which have completed less than five years of operations and achieved value addition in 1992-93	166
5.27	SEEPZ units which completed less than five years of operations and have more than 10% shortfall of the prescribed value addition on 31.3.1993	167
5.28	Units which have completed less than five years of operations but achieved only negative value addition as on 31.3.1993	168
5.29	Units which have completed five years of operations and which have sustained more than 10% shortfall in the prescribed value addition as on 31.3.1993	169-170

Table No.	Title	Page No.
5.30	Export performance appraisal of gems and jewellery units of SEEPZ which have completed five years of operations as on 31.3.1993	172
5.31	Export performance appraisal of gems and jewellery units of CEPZ which have completed three years of operations as on 31.3.1993	173
5.32	Export performance of gems and jewellery units of SEEPZ which have completed less than three years of operation as on 31.3.1993	174
6.1	Achievements of the Indian EPZ in terms of their main objectives	177
6.2	Year-wise exports, imports and net foreign exchange earnings of KFTZ and SEEPZ as on 1.4.1995	179-180
6.3	Exports, imports and net foreign exchange earnings of five EPZs in India as on 1.4.1995	182
6.4	Details of investments made as on 31.3. 1990	184
6.5	Number of job opportunities generated by various Indian Export processing zones during 1985-86 to 1994-95	185
6.6	Physical features of Indian EPZs as on 1.4.1995	186
6.7	Details of units approved, established, cancelled closed down and working as on 31.3.1988	189
6.8	Percentage of mortality rate of the units in KFTZ and SEEPZ between March 1982 and March 1988	190
6.9	Government expenditure and return on investments of the EPZs as on 31.3.1990	193
6.10	Details of lease rent due, recoveries made and date of oldest outstanding rent of each zone as on 31.3.1988	194

Table No.	Title	Page No.
6.11	Targets and export performance of the Indian EPZs during 1985-86 to 1989-90	196
6.12	Percentage of import content (cost) in the commodity groups of EPZ during 1989-90	198
6.13	Contribution of EPZ exports to India's total exports during the period from 1980-81 to 1994-95	205
6.14	Cumulative performance and some select details of Indian Export processing zones from1985-86 to 1994-95	208
6.15	Investments in Indian EPZs as on 31.3.1995	211
6.16	Sector-wise (Industry group-wise) contribution to Indian EPZ exports from 1985-86 to 1994-95	213
6.17	Share of GCA and RPA countries in the total exports from Indian EPZs during the period 1985-86 to 1994-95	215
6.18	Foreign investment inflows to India and foreign investments in Indian EPZs during 1991 to 1995	217
6.19	Details of aggregate employment in Indian organised sector, Public Sector and Indian EPZs in 1990, 1993 and 1995	219
7.1	Social cost incurred by CEPZ during 1986-87 to 1995-96	243
7.2	Foreign exchange outflow of CEPZ during 1986-87 to 1995-96	244
7.3	Cost incurred for CEPZ's operations (costs to Government) during 1986-87 to 1995-96	245
7.4	Government's benefit cost analysis for the years 1986-87 to 1994-95	248
7.5	Results of benefit-cost analysis of CEPZ for the period 1986-87 to 1994-95	252

LIST OF FIGURES/CHARTS

No.	Title	Page No.
2.1	Migration of MNC manufacturers from EPZs	32
3.1	The administrative structure of control by Government of India on each EPZ	59
4.1	Organisation chart of CEPZ	79
5.1	Organisation chart of KFTZ	155

APPENDICES

No.	Title	Page No.
3.1	Details of Important Free Trade/Export processing Zones	A1
4.1	Units under implementation as on 1.1.1996 in Cochin Export Processing Zone	A25
4.2	Specimen Questionnaire	A26
4.3	Specimen form of legal agreement for Export Oriented Units and units in Export processing Zones	A30
4.4	Procedural formalities for setting up units in CEPZ	A37
4.5	Statutory requirements to obtain certain facilities and services	A44
4.6	Export-import clearance formalities	A53
4.7	Labour enactments applicable to CEPZ units	A57
4.8	Order issued by Government of Kerala on investment subsidy to new industrial units	A59
4.9	Demands of the Federation of Indian EPZ's Industries Association	A61

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