CHAPTER I

INTRODUCTION AND DESIGN OF STUDY

1.1. INTRODUCTION

Before 1947 when India was a colony of the British, the pattern of her foreign trade was typically colonial. India was a supplier of foodstuff and raw materials to industrialized nations particularly England an importer of manufactured goods. This dependence on foreign countries for manufacture did not permit industrialization at home, rather as a result of the competition from British manufacturers; the indigenous handicrafts suffered a severe blow.

With the dawn of independence, the colonial pattern of trade had to be changed to suit the needs of a developing economy. An economy which decides to embark on a program of development is required to extend its productive capacity at a fast rate.

During the Second Plan period, it was felt that export earnings could not be significantly increased unless industrialization gathered momentum. While every effort has to be made to promote exports of new items and to develop and diversify the markets for country’s major export. It has to be recognized that it is only after industrialization has proceeded, that increased production at home was reflected in large export earning.

1.2. EXPORT PROMOTION POLICIES

The increasing trade deficit during the Second Five Year Plan pointed the need to promote export and since the middle of Second Plan period, a series of measures had been initiated with the object of stepping up exports. These included organizational changes, increased facilities and incentives and diversification of trade. Export promotion received considerable attention in India only since the Third Five
Year Plan. The rationale, efficacy and adequacy of different export promotion measures and their implementation have been subjected to several criticisms. A number of committees and particularly, Committee on Export Promotion Schemes have examined trade policies, procedures, promotional schemes etc., and in light of their recommendations efforts have been made to improve the system. A number of measures have been taken to promote exports. These include liberalization of industrial import policies to encourage production of export goods, development of export processing zones (EPZ), promotion of hundred percent export oriented units (EOU), rationalization and simplification schemes of export assistance and incentives etc. The Economic policy of 2002-07 has laid great importance on Special Economic Zones (SEZs) which is a new incarnation of Export Promotion Zones and Export-oriented Units. Reforms are sought to improve export promotion in the form withdrawal of Annual Advance Licence, Export promotion of Capital Goods etc, certainly make export promotion more viable in the up-liftment of economy.

1.3 EMERGING GLOBAL SCENARIO

The developing countries, whose share in international business to-day are very low. This is expected to play a vital role in future. The GDP and exports of developing countries are projected to grow much faster than that of the developed countries. According to World Bank Staff Report, during 1995-2004 the real GDP of the world will grow at an average annual rate of 3.3 percent which will be composed of an average annual growth of 2.8 percent for high income economies and 4.9 percent for developing economies. The developing countries’ share of the world output is estimated to increase from 21 percent in 1994 to 27 percent in 2010. Developing countries’ share of the world output growth during 1980 was about 22 percent. This is estimated to rise to 38 percent during 1995-2010.
The new foreign trade policy takes an integrated view of the overall development of Indian foreign trade and essentially provides a roadway for the development of the sector. The major objective is to double India’s share of global merchandise trade. As a part of the export promotion drive, government has, from time to time, introduced several schemes to promote units primarily devoted to exports. These include Export processing Zones (EPZs), hundred percent Export-Oriented Industrial Units (EOUs), and different categories of Technology Parks (TPs).

1.4. HISTORY OF SPECIAL ECONOMIC ZONES

The history of Special Economic Zones started with Spain adopting this model way back in 1929 to promote exports. King Alfonso granted certain commercial privileges to the City of Cadiz. The free zone consortium of Cadiz was founded in 1929. A free trade zone was set up in Barcelona in Spain before the First World War, but due to civil war it did not take off until after the Second World War. The first export processing zone of modern era was set up 1959 at Shannon in Ireland in 1962. The concept was adopted by Puerto Rico with the establishment of an EPZ in the island. The concept was soon spread to Asia. The first SEZ established in China at Shenzhen in 1980. China has even declared the entire province called Hainan to be a SEZ.

1.5. SEZ - A GLOBAL SCENARIO

**China:** China is the largest and richest country having 800 SEZs spreading across North-south and East-West. The earliest and most famous Special Economic Zones were founded by the Government of People's Republic of China under Deng Xiaoping in 1980s. By using SEZs, China has generated large number of employment

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opportunities and increased significant exports to boost up their economic development. China is attracting around 45 billion dollars as FDI.

**Philippines:** Philippines economic zones (ecozones) are collection of industries, brought together geographically for the purpose of promoting economic development. There are 41 private-owned economic zones and 4 Government owned economic zones in Philippine.

**Poland:** The SEZs established on the following four principles in Poland,

1. Construction relies on attracting and utilizing foreign capital.
2. Economic firms are Poland foreign joint ventures and partnerships as well as wholly owned foreign enterprise.
3. Products are primarily export-oriented.
4. Economic activities are driven by market force.

**Russia:** Russia's SEZs are concentrated mainly in innovational zones and tourist zones. Russia to some extent used SEZs to increase economic potentials and growth of the economy.

**Pakistan:** Pakistan has established several SEZ to achieve significant exports and economic development. Pakistan established Haier Rubia economic zone on the outskirts of Lahore. Other zones include the China Pakistan economic zone open only to Chinese investors and also the future Crown Jewel of Pakistan-Gwadar. Quatar has proposed to invest 1 billion dollars in Sialkot-Lahore motorway SEZ.

Export Processing Zones can be defined as Industrial Zones with special zones incentives, which are being setup to attract foreign investors. Export Processing Zones can be defined as delineated industrial estate, which constitutes a free trade enclave in
the customs and trade regime of the country. In this regime, foreign manufacturing firms which produce mainly for the export, benefit from certain tax and financial incentives. A Special Economic Zone may be setup in the Public, Private, joint sector or by State Government as notified by the Ministry of Commerce and Industry. The existing Export Processing Zones may also be converted into Special Economic Zone by the Ministry of Commerce and Industry through issue of a notification. SEZ units are established for manufacture of goods and rendering of services, production, processing assembling, trading, repair, remaking, reconditioning, re-engineering including making of gold, silver, platinum jewellery and articles. Units in Special Economic Zones are permitted to export goods and services including agro-products, partly processed jewellery, sub-assemblies and component including by-products, rejects, waste scrap arising out of the production process. The main objectives of an EPZ are:

- To earn foreign exchange.
- To generate employment opportunities.
- To facilitate transfer of technology by foreign investment and other means.
- To contribute to the overall development of the economy.

1.6. INTERNATIONAL INSTITUTIONS AND SPECIAL ECONOMIC ZONES

Several international institutions such as World Bank, United Nations Industrial Development Organization (UNIDO) and United Nation Conference on Trade and Development (UNCTAD) have played a key role in setting up SEZs. As per the report of International Confederation of Free Trade Unions (ICFTU): EPZs were seen by the international financial institutions as one of the essential ingredients of the opening up of the Third World economies. These Zones have been often
created in response to plans drawn by the International Monetary Fund (IMF) or the World Bank. UNIDO utilized expertise from the Shannon Zone to create the first annual on the creation of EPZs. UNIDO was also the architect in the creation of World Export Processing Zone Association (WEPZA). UNCTAD played a key role in legitimizing the idea of EPZ through basic studies on the cost, benefit, advantage and other logistic support services of the Zones.

1.7. SPECIAL ECONOMIC ZONES - INDIAN SCENARIO

Export Processing Zones or Special Economic Zones are industrial zones established with the objective of attracting investment to the country, particularly foreign investment. This is supposed to create jobs, raise the living standards of the people, and transfer improved technology to the country and help in economic development. To attract investment, the Central Government has given several incentives to the investors; like tax holiday for up to 10 years, duty free imports and exports, infrastructure, strategic locations and market access. The other objectives being:

- To derive adequate amount of foreign exchange out of export of products
- To give a boost to the process of creating infrastructure and creating new industrial enterprise with the help of Foreign Direct Investment.
- To enhance competitive ability of the products manufactured meant for export markets.
- The spurt of new economic activities would create more job opportunities.
The Special Economic Zones (SEZ) Policy was announced in April 2000 taking into account the above objectives and to attract largest foreign investment. The Special Economic Zones Act, 2005, an Act of Parliament received the assent of the President on the 23rd June, 2005 to provide for the establishment, development and management of the Special Economic Zones for the promotion of exports and for matters connected therewith or incidental thereto. The Act defined a special economic zone as an industrial zone set up with special incentives, to attract foreign investors, in which imported materials undergo some degree of processing for value addition before being exported again. The SEZ Act specifies the functions of SEZ and the guiding factors are as follows:

- Generation of additional economic activity
- Promotion of export of goods and services
- Promotion of investment from domestic and foreign sources
- Creation of employment opportunities
- Development of infrastructural facilities and
- Maintenance of sovereignty and integrity of India, security of state and friendly relations with foreign states.

The Special Economic Zone Authority (SEZA) created by the SEZ Act shall take measures for the development, operation and management of SEZ. Without prejudice to the generality of the provisions, SEZ provide for the following:

- The development of infrastructure in the SEZ
- Promoting export from the SEZ
- Reviewing the functioning and performance of SEZ
In line with the objectives of export promotion, the SEZ Act provides for concessions and duty drawbacks for promoting export.

- Exemption from any duty of customs, under Customs Act, 1962, Custom Tariff Act, 1975, Central Excise Act, 1944, Central Excise Tariff Act, 1985 on goods imported into or services provided in a SEZ or a unit in it.
- Duty drawback or such other benefits as may be admissible from time to time.
- Exemption from Service Tax
- Exemption from Securities Transaction Act
- Exemption from the levy of taxes on the sale or purchase of goods under the Central Sales Tax Act, 1956.
- 10 Year Tax Holiday in a block of first 20 years.
- Exemptions from VAT, Import Duty and other taxes.
- 100% FDI allowed through automatic route for all manufacturing activities.
- Other incentives such as relaxation on external commercial borrowing.
- Reduced peak corporate tax rates applicable.

The SEZ Rules was promulgated in 2006, by a notification dated 10th February 2006 for monitoring the functioning of SEZ and units considering the powers conferred by the SEZ Act, 2005.

The SEZ Rules provide for procedure for establishment of Special Economic Zone, terms and conditions subject to which entrepreneur and developer shall be entitled to exemptions, drawbacks and concessions. SEZ Rules also provide for
reports to be submitted for SEZ developer/Co-developer to be furnished to the Development Commissioner on the performance.

1.8. RECENT TRENDS IN SEZ

The Government has so far given approval for setting up of 439 SEZ out of which 201 have been notified. Rs. 67,347 crores have been invested in these notified SEZ. Direct employment to 97,478 persons has been generated in the new SEZ which is in addition to the employment provided by the Seven Central Government established SEZs. Export earned by 42 functioning SEZs amounted to 10 billion dollars during the first 9 months of 2007-08, compared to the first year result of Rs.34, 700 crores. These SEZs would clock 100% growth to generate export worth Rs.67, 300 crores in 2007-08.

There are Seven Export Processing Zones in India to boost the exports of goods so as to enhance foreign exchange earnings for the Country. They are:

- Kandla Free Trade Zone
- Falta Export Processing Zone
- Santa Cruz Electronics Export Processing Zone
- Visakhapatnam Export Processing Zone.
- Madras Export Processing Zone.
- Cochin Export Processing Zone.
- Noida Export Processing Zone.

1.9. STATEMENT OF THE PROBLEM

Countries cannot remain isolated from the rest of the world economically, politically and socially. The establishment of Special Economic Zone in developing countries like India is construed as a step forward in the right direction. These zones
Export plays a vital and crucial role in developing economy. They are given a high priority in the foreign trade policy of economy. The Indian economy also attaches great importance to export promotion. Export being a part of international trade, is no exception. The acceleration in economic growth witnessed in the eighties, has also associated with macro economic imbalances and persistence of structural rigidities. The thirst of the new economic policy is towards creating a competitive environment as means of improving productively and efficiency of the system. Trade
policy reforms in the recent past, with the focus on liberalization, openness, transparency and globalization have provided an export friendly environment. Special Economic Zones (SEZ) are industrial estates which form enclaves from the national customs territory of a country and are usually situated near seaports or airports. The entire production of such a zone is normally intended for exports. Such zones are provided with well developed infrastructural facilities. Industrial plots/sheds are normally made available at concessional rates. Units in these Zones are allowed foreign equity even up to 100 percent. SEZ units can import capital goods, raw materials etc. for export production without payment of duty. Domestically procured items are also eligible for duty exemption. SEZ are contributing to the development and growth of export trade and given priority in any developmental activity. The demanding and growing global need it becomes inevitable that export trade had to be prioritized. The export trade is governed by various legislations and rules. Some of the legislative measures are; Export (Quality Control And Inspection) Act, 1963, Foreign Contribution (Regulation) Act, 1976, Foreign Trade (Development & Regulation) Act, 1992, Carriers Act, 1865 , Central Excise Act, 1944, Conservation of Foreign Exchange & Prevention of Smuggling Activities Act, 1974 , Customs Act, 1962, Export (Quality Control And Inspection) Act, 1963, Foreign Contribution (Regulation) Act, 1976, Foreign Exchange Management Act, 1999. To administer various Acts, rules are framed and administrative authorities are appointed. The study on Special Economic Zone assumes greater importance especially in the context, where the economy is facing acute shortage of foreign exchange. The present study has made an attempt to study the export performance of MEPZ - SEZ and the units functioning at MEPZ-SEZ Chennai in Tamilnadu State.
1.10. OBJECTIVES OF THE STUDY

1. To study the contribution of Special Economic Zones to national economy.

2. To study the employment generated by Special Economic Zones and the pattern of exports from various Zones.

3. To examine the various tax incentives available to SEZ for promotion of exports and the privileges and benefits extended by the Government to these zones.

4. To study the adequacy of legislative provisions governing the EPZ/SPZ.

5. To consider to what extent the Special Economic Zone Act, 2005 and Special Economic Zone Rules, 2006 govern the zones.

6. To review the performance of MEPZ –SEZ Chennai and the units in MEPZ-SEZ, Chennai

7. To bring to light the difficulties in administrative, operational and marketing faced by the zones and offer concrete suggestions for the betterment of SEZs.

1.11. IMPORTANCE OF THE STUDY

India over the past decade has progressively opened up its economy to effectively face new challenges and opportunities of the 21st Century. To compete in the global market, the government of India (GoI) has liberalized export policies and licensing of technology and implemented tax reforms providing various incentives. Special Economic Zones (SEZs) are geographical regions that have economic laws different from a country's typical economic laws. The goal is usually an increase in foreign direct investment (FDI) in the country. Traditionally SEZs are created as open markets within an economy that is dominated by distortionary trade, macro and exchange regulation and other regulatory governmental controls. SEZs are believed to create a conducive environment to promote investment and export. And hence, many
developing countries are developing SEZs with the expectation that they will provide as the engines of growth for their economies to achieve industrialization. The Government of India announced the introduction of SEZs in its Export-Import Policy of March 2000 to achieve its three-fold objectives of attracting FDI, increasing exports and accelerating the country's economic growth. MEPZ Special Economic Zone was established in 1984 with the objective of promoting foreign direct investment, enhancing foreign exchange earnings, and creating greater employment opportunities. The Zone was converted into a Special Economic Zone on 1.1.2003. The added objective of the SEZ is to facilitate exports through reduction in transaction costs. To this effect, the Ministry of Commerce and Industries has introduced special features that include Offshore Banking Units and Container Freight Stations to be set up within the Zone, besides liberalized Customs procedures. The present study makes an attempt on analyzing the performance of MEPZ-SEZ and the extent of contribution made in export promotion and governmental policies for export promotion.

1.12. SCOPE OF THE STUDY

1. The present study has been designed to know the areas of performance of various functioning units at MEPZ-SEZ, Chennai and to analyze the extent of contribution made in export promotion and governmental policies for export promotion.

2. The reference period of the study was for eight years from 2001 to 2008.

1.13. HYPOTHESES

On the basis of the objectives considered for the study, the following null hypotheses were developed for the purpose of the present study.
1. There is no significant difference between constitutions with respect to dimensions of performance of MEPZ-SEZ.

2. There is no significant difference between nature of unit with respect to dimensions of performance of MEPZ-SEZ.

3. There is no significant difference between percentage of capacity utilization with respect to dimensions of performance of MEPZ-SEZ.

4. There is no significant difference between opinions about SEZ Act with respect for Dimensions of performance of MEPZ-SEZ.

5. There is no relationship between adequacy and overall support from public and government.

6. There is no relationship between adequacy and rating of services offered by MEPZ-SEZ.

7. There is no relationship between adequacy and factors responsible for success of MEPZ-SEZ.

8. There is no relationship between overall support from Public and Government and rating of services offered by MEPZ-SEZ.

9. There is no relationship between support from public and government and factors responsible for success of MEPZ-SEZ.

10. There is no relationship between rating of services offered by MEPZ-SEZ and factors responsible for success of MEPZ-SEZ.

1.14. METHODOLOGY

The researcher studied the various units functioning at MEPZ-SEZ, Chennai. Hence, the study considered census method. In view of the voluminous data from
census study and secondary sources collected and presented in this project, descriptive research is considered to be the most appropriate for the study.

1.15. DATA COLLECTION

The study is an empirical one based on sample survey method. The study has basically depended on primary data. The required primary data were collected by means of an interview schedule administered to all the units at MPEZ-SEZ, Chennai taken for the study. To clarify certain concepts of the study, secondary data were collected from published reports of Government of India, Annual reports of the study units, standard text books and reputed journals.

1.16. RESEARCH TOOL

Interview schedule is the tool/instrument through which the required primary data were collected. The interview schedule was developed mainly on the basis of studies of Lyman E. Ostuland, John Croson and George Steiner and Sandra L. Holmes. The interview schedule contained 23 questions divided into three parts namely general, opinion of the units functioning at MEPZ-SEZ and questions 14 to 17 are set on Likert-type scale to obtain responses relating to adequacy, support from public and governmental sources, rating of services offered by MEPZ-SEZ and factors responsible for success of MEPZ-SEZ. The scale is 5-Strongly agree/ Very good, 4-Agree/Good, 3-No opinion/fair, 2-Disagree/Poor, 1-Strongly disagree/very poor. A number of discussions were held with knowledgeable persons like academicians, researchers and professionals for designing the interview schedule, stating the research problem.

A pilot study was conducted with a sample of 25 respondents covering all the classes of MEPZ-SEZ units. A good rapport was first established with the respondents with the help of sharing some personal experiences and confidence
building measures. It was noticed that most of the respondents were free in sharing their experiences about SEZs. Based on the information collected from the respondents, the study was structured using qualitative and quantitative research methods.

The final scale reliability was tested statistically using alpha coefficient. The test results showed that the scales were highly reliable. The perceptions are collected using 5 – point rating scale from strongly disagree/very poor to strongly agree/very good assigning the score of 1,2,3,4 and 5 in the same order.

1.17. SAMPLING DESIGN

<table>
<thead>
<tr>
<th>Classification of Units</th>
<th>No.of functioning units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Engineering Industry</td>
<td>25</td>
</tr>
<tr>
<td>Electronics / Software Industry</td>
<td>14</td>
</tr>
<tr>
<td>Chemical &amp; Allied Industry</td>
<td>16</td>
</tr>
<tr>
<td>Leather and sports goods</td>
<td>5</td>
</tr>
<tr>
<td>Garment / Textiles</td>
<td>15</td>
</tr>
<tr>
<td>Gems and Jewellery</td>
<td>7</td>
</tr>
<tr>
<td>Trading and services</td>
<td>12</td>
</tr>
<tr>
<td>Total</td>
<td>94</td>
</tr>
</tbody>
</table>

The required data have been collected both from primary and secondary sources for the present study. For the purpose of the study, the researcher has taken into account, 94 units at MEPZ-SEZ. An interview schedule has been administered to the units to elicit their opinion on adequacy, support from public and governmental sources, rating of services offered by MEPZ-SEZ and factors responsible for success of MEPZ-SEZ. 9 units could not be considered as the data furnished by them is not susceptible for evaluation and 7 units could not be considered as they are not functioning presently. In view of the voluminous data from the survey, secondary data
were collected and presented in this study. The secondary data have been collected from the Office of Development Commissioner, MEPZ-SEZ, Chennai, the annual reports of the Ministry of Commerce, Director General of Commercial Intelligence and Statistics, Kolkata, The Indian Institute of Foreign Trade, New Delhi, books and Journals of repute in the field of India’s Foreign Trade. Descriptive research is considered to be the most appropriate for the study. The study is confined to Madras Export Processing Zones situated at Tambaram, Chennai in Tamilnadu State.

**1.18. DATA PROCESSING AND ANALYSIS**

After the data collection, the completed interview schedules were scrutinized thoroughly and edited in to ensure accuracy, consistency and completeness. The study considered units functioning in MEPZ-SEZ, Chennai. Most of the analysis is based on the responses shown in the form of frequency tables. Simple tables were prepared for understanding the general profile of the respondent units and simple statistical techniques such as percentages and mean were used for analyzing the data.

**1.19. STATISTICAL TOOLS EMPLOYED**

Descriptive statistical tools such as frequency distribution, mean values, quartile distribution and standard deviation have been used to describe the profiles of respondent units. Inferential analysis such as Chi-square test, Duncan’s Multiple Range Test, Friedman’s test, ANOVA test, ‘t’ test, Multiple Regression Test, Correlation co-efficient and other relevant tools were used to the test the hypothesis. The data so collected were tabulated analyzed and presented in this research report. The interpretation of data would be used to draw inferences and findings of the study. The hypotheses framed on the lines of the objective of the study, were tested statistically for their significance.
1.20. LIMITATIONS OF THE STUDY

The main limitations of study may be stated as follows:

1) The study is based on the opinion of the units at MEPZ-SEZ, Chennai. The opinions are likely to vary on account of filling in the schedule at different stages over a period of time.

2) Another limitation of the study relates to qualitative nature of several responses, which could be analyzed properly in the light of scoring or ranking method. The result is limited to the reliability of the method used in measurement and analysis of the data.

3) The study has considered only the functioning units at MEPZ-SEZ, situated at Chennai.

1.21. SCHEME OF RESEARCH REPORT

The present study, entitled, “PERFORMANCE APPRAISAL OF MADRAS SPECIAL ECONOMIC ZONE, CHENNAI IN TAMILNADU STATE” has been divided into seven chapters.

The first chapter captioned “Introduction and Design of Study” gives a vivid account of export promotion, emerging global scenario, statement of the problem, objectives of the study, hypotheses, scope of the study, methodology, sampling design, limitations of the study and organization of the research report.

Chapter II entitled, “Review of literature” presents a detailed survey of literature available on the subject.

The third Chapter entitled “Export promotion in India-An overview” has made an attempt to trace the growth of Indian export, its development, the importance of export in Indian five-year plans and export import policies.
Chapter IV christened, “Profile of MEPZ-SEZ” examines the perspective of Special Economic Zones in India and its development and a brief sketch about its contribution to Indian export. The chapter also deals with Madras Export Processing Zone- Special Economic Zone (MEPZ-SEZ) its growth, development and performance.

Chapter V titled, “Legislative framework governing Special Economic Zones” deals at length the various legislations that Special Economic Zones have to bear in mind while discharging their performance.

Chapter VI captioned, “Analysis of Survey Data” presents a general appraisal of the units under study and the respondents’ opinion about the extent of performance of the units under study.

The final chapter of the present report christened, “Summary of findings, suggestions and conclusion” brings to a logical conclusion by highlighting the summary of the survey findings with a view to obtain answers to the questions raised in the statement of the present research problem and by providing valuable suggestions for acquiring land for the development of SEZ and compensation, housing facility for the employees working in the processing zones and improvement of Special Economic Zones.