CHAPTER II
REVIEW OF LITERATURE

2.1 INTRODUCTION

Developing countries and different economies have seen several ups and downs since the industrial revolution. In the first four decades after the industrial revolution these economies were not affected by the slowdowns that were faced by the industrially developed countries. Despite these conditions developing countries and the developed economies were plagued with problems of different kinds that are related to industrial or economic growth.

The performance of several economies whether it is developed or developing had been disappointing for a long time. Stagnating economies with few jobs and ageing populations became a recipe for disaster, not only for generous national welfare systems but also for the economies in general. The internal markets could not inject the needed dynamism into these economies. There has been broad agreement among economists and Government that these economies needed economic reform, mostly in the direction of market expansion in order to generate more growth. This expansion both inward and outward across different markets could provide the needed stimuli to these economies. In other words, globalization of the world economy should be encouraged and achieved as it ensures the optimization of the world’s resources.

India followed on inward-looking development strategy for the growth of the Indian economy over the last four decades. The foreign trade has been ignored due to the prevailing “export-pessimism” in 1950s and 1960s and this has caused several problems in our economy such as balance of payments, rising external debts and fiscal imbalances. Under these circumstances, India emphasized to raise its exports
substantially in order to pay for its critical imports and to achieve the objectives of growth and equity. Expansion of exports implies that India should exploit successfully both its natural and human resources and evolving comparative advantage through greater integration in the world economy and in the international division of labour.

The relationship between foreign trade and economic growth can be positive, negative, and an elective one. The positive view has been held by the classical and neo-classical economists. According to them foreign trade is “an engine of economic growth”. On the other hand, structuralists believe that international trade has actually operated to the detriment of the poor countries causing deterioration in their terms of trade. According to the elective view, exports can act as stimulus to the rest of the economy under certain favorable conditions. Foreign trade may also serve as a lagging sector of the economy.

India, during the last four decades followed the policy of industrialization through import substitution. The adoption of import substitution strategy of development was influenced by the consideration of ‘size’ factor and also because of ‘export pessimism’. A model of development adopted in the second five year plan visualized no role for international trade in economic growth. It was based on the assumption of a relatively closed economy.

The strategic importance of trade in the economic transformation of a country in general and that of a developing country in particular needs to be underscored. While imports hasten up the process of industrialization by providing from abroad, the most essential and immensely needed raw materials, intermediate and capital goods, technical know how and other indispensable inputs for the development activity, export provide the most valuable foreign exchange to pay for such critical
imports and to meet the foreign debt repayment obligations. The ability of a country to import and to wipe-off the trade deficits depends mostly upon its export earnings.

Economic growth through trade is not a new phenomenon, as trade has since long been treated as an engine of growth, an activator of change, a barometer of economic progress, a handmaiden of successful growth and an additional efficient machine of production.

2.2 REVIEW OF RELATED LITERATURE

2.2.1. INDIAN STUDIES

Mr. Rajiv Kumar² has made a detailed study of the functioning of Indian EPZs in his book on Indian Export Processing Zone. The working of Kandla Free Trade Zone and Santa Cruz Electronics Export processing zone has been dealt at length. The concept, objectives and the selection criteria of the industries for EPZs have been examined critically. The author is of the opinion that employment generation, earning of foreign exchange and attracting foreign investment should be the main objectives of EPZs.

Indian Institute of Foreign Trade (IIFT) has undertaken a general study of Free Trade Zones in selected developing countries in 1990. Its report contain details about EPZs in these countries concerning approval procedures, permitted activities, export volume, employment and also their future potential were studied along details of six Indian EPZs. The study concluded that a sizable employment in Asia consists of young female workers and production structures are non complex and only labour intensive production process are reallocated in zones in response to labour cost differentials.

The Indian Institute of Foreign Trade, New Delhi has also presented a brief account of the chronology of EPZs. It examined and recommended the potentiality of Visakhapatnam in Andhra Pradesh to create an EPZ.

Jagdish R. Bhagwathi in “Anatomy and Consequences of Exchange Control Regimes” provided full account of India’s export trends, trade policies, and export performance in the context of under policies of internalization in 1950s and 1960s. The quantitative analysis of India’s overall trade policies carried out by Panchamuki (1978) covered the decade of 1960s. The analysis of economic performance of EPZs in relation to the objectives has set out the complete socio-anthropological analysis of the export processing zones. But only few studies have examined the economic logic and welfare aspects of EPZs.

“Export Finance” by Pradumna B Raka and Bruce considered the need for export promotion. The authors have taken up the study of five countries namely India, Indonesia, Pakistan, Phillipines and Thailand and called them as Developing Member Countries (DMC). The study provided a review of existing export finance system then. The authors are of the opinion that development of non-traditional exports through additional supportive finance both at National and State level would enhance the export opportunities and also recommended that export promotional incentives through tax, duty concessions and marketing assistance by Trade Fairs. They have remarked that technology transfer would foster export promotion.

“Foreign Direct Investment and Trade in India” by Suvanshu Rai and Raj Kishore Sen highlighted that foreign direct investment has become one of the crucial areas for growth of Indian Economy. The main reason is that competition among

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developing countries attracts FDI. FDI is the main tool for transferring technological knowledge from developed countries to developing countries.

Dr Sharad Kumar Chaturvedi\(^4\) in his book on “Foreign Investment Law Its impact on Labour” concentrated on the growth of Indian Economy by way of Law and the impact on FDI, taking into account the present changes in globalization in the fields of Banking, Insurance, Media etc., They have opined that FDI generates employment opportunities in host countries directly as well as indirectly because of the technologies art of sophistication providing better awareness to employers in domestic markets. The main aim of foreign investment in India is to improve the economy that ultimately benefits labour.

“Export and Economic Growth” by B.N. Tripathy\(^5\), states that exports are engines of economic growth. The study has traced the theories on export by Adam Smith, historical experience and an attempt was made on the analysis of the role of Indian Economy. The author has expressed that Indian Economy has always been growth led exports and strategy of export led growth. Mr. B.N. Tripathy has also pointed out that small countries with limited natural resources are most likely to find economic growth can be accelerated by export specialization.

In the compendium of various research papers on “Economic Reforms and Perspectives (Recent development in Indian Economy)” edited by Boppana Nagarjuna\(^6\), covers aspects like Macro Economic policy issues, Monetary policy issues, Trade policy, Financial sector reforms, Foreign Investment in Agricultural Industrial and Foreign trade and Exchange.


Francis Cherunilam\textsuperscript{7} considered the emerging trends towards global liberalization as well as reform process in India have drastically altered the business environment of domestic firm. The book has dealt in detail the various aspects like globalization, Foreign Exchange, Foreign Trade Policy; dimensions and trends in international business by referring to cases and text in Indian scenario.

Anil Arora and Prof. Jai Narain Sharma\textsuperscript{8} in their contribution on “International Trade (Theories and current trends in Globalized World)”, had traced the history of International Trade and its relevant theories. They have also analyzed the present scenario of International Trade. They have categorically mentioned “Trade but not aid”.

“Dynamics of Indian Export Trade” by Pratima Dikshit\textsuperscript{9} had set out the International aspects of Indian Economic Development and an analysis of various theories in International Trade, their relevance to the developing economies. It has also studied the effect of export on economic growth of the country with reference to the Indian EXIM policy.

Dr. Chalapathi Rao\textsuperscript{10}, in “India's Trade Policy and Export performance of Industry” has analyzed the performance of India during 1970s and 1980s. The contribution by the Indian Industry to export earnings in the background of Economic Reforms initiated in 1990.

Exports have been playing a vital role in the process of Economic Development for the developed and under developed countries. Export instability is a

\textsuperscript{7} Francis Cherunilam., International Business (Text and Cases), Prentice Hall of India Pvt Ltd, New Delhi, (2005).
\textsuperscript{9} Pratima Dikshit., Dynamics of Indian Export Trade, Deep and Deep Publications Pvt Ltd, New Delhi, (2002).
serious constraint in the developing economy by analyzing the degree of instability in
traditional commodities (Jute, Tea, Cotton fabrics, Cashew Kernels, tobacco, Oil,
Coffee, Sugar, Iron etc.,) and non-traditional commodities like Steel, Engineering
Goods, Chemicals, Readymade Garments etc., in the book on Export Instability In
India by Dr.Niranjankumar Singh\textsuperscript{11}.

Krueger\textsuperscript{12} on “Foreign Trade Regimes and Economic Development” has
brought out that (i) more liberalized regimes result in higher rates of growth of
exports and (ii) a more liberalized trade sector has a positive effect on aggregate
growth.

Wadhva\textsuperscript{13} in his contribution on some aspects of ‘India’s Export Policy and
Performance’ attempted to examine a few specific aspects of the performance of
policy and India’s exports in quantitative terms. He has also examined the impact of
real effective exchange rate on India’s export performance at a more disaggregated
level of a few products. The econometric results confirmed that exchange rate
depreciation had an important effect in increasing India’s exports of all five selected
products. The results further confirmed that for the five selected products, exports in
real terms are highly elastic with respect to both the real effective exchange rate
(REER) and the incentive adjusted real effective exchange rate (IREER).

Nayyar\textsuperscript{14} in “India’s Exports and Export policy” has evaluated India’s export
performance during 1970-85, and assessed the relative importance of domestic and
foreign countries. The study revealed that India’s export performance since 1970 was

\textsuperscript{11} Niranjan Kumar Singh., Export Instability in India, Manish Prakashan, B.H.U., Varanasi,
(2005).
\textsuperscript{12} Krugar.A., Foreign Trade Regimes and Economic Development. (1978)
\textsuperscript{13} Wadhva, Charan D., Some Aspects of India’s Export Policy and Performance’ in Robert
E.B.Lucas and Gustave F.Papanek (eds)., The Indian Economy, Recent Development and Future
\textsuperscript{14} Nayyar, Deepak., India’s Export and Export Policies, Cambridge: Cambridge University
distinctly better than it was in the preceding decades. The assistance provided through various measures, taken together, added up to a little more than 10 per cent of the free on board (fob) value of total exports. A significant portion of regime of export promotion policies compensated the export sector for the competitive disadvantage arising out of domestic economic policies.

Shafaeddin\textsuperscript{15} on “Trade Policies and Economic Performance of Developing Countries in 1990” has analyzed the performance of trade policies and economic performance of 32 developing countries. The study showed that the impact of trade policy measures and devaluation on exports performance has been mixed. In low income economies these measures did not stimulate exports of manufactured goods and led to price rise, output failure and in many cases to de-industrialization. In economies with higher levels of income and development and a significant industrial base, the results have been favourable. Individual countries should be allowed to gear their trade policies, according to their need, level of development and characteristics.

Marjit and Ray Chaudhuri\textsuperscript{16} in ‘India’s Exports’ have tried to assess the export prospects of different sectors on the basis of time trend to India’s share of world exports for the period 1971-90. They found that competitiveness played a negative role in utilizing constant market share analysis. They further supplemented this analysis with regression of India’s market share on relative price levels and wage costs, and found no significant relationship.

“Trade Policy Reforms, their Impact on External Trade” by Metha\textsuperscript{17} has analyzed the impact of India’s trade reforms on external trade. The study concluded

\textsuperscript{16} Marjit, Sugata and A.Roy Chaudhari., India’s Exports, Oxford University Press, New Delhi, (1997).
that the liberalization process has enhanced the importance of international trade in
our domestic economy and the share of trade in GDP has increased to 24 per cent in
1995-96.

Dr. R.S. Jalal and Dr Nandan Singh Bisht\textsuperscript{18} in their book on “Emerging
Dimensions of Global Trade” had discussed about the New Economic Policy
introduced in 1991. They have pointed out that our economy has witnessed fairly
drastic changes in its growth related policies. Liberalization, Globalization and
Privatization are the basic features of trade and trade related policies. These factors
have compelled the Government of India to resort to trade reforms. The basic idea
was to remove the trade and non trade barriers for enhancing the size of international
trade.

M.M. Sury\textsuperscript{19} in his contribution on “Indian Economy in the 21st Century” has
sketched the growth of external sector reforms mentioning approach, developments
and related issues. The author has also pointed out the prospects and challenges of
Indian Economy taking into account the five year plans, Exim policies and trade
reforms measure.

“External Sector Reforms” 1991-2005 by Niti Bhasin\textsuperscript{20} brought out the
recognition of growing importance of the external sector in driving the economy. The
author as focused on the developments of India’s external sector since 1991. It
examined the development in the following segments of India’s external sector:
foreign trade, export-import policy, tariff policy, current account management, capital
account dynamics, foreign exchange reserves, exchange rate policies, external debt
and aid, foreign direct investment and portfolio management.

\textsuperscript{18} Jalal, R.S., Nandan Singh Bisht, Emerging Dimensions of Global Trade, Discussion on Trade
Related Policies, Sarop and Sons, New Delhi.
Aradhna Aggarwal\textsuperscript{21} expressed that SEZs are expected to induce dynamism in the export performance of a country by eliminating distortions resulting from tariffs and other trade barriers, the corporate tax system, excessive bureaucracy, and missing infrastructure. Fall in the protective walls and reforms in the tax system reduced the gap between EPZ and other units in the wider economy in respect of tax incentives. There should have been significant improvement in the quality of infrastructure and governance to compensate them for the lost benefits. Dysfunctional policies, regulations, lack of single window clearance facilities, poor attitude of the officials, centralized governance, stringent labour laws and poor physical and financial infrastructure, accounted for an undesirable investment climate. The Draft Bill 2004 may not lead us far. The study argued that the SEZ schemes require a comprehensive re-orientation if the hype created over SEZs is to be justified.

\textbf{2.2.2 DISSERTATIONS}

\textbf{Ph.D.}

A Study on Leather Goods industry in Tamilnadu with special reference to exports. S.M. Mohamed Nasardeen – 2007. The study has been made to understand the present status of Indian leather goods industry. It has also evaluated the functioning and export performance. The study has considered the export marketing practices adopted by leather goods units. It has analyzed the prospects of leather goods units and suggested measures for the improvement of their export performance.

A study on the problems and prospects for 100\% EOU's in MEPZ-SEZ, Chennai. A. Thilakamary - 2006. The study has focused its attention on kinds of material and labour problems of exporting units in MPEZ-SEZ, problems faced by the units in raising finance, major marketing problems and evaluated their performance.

The study suggested that SEZ are required to provide trouble free investment friendly environment, to equip SEZs with facilities comparable to international environment. Laborious export procedures have to be simplified and the units should have more foreign market information.

ECGC services to exporters - A study with reference to Coimbatore region. A. Muthuswamy - 2005. The study has evaluated the business and financial performance of ECGC (Export Credit Guarantee Corporation), utilization of export finance and related problems faced by exporters. It has also suggested that Reserve Bank of India to consider favourably the application for relaxation of pre-shipment credit period suggesting simplification in export procedures. The study has expressed that ECGC to take steps for promotion of export business through conducting awareness programmes and seminars through effective advertisement in business journals, magazines web etc.

A study of the export processing zones in India, T.S.Padmanabhan, 2000. The study has examined the facilities and privileges extended to export processing zone taking into account their contribution towards foreign trade and earnings. The study has also considered the measures of Central Government to improve the performance of export processing zone and also suggested measures for their improvement.

M.Phil.

A study on the performance of 100% Exported Oriented Electronic Industrial Units in EPZ in Chennai. A.Thilakamary - 1998. The study was aimed on the production activity of 100% EO Electronic Industrial Units and analyzed the financial activity of 100% EO Electronic Industrial Units, marketing activity and the problems faced by them. The study suggested that units should chalk out strategic plans taking into account the prevailing Government policies.
2.2.3 FOREIGN STUDIES

“Balanced and Unbalanced growth and Pattern of Trade and Development” by Nurkse\textsuperscript{22} believe that growth in the underdeveloped countries should proceed through domestic industrialization, because there is little chance of reliance on export led growth. He further added that the productivity in agricultural sector must also increase; otherwise increase from manufactures will be partly spent on foodstuff and thus create pressures on imports or cause inflation.

Lewis\textsuperscript{23} in his work on “The Evolution of Economic Order” held the view that the engine of growth is trade only. In the past, it was fuelled by industrial growth in developed countries. But since the mid-1970s the developed countries are experiencing a secular decline in the rate of economic growth. This emphasized the need to turn to an alternative source of fuel which according to Lewis, lies in trade among the developing countries.

“An enquiry into the nature, causes and wealth of Nations in Money Credit and Commerce” by Adam Smith\textsuperscript{24} held the view that international trade required for exporting country to have absolute advantage in resources. Moreover, the exporting country must have clear superiority in producing goods over its rival.

David Ricardo\textsuperscript{25} in his “Theory of Comparative Advantage” viewed that each country will tend to export those products, the comparative cost of which are lower at home than abroad and import those where the comparative cost of which are lower in abroad than at home.

\textsuperscript{22} Nurkse., Balanced and Unbalanced Growth and Pattern of Trade and Development, Gwth in World Economy, Cambrigge, (1960).
\textsuperscript{24} Adam Smith, An enquiry into the nature and causes of Wealth of Nations, Oxford University Press, (1776).
J.S. Mill’s\textsuperscript{26} “Theory of Reciprocal Demand” has emphasized the role of prices in international trade or in the actual exchange of good between countries. J.S. Mill in his “Dynamics of Economics” observed that commodities which can be indefinitely supplied without increasing the natural costs could bring mutual harmonious trade between countries.

Heberler\textsuperscript{27} held the view that foreign trade plays a vital and decisive role in the economic development of a country and that it has a propulsive and multiplier effect on economic growth. Foreign trade serves as an engine of growth for the developing countries. It is an external stimuli to growth and industrialization which are available to them are no longer available to the present developing countries which have been the targets of exploitation of the economically weak, and heavily dependent.

“Technical Change and International Trade” by Posner\textsuperscript{28} has analyzed the effect of technology on trade. He found that Imitation gap – foreign reaction lag, domestic reaction lag and learning period affect the trade in general. Further, he observed that innovation and imitation are the two naked eyes of international trade.

Kravis’s\textsuperscript{29} work on availability and other influences on the “Commodity, Competition Trade” have observed that a country can, export those goods which are available through natural resources, technical change, product differentials and government policy. He added that it is the availability of scarce natural resources that determines the trade pattern of a country.

\textsuperscript{26} John Stuart Mill, Principles of Political Economy, Ashley, W.J.(ed), Longmans, London, (1920)
\textsuperscript{29} Kravis.A.B., Availability and other influences on the Commodity Competition and Trade, Journal of Public Enterprise, April, 1956.
Linder\textsuperscript{30} in his essay on “Trade and Transformation” has propounded a theory that explains the volume of trade in manufacturing goods as proportion of national income between different pairs of trading countries. A country will export its products more to those countries whose income levels and demand patterns are similar to those of the exporting country. He termed as Preference Similarity Theory.

Kenen\textsuperscript{31} in “Nature of Capital and Trade” examined the role of human capital in international trade. He found that the opening of trade between two countries brings about the equalization of product prices and of the prices of services from improved labour training on the job and off-the job through high human resources environments.

Paul Meo\textsuperscript{32} argued that many feasibility studies, individual studies and expansion studies only showed that the EPZ concept is not necessarily bad in the study on EPZ and Developing Economies a Global View. These studies, on the contrary, showed that the subsidies are usually bad. In certain other studies, looking at the concept more broadly and the global situation of EPZs, they generate a large amount of criticism as well.

Hand Book on EPZs by Kelleher\textsuperscript{33} provided an account of the framework policy considerations and other pertinent facts in a systematic manner.

2.2.4. I.L.O STUDIES

Asian Regional Team for Employment Promotion (ARTEP) set up by ILO conducted a series of studies on EPZs during eighties.

\textsuperscript{32} Paul Meo, EPZ’s and Developing Economies-A Global View, The Journal of Flagstaff Institute, Flagstaff, AZ USA (1989).
\textsuperscript{33} Kelleher T., Handbook on EPZ, UNIDO, Vienna, (1976).
Rudy Maex on Employment and Multinationals in Asian EPZ has analyzed investment structure, sectional distribution of units and the inflow of foreign investment in EPZs in selected Asian Counties. A significant finding of this study is that the impact of Multi-National Companies (MNC’s) of direct employment generation and investment in EPZs was very high in Singapore and Malaysia, significant in Korea, Hong-Kong and negligible in India.

Study by Kreye on EPZs in Export Processing Zone in developing countries has analyzed that rapid growth in the number of EPZs is attributed to structural changes in global economic development during 1970s and 1980s. The study has confirmed that the production activity in EPZs is largely non-complex and confined mainly to textiles, garments, electronic products, optical equipments, sports goods, toys etc. It concluded that EPZ employment structure consisting predominantly of young women has not undergone any significant change.

Research paper by Won Sunoh on EPZ in the republic of Korea examined on social and economic impact of the Korean EPZs, that EPZs played an important role in promoting export-led industrial development and stimulating regional development in the initial years of economic development. Liberalization of regulations for foreign investment in the domestic economy further whittled down their edge. The overall impact of EPZs on exports, industrial employment and foreign exchange earnings remained limited. Trade union activities in the Korean EPZs weakened their low wage advantages. The survey also found that transfer of skills and know-how was limited to study tours, training courses and on the job training.

Trade in developing countries by Morton and Tullock\(^{37}\) opined that foreign trade is the vital sector of a country’s economy and substantially contributes to the economic welfare of the people and the development of resources Kindleberger’s\(^{38}\) study found that every country tries to export more than what it imports. Exports can be a leading sector in growth or a lagging one. He concluded that though the benefits gained through foreign trade may not be equal to the trading countries, certainly it would stimulate product inventions, and product diversification in some of the developing countries.

John D. Daniel and Lee H. Radebaugh\(^ {39}\) in their book on International Business Environment & Operation have divided the book into seven chapters from background of International Trade to Export Import strategy. They have considered the influence of Government on Trade and Tariffs and their part in marketing strategy including their international business relationship.

A study of the Nation state in the Contemporary World Economy in the face of renaissance of market economy by John H.Dunning on Governments, Globalization and International Business provide information on the relationship between Government Globalization and International Business, describe the role of national administration in economic affairs and concluded by saying systematic and operational role of the state is to setup, monitor and manage economic system as a whole.

Global Issues and Introduction (3rd edition) by John L.Seitz has focused on foreign aid and development assistance, impact of terrorism, the relationship between

\(^{37}\) Morton and Tollock, Trade and Developing Countries, The Overseas Development Institute.
geography, wealth and poverty. They have gone further to mention about the climatic change on internal business environment.

2.2.5. WORLD BANK STUDIES

Yung Whee Ree 40 (1989) in “Managing Entry into International Market” – lessons from East Asian Experience summarizes and identified factors contributing to the success of export oriented policies in some East Asian economies. The author has also examined the role of EPZs in export strategies. EPZs are perceived as means for providing “equal footing” export policies and infrastructure in less Developed Countries (LDCs) to induce foreign and domestic enterprises into export activities. Cross country comparison of EPZ performance in Mauritius, Malaysia, China, Mexico, Taiwan and South Korea has been attempted. Stages and the sequences of the process of industrial development and export growth, foreign collaboration to human resource development and deepening of industrial structure and export market, have been highlighted. The study emphasized the critical role of export related infrastructure, real wages, access to external market and business and working environment for the success of EPZs.

Rhee and Belot 41 (1990), on Export Catalyst in low income countries have highlighted the role of catalysts for export orientation in poor countries. The catalysts provide access to international market. The findings are based on success stories from eleven countries. The paper also has analyzed the role of joint ventures in transfer of technology and modern management practices.

World Bank paper (1992) on EPZs has examined the rational of trade policies, foreign direct investment and infrastructure in promoting industrialization in


developing economies. It summarized global experience in setting up EPZs in terms of benefits, costs and performance indicators. The study has highlighted some areas of concern such as labour laws and linkages with the domestic economy and draws lessons from the international EPZ experience. The main findings are that the share of EPZs to manufactured exports in the developing countries has been limited to about 4 to 5 per cent. It was observed that EPZs are instruments for helping economies to enter world market. The study also observed that trade union activity in the EPZs is limited. The significant finding of the study is that transfer of product and process technology through EPZ is marginal. Labour intensive units dominate in EPZs. Tax concessions have only marginally influenced the flow of foreign investment in EPZs. EPZs are most valuable as interim measure for initiating economies into world markets while more desirable nationwide policies are being implemented.

The study of the United Nations Conference on Trade and Development (UNCTAD) secretariat provides a global framework of EPZs operations world-wide up to 1979. This study encompassed various aspects of EPZ operations viz. investment, number of zones, employment, exports the proliferation of EPZ activities and policy implications. A very recent work by World Export Processing Zones Association (WEPZA) Secretariat provides a comprehensive list of EPZs in the world.

According to a study conducted by the Economist Intelligence unit (E.I.U) London (1979), there was a tremendous growth in the number of Free Trade Zones (FTZs) in the developing countries during the decade.

2.2.6. REPORT OF COMMITTEES

A Review Committee on electronics for Santa Cruz Electronics Export Processing Zone (SEEPZ) set up by Kaul examined factors impeding the growth of
Kandla Free Trade Zone (KAFTZ). It identified many administrative, organizational, infrastructural and institutional inadequacies as the key problem areas. It concluded that the incentive package was not attractive enough to lure investors to the backward Kutch area. The Committee felt that KAFTZs have inherent locational disadvantage and grant of incentives on piecemeal basis failed to make an impact on the investors. It recommended grant of general exemption from central excise duty on goods brought into the zone, simplification of procedures for import and export of goods, restoration of air service to Kandla, strengthening of telecom services and uninterrupted availability of power supply. The Committee recommended two significant incentives for EPZ units were reimbursement of Central Sales Tax (CST) out of Market Development Fund (MDF) and grant of five year tax holiday. Later these recommendations were accepted and extended to all the zones. The committee favoured diversification of zone activities by permitting trading. It stressed the need for launching promotional drive abroad with the assistance of professional organizations.

Tandon committee on Free Trade Zones and 100% EOU, suggested setting up of 4-5 additional zones, widening the scope of activities by permitting trading and, setting up an Authority for all the EPZs. It also recommended review of existing package of incentives to ensure that it compared favourably with other countries, besides strengthening infrastructural facilities. The Committee endorsed the recommendations of Kaul Committee for providing “safety net” through Domestic Tariff Area (DTA) sale to the extent of 25 per cent of production. It favoured extension of tax holiday period from 5 years to 10 years. An umbrella labour legislation was recommended for preventing wildcat strikes. The Committee suggested that the possibility of setting up off shore banking units should be explored.
The Committee, however, did not make any significant recommendations for Export Oriented Units (EOUs) as the scheme had just been introduced.

Indian Council for Research on International Economic Relations (ICRIER) in 1985 by the Ministry of Commerce commissioned to undertake an evaluation of EPZs and make suitable recommendations for improving their functioning. The report deplored lack of clarity in assigning objectives of EPZs and recommended three-fold objective of expanding net foreign exchange earnings, attracting direct foreign investment and generating employment. It also proposed fixing a threshold limit for foreign equity participation in EPZ units and setting up of an autonomous central authority for EPZs. Other recommendations include replacement of value addition (VA) concept with obligation for Net Foreign Exchange Earning (NFE) and strengthening of infrastructural facilities. Tax holiday for ten years was suggested inline with their recommendation of Tandon Committee. Some radical recommendations such as disallowing disposal of waste in the DTA, banning of DTA sales and collection of rentals in advance were not workable.

Another committee was set up in 1991 by ICRIER (Indian Council for Research on International Economic Relations) to propose an alternative model for the development of Export Processing Zones. The committee felt that with the emergence of vibrant private sector in the country, government investment in the zones could be supplemented by private investment. It recommended setting up of privately or jointly managed EPZs. The recommendations of this committee were partially accepted by Government in 1994. Creation/augmentation of infrastructure for zones by private sector or the state government agencies has been allowed.

Two committees had deliberated on the method for computing value addition for units in EPZs and EOUs. Till 1985 difference between foreign exchange inflows
and outflows, was taken as value addition. The first committee (1985) recommended that the value of goods purchased from DTA should be considered as imports and value addition was redefined as gross foreign exchange inflows derived from the export earnings less total import of unit whether from outside or form DTA expressed as a proportion of the former. However, imports of capital goods and spares from the DTA were to be excluded. This recommendation of the committee was accepted and adopted. This formula was reviewed by committee (1993) to review value addition formula for the export which redefined value addition as gross foreign exchange inflows less total outflow of foreign exchange on account of imports and payment of royalty dividends, commission etc. of the unit expressed as a proportion of the former. It was felt that computation of value addition in this manner would encourage use of indigenous raw materials.

Though significant changes in EPZ/EOUs policy were effected in 1991, Government set up another committee in early 1993 for further review of policy and procedures applicable to EPZ/EOUs. The Committee examined various issues concerning Exim Policy and custom/excise procedures in the light of suggestions received from industry and trade and made comprehensive recommendations. These included strengthening of single window clearance, harmonization of Value Added (VA) norms under various export promotion schemes, permitting inter scheme mobility, liberalizing exim policy, permitting trading and setting up of private bonded warehouses in the EPZs, simplifying procedures for inter-unit transfer of goods amongst EPZ/EOUs, liberalizing wastage norms, rationalization of duty on DTA sales and by-products, granting perpetual tax holiday and simplifying procedures for CST reimbursement. Quite a few of these recommendations have since been accepted by the Government.
Another Committee constituted to examine Customs and Central Excise Matters (1997) was set up recently to examine Customs and Central Excise matters concerning EPZ/EOUs. The Committee suggested various measures for resolving micro level procedural problems which have been causing delays and excessive paperwork. The Committee recommended a fresh look at the very concept of “bonding” in the current ethos of liberalization. The recommendations of the committee provided useful inputs for EPZ/EOU policy changes in the Exim Policy for 1997-2002.

The Report of the Task Force on Indirect Taxes, 2002 (Chairman: Vijay Kelkar) has laid down a broad approach to customs tariff reforms in India. It envisages a zero duty for essential items, 10 per cent duty for raw materials, inputs and intermediate goods and 20 per cent for final goods by 2004-05. Following the introduction of States’ Value Added Tax (VAT), these duties are proposed to be further reduced.

2.2.7. JOURNALS, MAGAZINES & PERIODICALS

Exports and Economic Growth by Balassa establishes a very strong and positive link between exports and economic growth. Most of the developing countries followed the export-oriented strategy of development in order to reap the economies of scale for their industries and to increase the extent of the market or to have access to foreign markets to sell their products. The acknowledged success of outward-oriented development in South Korea, Taiwan, Singapore and Hong-Kong etc. is partly responsible for the move towards market-based policies. Moreover, the developed countries recognize the role of trade in promoting growth and industrial development in the low and middle income countries. As a result of this, many developing countries have significantly liberalized trade in the course of their brand
structural adjustment programmes. These reforms have benefited the countries taking them.

Confederation of Indian Industry (2006) in their paper on Special Economic Zones have traced the evolution of SEZ from EPZ, analyzed their export performance clearly mentioning the locational advantage, their governance. The work concluded with the remark that Government needs enact legislation, create focused administrative infrastructure to govern SEZ and offer highly attractive incentives and locate zones in the best possible locations.

Indian Institute of Public Opinion in their monthly commentary on Indian Economic condition has analyzed the Special Economic Zones in India and China. It has been brought to light that many of the favourable features are missing in Indian SEZ. The SEZ policy of China is a unique story, where there was no conflict of interest between domestic and foreign producers. The Chinese SEZs enjoy preferential rates of Income-tax contingent on a foreign investment and not only export criteria. Moreover, such tax incentives are available to foreign investors located outside SEZ. In India, the tax subsidy to SEZs is not contingent on exports. In terms of Labour Laws the differences are more in perceptions than in fact.

Sujit Sikidar and Padmolochan Hazarika in the Journal of the Institute of Chartered Accountants of India, March 2008 expressed that the SEZ, as a new concept, is being increasingly seen as an alternative way of economic growth through exports and duty exemptions. As a part of SEZ policy, the Government offers several incentives to the investors, like tax holiday for up to ten years, duty free imports and exports, world class infrastructure, strategic locations and market access. The article proves an over view of SEZ's evolution and global growth and focusing on several operational aspects of the SEZ.
In the same journal article by CA Rajay Kumar Aggarwal studies the necessity of SEZ policies in present WTO regime for the development of India's export and economic activities. It also focuses on the philosophy behind the land compensation, expectations of farmers from compensation package and the critical role of a Chartered Accountant in this whole exercise. Journal of the Institute of Chartered Accountants of India, March 2008.

In India, SEZ Act was enacted in 2005 to create specifically delineated duty free enclaves. The promotion of SEZ's is an attempt to deal with infrastructural deficiencies and procedural and bureaucratic complexities caused by monetary, fiscal, taxation and labour policies. The objective of setting up of SEZ is to gain structural growth with world-class infrastructure. There is a need to train the rural unemployed youth to the best fit in the development process. Dr Raghunathan Reddy and Mantha Srinivas, Journal of the Institute of Chartered Accountants of India, March 2008.

In Indian Economy under structural adjustment by Patnaik and Chandrasekhar have analyzed the growth experience of twenty-five underdeveloped countries for the period 1968-88 remarked that it is really the investment ratio, which plays the crucial role n determining the growth rate.

Ghemawat and Patibandla in India’s Export since the reforms have analyzed the impact of economic reforms have undertaken in 1991 on India’s exports especially on three successful industries namely Diamonds, Garments, and Software. Analyzing each industry’s performance and future prospects, they found that the reforms have enhanced India’s competitiveness in labour and skill intensive industries; reduced the dependence of competitive industries on inefficient domestic suppliers and

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infrastructure; and enhanced domestic competitive conditions. Economic reforms lead to considerable increase in exports, which grew at an annual rate of 22 per cent in rupee terms between 1990-91 and 1996-97. The study also suggested that reform process should continue and be extended and deepened further.

Exports and Economic Growth – An Empirical investigation by Nidugala\textsuperscript{44} has analyzed the impact of exports on economic growth for the period 1960 to 1989. The study concluded that, the growth of manufactured exports had significant positive relationship with GDP growth, while growth of primary exports hardly has any influence of GDP growth. The reasons for this kind of shift in relationship between export growth and GDP growth is: (i) higher level of development, and (ii) change in the composition of exports in favour of manufactured exports. It was observed that despite the import liberalization in the 1980s, the Indian economy was also severely resource constrained. The study suggested that there is need to deepen the reforms further to sustain the current growth and attain higher levels of growth.

Hargopal, Sai\textsuperscript{45} in Performance of External Sector – A Review has evaluated the performance of external sector of India in the light of trade policy reforms for the period 1980-81 to 1997-98. The study envisaged that the basic variables that have an influence on economic growth and development are exports, imports, trade deficit, current account deficit, foreign exchange reserves and external debt. The study concluded that on the whole, trade liberalization measures, had a positive impact on external variables. Post liberalization period saw a tremendous growth of exports,


imports, foreign exchange and a decline in external debt. The only cause of concern was the faster growth of imports to exports.

Sekhar’s\textsuperscript{46} Agricultural Trade Liberalization study analyzed likely implications of Agricultural sector Trade Liberalization in India with a special focus on determining the role of major producers/exporters in world markets. The results indicate that the world markets for agricultural produce are mainly influenced by production in the major exporting and importing countries and income levels in the major importing countries.

The Special Economic Zone (SEZ) policy has been envisaged to ensure that India enhances its competitive strengths in international business. The objectives of setting up SEZs prevail across all platforms and that there is accelerated investment environment increased job creation and a healthy environment with world class infrastructure conducive to the growth of business in India by Mr Sanjay Verma, Joint MD, Cushman & Wakefield India, Outlook Business, November 20, 2006.

Agri Export Zone (AEZ), a concept that works with an encyclopedic approach adopt an end-to-end approach in integrating the complete process in which a hub of all activities right from the stage of identifying the potential products and geographical regions, sourcing the raw-material, their processing, improving the quality of the product and packaging till it reaches the final export of product produced in a contiguous area. With the objective of boosting up the exports of fruits and vegetables and to improve BOP, the government of India has established 60 AEZs in 20 states across India on the basis of stipulations made in 2002-07 EXIM policy – Evaluation of AEZs in India – A SWOT Analysis by Dr.Mamilla Rajasekhar and Mr.G.Suresh Babu, Southern Economist, September 15, 2005.

The author has listed the essential features of the Special Economic Zones Act, 2005, tracing its development for inception to its broad framework. This act has been enacted for the promotion of exports and matters connected therewith. It shall come into force on such date as the Central Government may notify. It provides for the establishment, development and management of a Special Economic Zone – Highlights of the Special Economic Zones Act, 2005 by CA Rajendra Kumar Paliwal, in Consolidated Commercial Digest, September 1, 2005.

The basic idea behind the SEZs is to attract investments, create infrastructure and employment and generate economic activity. SEZ contributed more than 50% of China’s foreign export earnings in the beginning. India’s SEZ policy was designed on the Chinese model. With the passage of SEZ Act 2005 India’s SEZ culture took wings. The scheme was launched with an idea to have zones as ‘deemed foreign territory’. India’s philosophy behind SEZ policy is to boost manufacturing activity, generate jobs and attract FDI. The centre should make provisions in the Act for utilizing 50 per cent of SEZ land exclusively for industrial purposes, 25 per cent for industry related infrastructure and the rest 25 per cent for other purposes. Presently the provision is 25:75. Globally, SEZs have been successful because of their large size and fewer numbers. In India the trend is reverse. Centre should push for five-six large SEZs of 40-50 square miles in co-ordination with the state Governments. The Central Government should conceptualize these SEZs and arrange private participation and if needed provide capital subsidy too – Special Economic Zones: Does the Policy need a Relook by Commerce Minister Kamal Nath in The Economic Challenger, October – December, 2006.

The SEZ Act has the potential to change the face of India. The principal condition for an SEZ certification is that the operations should be net foreign
exchange positive over a 5-year period – The Times of India, Mumbai - February 13, 2006.

The SEZ will have a host of mainly knowledge intensive industries such as biotechnology, information technology, BPOs and financial services companies. It will also house, among others, garment makers, light engineering firms and diamond polishers – The Times of India, Mumbai - May 22, 2006.

The Board of Approval, the single window clearing agency for SEZs, has set out a 17 point checklist which seeks to get the details of promoters’ history. The new conditions make it more stringent to seek approvals and many of the 17 parameters missing from the list could mean that the proposal is rejected. - Subodh Ghildiyal and Siddhartha – The Times of India, Mumbai, May 13, 2006.

The National Association of Software and Service Companies (Nasscom) has advocated an initiative for replicating the SEZ model in the higher education system taking into account the infrastructural facilities provided by large business houses in promoting engineering education. L.N.Revathy, The Hindu Businessline, Dec 2, 2005.

Kerala Law and Excise Minister said that Special Economic Zones cannot claim immunity from Labour Laws. It is not correct that the industries in Special Economic Zones can function smoothly only if they are exempt from labour laws. The Hindu Businessline, May 31, 2006.

SEZ for manufacturing renewable energy system is on the anvil. A Special Economic Zone for manufacturing renewable energy systems/devices in association with the private sector was being set up. In future, renewable energy would have to compete with other options and the responses from the investors are favourable. The Working group for the Eleventh Plan (Non Conventional Energy) was also
deliberating on various policy measures necessary to ensure growth of the sector.


Frontline, October 20, 2006 a special focus on SEZ, analyzed that it is still too early to predict whether industrial units would move to SEZs simply to avail themselves of the concessions on offer. It is much more likely that existing manufacturers would demand “A level playing field”. – V.Sridhar.

SEZs build infrastructure and enhance employment generation and enjoy the status of Public Utility Services. - Venkitesh Ramakrishnan.

2.2.8. VIEWS OF PERSONALITIES

<table>
<thead>
<tr>
<th>Personalities</th>
<th>Views</th>
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<tbody>
<tr>
<td>Mr. Bibek Debroy, Secretary General, PHDCCI</td>
<td>SEZ will bring additional investment, but there will also be relocation of investments. There will be additional exports. There will be additional jobs. The growth will be incremental.</td>
</tr>
<tr>
<td>(Punjab Haryana Delhi Chamber of Commerce &amp; Industry)</td>
<td></td>
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<tr>
<td>Mr. Ajit Ranade, Cheif Economist, AVB Group</td>
<td>MNC’s would be influenced to invest which will lead to incremental growth in exports and the investment and will create new job opportunities.</td>
</tr>
<tr>
<td>Mr. Shankar Acharya, Member, ICRIER Board</td>
<td>SEZ would bring additional investment opportunities to enhance the level of exports.</td>
</tr>
<tr>
<td>Mr. Siddarth Roy, Economic Advisor, TATA Group</td>
<td>SEZ will become catalyst of growth. They will create additional employment opportunities.</td>
</tr>
<tr>
<td>Mr. Raghuram Rajan, Chief Economist, IMF</td>
<td>Tax holidays will result in a loss of revenue but still the Government can afford.</td>
</tr>
<tr>
<td>Mr. Venugopal Dhoot, Chairman, VIDECON</td>
<td>SEZ will promote exports and create jobs and India should act now.</td>
</tr>
<tr>
<td>Mr. Arun Nanda, Executive Director, M&amp;M</td>
<td>SEZ is needed to boost competitiveness.</td>
</tr>
<tr>
<td>Mr. Amit Mitra, Director General, FICCI</td>
<td>SEZ’s offer a big window of opportunity for industry and the economy. It is a bet that India must take.</td>
</tr>
<tr>
<td>Mr. Raghuvansh Prasad, Minister, Rural Development</td>
<td>SEZ should focus on development of backward regions than targeting farm land.</td>
</tr>
<tr>
<td>Mr. Prakash Karat, General Secretary, CPI(M)</td>
<td>SEZ Act to be modified. The sweeping Tax soaps adversely affect the Government.</td>
</tr>
<tr>
<td>Mr. C. Rangarajan, Chairman, PM’s EAC</td>
<td>Suggests that SEZ be located in backward areas without tax benefits.</td>
</tr>
</tbody>
</table>

Source: India Today, October 9, 2006.
To sum up, the theories on International Trade had laid down certain code of conduct to be practiced by the trading partners in the international market. The observance of these would benefit each of the trading nations. The research studies relating to the role and performance of EPZs in India have not been too many. Only a very few notable studies had surfaced so far. Further, these have gone into the assessment of the performance of all zones in India. Thus there appears to be a gap in the existing literature about the importance of a need zone in the context of EPZs. Moreover, the changing scenario in the economic world had made it important for the developing countries to prioritize their needs. The emergence of Special Economic Zones has an impact in the export structure and obligation. Number of incentives and privileges are being offered to SEZ as an export promotion obligation. The literature has given the scope for a study on the emerging SEZs. The present research exercise is initiated in this direction. The earlier studies had made an attempt to study the various aspects of EPZ before the advent of SEZ. The researcher has aimed not only to study the adequacy of legislative provisions governing the EPZ/SEZ but also to review to what extent the Special Economic Zone Act, 2005 and SEZ Rules 2006 are made use of by the zones.