EXPORT PROCESSING ZONES

Brief history of the EPZ Policy in India

Export Processing Zones can be termed as initiative to promote export with the help of economic incentives, like free prerequisite of infrastructural services and tax holidays. EPZs contributed in the economic development since 1960 and have delivered a remarkable contribution in the National Income. India had four phases in the growth of the EPZ policy. Following is a summary of the origin of the EPZ policy in India.

Initial Phase (First Phase): 1964-1985

The first zone was set up in Kandla as early as 1965, followed by Santacruz (Mumbai) export processing zone which was functional in 1973. Broad idea behind such establishments and declarations was to improve the current account deficit and improve Balance of Payment (BoP) thereof. Kandla and Santacruz EPZs were set up with multiple objectives, it may be termed as extension of Inwards Oriented Trade policy initiative operationally. EPZs initially were formulated with the help of policies and were having a concrete frame work as policy material to start operation as Export Processing Zones, initially policies were rigid and the parcel of incentives as well as other facilities were not attractive enough. Zone authorities responsible for functions of EPZs had restricted powers. Lack of single window was a bigger limitation behind the less result orientation of EPZs. Companies and Entrepreneurs had to achieve individual clearances from various state authorities/government and central government as well as other departments. Routine operations were subjected to precise controls. Custom procedures, bank guarantees and transportation of goods and services were inflexible. Foreign Direct Investment (FDI) policy was also highly provisional in order to support the establishment and functioning of Export Processing Zones.

After the least remarkable results from the establishment of EPZs three teams were appointed by the government of India as committees during this period to re-examine the functioning of the zones..Kandla was re-examined by the Kaul Committee in 1978 while Santacruz was re-evaluated by the Review Committee on Electronics in 1979. Tondon Committee in 1981 re examined both these zones. These committees pointed the following limitation and drawbacks behind the least success of EPZs:

- Absence attractive and adequate policy.
- Lack of implementation authority to centrally coordinate and command.
- Procedural constraints.
- Lack of appropriate Infrastructure.

- Limited incentives offered to attract the entrepreneurs and less power of the zone authorities to act upon the reforms needed to improve the performance of Zones.

The recommendation teams made several concrete suggestions to maximise the performance EPZs. The policy administration unfortunately remained almost static even after the recommendations of the committees.

The Expansionary phase of EPZs (Phase One): 1985-1991

Tondon Committee recommended establishing more zones in the India to offer a tonic to the country's export encouragement efforts, recommendation also supported that the extreme protectionism had conveyed a major prejudice against exports. Also the same time, the high cost of infrastructure created by heavy guard has reduced the competitiveness of Indian exports. They recommended that free trade zones, which lined the export sector from multiple controls, traditions and regulations, could have been a useful instrument of export promotion.

Upon the recommendations of committee, the central government decided to establish four more zones in 1984; these were at Noida (Uttar Pradesh), Falta (West Bengal) Cochin (Kerala) and Chennai (Tamil Nadu). Visakhapatnam EPZ in Andhra Pradesh was established in 1989. And hence this phase observed the establishment of 5 zones. However there existed no significant changes in other laws and procedures governing the EPZs.

The Consolidating Phase of EPZs (Phase Two): 1991-2000

In 1991 liberalization was added in the Indian economy. In this LPG era new initiatives, wider measures were introduced by the central government for restoration and restructuring EPZs. This phase was hence marked by expansionary liberalisation of policy provision and other relaxation in the strictness of controls and generalization of procedures. This constituted more than 62% of overall circulars questioned on EPZs/EOUs till 2003. The focus during this regime can be outlined as:

- Delegation of more powers to zone authorities.
- Provision of additional fiscal incentives with special reference to EPZs.
- Simplification of policy provisions applicable for EPZs.
- Provision of greater facilities over and above the Infrastructure.

The extent and reporting of the EPZ/EOU format was also extended in 1992 with permission to the horticulture, agriculture and marine products' sector unit. In 1994 reengineering, trading, and re-conditioning units were also permitted in EPZs, this additional inclusion of units has led the expansion of EPZs.

The emergence phase (Third Phase): Evolution of SEZS 2000 onwards

This phase has rendered the remarkable shift in the overall direction and composition of EPZs, the Export Import Policy of 1997 to 2002 has implemented new plan for as establishment of Special Economic Zones in different regions of the country. Special Economic Zones proposed with permission to set up in the public, private, joint sector or by the State Governments with a minimum land area of not less than 1000 hectares. SEZ as proposed came with almost self controlled area along with high class infrastructure for trading and commercial which was also accompanied with the residential inhabitation. The business units functional in these zones were deemed as foreign territory and had extreme flexibility of operations and administration.

Ample of measures were adopted to maximise the quality of governance of such zones. Following are some of the important highlights that were incorporated with the proposed zones.

- Situations for automatic sanctions are relaxed to a greater extent. Every proposal which do not qualify any or all of the conditional eligibilities for automatic approval will be treated and permitted by the Board of Approval of EOU/EPZ/SEZ established in the Department of Commerce. The old system of an inter-ministerial board for approving SEZs was replaced with and a combined board of approval which is been set up for EOU and SEZ units. All proposals and suggestions for FDI/NRI/OCB investments with in EOU/SEZ units were eligible for approval with an automatic channel subject to sectoral standards. Proposals not falling under the automatic route would be examined and endorsed by FIPB.
- Other than the above mentioned features the custom procedures were further simplified for units in zones, it was added that no routine assessment of export and import consignment by Central Excise & Customs and all imports with in zones would be on self certification system and no separate documentation will be required for customs and Export Import Policy.
- Development Commissioners of the zones were empowered with the labour commissioner's powers.

Non Financial Incentives for SEZ:

- Industrial licensing was excluded for production of items reserved for SSIs for Zones.
- 100 per cent FDI through automatic route to manufacturing SEZ units, excluding a handful of sensitive businesses and industries.
- FDI up to 100% was allowed for the ISPs (Internet Service Providers) who were not providing gateways.

- Provision to retain 100% foreign exchange receipts.
- Privilege to realize and repatriate export shipments within 12 months.
- No restriction on foreign investment for SSI reserved articles.
- Re-export of goods imported if found defective.
- "Write-off" option of unrealised export bills for up to 5%.
- Option for Capitalization of import payables.
- Profits earned by the units in zones were allowed to be repatriating without any dividend balancing requirement.
- Zones' units will have No fixed wastage norms.
- Full liberty for subcontracting as well as subcontracting abroad.
- Duty free goods imported can be utilized in a time frame of 5 years from the date of imports.

Financial Incentives:

- 100% income tax exemption for a period of five years followed by 50% income tax exemptions for next two years and up to 50% of the Profits cultivated back for next 3 years under section 10-A of Income tax Act.
- Supplies from Domestic Tariff Area to SEZ are assumed as exports.
- Units in SEZ will have the option of Carry forward of losses.
- For off-shore banking organizations in SEZ will have 100% Income-tax exemption for 3 years & 50% for next 2 years under section 80-LA of the Income-tax Act.
- Exemption from Central Excise and Customs duty on acquisition of capital goods, packaging technology, packaging/raw materials and consumable spares etc. from the domestic market.

Export performance of EPZs in India over the period 1966-2002

Year	**Average Annual Total Export ((Rs. Millions)**	**Average Annual Export growth rate (Rs. Millions)**
1966-1970	03.261	94.6502
1971-1975	17.358	58.3438
1976-1980	186.766	79.2688
First phase (average)	**69.1**	**77.42**
1981-1985	2317.24	57.5374
1986-1990	5829.1	27.113
Second Phase	**4073.17**	**42.3**
1991-1995	20848.74	27.1862
1996-2000	59184.79	21.68
Third phase	**40017**	**24.4**

2001-2003	93251.75	7.32
Fourth Phase	**93251.75**	**7.32**

Source: Ministry of Commerce.

Performance of the EPZs

Zones were established to ensure better investment opportunities for foreign players as well as domestic business units this was done with the help of following three major advantages in contrast to the rest of the economy:

1. Offering higher fiscal incentives that attracts businesses and generates higher profits.
2. World class Infrastructure.
3. Liberal and flexible governance for Unit operations.

The advantages for Zones actually reduced the production and transaction costs for exporting ultimately providing the edge to units in EPZ as compared with non zonal units. Micro aspect of the investment were still the opportunity area in terms of the EPZs' performance specially the financial infrastructure, motives, incentive package and type of governance.

FREE TRADE ZONES (FTZs)

Definition:

The World Bank defines free trade zones as in, duty-free areas, offering warehousing, storage, and distribution facilities for trade, transhipment, and re export operations." Free-trade zones can also be defined as labour manufacturing centres that involve the import of raw materials or components and the export of factory products, but this is a dated definition as more and more free zones focus on service industries such as software, back-office operations, research, and financial services.

Free-trade zones are referred to as "foreign-trade zones" in the United States (Foreign Trade Zones Act of 1934). In the United States, FTZs provide Customs-related advantages as well as exemptions from state and local inventory taxes. In other countries, they have been called "duty free export processing zones," "export free zones," "export processing zones," "free export zones," "free zones," "industrial free zones," "investment promotion zones," "maquiladoras," and "special economic zones." Some were previously called "free ports". Free zones range from specific-purpose manufacturing facilities to areas where legal systems and economic regulation vary from the normal provisions of the country concerned. Free zones may reduce taxes, customs duties, and regulatory requirements for registration of business. Zones around the world often provide special exemptions from normal immigration procedures and foreign investment restrictions as well as other features. Free zones are intended to foster economic activity and employment that could occur elsewhere.