PART ONE

GENERAL

CHAPTER – 1   INTRODUCTION

CHAPTER – 2   INDIA’S FOREIGN TRADE DURING 1950-95 – AN OVERVIEW
CHAPTER – 1

INTRODUCTION
The vital role that the "Foreign Trade" plays in the economic transformation of a country in general and a developing country in particular is of strategic importance. While imports hasten up the process of industrialisation by providing from abroad the most essential and immensely needed raw materials, intermediary and capital goods, technical know-how and other indispensable inputs for the developmental activity, exports 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, to wipe-off the trade deficits, and to maintain, if not improve its capacity to meet the debt repayment obligations----depends mostly upon its export earnings.

Economic growth through trade is not a new phenomenon, as trade since long been treated as an "engine of growth"¹, an "activator of change", a "barometre of economic progress", a "handmaiden of successful growth" ² and an "additional efficient machine of production" ³. Many classical economists: Adam Smith, David Ricardo, John Stuart Mill, Alfred Marshall etc., and neo-classical economists: Heberler G, Baldwin G.B, Cairncross A. K, Hla Myint, Gerald Mair etc., 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. There are certain other economists like Frederich List, Joseph A. Schumpeter, Allan A. Young and J.B. Williams and others including Gunnar Myrdal, Raul Prebisch, Regnar Nurkse, Kindleberger------who start their analysis by dispelling any illusion regarding the role of foreign trade in stimulating the economic transformation of the developing countries of the twentieth century. Their contention does not imply that foreign trade has no vital role to play in the process of the economic development of the developing countries but were pessimistic about its significance to the present developing countries. They viewed that foreign trade served as an engine of growth for the developing countries of the nineteenth century and the external stimuli to growth and industrialisation which were

1. This term which is widely accepted in economic literature was introduced by D.H. Robertson in "The future of International Trade" in H.S Ellis and L. S. Metzler - "Readings in the theory of International Trade" (London 1957), pp 497 - 513.


available to them are no longer available to the present developing countries——which have
been the targets of exploitation, economically weak, and heavily dependent. Regnar Nurkse¹
is a stanch advocate of the historical engine of growth and current trade pessimism
phenomenon. Though not an autonomous engine of growth for the present developing
countries, Irving B. Cravis held the view that foreign trade is certainly a handmaiden of
successful growth and an additional efficient machine of production at their disposal
transforming exports into inputs and inputs into outputs².

THE WORLD ECONOMIC SETUP

The Developed Market Economy (DME) Countries with just 15.4 per cent of global
population, enjoy 79 per cent of total world income. In contrast, the Developing Countries
and Territories (DC & Ts), with more than 78 percent of global population receive around
18 per cent of world income. Even among the Developing Countries, the Low Income Group
(LIG) countries, among which India is one, with more than 54 per cent of the global
population receive only 4 per cent of world income. The per capita income of these countries
is relatively very low (average being $315) and their growth and development has been
painfully low and disappointing.³

INTERNATIONAL TRADE SETUP

The international trade is heavily dominated by the DME countries. Table 1.1 gives
the select region wise global imports, exports, and Balance of Trade. While the DME

¹ Regnar Nurkse: “Balanced and Unbalanced Growth and Pattern of trade and
Development”, reprinted in Equilibrium and Growth in World Economy, edited by G.

² Irving B. Cravis held the view that - “Growth where it occurred (19th Century developing
countries which are now well developed in the world) was mainly the consequence of
favourable internal factors and external demand represented by added stimulus, which varied
in importance from country to country” - “Trade as a Handmaiden of Growth - Similarities
between 19th and 20th Centuries”, Economic journal, December, 1970.

³ The calculation of the percentages are based on the statistical data given in the Handbook
Trade and Development (UNCTAD), New York, pp 337 - 341.
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<th>Year</th>
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<td>19285</td>
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* By Income-groups (Per capita G.D.P. in 1990) - Below $ 700; ** Bot : Balance of Trade.

countries account for 70 per cent of global trade, the Developing Countries (DCs) account for around 27 per cent and the remaining 3 per cent is accounted for by the East European countries. The LIG countries having more than 54 per cent of global population account for as low as 4 per cent of global trade.

During the past four and a half decades (1950-1994), global trade registered phenomenal growth. While global exports during the period increased 67.53 times (annual average growth rate being 52 per cent) from $61919 million in 1950 to $4181089 million in 1994; and global imports increased more than 67 times (annual average growth rate being 52 per cent) from $63698 million to $4270244 million; the exports of the DME countries during the same period increased more than 77 times (annual average growth rate being 54 per cent) from $37558 million to $2909861 million and the imports increased 70 times (annual average growth rate being 53 per cent) from $41721 million to $2916605 million; the exports of the DC & Ts increased by 56.66 times (annual average growth rate being 50 per cent) from $20417 million to $1156784 million; and imports increased by 68 times (annual average growth rate being 52 per cent) from $18143 million to $1248019 million; and the exports of the LIG countries during the same period increased by 38.32 times (annual average growth rate being 44 per cent) from $4832 million to $185181 million and their imports increased by over 45 times (annual average growth rate being 46 per cent) from $4408 million to $200023 million.

The above facts and figures indicate that imports in case of the DC & Ts in general and LIG countries in particular registered a faster growth rate than exports resulting in huge trade deficits. While the balance of trade deficit of the DME countries marginally increased from $4163 million to $6744 million; that of the DC&Ts increased from a surplus of $2004 million to a deficit of $91235 million. The position of the LIG countries is still worse. Trade balance nose-dived from a surplus of $424 million to a trade deficit of $14842 million after touching an all-time peak of $33824 in 1985 and $28382 million in 1993.

With more population, meagre income, and low rate of growth of exports, and high rate of growth of imports resulting in increased trade deficits and growing international debt and the consequent heavy debt amortisation payments every year—the Balance of Payments (BoP) position of the DC&Ts in general and the LIG countries in particular has been
disastrous and catastrophic. The select region-wise BoP position is presented in Table 1.2. The BoP deficit of the DCs increased from $ -10225 million in 1970 to $ -107926 million in 1993 and that of the LIG countries surged from $ -2674 million to an all-time peak of $ -29309 million.

With growing deficits of balance of trade and balance of payments and increasing debts and debt amortisation payments and when foreign assistance / aid is not available in adequate quantum-----the DC&Ts and especially the LIG countries have no other alternative except to make all-out efforts to augment their exports, formulate and pursue various export promotion policy measures to tide over the crisis of severe BoP disequilibrium. Export or perish appears to be their position. Accordingly, the DC&Ts and more so the LIG countries have been making relentless and persistent efforts to augment their exports by making policy changes, which are conducive to increasing exports and pruning the unnecessary fats in imports. Setting up of Export Processing Zones (EPZs) to produce value added products/commodities only for exports and thereby to earn valuable but scarce foreign exchange is one of such efforts. The EPZs in general and the EPZs in India in particular constitute the linchpin of this present study. As such, it is quite proper and befitting to briefly deal with the concept of EPZ and the origin and development of EPZ movement.

CONCEPT OF EPZ

There is a wide ranging terminology of the concept of the term “EPZ” which, inter alia, includes “Free Trade Zone”, “Free Port”, “Transit Zone”, “Free Perimeter”, “Free Zone”, “Industrial Free Zone”, “Investment Free Zone”, “Export Processing Free Zone” etc., in different countries. There are at least nineteen different terms to describe the concept of EPZ (see Annexure No: 1)

These days, the emphasis particularly among the DC&T countries is to establish EPZs which concentrate on export-oriented production (manufacturing or processing or both for exports) and to generate employment opportunities in manufacturing sector, as the trading activities could not fetch optimum foreign exchange earnings and could not generate employment opportunities to the desired extent. Starting with a low momentum, the process of industrialisation gradually picks up speed to reach out export markets. An industrial sector
TABLE 1.2
BALANCE OF PAYMENTS IN WORLD SCENARIO - SELECT REGION WISE
(Millions of US $)

<table>
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<th></th>
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<td>Developing Countries</td>
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<td>N.A.</td>
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<td>33909</td>
<td>-35840</td>
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<td>-69558</td>
<td>-86877</td>
<td>-107926</td>
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<td>Low Income-group Countries*</td>
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<td>N.A.</td>
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<td>-10746</td>
<td>-25697</td>
<td>-9692</td>
<td>-8242</td>
<td>-14593</td>
<td>-29309</td>
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</table>

* By Income-group (per capita G.D.P. in 1990) - Below $ 700.

Reseve Bank of India.
Annual Reports, Ministry of Commerce, Government of India, Several numbers.
developed under protection is unlikely to be in a sound position to export as it does not possess technological, marketing, and management know-how. These must be imported for a sum, which the developing countries unfortunately can not afford to spend. They must seek out cheaper alternatives. EPZ is a method of proven practicability which gained momentum and acceptance in recent years.

EPZ was a term first used more than two decades ago\(^1\) to describe an instrument of expanding foreign exchange earnings through the export of manufactured goods. Over the last two decades, there has been a considerable evolution in EPZ concept. First, the benefits and advantages of EPZ have been extended to areas scattered throughout a country's territory in which national or foreign firms are located. Some EPZs cover a very large area as in the case of Special Economic Zones (SEZs) of China. In other cases, a whole country has an EPZ status (Mauritius).

Another development of the concept of EPZ has been the growing share accounted by domestic capital firms located in EPZs. This is explained primarily by the need to diminish the instability of manufacturing activities and establish them more firmly in the EPZs and to increase the local value-added of their exports. Currently, some two-thirds of the enterprises in the developing countries' EPZs are either local firms or joint ventures with foreign partners.\(^2\)

Yet another variation in the emergence of EPZs is their function as Service Zones in the areas of banking, insurance, and data processing. Thailand, Argentina, Taiwan, Jamaica, Philippines, and Tunisia have established EPZs for data processing and banking.

**MEANING OF EPZ**

An EPZ is clearly a delineated industrial estate, which constitutes a free trade enclave in

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1. Used by Puerto Rico when an EPZ was established in the Island (Caribbean) in 1962. Quoted in *Indian Institute of Foreign Trade, New Delhi's “EPZs in India - A case study of KAFTZ”, Occasional paper, January 1990, p 3.*

the customs and trade regime of a country and where foreign and domestic manufacturing firms produce goods for export purpose only. The firms benefit themselves from a number of policy-enclave, and fiscal and financial incentives.

EPZs are different in their nature and meaning from Free Trade Zones (FTZs). While EPZs focus more on production and/or processing for export, an FTZ is meant for free exchange of goods for re-export.

**OBJECTIVES OF ESTABLISHING EPZs**

EPZs are generally created by many developing countries for the purpose of developing export-oriented industries. Foreign investment is to provide the main impetus. The other objectives of establishing EPZs include generating foreign exchange earnings by attracting foreign direct investment, creating employment opportunities, acquiring and upgrading labour and management skills to promote the technology transfer, establishing linkages between EPZs industries and domestic economy for making better use of domestic natural resources and development of backward regions.

**CHARACTERISTIC FEATURES OF EPZs**

The positive and sound characteristic features of EPZs, in general, are as follows:

1. EPZs provide an internationally competitive duty-free environment for export production at low costs. They are generally situated near seaports/airports. Land-locked Zones are also existing. All goods can be freely imported into and exported from the Zone if they are not in the prohibitive list of any country's trade policy. All laws of the host country, except those relating to customs, usually apply within the Zones.

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2. It is a country, which provides ready built facilities for export manufacturing and/or processing, and offers lucrative package of incentives for the units to be established in its EPZs.
2. EPZs ensure simplified but speedy export and import procedures, provision of customs wing and single-window clearance facility, quick approvals, and provision of service and training centres.

3. EPZs provide high-class and internationally comparable physical and trade-related infrastructure to the investors by way of fully developed plots, Standard Design Factories (SDFs), industrial sheds, power, water, and communication systems, internal transport facilities, cargo handling, container stuffing and destuffing, drainage and sewerage systems, besides providing excellent commercial and social infrastructure.

4. The authorities which established EPZs grant a wide-spectrum of policy enclave and fiscal and financial incentives. The general list of incentives offered by EPZs includes----- income-tax exemption of salaries and other incomes of foreign employees (Egyptian EPZs), tax-holiday for varying periods (Philippines and Indian EPZs), full remittance of earnings, capital, and investment in foreign exchange (Philippines EPZs), no limit on equity holdings, (Sri Lankan, UAE, and Indian EPZs), protection against nationalisation (Sri Lankan, and Indonesian EPZs), loans, interest, and export finance at preferential rates from the banks (Mauritius, Chinese, and Malaysian EPZs) etc.

5. EPZs are policy - enclaves in the sense that their establishment, provision of facilities for export units, incentive package, conditions of approval, export obligation, performance appraisal etc., are embodied in the policy of the Government on EPZs. Thus, EPZs are the off-shoots of Government policy.

6. EPZs are physically, socially, and economically separated from the rest of the country. This feature distinguishes EPZs from other export promotion measures adopted by the Governments of the Developing Countries. Exports of EPZs largely embody the economy's surplus resources without causing any distortions in the rest of the economy.

7. EPZs have a strong compound boundary-wall with “y” type barbed fencing. EPZs units are expected to operate under a custom-bond for a certain period of time. They should generate a targeted Net Foreign Exchange (NFE) earnings and / or to attain a prescribed per cent of Value Addition (VA).
8. EPZs of many developing countries permit manufacturing, warehousing, breaking and making bulk, labelling, grading, commercial services, and data processing activities.

9. EPZs provide employment opportunities on a large scale in low-skilled manual operations which do not take much time to learn. Young female workers constitute around 60 per cent of the total work-force employed in EPZs.

10. In order to ensure uninterrupted export production and to design a committed work environment with industrial harmony for the operating firms and workers, many countries have banned trade union activities inside the Zones and enforced anti-strike laws. "Public Utility" status is conferred on the units constituting the EPZs.

11. The EPZs in the developing countries generally attract non-complex industries which are vertically integrated into transnational corporations. These corporations moved labour-intensive stages of their production processes to the EPZs in the developing countries in response to labour-cost differential between the developed and the developing countries.

12. The share of domestic value added in EPZs exports does not normally exceed 25 to 30 per cent but may be considerably lower. Wages paid to workers constitute major proportion of domestic value-added. Other elements of value addition include charges for local, public and private services, lease of land and rent for factory buildings.

13. A wide-range of products are manufactured by EPZ firms. Such a range includes electronics, computer software and hardware, consultancy, light engineering goods, garments, clothing, leather products, electrical products, optical goods, foodstuffs, wood products, jewellery, rubber products, chemicals and related products, plastics, toys, sports goods, automobile parts, components, minor transport equipment etc.

14. The EPZs are administered, managed and controlled by Port Authorities, Corporate Entities, EPZ Authorities, Investment Promotion Boards etc., with due sanction from the Acts of Parliament in most of the developing countries. In certain other countries like India, the EPZs function as Departmental Undertakings attached to the Ministries of Commerce, Trade, and Industry.
The phenomenon of EPZ is not altogether new. It is quite ancient, but is gaining all importance in the present day as a result of the growing realisation among the developing countries of the world to augment their exports and is hailed world over as an instrument to mitigate the rigors of BoP disequilibria of developing countries. The origin and growth of EPZ movement is quite fascinating and rightly deserves a place to mention, at this stage.

ORIGIN AND GROWTH OF EPZ MOVEMENT

The idea of FTZ dates back in history to the ancient and medieval times. The ancient Phoenicians, Greeks, and Romans adopted the FTZ as a tool for aggressive commercial powers. They encouraged foreign merchants to come to their territories by guaranteeing safe passage. Cities in the Mediterranean used FTZs in the middle ages. In 898 AD, England's King Alfred—the Great granted the right to land ships at Queenshite in London to Plegmund, the Archbishop of Canterbury without paying normal customs duties.

Over the years followed, many Governments adopted this idea. The Steelyard in the City of London was a special part of the port reserved for businessmen from the League of Hanseatic cities of North Germany. They were allowed to negotiate the occasional one-off payment into Government coffers instead of paying customs dues on goods passing through Steelyard.

Colonial powers, in the later years, established FTZs when the trade between them and the colonies began to develop. They also established free cities and ports to attract a portion of the trade for themselves. They established FTZs at focal points on the international trade routes. Prominent among these were the FTZs at Gibralter (1704), Singapore (1819), and Hong Kong (1842). These were the free ports, which mainly engaged themselves in re-exporting and providing ship-stores.

In the later part of the 19th Century and early 20th century, there was a rapid expansion of the Free Port idea in Europe. The international trade picked up momentum after the Second World War. FTZs were established at key points on the international trade routes.

throughout the world. Colon in Panama was probably the most successful FTZ in this period. In 1930s, the USA created Foreign Trade Zones by perceiving them as additional tools of lowering the cost of production so as to make use of its operations more attractive.

The developing countries neglected to focus on FTZs until the UN Resolution was adopted by the Economic and Social Council. This resolution suggested that one of the fundamental courses for export expansion for the developing countries was to improve customs and trade Zone facilities.

Until recently, FTZs performed warehousing and re-export functions. Trade volume and employment were not on large scale. This device was used by cities and ports on international trade routes and most of the FTZs were established at a time when world trade was expanding.

During the later parts of the decades of fifties, sixties, and seventies—a new and refined form of FTZ gained popularity i.e EPZ. This form of FTZ reduced the significance of trading activities and gave impetus and more significance to employment generation on a large scale in fresh avenues and to develop manufactured exports by production or further assembly/processing activities. They were carved out of nation’s geographical extent and were given policy-support from the Governments concerned. They were designed to attract foreign investment and technology to manufacturing industry.

The world’s first EPZ was established in Ireland at Shannon in 1959. Thus, the first EPZ was born. Initially, the primary objective of this EPZ was to maintain employment at the Shannon airport by promoting manufacturing activities to generate air freight. The EPZ proved an ideal method for promoting industry based on imported raw materials (the necessity arose due to the limited domestic supply) and exported finished products. The EPZ at Shannon became a prime agent in Ireland’s drive for export industry throughout the 1960s.

1. United Nations (UN) : 1506th Plenary meeting held on August 4th, 1967

Following the success of Shannon, EPZs were set up elsewhere in the world in countries trying to establish an export sector for growth and development. The most significant examples of EPZs are at Kauoshing in Taiwan (1960s), Mayagaez-Puerto Rico (1962), Kandla - India (1965), Sungaiway and Bayon Lepas - Malaysia (1971), Batan - Philippines (1969) and Masan - South Korea (1970).

During the later part of the seventies, eighties, and the nineties — Chile, China, Columbia, Costa Rica, Cyprus, Egypt, Honduras, Indonesia, Jamaica, Jordan, Mauritius, Netherlands, Sri Lanka, Turkey, UAE, Uruguay — all have gone ahead with the establishment of EPZs.

Despite the inadequacy of data, Table 1.3 is compiled only to highlight the fact that in the total exports of the EPZs in the world, the share of the exports of the EPZs in developing countries is quite high, imposing, and dominant at around 93 per cent, and that the share of the exports of the EPZs of the developed countries is marginal at 6 per cent. This may be perhaps due to the fact that almost all the exports of the developed countries are very much value added and hitech products. The deficits in balance of trade and balance of payments of the developed countries are not high and they can withstand the resultant disequilibria with their inherent and accumulated strength. Thus, they depend less on EPZs, but the position of the developing countries and more so, the LIG countries is altogether different. Their capacities to export are meagre. Their import needs are quite high and growing at an accelerated pace. The resultant deficits of the balance of trade and balance of payments have been widening. Their capacities to confront and tide-over the disequilibria are limited. Most of the developing countries and especially the LIG countries have been making every effort in exploring fresh avenues of means to augment their exports. Thus, they nurture and develop the EPZs only with a fond hope that they would accelerate the pace of their exports and hence their dominance in the share in the total world EPZs exports.

STATEMENT OF THE PROBLEM

Against a targeted share of 5 per cent in All-India exports by the end of the Eighth Five-Year Plan, the share of exports of the Indian EPZs (IEPZs) has almost been stagnated around 3 percent. The Eighth Five Year Plan has just receded into the past leaving
### Table 1.3
**A Glimpse at the Export Processing Zones in the World**

<table>
<thead>
<tr>
<th>Region / Country</th>
<th>Number of EPZs</th>
<th>Number of Units</th>
<th>Area (Hectares)</th>
<th>Employment (Persons)</th>
<th>Total Exports of EPZs during the Decade (US Million $ f.o.b.)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1)</td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
</tr>
<tr>
<td>World</td>
<td>555 (100)</td>
<td>6876 (100)</td>
<td>419247 (100)</td>
<td>555121 (100)</td>
<td>443906 (100)</td>
</tr>
<tr>
<td>Developed Countries</td>
<td>231 (41.62)</td>
<td>894 (13)</td>
<td>3169* (0.76)</td>
<td>57589 (10.37)</td>
<td>26320** (5.93)</td>
</tr>
<tr>
<td>Developing Countries</td>
<td>313 (56.39)</td>
<td>5490 (79.84)</td>
<td>415303.31 (99.06)</td>
<td>443978 (79.98)</td>
<td>414228.59 (93.31)</td>
</tr>
<tr>
<td>India</td>
<td>9 (1.99)</td>
<td>492 (7.16)</td>
<td>774.69 (0.18)</td>
<td>53554 (9.65)</td>
<td>3381.56 (0.76)</td>
</tr>
</tbody>
</table>

* Area figures relate to the available data in respect of a few developed countries.

** Export figures relate to the available data in respect of a few developed countries.

* Data for the four years 1985-86 - 1988-89 were available in full. For the remaining six years, the data was not completely available.

& Pertainsto EPZs under the administrative control of MOC, Government of India.

**Source**: Compiled from:
1. The data available in WEPZA International Directory of EPZs & FTZs, Flagstaff Institute, Arizona, USA. June 1996
2. The World Trade Scenario - FTZs in selected Developing Countries, IIFT, New Delhi, 1990.
the target unfulfilled. The existence of the EPZs in India has been questioned on certain occasions and in certain forums for their export performance falling below expectations.

CONTRIBUTION OF THE STUDY

The present study earnestly attempts to analyze the export performance of the IEPZs in every detail viz., exports, imports, and NFE earnings, share in country's overall exports, sector-wise export performance, destinational pattern of exports including area-wise and country-wise exports at macro-level and an empirical analysis at micro-level of the export performance of individual EPZs. It brings to light the constraints of the IEPZs in general and the operational, financial, and marketing problems of their constituent units. It seeks to assess the foreign direct investment into the IEPZs and throws some light on their future prospects. The study also suggests ways and means to make the IEPZs the effective policy-instruments of export promotion.

REVIEW OF THE EXISTING LITERATURE

Though not a maiden work, this research endeavour is relatively quite new in nature and is incomplete without surveying the existing literature on India's foreign trade in general and the IEPZs in particular. There are good number of studies made on India's foreign trade — commodity-wise, destination wise, and on policy issues. But studies on EPZs in the world in general and IEPZs in particular are very much limited.

Morton and Tullock \(^1\) opined that foreign trade is a vital sector of a country's economy and it substantially contributes to the economic welfare of the people and the development of resources. Kindleberger's \(^2\) study found that every country tried to export more than what it imports. Exports can be a leading sector in growth or a lagging one. Fredie Mehta\(^3\)

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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.

In the Indian context, among the many studies available on India's foreign trade, "India's Exports: trends and the prospects of self-contained growth" 1 highlighting India's export sector during the decade of fifties, and assessing the country's export performance on export front; "India's Exports and Export policies in the 1960s" 2 throwing ample light on exogenous and endogenous factors affecting India's export performance and the policy-regime during 1960s; and "A Decade's Development of India's foreign trade - 1970-71 - 1979-80" 3 analysing the growth and development of India's foreign trade during the decade of seventies in general and exports in particular and the empirical analysis at micro level of the export performance of seven selected prominent export commodities----are worth mentioning. These three important studies are in sequence encompassing the decades of fifties, sixties, and seventies.

Jagdish Bhagwati 4 provided full account of India's export trends, trade policies, and export performance in the context of the wider policies of industrialisation in 1950s and 1960s. Panchmukhi's 5 quantitative analysis of India's overall trade policies covers the decade of 1960s. Venkataraman 6 stressed on liberalisation of economic policies affecting the industrial


sector with a view to stimulating further investment, modernisation, and export competitiveness. Dhyan Singh Bhau and Priyanka Singh \(^1\) assessed the impact of recently liberalised trade policy measures and concluded that the policies were useful and conducive for India's foreign trade to scale new heights. Y.L. Rao and Keshav Kishore Mallik \(^2\) analysed the theoretical perspectives of foreign trade and examined the causes and consequences of the new economic policy of the Government of India in respect of foreign trade. Eric Gouslaves \(^3\) estimated that India's export markets encompassed all the continents and her foreign trade accounts for nearly 6600 items of export and import. Dinesh Singh \(^4\) advocated for deliberate and purposive policies for enlarging production base, promotional measures, back-up institutional services support and sustained efforts for transformation and diversification of commodity composition as well as destination pattern of foreign trade. Kulwinder Kaur \(^5\) argued for establishment of such manufacturing industries which can ably meet the demands of domestic consumption and provide employment opportunities and earn more foreign exchange earnings.

Bhatt \(^6\) states that our entrepreneurs are simply content with what they imported and were not bent very much on the upgradation of technology. Vinod Parekh \(^7\) is of the view

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that the entrepreneurial talent, human and natural resources, and production facilities are available in India in an ample manner.

Though these works have not studied India's foreign trade and export sector in the light of many changes that swept the Indian economy in the recent past; they do provide a good background for assessing the export performance of India starting from fifties in general and the decade 1985-86 - 1994-95 in particular.

Guerrero and Endencia\(^1\) analysed the economic performance of EPZs in relation to the objectives set before them by the host countries and complex socio-anthropological analysis of the impact of the EPZs. Hamada\(^2\), Rodriguez\(^3\), Grubel\(^4\), and the more institutional papers by Wall\(^5\), Ping\(^6\), and Diamond\(^7\) have examined the economic logic or the welfare aspects of the EPZs. I. M. G. Consultants\(^8\) and Warr\(^9\) compared the return on public investment on


the EPZs with alternative investment opportunities available to the host countries. They made economic evaluation of EPZs within the social benefit-cost framework and provided useful insights for estimating various components of benefits and costs for further progress.


spite of some data insufficiency, which is primarily due to non-furnishing of data by member-Zones, the work is still a good compendium, which is authoritative and authenticated.

Eduardo Arango Pinieres \(^1\) opined that EPZs provide an ideal situation for production-sharing where the large companies, through comparative advantage, locate and/or relocate and reach their objectives of achieving competitive prices and excellent product quality in labour intensive products. He identified two tendencies-----first, being that of a deliberate option of a development policy towards exports and second, being that of increasing their competitiveness.

Paul Meo \(^2\) argued that many feasibility studies, individual studies and expansion studies only showed that the EPZ concept is not necessarily bad. 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. Robert C. Haywood \(^3\) stressed that the marketing and promotion of EPZs was one of the key factors that distinguished between successful Zones and struggling Zones. Kelleher \(^4\) provided an account of the framework, policy considerations and other pertinent facts in a systematic manner. But this publication has become outdated by now. According to a study conducted by the Economist Intelligence Unit (E.I.U.) London \(^5\), there was a tremendous growth in the number of FTZs in the developing countries during the decade or so.

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In the Indian context, the Indian Council for Research on International Economic Relations (ICRIER), New Delhi sponsored a study by Rajiv Kumar. This pioneering work evaluated Kandla Free Trade Zone and Santacruz Electronics Export Processing Zone in terms of labour relations, export performance, foreign collaboration, and social benefit-cost analysis until 1985. It examined at length the efficacy of EPZs as an institutional policy measure for export promotion and employment generation in Indian context and evolved a general framework within and by which the working of these Zones and their impact on the host economies could be assessed.

The IIFT, New Delhi conducted three studies on EPZs. The first one presents a brief account of the chronology of EPZs in India and afterwards it throws ample light on KAFTZ until 1988-89. The second one is a compilation work on FTZs / EPZs in the selected developing countries. It is a collection of the profiles of the Zones until 1989 only. The third one is a case for establishing an EPZ on the eastern coast of the country. It examined the potentiality of Visakhapatnam in Andhra Pradesh to create an EPZ and recommended for the same in 1983. These four works are the relevant sources to reckon with in relation to any research endeavour on EPZs in India. They are in fact, the starting point and trail-blazers for the present study.

Almost all of them are outdated as they studied partially one or two aspects of one or two EPZs in India. There is as yet no exhaustive work on all EPZs in India and more so there is no any work covering the decade 1985-86 - 1994-95.


There were some occasional articles on certain EPZs in certain journals and dailies. Some of them were thought provoking. The researcher himself has written three articles on the IEPZs which were received by the readers interested to know on the IEPZs.

The reports submitted by the expert committees on the IEPZs at the request of the Government of India for making policy decisions, throw some light on EPZs in India. But these studies have been made for suggesting ways and means on certain aspects of the IEPZs only.

NEED FOR THE PRESENT STUDY

It is evident from the above review of literature that there are good number of studies made in India’s foreign trade for different periods and trade in select regions and in select

1. Vittal, N: "FTZs and Export Policy", Foreign Trade Review, IIFT, New Delhi, October-November 1977, pp 396 - 414
V P Raghu: "All World is our market", Industrial Herald, December 1992, pp 41 - 45

Chawla and Ila Singhal: "How effective are our EPZs?", Financial Express, November 25th, 1993.
Rao K.V: "Have EPZs lost their relevance?", The Hindu, October 7th, 1993.


4. Kaul Committee (1978) for KAFTZ.
A Review Committee on electronics for SEEPZ (1979).
P.L. Tandon Committee (1982) to lay down clearly the future policy for starting more EPZs and other policy issues.
Jayanto Roy Committee (1992) to prescribe a uniform value addition for IEPZs units.
J.S. Gill Panel (1993) to review policy and procedures applicable to EPZ units.
commodities, policies etc. But the studies on EPZs either at global or national level are very much limited. No study is made on the IEPZs relating to the decade 1985-86 - 1994-95 and hence the present study. It is earnestly hoped that this study would fill the vacuum in this area of studies.

OBJECTIVES OF THE STUDY

The objectives of the present study are:

(a) to study India's foreign trade trends in the post independent period,
(b) to examine, analyse and evaluate the export performance of the IEPZs at macro level,
(c) to carry out an empirical analysis at micro level of the export performance of the individual EPZs and their role in India's exports,
(d) to assess the Government of India's policy relating to the IEPZs,
(e) to assess the foreign direct investment in the IEPZs,
(f) to bring to light the constraints of the IEPZs and the problems which are confronted by the units constituting the IEPZs,
(g) to suggest ways and means and remedial measures for better performance of the IEPZs, and
(h) to present the summary and concluding observations of the study.

SCOPE AND PERIOD OF STUDY

This study centres round the export performance of the IEPZs. The period chosen for the study shall cover ten years starting from 1985-86 for analysing the export performance of the IEPZs at macro - level. The empirical analysis at micro level of the export performance of each and every seven IEPZs is made separately. The period of study at micro level starts from the inception of each EPZ and ends with 1994-95. The motivating factors for choosing the present decade are:
(a) During this decade, India's foreign trade sector's performance has been commendable and substantial in comparison to the earlier decades.

(b) During this decade, Government of India established five out of seven EPZs with a view to add strength and stamina to the existing EPZs.

(c) The export performance of the IEPZs either individually or wholly improved considerably during this decade.

(d) After the pioneering work of ICRIER, New Delhi, no comprehensive study, bringing India's exports sector and the IEPZs to a common stage to throw light on the IEPZs in India's exports, has been conducted during this decade.

(e) Moreover, this is the latest decade for which fairly-large amount of data on India's exports and on the IEPZs is made available.

Hence, the choice of the present decade 1985-86 - 1994-95.

HYPOTHESIS

This study is an earnest attempt to test the Hypothesis: "IEPZs are the effective instruments of increasing India's exports."

METHODOLOGY OF THE STUDY

The present study is made in four phases followed by an outline of approach as detailed hereunder:

First phase - desk research: Preparing list and securing the existing literature on India's foreign trade in general and EPZs in particular.

Second phase - collection of data: All the seven IEPZs were personally visited during the first half of 1995 and all the relevant data was collected through pre-prepared questionnaire from the respective Development Commissioners (DCs) of the seven IEPZs and through the discussion with the DCs, other authorities concerned in IEPZs, the exporters in IEPZs, the office bearers of the Federation of IEPZs Industries Association (FIEPZsIA), KAFTZ
Industries Association (KAFTZIA), Santacruz EPZ Electronics Manufacturers Association (SEEMA), Cochin EPZ Industries Association (CEPZIA), Noida EPZ Industries Association (NEPZIA), Madras EPZ Manufacturers Association (MEPZMA), Falta EPZ Industries Association (FEPZIA), and through observation. The primary data was also collected from the EPZ section in the Ministry of Commerce (MoC). The secondary data in relation to India’s exports was collected from several Indian and International sources. These include Director General Commercial Intelligence and Statistics (DGCI&S), Calcutta, the RBI Bulletin, the Economic survey, the Annual Reports of MoC, Government of India, the publications of the Export Promotion Councils (EPCs), the Commodity Boards, and the World Bank, the Hand book of International Trade and Development Statistics of UNCTAD, (various issues) and books, journals, and periodicals of repute. The secondary data on the IEPZs was collected from the Annual Reports of MoC, the IIFT, ICRIER, New Delhi, Committee Reports on EPZs, journals and dailies of repute in the field of the IEPZs. WEPZA - USA, was also contacted for latest information on world-wide operations of EPZs.

Third phase - discussions: Had discussions with the Additional Secretary, Joint Secretary, Under Secretary, Director - EPZ Section, the Economic Adviser in the MoC, the respective DCs, other prominent authorities concerned in all the EPZs, the Customs authorities in the Zones, the estate managers, the exporters in the Zones, the Secretary General - FIEPZsIA, the office-bearers of EPZ industries associations in the Zones, the Secretary-General, Confederation of Export Units (CEU), the Director General and Professors at IIFT and ICRIER - New Delhi and other knowledgeable persons during the field trip to the IEPZs, which widened the horizon of knowledge on the subject and thinking of the researcher. Such fruitful discussions provided a valuable opportunity to have first-hand versions and opinions on the functioning and efficacy of the EPZs in India. This interface immensely helped in understanding and presenting different issues of the IEPZs in a comprehensive manner.

Fourth phase - writing the draft thesis: On the basis of the data and information collected, tabulated, and analysed and on the basis of the discussions with various authorities—— an attempt is made to start writing the draft. The relevant statistical tools such as t-test, Analysis of Variance (ANOVA), Correlation Co-efficient, Linear Growth Rate, Annual Average Growth Rate and Straight-line trend were applied wherever found necessary. Ratios, Bar diagrams, Pie charts etc., were prepared and presented at appropriate places.
Before an attempt is made to present an overview of Indian Foreign Trade, the export performance of all the seven IEPZs, and before carrying out an empirical analysis at micro level of the seven individual IEPZs, it is quite necessary to spell out the line of approach and analytical framework to examine and assess the export performance of the IEPZs during the decade (1985-86 - 1994-1995). This type of approach would not only bring the factors that actually affect the export performance of the IEPZs but also provides a reasonable conceptual framework for the empirical analysis at micro-level.

As mentioned earlier—the concept of EPZs was initiated by trade policy planners in India during the Third Five-Year Plan period by perceiving it as effective instrument to export promotion; and there are seven EPZs in India under the administrative control of MoC besides two EPZs in private sector, which are still in infancy.

Exports, imports, and NFE earnings, sectorwise and destinational pattern of exports of the IEPZs during the decade are presented and analysed at macro-level in Chapter 3 and an empirical analysis of the export performance of all the seven individual IEPZs at micro level is attempted in Chapter 4 (from 4-A to 4-G).

**LINE OF APPROACH**

The level of exports of the IEPZs mainly depends, inter alia, on their capacity and ability to produce and sell abroad and the willingness of the countries abroad to purchase and trade policies of both the countries and global demand for such exports. These external and internal factors have vital bearing on the export performance of the EPZs of a country. This kind of rudimentary theoretical analysis is useful at the aggregate level, but to highlight the basic factors that affect the level of exports and make an empirical investigation and analysis at micro level, this aggregate level of theoretical analysis suffers from deficiencies and is not exhaustive.

Thus, need arises to explore a new method and approach that helps in providing a useful framework for micro analysis of the basic factors affecting the exports of the individual IEPZs.
Research studies on export performance of individual countries, quite often use the most simplified constant market-share analysis of export growth model. This model is used by several writers and researchers by further developing it. This model can also be applied with suitable variation to the export performance of the individual IEPZs. The model assumes that a country / IEPZs export share in the international market, other things being equal, should remain constant over a period of time. Any increase in the country / IEPZs share of exports in international market, according to this model, is attributable to six aspects: (1) Global demand, (2) Trade policies abroad, (3) Changes in commodity structure of its exports, (4) Changes in the destination pattern of exports (5) Country / IEPZs capacity and ability to export, and (6) Changes in the competitiveness of the country / IEPZs in the international market. This is also at the aggregate level but does not get into the gross roots of the factors affecting the export performance. Therefore, further probe into each one of these six aspects in minute detail provides a suitable framework for empirical analysis at micro level of the export performance of the seven IEPZs.

Global demand: Changes in global demand for the products of a country / IEPZs will have their own impact on the volume and value of the exports of a country / IEPZs. Changes in global demand over a period of time are generally determined by: changes in incomes abroad, and elasticities of demand of such incomes abroad for the exports of a country / IEPZs, changes in tastes and preferences, scientific and technological advancement and the

1. H. Tyzynski used this methodology in his work "World Trade in manufactured commodities 1899-1950" — Manchester school for Economic and Social studies, September 1951, pp 272-304.


competitiveness of other competitive suppliers in the global market etc. These factors have an important bearing on the country / IEPZs export performance in so far as they affect the demand for export. All these external factors have an important bearing on the IEPZs export performance in so far as they affect the demand for their exports. All these external factors are beyond a country / IEPZs capacity to exercise any influence on such factors, unless the products exported are of such an essential nature (for example, petroleum products, which are desperately needed by other countries) and unless the country / IEPZs have almost monopoly in the exports of such products.

Thus, global demand constitutes an important factor that influences the export performance of a country / IEPZs. An attempt shall be made to consider how the world demand influenced the export performance of the IEPZs ----- whether stagnant world demand held back the export growth or rapidly growing global demand benefitted the export performance of the IEPZs.

**Trade policies abroad**: The export performance of a country / IEPZs is also influenced by the trade policies of the importing countries. While imposition of trade barriers such as tariff and non - tariff barriers, restrictive trade practices, protectionist tendencies adopted by the importing countries adversely affect the export performance of a country / IEPZs ----- the trade preferences extended by such countries affect favourably the exports of a country / IEPZs. On these external factors, the IEPZs or the Government of India cannot exercise any influence. However, creating and developing goodwill and friendly relations by the Government with such countries, to some extent, dilute the rigors of their trade policies over the export performance of the IEPZs.

An attempt shall be made to examine whether the trade policies of the importing countries had a restrictive or stimulative effect on the IEPZs export performance.

**Changing structure of exports**: Structure of exports (commodity composition of a country / IEPZs) also has an important impact on their export performance. If the IEPZs exports are dominated by a few commodities, which suffer from demand and income inelasticities, the very export structure itself would be a major constraint on their export performance. If a shift is made in commodity composition from stagnant to buoyant products that enjoy growing
world demand and comparative advantage, it would certainly stimulate the export performance of the IEPZs.

It shall be examined in the study whether there are any changes in the commodity structure of the IEPZs exports and if so, to what extent they influenced the export performance of the IEPZs.

**Shift in destinational pattern**: Shift in destinational pattern of exports has a vital bearing on the export performance of a country / IEPZs. If the exports of a country / IEPZs are bound to a few markets, which are relatively stagnant, ----- its exports would almost be stagnant. Chances of its exports would certainly be more faster ----- if they are directed towards dynamic and rapidly growing markets.

However, a generalisation can not be made that exports expand faster if there is a shift to new markets and the export growth hampers if there is no such shift. Shift in destinational pattern alone does not result in spurt in exports. Other vital factors such as the nature of products (product mix), the type of markets, their growth potential and the state of their development process, the state of art friendly relations with them, their trade policies and the like ----- add to the shift in destinational pattern in stimulating a country / IEPZs export performance.

An attempt shall be made in the study to examine whether there is the shift in destinational pattern of the IEPZs exports and if so, its influence over their export performance.

**Ability to export**: In the long run, the ability of a country/IEPZs and their competitiveness in international markets determines/stimulates their export performance. Ability to export depends upon various factors, such as their installed capacities, optimal/under utilization of capacities, their level of productivity, supply of inputs, financial, entrepreneurial and technological potentialities, infrastructural facilities, availability of power, idle capacities etc. These factors have vital bearing not only on their ability to export, export performance and also on the price competitiveness.
An attempt shall be made in the study to examine how these factors influenced the export performance of the IEPZs.

Even if the supply and demand position of a country / IEPZs is fairly better in international markets — in an oligopolistic market environment, difficult it is indeed for any single exporting country / IEPZs to raise its relative share of the market significantly and sometimes it would be difficult even to maintain its existing share in the face of small new entrants. Any attempt on the part of an oligopolist to increase its relative share is likely to invite retaliation from the rival oligopolists.

**Competitiveness** : Besides ability to export, --- competitiveness of a country/ IEPZs exports in international market is a vital factor in improving its export performance. Competitiveness of a country / IEPZs exports in global market depends on several factors, which can be broadly divided into (a) Price factors, (b) Non-price factors, and (c) Domestic trade policies.

(a) Price factors : Price factors have vital bearing on the export performance of a country / IEPZs. Price (Export price) in its turn is influenced by the availability of vital inputs at international prices, productivity, productive efficiency, modernisation and rationalization of productive machinery, processes and methods, and the prevailing monetary conditions in the country etc.

In the case of an identical product, there would be generally a single price prevailing in the international market. In a particular product, if a country/IEPZs enjoy almost a monopoly in global market, or even if it is one of a few major exporters in the world, it can, to a considerable extent, exercise some control over the prevailing prices in the international market. But small and marginal exporters cannot have any control over export prices, which are generally determined by the overall world supply and demand conditions, and the country/IEPZs are left with no other alternative except to sell the products at the prices prevailing in the international market. In case of heterogeneous commodities/products, the relative prices of the competing suppliers assume greater importance.

General inflation in a country results in rise in costs of factor inputs as well as the finished products. If there is no such an inflation in the countries of the competing suppliers, --- their competitiveness would be relatively better and the competitiveness of the export-
products of the former country would be badly affected. Though price commands a great deal of importance in the export competitiveness of a country/IEPZs----it is not the sole determinant of export performance and competitiveness of a country/IEPZs.

(b) Non-price factors: Non-price factors such as quality, designing, packaging, publicity and marketing, after sale service, terms and conditions of sale etc., also have vital bearing in the competitiveness of the exports of a country/IEPZs. Setting high quality standards and maintaining them fosters competitiveness. Any relaxity/complacence in their maintenance mars the export competitiveness.

Besides quality, attractive, elegant, and efficient designing goes a long way in improving the export competitiveness. Efficient designing depends on the creative and innovative skills of the technicians, and the technological advancement made by a country/IEPZs. Change is the order of the day. In view of the ever changing consumer tastes and preferences in the international market environment—incessant effort in updating the designing is highly essential. While modern and attractive designing stimulates exports, old and outdated designing mars competitiveness. Added to the producing of quality goods with most modern and elegant designing, an effective and eye-appealing packaging stimulates exports and adds to export competitiveness. An effective and good packing not only preserves, protects and presents in a better way to the buyer abroad, but also minimises the product losses by way of breakage, spoilage, damage etc.

Publicity and marketing of export products are as important as production, price, quality, designing and package. Adopting dynamic and aggressive marketing methods helps in capturing new markets and expanding the existing ones.

Thus, the non-price factors, which are not easily quantifiable, have vital bearing on a country/IEPZs export competitiveness and performance.

An attempt shall be made to analyse how the price and non-price factors affected the export performance of the IEPZs.

(c) Domestic trade policies: Domestic trade policies do have a vital bearing on the competitiveness and export performance of a country/IEPZs. Trade policy is generally
formulated keeping in view the domestic needs in terms of conservation, augmentation and optimum utilisation of the foreign exchange resources, industrial and agricultural growth and development, stabilisation of domestic prices etc.

Trade policy generally operates through the (i) regulation and control of volume, value, composition and directional behaviour of exports and imports of a country, (ii) complete or partial ban on certain items of export/import, (iii) favouring, encouraging, and disfavouring or discontinuing certain items of exports / imports, and (iv) ensuring smooth flow of trade. The instruments of trade policy are generally in the nature of (i) Tariffs (export/import duties), (ii) Quantitative restrictions (import quotas and import licensing), (iii) Incentives and subsidies (encouraging exports and pruning imports), (iv) Para -tariff measures (discriminatory customs valuation, anti-dumping and countervailing duties, variable levels etc.) and (v) Administrative and other measures.

With this background in view, an attempt shall be made at an appropriate stage in the study, the efficacy and significance of the trade policy and instruments over the trade performance of a country /IEPZs and also to assess how the trade policies contributed to the export performance of the country/IEPZs.

Thus, the various exogenous and endogenous factors influence a country/IEPZs export performance at an aggregate level in general during the decade under study and the empirical investigation and empirical analysis at micro level of the export performance of the seven IEPZs in particular since their inception until 1994-95.

CHAPTER LAYOUT

The study is divided into five parts and in all in nine chapters. Part one consists of the first two chapters. While the first chapter deals with the importance of foreign trade in a country’s economy, in different select regions in general and developing countries in particular and brings out the need for and genesis of the concept of EPZ movement besides exhaustively dealing with the concept of EPZs, meaning, objectives, and characteristic features of EPZs and an overview of the growth and development of EPZs movement in the world from times immemorial upto 1994-1995, and at the end clearly mentions the statement of the problem, contribution of the present study, review of the existing literature, the need for the present
study, objectives, scope and period of the study, the hypothesis, the methodology followed and
the line of approach and the chapter layout and the like; the second chapter presents a macro
view of India's foreign trade during the 45 years viz., 1950-95 in general and in particular the

Part two consists of third and fourth chapters. While the third chapter presents an
overview of EPZs in India and the total export performance of all the seven IEPZs at macro
level during the decade under study besides highlighting the factors influencing their export
performance; the lengthy fourth chapter devotes to carry out the empirical analysis at micro
level of the export performance of each and every individual seven IEPZs, Kandla Free Trade
Zone (KAFTZ) in 4-A, Santacruz Electronics Export Processing Zone (SEEPZ) in 4-B, Noida
Export Processing Zone (NEPZ) in 4-C, Madras Export Processing Zone (MEPZ) in 4-D,
Cochin Export Processing Zone (CEPZ) in 4-E, Falta Export Processing Zone (FEPZ) in 4-
F,and Visakhapatnam Export Processing Zone (VEPZ) in 4-G, eversince their inception until
1994-95. These chapters are, indeed , the nucleus of the study.

Part three deals with the Government of India's policy on the IEPZs and it constitutes
two chapters, five and six. While the fifth chapter makes an assessment of the Government of
India's policy on the IEPZs, the sixth chapter makes an assessment of foreign direct investment
in the IEPZs and brings to light this aspect.

Part four covers the constraints of the IEPZs and the problems confronted by the
constituent units and a package of suggestions. This consists of chapters seven and eight.
While the seventh chapter elucidates the constraints of the IEPZs and the problems of the
constituent units in IEPZs (Diagnosis); chapter eight earnestly attempts to make constructive
suggestions (Prescription) for the improved export performance of the IEPZs and their
constituent units.

The fifth and the last part consisting of chapter nine presents the summary and
concluding observations of the present study and future prospects of the IEPZs.
THE TECHNICAL FORMAT

A substantial and larger number of abbreviations, which are used in the course of the study are given before the beginning of Part one.

The study is divided into five parts and in all in nine chapters of which the fourth chapter deals with the empirical analysis at micro level of the export performance of the seven IEPZs. The details about the lay-out of the chapters are already mentioned above.

All the Charts, Figures and Tables are numbered. For instance, Chart 1.1, Chart 3.1, Chart 4-A.1 to 4-G.1 etc., symbolise the sequential numbers running through the different chapters of the thesis. Same order is applicable for Figures. Table 1.1 means first Table in Chapter one. Table 4-A.1 means first table in Chapter 4- A. i.e. KAFTZ. Table 4-A.1.1 means the first supplementary Table to Table: 1 in Chapter 4-A. Same order is applicable for Chapters 4-B, 4-C, 4-D, 4-E, 4-F, and 4-G.

References are serially numbered for each page and are given at the end of the same page as Foot Note. Annexures are also numbered serially and are given at the end of the study followed by bibliography.