CHAPTER 4
EXPORT PROMOTION-II
(SPECIAL SCHEMES)
-- EXPORT HOUSES, TRADING HOUSES,
-STAR TRADING HOUSES,
SUPER STAR TRADING-HOUSES
-- EXPORT PROCESSING ZONES
-- 100% EXPORT-ORIENTED UNITS
Export Houses were first mooted in 1958, were starred in 1960, and the policy was reviewed quite frequently in the initial years. The initial resolution of Sept. 1, 1962 constituting Export Houses stipulated that they should be specially constituted public limited companies with no shareholder holding more than 10% shares. Companies were required to promote the exports of non-traditional products, to new markets. They were to have Government auditors and Government nominees. The scheme was revised in 1965. An export performance of Rs 10 lakhs per annum of non-traditional commodities was necessary for recognition.

The object of the scheme of export houses was to allow some incentives and facilities to eligible recognised export houses. The attempt was to strengthen export houses to be able to negotiate with buyers abroad, to enable them to build up an enduring relationship between them and their supporting manufacturers. It was also felt that they should be helped to fulfil the need to keep their supporting manufacturers supplied with imported raw materials, and to develop strong linkages with their counterparts in overseas markets. The scheme derived its inspiration from the sogashoshas of Japan, which had grown to be big organisations which had the clout to make large-scale imports, and to provide support for exports. They were able to charter whole vessels for carrying exports. The freight costs were consequently very economical.

1975-76

The criteria for selection of export houses were:
(1) A minimum export turnover of at least Rs. 50 lakhs of non-traditional products or Rs. 3 crores of traditional products per annum.
(2) Merchant exporters, as well as manufacturer exporters were eligible for recognition.
(3) Export houses were to draw up an action programme for the export of a wide range of products in consultation with the Government.
The recognition was allowed for 3 years, provided the conditions were fulfilled each year.

Small-scale units could set up consortia with a minimum collective export performance of Rs. 25 lakhs.

The Export Houses were expected to establish better links with their supporting manufacturers and to be able to supply them imported raw materials from ready stocks required for export production. They were eligible for

(i) initial/supplementary import licenses for the import of raw materials, components and spares.
(ii) import replenishment licenses against their own imports
(iii) replenishment licenses transferred to them by registered exporters and were obliged to export four times the value of the transferred license.

For products of the SSI sector, the eligibility criterion was exports of Rs. 25 lakhs or at least 5% of the total f.o.b. value of exports. SSI exports were given double the weightage while calculating the exports. A Working Group was set up by the Government to review the scheme for Export Houses. A revised scheme was introduced with effect from 1-4-1976.

1976-77

In the revised scheme, while the limits were kept at Rs. 50 lakhs for "select products" and Rs. 3 crores for "non-select products", for small-scale manufacturing export houses and a consortia of small-scale units, the limits were Rs. 25 lakhs (FOB) for "select" products and Rs. 2 crores for "non-select" products. The annual average for the previous 3 years was to be taken, provided that the export figure was not "nil" in any year. Further the minimum eligibility criteria had to be met at least during 2 consecutive years.

The nature of the "select list of Export Products" as notified in the Import Policy for the year was below:-

1. Engineering goods-Engineering goods and ferro-alloys
2. Chemicals, plastics and allied products-Chemicals and allied products, which included inorganic chemicals, drugs and dyes, culinary oleo resins, refractories and...
plastics and linoleum products

3. **Leather and sports goods** - Finished leather and leather manufactures and sports goods

4. **Food, agriculture and forest products** - Tea, meat and allied products, processed foods, fruits, vegetables

5. **Textiles** - including carpets, woollen fabrics, cotton garments, natural silk fibres, hosiery, and synthetic fabrics

6. **Gem and Jewellery** - Cut and polished diamonds, precious and semi-precious stones

7. **Handicrafts** - handicrafts and cut and polished granite

8. **Miscellaneous** - including fabricated mica and processed ores

Only direct exports and indirect exports effected as an associate of the STC were counted. Direct exports meant that the export order or contract, the bank certificate, the letter of credit and the invoice had to be in the name of the export house. Project exports including those for turnkey projects abroad, consultancy and collaboration fees were also counted as exports for calculating the eligibility criteria. An export House was expected to have a minimum export performance as indicated in Table 4.1 below:

<table>
<thead>
<tr>
<th>No</th>
<th>Product Group</th>
<th>Minimum Export performance (Rs./ lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Engineering Groups</td>
<td>15</td>
</tr>
<tr>
<td>2.</td>
<td>Chemical &amp; Allied Products</td>
<td>15</td>
</tr>
<tr>
<td>3.</td>
<td>Plastic &amp; Linoleum Products</td>
<td>10</td>
</tr>
<tr>
<td>4.</td>
<td>Leather manufacturers</td>
<td>10</td>
</tr>
<tr>
<td>5.</td>
<td>Sports Goods</td>
<td>10</td>
</tr>
<tr>
<td>6.</td>
<td>Canned &amp; Frozen Fish</td>
<td>10</td>
</tr>
<tr>
<td>7.</td>
<td>Processed Foods</td>
<td>10</td>
</tr>
<tr>
<td>8.</td>
<td>Handicrafts</td>
<td>10</td>
</tr>
<tr>
<td>9.</td>
<td>Tobacco Products</td>
<td>10</td>
</tr>
<tr>
<td>10.</td>
<td>Readymade garments other than garments of natural silk</td>
<td>10</td>
</tr>
<tr>
<td>11.</td>
<td>Natural silk fabrics garment</td>
<td>10</td>
</tr>
<tr>
<td>12.</td>
<td>Embroidered fabrics</td>
<td>10</td>
</tr>
</tbody>
</table>

Source: Import Trade Control Policy, (1976-77)
In order to promote small scale units to consolidate their efforts in the export field, these units were permitted to set up consortia of their own to organise sales of their products abroad.

1978-79

Following the recommendations of the Alexander Committee, the scheme was slightly revised.

The Alexander Committee recognised the importance of the role of export houses in providing a wide range of export services. For the first time Additional licences were allowed. The entitlement was calculated at 1/3 of the f.o.b. value of exports of SSI-manufactured "select products" made in 1977-78 and 5% of the f.o.b. value of exports of non-SSI "select products". Restricted items could be imported subject to a single item not exceeding Rs. 1 lakh.

The REP entitlement of export houses did not have upper ceiling or an export obligation. The ceiling for release of foreign exchange for export houses for promotional purposes was raised from Rs 1 lakh to Rs. 5 lakhs or 2.5% of the f.o.b. value of exports. Export houses were also allowed to import items on OGL for stock and sale.

1979-80

Government had appointed a Committee to review the role and working of the Export Houses scheme. Changes were made to strengthen the negotiating capacity of Export Houses in foreign trade. Also an enduring relationship was enabled to be built up between the export houses and the supporting manufacturers. The export of products carrying import replenishment rates of more than 50% would not qualify for the grant of Additional Licences to eligible Export Houses. The value limit of Rs. 2 lakhs per item to be imported against Additional Licences was to be raised to Rs. 5 lakhs, where the item was used by the Export Houses for manufacture of their export products. Diversification of exports within the same product group was one of the criteria for the grant.
of Export House Certificate. Export Houses were also to send their detailed schemes and action programme of exports, and quarterly and annual returns of the exports effected. For renewal of the Export House Certificate, an annual average growth of at least 20% in the 3 year base period was required, provided, there was no "nil" export in any of the 3 years of the base period. 10% growth rate was allowed for large-scale Export House with a volume of Rs. 10 crores and Re 1 crore for small-scale units.

1980-81

The policy remained basically the same. Export Houses whose annual export performance were not less than Rs. 5 crores were allowed IRMAC facilities. The value of the Additional License, was to be calculated at 33 1/3% of the f.o.b. value of the exports of Select Products manufactured by the small scale and cottage industries plus 7 1/2% of the f.o.b. value of other exports of Select products made in the same year. All such Additional Licences were to be non-transferrable.

The foreign exchange limit for promotional activities was raised to 2.5% or a maximum of Rs. 7.5 lakhs. Export Houses were granted the following facilities:
(i) REP licences to which they were eligible as registered exporters. (ii) REP licences transferred to them by others. (iii) Import of items on OGL. (iv) Additional licences and (v) REP licences allowed for their exports.

1981-82

Following the report of the Tandon Committee, the annual average f.o.b. value of exports for Export Houses in the prescribed base period of Select products was not to be less than Rs. 1 crore and for Non-select products, Rs. 5 crores. For small-scale units the figure was Rs. 25 lakhs and Rs. 2 crores respectively. The Committee recommended the establishment of a new category of Trading Houses.

The following criteria were laid out for eligibility as a Trading House:
- An annual turnover exceeding Rs. 15 crores
- A 5 year record
- Record of new products and markets
- International marketing standards
- It should extend technical, financial, marketing, franchising facilities and upgradation of products. 
The list of select products had 3 sets of additional items compared to the earlier list.

The concept behind the new scheme of recognition of Trading Houses lay in the objective of the scheme, to develop new products and new materials for export, particularly, from the small-scale and cottage industry sectors. Eligible export houses were also to have facilities for testing and quality control.

Accordingly in 1981-82, Trading Houses had to have minimum annual exports of Rs.10 crores of "select" products. These exports were expected to include SSI exports to the extent of 10%. The Trading Houses were also to undertake a minimum growth of 15% over 3 years. They were also expected to add adequate financial and technical resources, specially with quality control.

Both Export Houses of annual performance exceeding Rs. 5 crores and Trading Houses were allowed IRMAC licenses (Industrial Raw Materials Assistance Centre) to enable them to supply raw materials and components to Actual users against licences.

For export houses which were non-SSI, Additional licenses were allowed at 15% of the f.o.b. of "select products" made by SSI units + 7 1/2% of select products made by others. For SSI units it was 33 1/3% of the f.o.b. value of "select products" made by SSI units + 7 1/2 of the f.o.b. value of exports of "select products" by others (App 22, Pg 212). These Additional Licenses were non-transferrable. For Trading Houses, Additional Licences were allowed at 20% of the f.o.b. value of SSI "select products" + 7 1/2% of the f.o.b. value of non-SSI "select products". Trading Houses were given the facilities of imports of certain restricted items.

For the grant of Additional Licenses, the net foreign exchange earned was considered (i.e. the gross f.o.b. value of exports minus the value of Advance/Special Imprest/
Imprest/REP licenses/Import-Export Pass Book. This was calculated at 6% n.f.e. (for select products + 5% of the f.o.b. value of products in the SSI sector. This was for export Houses. For Trading Houses the formula was 10% n.f.e. + 10% of f.o.b. value. The rest of the facilities remained the same.

1982-83

The turnover criteria remained the same. Export of fresh fruits/vegetables cut flowers and decorative plants were included as "select products". Import of non-OGL capital goods was allowed upto Rs. 20 lakhs against REP licences.

1983-84

The criterion for Export Houses was Rs. 2 crores and Rs. 5 crores for non-select products. For SSI Export Houses the criterion was Rs. 50 lakhs and Rs. 2 crores. Earnings from consultancy, erection charges, ship repair, and net foreign exchange was counted towards "select products" upto 10%.

For Trading Houses the figure was Rs. 10 crores of select products spread over 3 product groups. At least 10% of direct exports of small-scale units and 20% by way of indirect exports of ancillary units was necessary for Export Houses. Additional Licences were allowed at 10% of the f.o.b. value of SSI select products and 5% for other products. For Trading Houses, additional licences were allowed at 20% of the f.o.b. + 7 1/2% of the f.o.b. value of other "select product" exports.

1984-85

The eligibility criteria were made stricter. Now Rs. 3 crores of select products or Rs. 7 crores of Non-select products had to be exported. For SSI units, the criteria remained the same. Exports of new products and/or to new markets was to be given double weightage. The value of the Additional Licences was reduced to 10% and 5%.
In 1986, a workshop was conducted on the "Role of Export Houses in developing exports from small and medium enterprises." The report on the workshop studied the role played by Export Houses in the various countries and also in India. The need to expand both the product base and the market for India's exports was perceived. It was also felt that the small-scale sector in India had considerable export potential, but lacked the resources to actualise their export potential.

It was further recognised that between 1979-80 and 1981-81, the exports of export houses had averaged 35% of India's exports. In 1984-85, the 637 export houses generated 26.5% of Indian exports. Out of these the 10 Trading Houses (less than 2% of the total), were responsible for more than one-third of the exports. Compared to this the sogashoshitas and 9 Korean GTC's accounted for over 50% of Japanese and Korean exports in 1982 and 1983. This indicates what a long way our export houses/trading Houses had to go.

There was a feeling that the large numbers indicated that there was not much selectivity. Consequently many of the Export Houses did not have the capabilities and expertise envisaged in an Export House. Some Houses resented the compulsion to export the products of the small-scale sector, and felt that the mandatory export requirement often proved counter-productive. Sri Ram Khanna on the contrary has pointed out that the larger manufacturers are in a better position to use their direct selling efforts.

1985-88

The criterion for recognition of an export house for the non-SSI sector was Rs. 3 crores for select products and Rs. 7 crores for non-select products. For SSI houses the limits were Rs.75 lakhs and Rs. 3 crores, respectively subject to 50% of their exports being direct exports of their manufacture. For Trading Houses the limit was Rs. 15 crores of f.o.b. of select products. These were to be "direct" exports and spread over 3 product groups. The criteria are shown in Table 4.2.
Table 4.2

Criteria for recognition as Export Houses

<table>
<thead>
<tr>
<th>Product</th>
<th>Non-SSI units</th>
<th>SSI units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Select</td>
<td>&lt; Rs. 3 crores</td>
<td>Rs 75 lakhs</td>
</tr>
<tr>
<td>Non-Select</td>
<td>&gt; Rs. 7 crores</td>
<td>Rs. 3 crores</td>
</tr>
</tbody>
</table>

Source: Import and Export Policy, (1985-88)

These were to include at least 10% by way of direct exports, or 20% by way of indirect exports of products manufactured by ancillary units. The value of Additional licences was to be calculated at 10 per cent of the n.f.e. on total exports of select products plus 10% of the f.o.b. value of select "SSI" and cottage-industry products.

Consortia of small-scale units could apply for a certificate. Renewal of the export-house certificate was done with an average growth rate of at least 20% during the base period. This was based on the net foreign exchange realised. This was equal to the total f.o.b. value of admissible exports minus the c.i.f. value of imprest licences, REP licences and Import-Export Pass Books.

The value of Additional licences granted was calculated at 6% of the net foreign exchange earned on total exports of select products plus 5% of the f.o.b. value of exports of select products of small-scale units and cottage industries for the previous year.

1988-91

In this policy the eligibility of grant of Export House/Trading House Certificate was to be determined on the basis of the Net Foreign Exchange Earnings (NFE) from the exports made in the preceding 3 licensing years termed as the "base period". The net foreign exchange earnings was defined as the "Total f.o.b. value of admissible exports - c.i.f. value of imports through the Advance/Imprest Licenses/Import-Export Pass Books."
In order to avoid the selection of fly-by-night operators, in none of the 3 years of the base period could the earnings be less than 25% of the minimum average "n.f.e. on the total exports for the preceding year. For export houses the eligibility was at Rs. 2 crores of net foreign exchange earnings. For Trading Houses the eligibility criterion was Rs 10 crores for the n.f.e. Additional licences were granted at the rate of 10% of the n.f.e. earnings on the total eligible exports made in the preceding licensing year. For Export Houses/Trading Houses with more than 10% growth annually the rate was 12%.

'Special REP licence- A Special REP licence was allowed to those Advance Licence holders who completed their export obligation. This was allowed at 10% of the value addition achieved. The value of the REP licences was to be equal to 20 per cent of value addition for certain export products.

1990-93

A new Scheme of Star Trading Houses for exporters exhibiting an exemplary performance on the export front, was introduced. The objective of the Scheme of registration of Star Trading House was to grant recognition and to extend facilities to a select band of registered exporters with outstanding export performance. As a recognition of the importance of the Services Sector, these were counted towards exports. Emphasis was placed on the diversity of export products by insistence that not more than 75% must be from some export groups like Engineering Goods, Chemicals and Allied Products, Textiles.

The criterion for Export Houses was further revised to Rs 5 crores and to Rs 20 crores of the net foreign exchange (nfe) for Trading Houses. The new category of Star Trading Houses had an eligibility criterion of nfe of Rs. 75 crores. The exports were to be over a minimum of two export product groups. The figure for export houses was later reduced to Rs. 4 crores.

Star Trading Houses were entitled to Special Additional Licences at 15% of the nfe for import of restricted raw materials and components. These were non-
transferrable. Export Houses/Trading Houses were eligible to Additional Licences at the rate of 10% of the nfe earnings. This rate was 1.3%, where the House had a minimum growth rate of 30%. Non-OGL capital goods up to Rs. 50 lakhs were also allowed to be imported. The flexibility limits for Additional License were increased to 15% in the case of Export Houses and 20% in the case of Trading Houses. Several items of imports were allowed within this flexibility.

A study undertaken by ICRIER estimated that on 31.3.1990, there were 1350 export houses and 156 trading houses. The aggregate performance of these was assessed at around Rs 16,868 crores and Rs 8,090 crores respectively.

1991-92

In July 1991, the threshold continued to be Rs. 4 crores, Rs. 20 crores and Rs. 75 crores. On 3rd August 1991, along with the major changes, the thresholds were revised for Export Houses to Rs. 6 crores, for Trading Houses to Rs. 30 crores and for Super Trading Houses to Rs. 125 crores. From 1/4/1992, additional licences were abolished and export houses, trading houses and star trading houses were to receive additional Eximscris at the rate of 5% of the f.o.b. value of exports. Trading Houses were allowed to be set up with 51% foreign equity for promoting exports. Such trading houses were eligible for all benefits allowed to domestic export and trading houses.

1992-97

With effect from 1st April 1992, the criterion for recognition as Export Houses, Trading House or Star Trading House was based on the average annual n.f.e. during the 3 preceding years or the n.f.e. during the preceding year, whichever is satisfied. (Table 4.3) This underwent a modification and from 1st April 1994, the criterion for recognition as Export House, Trading House, Star Trading House or Super Star Trading House was allowed either on the basis of the f.o.b. or n.f.e. value. This is as indicated in Table 4.4.
### Table 4.3

Criteria for recognition based on n.f.e basis

<table>
<thead>
<tr>
<th>Category</th>
<th>Average n.f.e. earned in base period i.e. previous licensing years in Rupees</th>
<th>n.f.e. earned during the base period i.e. previous licensing years in Rupees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export Houses</td>
<td>6 crores</td>
<td>12 crores</td>
</tr>
<tr>
<td>Trading Houses</td>
<td>30 crores</td>
<td>60 crores</td>
</tr>
<tr>
<td>Star Trading</td>
<td>125 crores</td>
<td>150 crores</td>
</tr>
</tbody>
</table>

Source: Export and Import Policy (1992-97)

### Table 4.4

Criteria giving recognition on f.o.b. or n.f.e basis

<table>
<thead>
<tr>
<th>Category</th>
<th>f.o.b.</th>
<th>n.f.e. criterion</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>value</td>
<td></td>
</tr>
<tr>
<td>Average of 3 yrs</td>
<td>Previous licensing year (Rs in crores)</td>
<td>Average of 3 yrs Previous licensing year (Rs in crores)</td>
</tr>
<tr>
<td>Export Houses</td>
<td>10</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>15</td>
<td>12</td>
</tr>
<tr>
<td>Trading Houses</td>
<td>50</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>75</td>
<td>60</td>
</tr>
<tr>
<td>Star Trading</td>
<td>250</td>
<td>125</td>
</tr>
<tr>
<td></td>
<td>300</td>
<td>150</td>
</tr>
<tr>
<td>Houses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Super Star Trading</td>
<td>750</td>
<td>400</td>
</tr>
<tr>
<td></td>
<td>1000</td>
<td>600</td>
</tr>
</tbody>
</table>

Source: Import and Export Policy (1992-97)
After the Rupee was devalued two times in 1991, there were no Additional Licenses available for exports. The number and value of Additional Licences issued from 1980-81 onwards are shown in Table 4.5.

### Table 4.5

Number of Additional Licences granted and number yearwise

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Licences</th>
<th>Value (Rs. in crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980-81</td>
<td>1052</td>
<td>374</td>
</tr>
<tr>
<td>81-82</td>
<td>1309</td>
<td>344</td>
</tr>
<tr>
<td>82-83</td>
<td>1304</td>
<td>331</td>
</tr>
<tr>
<td>83-84</td>
<td>1132</td>
<td>176</td>
</tr>
<tr>
<td>84-85</td>
<td>817</td>
<td>117</td>
</tr>
<tr>
<td>85-86</td>
<td>398</td>
<td>99</td>
</tr>
<tr>
<td>86-87</td>
<td>1038</td>
<td>26</td>
</tr>
<tr>
<td>87-88</td>
<td>559</td>
<td>189</td>
</tr>
<tr>
<td>88-89</td>
<td>1130</td>
<td>522</td>
</tr>
<tr>
<td>89-90</td>
<td>1501</td>
<td>760</td>
</tr>
<tr>
<td>90-91</td>
<td>1468</td>
<td>1010</td>
</tr>
</tbody>
</table>

Source: Office of the D.G.F.T

The number and value do not form a pattern, or exhibit any conclusive relationship. This appears to be due to the fact that changes were done in the scheme of Export/Houses from time to time.

The eligibility criterion for recognition as Export Houses/Trading Houses changed frequently. Consequently the number of Additional Licences issued did not reflect any definite trend, but fluctuated. Similarly, since the size of Additional Licences also varied depending on the quantum of imports allowed, the values also varied greatly.
Table 4.6

Number of Export Houses and Trading Houses yearwise

<table>
<thead>
<tr>
<th>Year of establishment</th>
<th>Export Houses</th>
<th>Trading Houses</th>
<th>Star Trading Houses</th>
<th>Super Star Trading Houses</th>
</tr>
</thead>
<tbody>
<tr>
<td>1962-63</td>
<td>70</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1981-82</td>
<td>1176</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1982-83</td>
<td>(1422)*</td>
<td>(5)*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1983-84</td>
<td>(1768)*</td>
<td>(9)*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1984-85</td>
<td>(1661)*</td>
<td>(8)*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1985-86</td>
<td>(1395)*</td>
<td>(6)*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1986-87</td>
<td>(965)*</td>
<td>(6)*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1987-88</td>
<td>(822)*</td>
<td>(8)*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1988-89</td>
<td>1033</td>
<td>103</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1989-90</td>
<td>1440</td>
<td>162</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1990-91</td>
<td>1255</td>
<td>168</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>1991-92</td>
<td>1201</td>
<td>137</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>1992-93</td>
<td>1159</td>
<td>128</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>1993-94</td>
<td>1371</td>
<td>157</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>1994-95</td>
<td>(1270)*</td>
<td>(150)*</td>
<td>(14)*</td>
<td></td>
</tr>
<tr>
<td>1995-96</td>
<td>(1578)*</td>
<td>(258)*</td>
<td>(2)*</td>
<td>(6)*</td>
</tr>
</tbody>
</table>

Source: The figures in the first line refer to those from FIEO. Those in the second line with an asterisk are from the Ministry of Commerce.
Table 4.6 indicates the yearwise break-up of Export Houses, Trading Houses and Star Trading Houses. Two sets of figures are available - one from the office of the CC(I&E) and the second from the office of FIEO - the Federation of Indian Exporters Organisation. This organisation is the registering authority for export houses and Trading Houses.

There is very often a wide variation between these two sets of figures. This is probably due to the fact that so far as the office of the CC(I&E) is concerned, the figures are probably collected from the data for those seeking recognition or renewal. In the case of the FIEO, the figures could presumably be based on registration certificates issued, or statements of exports collected.

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Another important export promotion scheme was that of Export Processing Zones (EPZs). In many developing countries, Export Processing Zones (EPZs) were established with the two primary objectives of promoting net foreign exchange earnings from manufactured exports and generation of employment. EPZ's were recognised as an effective instrument for export promotion in several countries. They are different from Free Trading Zones, which are free ports where entrepot trade is the exclusive activity. Entrepot activity in itself does not involve manufacturing activity, but generally comprises of imports and then exports or re-exports. EPZ's are generally associated with a degree of manufacturing or export processing.

The Export Processing Zones are constituted as attached offices under the Ministry of Commerce, in the Government of India. The Zones do not have uniform rules and policies governing them, because different states have independent control over local taxes, municipal laws and incentives for different regions or types of industry.

The Indian EPZs have a 3-tier management structure. The EPZ authority at the apex level, the Board of Approvals at the middle level and the EPZ administration at the local level. The EPZ authority is headed by the Secretary, Ministry of Commerce, while the EPZ administration is headed by the Development Commissioners. The Authority meets frequently—thrice or more times a year and among other functions, undertakes a review of the zone and coordination of inter-departmental issues. The Boards include representatives of relevant Ministries and represented the attempt to institute a "single-window clearance" for all issues pertaining to Zone operations.

India was the first country in Asia to set up an EPZ at Kandla in 1965. The rationale of establishing EPZ's is that export production was attempted to be achieved without adjusting or transforming the regime of protection for companies producing for the domestic market.
The growth of the KFTZ over the years has been as shown below in Table 4.7:

### Table 4.7

Growth of exports in the Kandla Free Trade Zone

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of operational units</th>
<th>Total exports (Rs in crores)</th>
<th>Total employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975-76</td>
<td>23</td>
<td>2.19</td>
<td>650</td>
</tr>
<tr>
<td>1976-77</td>
<td>35</td>
<td>3.52</td>
<td>850</td>
</tr>
<tr>
<td>1977-78</td>
<td>38</td>
<td>4.71</td>
<td>1200</td>
</tr>
<tr>
<td>1978-79</td>
<td>43</td>
<td>5.52</td>
<td>1500</td>
</tr>
<tr>
<td>1979-80</td>
<td>47</td>
<td>9.39</td>
<td>2500</td>
</tr>
<tr>
<td>1980-81</td>
<td>54</td>
<td>25.51</td>
<td>4000</td>
</tr>
<tr>
<td>1981-82</td>
<td>67</td>
<td>70.04</td>
<td>5000</td>
</tr>
<tr>
<td>1982-83</td>
<td>84</td>
<td>142.43</td>
<td>7200</td>
</tr>
<tr>
<td>1983-84</td>
<td>95</td>
<td>107.35</td>
<td>7000</td>
</tr>
<tr>
<td>1984-85</td>
<td>107</td>
<td>237.08</td>
<td>7000</td>
</tr>
<tr>
<td>1985-86</td>
<td>114</td>
<td>236.86</td>
<td>8510</td>
</tr>
<tr>
<td>1986-87</td>
<td>122</td>
<td>236.27</td>
<td>8500</td>
</tr>
<tr>
<td>1987-88</td>
<td>129</td>
<td>185.03</td>
<td>8000</td>
</tr>
<tr>
<td>1989-90</td>
<td>-</td>
<td>338.20</td>
<td>-</td>
</tr>
<tr>
<td>1990-91</td>
<td>-</td>
<td>456.50</td>
<td>-</td>
</tr>
<tr>
<td>1991-92</td>
<td>-</td>
<td>427.20</td>
<td>-</td>
</tr>
<tr>
<td>1992-93</td>
<td>-</td>
<td>167.20</td>
<td>-</td>
</tr>
<tr>
<td>1993-94</td>
<td>-</td>
<td>270.40</td>
<td>9300</td>
</tr>
</tbody>
</table>

Source: Ravi Kumar (1989) - Pages 76 & 194
Gupta S.P. - Page 176

The scheme aimed at developing physical infrastructure which include developed industrial estates, built factory premises and /or developed plots with supportive services and utilities. The conducive administrative and customs regime lent operational case. EPZs were expected to make up the deficiencies which developing countries faced, of poor institutional and physical infrastructure and capital scarcity, lack of technical, managerial and international marketing skills. The inherent advantages are low labour, rental and raw-material costs. These deficiencies are made
up to a some extent in a limited area to boost exports, generate employment, earn foreign exchange, and stimulate foreign direct investment.

In the Kandla and the Santa Cruz Zones which were the first two Zones to be established many more units were in operation than in the recently established ones. However the contribution of these Zones to India's export of manufactures had been limited. It took nearly ten years for the Kandla Zone to start exporting. Around 1986 over 110 production units were in operation, six of which were Trans National Corporations. However about 50% of the Zone's exports were produced by only ten units. Over 87% of total exports were destined for the market of the former USSR.

The SEEPZ came into existence in 1975. The Santa Cruz Zone of 100 acres was the only single product Zone in India. It exclusively exported electronic products and components such as computer electronics, peripherals and other electronic components. Subsequently, attempts were made to develop exports of consumer electronics and computer software. A few units manufacturing gem and jewellery were also established after August 1986. The area of the Zone was subsequently expanded by 50 acres to house the 100% Export Oriented Jewellery Complex. Two thirds of India's exports of electronics are concentrated in this Zone.

The major export markets for SEEPZ were the Far East (50%), the US (35%), Western Europe (10%) and the former USSR and Eastern Europe (8%). Out of 59 electronic export units in operation in the Zone, 25 were in collaboration with foreign companies. However, initially one Indian company contributed to 45% of the total exports from the Zone. The performance of SEEPZ has been briefly outlined as in Table 4.9, which is in the following page.
Table 4.8

Growth of Exports in the Santa Cruz Electronic Export Processing Zone

<table>
<thead>
<tr>
<th>Year</th>
<th>No: of units</th>
<th>Total exports (in crores)</th>
<th>Total employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1974-75</td>
<td>7</td>
<td>0.05</td>
<td>150</td>
</tr>
<tr>
<td>1975-76</td>
<td>13</td>
<td>0.56</td>
<td>800</td>
</tr>
<tr>
<td>1976-77</td>
<td>18</td>
<td>3.01</td>
<td>1500</td>
</tr>
<tr>
<td>1977-78</td>
<td>23</td>
<td>4.06</td>
<td>1700</td>
</tr>
<tr>
<td>1978-79</td>
<td>27</td>
<td>6.26</td>
<td>1800</td>
</tr>
<tr>
<td>1979-80</td>
<td>33</td>
<td>11.15</td>
<td>2000</td>
</tr>
<tr>
<td>1980-81</td>
<td>37</td>
<td>18.85</td>
<td>2500</td>
</tr>
<tr>
<td>1981-82</td>
<td>39</td>
<td>29.62</td>
<td>2500</td>
</tr>
<tr>
<td>1982-83</td>
<td>39</td>
<td>54.46</td>
<td>6740</td>
</tr>
<tr>
<td>1983-84</td>
<td>51</td>
<td>88.62</td>
<td>6000</td>
</tr>
<tr>
<td>1984-85</td>
<td>54</td>
<td>95.83</td>
<td>7000</td>
</tr>
<tr>
<td>1985-86</td>
<td>59</td>
<td>84.48</td>
<td>7500</td>
</tr>
<tr>
<td>1986-87</td>
<td>70</td>
<td>102.36</td>
<td>7500</td>
</tr>
<tr>
<td>1987-88</td>
<td>74</td>
<td>110.14</td>
<td>8000</td>
</tr>
<tr>
<td>1989-90</td>
<td>-</td>
<td>285.00</td>
<td>-</td>
</tr>
<tr>
<td>1990-91</td>
<td>-</td>
<td>389.90</td>
<td>-</td>
</tr>
<tr>
<td>1991-92</td>
<td>-</td>
<td>500.20</td>
<td>-</td>
</tr>
<tr>
<td>1992-93</td>
<td>-</td>
<td>821.60</td>
<td>-</td>
</tr>
<tr>
<td>1993-94</td>
<td>136*</td>
<td>1558.50</td>
<td>-</td>
</tr>
</tbody>
</table>


To improve the functioning of the Zone, the Tandon Committee Report on Export Processing Zones and the Committee on Trade Policies made a series of recommendations. Both the Committees stressed the need for a single fully empowered commercially oriented administrative body handling the total functioning of all Zones. Both the Committees stressed the need to allow companies to sell 25% of their production to the domestic market. The Tandon Committee also recommended a tax holiday of ten years. Subsequently, a statutory High Powered Authority was constituted to manage and control all the
Export Processing Zones.

The important incentives provided to companies operating in the Zones were enhanced. These include 100% foreign ownership units of joint ventures of foreign and Indian companies with majority foreign equity, sale of 25% to the domestic market, a five year tax holiday, exemption from taxes on all capital goods and intermediate inputs under the OGL scheme and exemption from import duties continued while attempts were made to reduce delays and red-tapism.

Table 4.9

Performance of New Zones
(Rs in crores)

<table>
<thead>
<tr>
<th></th>
<th>1989-90</th>
<th>90-91</th>
<th>91-92</th>
<th>92-93</th>
<th>93-94</th>
</tr>
</thead>
<tbody>
<tr>
<td>Noida</td>
<td>51.9</td>
<td>46.6</td>
<td>72.1</td>
<td>146.8</td>
<td>107.4</td>
</tr>
<tr>
<td>Madras</td>
<td>29.6</td>
<td>61.3</td>
<td>122.5</td>
<td>163.3</td>
<td>200.2</td>
</tr>
<tr>
<td>Cochin</td>
<td>11.0</td>
<td>5.5</td>
<td>28.6</td>
<td>62.2</td>
<td>81.8</td>
</tr>
<tr>
<td>Falta</td>
<td>16.4</td>
<td>25.0</td>
<td>27.9</td>
<td>18.2</td>
<td>35.6</td>
</tr>
</tbody>
</table>

Source: Gupta, S.P. (1996)-Page 178

The contribution of the Export Processing Zones to the total export of manufactures has however continued to be limited. Subsequently a decision to create four new Zones was taken in 1983. The two existing EPZs operated on their own till 1983. In 1983, 4 more EPZs were established in the states of Tamil Nadu, Kerala, West Bengal and UP. At Madras (MEPZ), Cochin (CEPZ), Falta (FEPZ) and Noida (NEPZ) respectively. All of them commenced production in 1986-87. In 1993, an EPZ was planned for Vishakapatnam in Andhra Pradesh.

Except for NOIDA, all the EPZs are near the ports. NOIDA is close to Delhi International Airport, and an inland container depot. Despite all these efforts, the exports from these Zones have not picked up in the manner in which it was envisaged. The contribution of EPZ's between 1989-90 and 1993-94 to the economy is as below:
Table 4.10

EPZ exports and their share in Indian exports

(Rs in crores)

<table>
<thead>
<tr>
<th>1989-90</th>
<th>90-91</th>
<th>91-92</th>
<th>92-93</th>
<th>93-94</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPZ exports</td>
<td>732</td>
<td>983</td>
<td>1177</td>
<td>1376</td>
</tr>
<tr>
<td>Share of EPZ exports in Indian exports</td>
<td>2.64%</td>
<td>3.02%</td>
<td>2.67%</td>
<td>2.56%</td>
</tr>
</tbody>
</table>


This confirms the earlier findings, that the scheme was not a big success. EPZs in India accounted for only about 3% of India's total exports. In countries such as Malaysia, the Philippines or South Korea, these zones account for over 40 percent of exports. According to a study carried out by ICRIER, nearly one-third of the units of EPZs had closed down between 1973 and 1985. This was because the EPZs did not attract many foreign companies, collaboration deals, large Indian units or small units with marketing skills.

100% EXPORT ORIENTED UNITS

This scheme was implemented in 1981 to provide duty-free access to imports of all inputs for companies which planned to effect the exports of all their produces and to create a single point clearance with regard to industrial licensing and foreign collaborations.

A company is required to fulfil three conditions for eligibility as an Export Oriented Unit:

(a) Its output should be entirely exported;
(b) The domestic value addition should be 20% at least;
(c) The export production should be under Customs Bond for ten years or five years for products facing rapid technological change.
Initially, before the economic liberalisation in the domestic area started, there was an attraction for companies to operate under the scheme of Export Oriented Units. However in reality the advantages enjoyed by EOU's were limited. In particular, a disadvantage facing them was that these units have to pay for the Customs Bond at the plant site. From September 1986 onwards, EOU's were also allowed to sell 25% of their sales in the domestic market.

Table 4.11

Exports from E.O.U's yearwise

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981-82</td>
<td>Rs. 10 crores</td>
</tr>
<tr>
<td>1982-83</td>
<td>Rs. 38 crores</td>
</tr>
<tr>
<td>1983-84</td>
<td>Rs. 59 crores</td>
</tr>
<tr>
<td>1984-85</td>
<td>Rs. 104 crores</td>
</tr>
<tr>
<td>1985-86</td>
<td>Rs. 131 crores</td>
</tr>
<tr>
<td>1986-87</td>
<td>Rs. 291 crores</td>
</tr>
<tr>
<td>1987-88</td>
<td>Rs. 245 crores</td>
</tr>
<tr>
<td>1988-89</td>
<td>Rs. 460 crores</td>
</tr>
</tbody>
</table>

Source: Annual Reports (1981 to 1989)/Ministry of Commerce

The scheme however was really never successful and an increasing number of companies pleaded to be de-bonded. By September 1985 although 453 companies held valid Letters of Intent to become 100% EOU's, only 80 of them were reported to be in production and exporting by the end of June 1985. About 80% of the total exports of these companies were generated by four units that exported bulk items such as iron ore, charged chrome and minerals. The contribution of Export Oriented Units to total exports was low and decreased even further. Since the last five years, there has been a steady increase in the ratio of exports from 100% E.O.U's, as can be seen in Table 4.12.
There is a slight rise in the years 1992-93 and 1993-94. However, it is not clear whether the rise took place due to liberalisation as in the case of the domestic market, or whether this trend would continue.

**1992-97**

In the 1992-97 policy, several improvements took place. These included:

(i) Simplification of customs/excise procedures
(ii) Development Commissioners of EPZ’s were delegated with the powers of the Board of Approval to allow expansion/broad banding; attestation of the list of capital goods for import
(iii) Development Commissioners could also grant the units the importer-exporter Code Number, Green Card and the acceptance of legal undertakings.
(iv) Leasing of capital goods from domestic companies by EPZ’s/EOU’s has been permitted.
(v) The area of activity in EPZ’s was extended to include trading, re-export after labelling, repacking, repair, reconditioning and re-engineering.

Several new measures have also been taken. Industrial units set up in EPZ’s, FTZ’s and 100% EOU’s have been exempted from the purview of compulsory pre-shipment inspection. Private bonded warehouses in EPZ’s have been allowed to sell in the Domestic Tariff Area.
Government also permitted the development of Export Processing Zones by the private, State or joint-sector. The Inter-Ministerial Committee on private EPZ's cleared two proposals for private EPZ's to be set up in Bombay and Surat in 1994-95.¹⁰

Despite all the serious efforts made by the Government of India, the contribution made by both EPZ's and E.O.U's is quite low. Due to the economic liberalisation in the Domestic Tariff Area, the comparative benefits available to these units have gone down, as a result of which many choose to go back and work in the domestic area. One reason why the schemes have not been tremendously successful, is due to the fact that they still suffer from a great deal of handicaps, due to inadequate infrastructural support.
Notes

1. Sri Ram Khanna-(Page 374) writes that, "As between Export Houses and non-Export-Houses, Export Houses have proven to be a much better form of Export Promotion. Export Houses fare better than non-Export Houses on almost all important indicators of international marketing efforts".

2. Tsurumi (1980)-Page 1-Sogoshoshas are perceived as the engines of the export-led growth of Japan. The nine sogashoshas in 1978 were Mitsubishi, Mitsui, C.Itoh, Marubeni. Sumitomo, Nisho-Iwai, Kanematsu-Gosho, Tomen and Nichimen

3. Jain Committee Report on Export Houses-(October 1979) made some recommendations, which were then considered by the Tandon Committee (1980)

4. Workshop on Role of Export Houses, published by Exim Bank

5. ibid, Page 29,- The seminar also studied Export Houses in India and the Government Policy. The characteristics of the units and linkages with the small-scale sector units was also studied

6. Khanna, Sri Ram Khanna- Page 349

7. Kumar, Rajiv (1989)-Page 19-His study concluded that the economy can benefit from externalities it generates only when the overall economic environment is also being gradually more strengthened than diffused.

8. Sood, K. Page 112

9. Gupta, S.P- in his book compares the role of Special Economic Zones and Economic and Technological Development Zones in the Economic Reform Programme of China. In China, these Zones have resulted in areas of accelerated economic growth.

10. Annual Report,(1994-95), Ministry of Commerce