

**CHAPTER 3**

**OBJECTIVES OF  
THE RESEARCH &  
METHODOLOGY**

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### **OBJECTIVES OF THE RESEARCH & METHODOLOGY**

#### **3.1 INTRODUCTION AND MEANING OF 100% EOUnits**

Though certain free trade zones were set up from early sixties & various incentives offered to entrepreneurs, it was observed in the later part of the seventies that exports have not shown adequate growth and not many units had availed of the benefits under Free Trade Zones / Export Processing Zones schemes.

One of the chief reasons was the locational restrictions as the units had to be set up only in certain earmarked areas nearer to major ports or international airports and not at locations advantageous to the manufacturers. The exporters showed willingness to set up export oriented units if freedom was given to locate them at places of their choice in the country & if they were given most benefits of F.T.Zones.

As the E.P. Zones could not be set up at various places in the country, an alternative scheme was evolved. The manufacturers agreed to come forward to set up units essentially for exports on continued long term basis under customs bonded operations. The broad guidelines of the scheme termed '100% E.O.U. Scheme were announced by the Government of India in the Ministry of Commerce vide resolution No.8 (15/78 EP) dated 31st Dec. 1980.

Units undertaking to export their entire production of goods (except the sales in the Domestic Tariff Area as may be permissible under the policy) may be set up under the 100% EOU scheme. Such units may be engaged in

manufacture, production of software, agriculture, animal husbandry, floriculture, horticulture, pisciculture, poultry and sericulture. Units engaged in service activities may also be considered on merits. The objective of this scheme was of generating production capacity for exports by providing an appropriate policy framework, flexibility of operations and incentives. With a view to enable them to operate successfully in the international market raw materials, components and consumables (free of customs duties) and if procured indigenously full remission of excise duty is available. These units have to operate under customs bond and achieve the level of the value addition fixed by the Board of Approval.

### **3.2 RESPONSE TO THE SCHEME : BASIS OF PRESENT STUDY**

At the time of introduction of 100% EOU scheme the rate of customs and central excise duties on capital goods, raw materials, components and consumables was very high. As the scheme offered total exemption of customs duties on import of Capital Goods, Raw materials, Components and consumables and of central excise duty on indigenously manufactured capital goods, raw materials, components and consumables a large number of entrepreneurs were attracted to this scheme as will be seen from the tables appended below.

The period covered by the these tables is upto Sept. 1990 This period is considered significant as (1) it is a block of ten years from establishment of the scheme which is sufficient for operation of any such scheme and (2) The year 1990 just precedes the process of economic and industrial liberalisation, which commenced in the year 1991.

contd...

**Table 7**

**Year Wise Breakup Of 100% EOUs \***

<b>Sr. No.</b>	<b>Year</b>	<b>No. of Applications Registered</b>	<b>No. of Approval Letters Issued</b>	<b>No. of Approval Letters Cancelled</b>	<b>No. of Units Debonded</b>	<b>No. of Approval Letters Valid</b>
1.	1981	200	119	71	8	39
2.	1982	247	150	95	6	47
3.	1983	253	145	92	3	49
4.	1984	296	157	86	2	68
5.	1985	215	109	26	0	83
6.	1986	283	153	4	0	149
7.	1987	279	138	1	0	134
8.	1988	514	328	6	0	321
9.	1989	570	229	3	0	228
10.	1990	326	58	0	0	58
	<b>TOTAL</b>	<b>3183</b>	<b>1586</b>	<b>384</b>	<b>19</b>	<b>1176</b>

**49.82%**

**Note : No of Sick Units : 7;**

**\* As on September : 1990**

**Source : CEU Annual Report - 1989 - 90**

**Table 8****Statewise 100% EOUS**

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<b>Sr.No.</b>	<b>Name of State</b>	<b>No. of Approved Units</b>
1.	Andhra Pradesh	289
2.	Assam	5
3.	Bihar	14
4.	Gujrat	76
5.	Haryana	42
6.	Himachal Pradesh	10
7.	Jammu & Kashmir	6
8.	Karnataka	113
9.	Kerala	14
10.	Madhya Pradesh	28
11.	Maharashtra	149
12.	Meghalaya	1
13.	Orissa	17
14.	Punjab	10
15.	Rajasthan	24
16.	Sikkim	1
17.	Tamil Nadu	220
18.	Uttar Pradesh	64
19.	West Bengal	35
20.	Chandigarh	2
21.	Delhi	24
22.	Goa Daman & Diu	22
23.	Pondicherry	10
	<b>Total</b>	<b>1176</b>
	<b>(As on Sept. 90)</b>	

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**Source : CEU Annual Report 1989-90**

**Table 9**

**Industry wise 100% EOUs**

<b>Sr. No.</b>	<b>Name of Industry</b>	<b>No. of Approved Units</b>
1.	Engineering Goods	115
2.	Electronics	98
3.	Chemicals Plastics & Allied Products	281
4.	Leather & Sports Goods	14
5.	Food, Agriculture & Forest products	204
6.	Textiles	102
7.	Granites	269
8.	Paper, Paper products & Stationary	4
9.	Steel	3
10.	Minerals & Ores	16
11.	Jewellery	15
12.	Yarn	49
13.	Mica Fabricated	4
14.	Misc.	2
	<b>Total</b> (as on Sept. 1990)	<b>1176</b>

**Source : CEU Annual Report 1989-90**

Table No. 7 indicates that a lot of enthusiasm was generated among the industrial community as is evident from the total 3183 applications were registered during this period. However approval letters were issued in case of 1586 units and subsequently 384 approval letters were cancelled, 19 units were debonded and 7 units became sick. Thus the total number of units with valid approval letters remained as 1176.

Table No. 8 shows state-wise breakup of approved units. Table No. 9 shows

industry-wise break up of the approved units.

However the number of units in actual production was far less (only 14.8%) than the number of units having valid approval letters. This will be clear from the table No.s 10, 11 & 12.

**Table 10**

**Year Wise Breakup Of 100% EOUs\***

<b>Sr. No.</b>	<b>Year</b>	<b>No. of Applications Registered</b>	<b>No. of Approval Letters issued</b>	<b>No. of Units in Production</b>	<b>No. of approval Letters Cancelled</b>	<b>No. of Units Debonded</b>	<b>No. of Approval Letters Valid</b>
1.	1981	200	119	31	71	8	39
2.	1982	247	150	31	95	6	47
3.	1983	253	145	29	92	3	49
4.	1984	296	157	27	86	2	68
5.	1985	215	109	24	26	0	83
6.	1986	283	153	13	4	0	149
7.	1987	279	138	16	1	0	136
8.	1988	514	328	3	6	0	321
9.	1989	570	229	0	3	0	228
10.	1990	326	58	0	0	0	58
<b>TOTAL</b>		<b>3183</b>	<b>1586</b>	<b>174</b>	<b>384</b>	<b>19</b>	<b>1176</b>

**Source : CEU Annual Report - 1989 - 90**



**Table 11****Statewise breakup of no. of units in operation**

<b>Sr. No.</b>	<b>Name Of State</b>	<b>*No. of Approved Units</b>	<b>No of Units in Operation</b>	<b>%</b>
1.	Andhra Pradesh	289	22	7.61
2.	Assam	5	1	20.00
3.	Bihar	14	6	42.80
4.	Gujrat	76	16	21.00
5.	Haryana	42	5	11.90
6.	Himachal Pradesh	10	0	-----
7.	Jammu & Kashmir	6	1	16.66
8.	Karnataka	113	29	25.66
9.	Kerala	14	2	14.29
10.	Madhya Pradesh	20	2	10.00
11.	Maharashtra	149	23	15.44
12.	Meghalaya	1	0	-----
13.	Orissa	17	4	23.73
14.	Punjab	10	5	50.00
15.	Rajasthan	24	0	-----
16.	Sikkim	1	1	100
17.	Tamil Nadu	220	27	12.27
18.	Uttar Pradesh	64	8	12.50
19.	West Bengal	35	9	25.71
20.	Chandigarh	2	2	100
21.	Delhi	24	2	8.33
22.	Goa Daman & Diu	22	6	27.27
23.	Pondichery	10	3	30.00
<b>Total</b>		<b>1176</b>	<b>174</b>	

Source : CEU Annual Report 1989-90

From the above table it is observed that although the States having a large number of approved units, the number of units in operation is far less than that it should be. This is evident from the above table in respect of the

states of Andhra Pradesh (7.61%) Gujrat (21%), Karnataka (25.66) Maharashtra (15.44%) Tamilnadu (12.27%) and Uttar Pradesh (12.50%)

**Table 12**

**Industrywise breakup of no. of units in operation**

<b>Sr. No.</b>	<b>Name of Industry</b>	<b>No of Approved Units</b>	<b>No of Units in operation</b>	<b>%</b>
1.	Engineering Goods	115	30	26.08
2.	Electronic	98	19	19.39
3.	Chemicals Plastics & Allied Products	281	25	8.90
4.	Leather & Sports Goods	14	1	7.14
5.	Food, Agriculture & Forest Products	204	22	9.82
6.	Textiles	102	29	28.48
7.	Granites	269	25	9.29
8.	Paper, Paper products & Stationary	4	1	25.00
9.	Steel	3	1	33.33
10.	Minerals & Ores	16	6	37.50
11.	Jewellery	15	3	20.00
12.	Yarn	49	9	18.37
13.	Mica Fabricated	4	1	25.00
14.	Miscellaneous	2	2	100.00
<b>Total (As on Sept. 1990)</b>		<b>1176</b>	<b>174</b>	

**Source : CEU Annual Report 1989-90**

It can be observed from the above table that the number of units in operation in almost all the industries is far less than that it should be compared to the number of approved units.

The overall picture, as it becomes apparent from the tables given above is decidedly poor, much below a reasonable expectation. For instance, table 7 shows that out of 3183 applications registered under the scheme only 1586, approval letters were issued (49.82%). Evidently, there was more of enthusiasm than actual knowledge of the scheme.

Followed by this, 384 approval letters were cancelled, 19 units were debonded thus going out of the scheme and 7 units reported sick. Thus the number of units with valid approval letters came down to 1176 out of which only 174 units were in production. The probable reasons for the poor response to the scheme may be on account of the following factors.

1. There seems to be a total casual approach towards the scheme. Several entrepreneurs entered the 100% EOU scheme without doing adequate homework and joined the scheme just because others were doing so. Apparently, they did not undertake proper market feasibility study of their projects and products. Perhaps they were attracted by the glamour of the scheme. Many could not foresee the global market conditions with the result that they were soon outmatched and lost their markets.
2. It is possible that a large percentage of these units were small units who did not have the necessary marketing ability, proper product mix and supporting infra-structure to enable them first to penetrate into the international market and then to maintain their product against international competition.
3. Rapid technological advances have been made by countries like Korea, Hong Kong, Singapore, Thailand etc. and our units may not have been able to keep pace with this. Moreover, international market is extremely

dynamic which requires constant changes, adjustments and technological upgradation by the manufactures to retain the international buyers.

Incidentally, even when the 100% EOUs wanted to keep pace with above changes, they were unable to do so because of the restrictions imposed on them under the scheme.

4. It is a distinct possibility that some of these units depended on the buy-back guarantee of their foreign collaborators and failed to develop other markets or had a lack of marketing skill to diversify and develop alternate markets.
5. Many units might have found the scheme highly inflexible and rigid with no operational freedom.
6. In all probability such units in actual operation might have found the scheme full of rigid restrictions excessive documentation, lengthy procedures, inflexible rules, especially in dealing with customs and central excise matters, leading to delays and avoidable efforts resulting in erratic production and upsetting export shipment schedules, which could ultimately result in loss of foreign business.
7. It is also possible that, on second thoughts, many entrepreneurs found that in comparison the D.T.A. (Domestic Tarrif Area) units enjoy far more flexibility and lesser restrictions and came to the conclusion that instead of entering 100% E.O.U. schemes and remain in 'Custom Bondage' they could get more benefits under D.T.A. schemes with lesser controls.

### **3.3 FOCUS OF THE PRESENT STUDY**

From the foregoing presentation it is a logical conclusion that the 100% EOU Scheme has not met with the desired success over a long period of ten years. It is the aim of this study to find out the problems faced by these units and suggest remedial action to make the scheme more viable and popular, so that more and more units can find it attractive. The trade reforms, industrial policy changes and fiscal measures pronounced by the Finance Minister in July 1991 constituted an economic revolution. The real impetus to the EOU scheme came at the time of the Union Budget for the financial year 1992-93. Certain amendments in guidelines to 100% EOU scheme have also been effected in August 93 & February 94. Thus a stage is set for the 100% EOUs to perform and prosper.

Export earnings of the EOUs since 1980 upto March 92, are estimated at about Rs.3,230 crores. The contribution of these EOUs in India's total export earnings accounted for a dismal 2.00% during 1991-92. The important factors responsible for the slow growth and lesser contribution of EOUs to India's export earnings have been Lack of adequate knowledge of the scheme, non-attractive incentives, too many customs and excise regulations, competition faced from Export Promotion Capital Goods Scheme. (EPCG Scheme)

To overcome the India's present crisis of balance of payment (due to adverse trade balance) we need more vigorous attempts to sustain and also strengthen the present momentum of export growth. Though the successive budgets have certainly provided the necessary impetus to the export-related industries, it has not provided any specific incentives to the 100% EOUs.

In the context of the emerging scenario, the role of 100% EOUs is to be

perceived both by the Government and the industry as one of the prospective fast tracks for India's export growth. The purpose of the proposed work is to recognize the policy, procedural and practical problems faced by EOUs and to make useful suggestions so that the EOUs would rightly justify the present days' perceptions.

This study will now attempt to analyse the effect of the economic and industrial policy changes from year 1991 to year 1997.

### **3.4 HYPOTHESIS**

“Export Oriented Units and Units in Free Trade Zones are very relevant in Country’s Export Production Scenario and are indicative of high technology to the global standard, global competitiveness, high value added production and better job creation.”

“There is a need, not only to give due importance to performance and potentials of the EOU / EPZ sector in Country’s Export Production Scenario but also to resolve satisfactorily the residuary but very important issues to energise further this sector into optimising its export performance.”

## **3.5 METHODOLOGY**

### **3.5.1 NATURE OF THE STUDY**

The object was to study 100% EOU scheme, participation and performance of the units therein, and the nature of difficulties faced by them within the existing framework of policy and procedures. Therefore, this was an empirical study and as such emphasis was given on the qualitative method rather than on quantitative method.

### **3.5.2 RESEARCH METHOD USED**

Considering the nature of the subject and the qualitative method used, it was decided to use several research methods in conjunction with each other. It was believed that in this way the limitations of a particular method will be overcome by some other method and that this approach will enable one to arrive at more valid conclusions. In view of this the following methods were used :

#### **1. Survey method.**

i) Questionnaire

ii) Interviews with representative of '100% EOUs'

#### **2. Library Method**

**1. Survey Method :-** It was decided to choose '100% EOUs' situated in the states of Maharashtra and Gujrat for the purpose of this study.

These two states were chosen as they are already industrially developed States having easy access and better telecommunication facilities. 96 units



under the scheme were chosen at random from this area and a questionnaire was mailed to them inviting information about their organisation, activities and performance.

i) Questionnaire :- The structured questionnaire was so devised to elicit information on the nature and activities of the unit, performance, such as FOB value of exports, domestic sales, total turnover and CIF values of imports during the period of 5 years from 1990-91 to 1994-95. The crucial part of the questionnaire consisted of their views on 100% EOU scheme, such as, Basic Issues, Issues related to EXIM Policy and Procedures, Customs and Excise procedures, Duty structure and taxes, Fiscal and Banking Issues, Labour issues and problems faced by them within the overall framework of the existing scheme. Structured questionnaires are those which pose definite, concrete and preordained questions, i.e. they are prepared in advance and not constructed on the spot during the questioning period.

Closed form questionnaires are used when categorized data are required, i.e. when they need to be put into definite classifications.

On the other hand the open-end responses are free and spontaneous expressions on the part of the informant who is not limited in his replies to a particular question posed to him. The open-end responses are used chiefly for intensive studies of a limited number of cases or for preliminary exploration of new problems and situations. The respondent is asked to express his viewpoints, indicate his problems and report on details and events, without restrictions imposed as in the case of closed questions.

Keeping this in view Part I & Part II were closed form questionnaire and Part III was open-end questionnaire.

The intention of sending the above questionnaire to various units was, besides collecting relevant information and opinions, to form a basis for actual field work by way of personal interviews.

The full format of the questionnaire is appended to this work as Appendix-I

ii) Interviews : However, in spite of a reminder the response to the questionnaire sent to the units was so poor that the researcher decided to interview some units at random. Out of 96 questionnaires sent only 3 were returned duly filled in. Out of these 3 units, one unit had already opted out of 100% E.O.U. scheme. It was inferred from the replies of the remaining 2 units that they were not happy with the existing framework of the scheme.

As stated above, it was the intention to select some units for further field work by way of personal interviews on the basis of replies to the questionnaire since the response to the questionnaire by the 96 units to whom it was sent was so hopelessly poor, that there was no alternative but to choose some units at random for the purpose of further study by way of personal interviews.

Notwithstanding the above, the advice given to the researcher by almost all units was that he should approach their representative body viz Confederation of Export Units (C.E.U.), as they take up their problems and grievances with C.E.U. from time to time. In their opinion, C.E.U. alone was the best source of information and being a representative body was in a position to explain the difficulties and problems of the 100% E.O.U. s and also make recommendations for remedial action.

**2) Library Method :-** It will be seen from the above that the method of questionnaire and personal interviews did not yield the expected result, the

researcher had to depend on the Library Method as the main aid for this study. Although library method is a common method in any research work, other methods depending upon the nature of the study prove equally important. Unfortunately, in this case it was not so. Therefore the researcher had to resort to the library method.

The information was gathered from the following sources :

The sources are duly acknowledged at appropriate points and stated in the appendix

- a) Books periodicals and reports published from time to time by C.E.U. mentioned in Bibliography
- b) Books on the particular subject published by private agencies. mentioned in Bibliography
- c) Export and Import policies announced by Ministry of commerce, Govt. of India along with hand books of procedures.
- d) Economic journals and periodicals.
- e) Press Reports.

### **3.5.3 LIMITATIONS OF STUDY**

Though various sources were tapped, researcher had to depend very heavily on Interviews & Library

Since other responses were not very encouraging perhaps because of their own justifiable reasons.

## QUESTIONNAIRE

### I Background Data

- 1 Name of the firm and  
Year of establishment
  
- 2 Correspondence Address, Telephone  
No,s , Telex No,s
  
- 3 Manufacturing activities of the firm
  
- 4 Nature of the organisaton  
( Public Ltd,Pvt.Ltd, Partnership etc.)
  
- 5 Is the firm recognised as  
Export House / Trading House /  
Star Trading House / Super star Trading  
House ?

### II Performance Data

- I Total Exports during the last five Yers.

Product	Firms Exports In FOB value					Yearwise % Growth Over Preceding Year				
	90 / 91	91 / 92	92 / 93	93 / 94	94 / 95	90/91	91/92	92/93	93/94	94/95

- 2 Break up of turnover during the last five financial years.

Year	FOB value of exports	Domestic sale	CIF value of imports	Total turnover
90 / 91				
91 / 92				
92 / 93				
93 / 94				
94 / 95 (estimated)				

- 3 Contrywise breakup of total exports during the last five finacial years.

Contry	FOB Value in Rupees.				
	90 / 91	91 / 92	92 / 93	93 / 94	94 / 95

**III Firms View On 100% E O U Scheme : Response Sheets Attached.**

**I Issues raised with & suggestions made to Gill Committee / Confederation of Export Units ( C E U ) by the firm to review policy & procedures applicable to E O U / E P Z Units.**

**A Basic Issues :-** 1 Single window clearance  
2 Interscheme mobility  
3 Harmonization of norms of various export promotion schemes.

**B Exim Policy Issues:-**

**C Exim Procedures :-**

**D Duty structure & taxes :-**

**E Fiscal & Banking Issues :-**

**F Labour Issues :-**

**G Customs & Excise procedures :-**

**H Any other.**

**2 Issues raised by the firm with Central Board of Excise & Customs ( CBEC ) & Ministry of Commerce, GOI.**

**3 Issues not voiced at the above instances by the firm but considered urgent & important in creating smooth working environment for 100% Export Oriented Units.**

**4 Problems, peculiar to E O U S in the State Of Maharashtra.**

**5 A ) In the light of the recent Union Budget 1995-96, how do you guage the repercussions of it on 100% E O U'S ?**

**B ) Please opine with reference to your own establishment.**