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Topic: Export Processing Zone (EPZ)

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Introduction

- ILO has defined EPZs as “ industrial zones with special incentives set up to attract foreign investors, in which imported materials undergo some degree of processing before being (re) exported again”.
- EPZ is an industrial estate separated from the Domestic Tariff Area (DTA) by fiscal barriers and are intended to provide an internationally competitive duty free environment for export production at low cost.
- There were 176 zones across 47 countries in 1986.
- In 2003 the number of zones increased to over 3000 across 116 countries (ILO, 2002)

- Zones have evolved from initial assembly and simple processing activities to include highly technological and scientific zones, finance zones and logistics centres.
- The overall physical form includes single industry zones (leather zone in Turkey or jewellery zone in Thailand), single factory zones (for example-India), single commodity zone (like coffee in Zimbabwe), single company zones (like Dominion Republic).
- At global level EPZs have been treated quite differently than in India. Factories in Hainnan and Mauritius are allowed to apply for their zone status anywhere in their island.

- China, Singapore and Hong kong have enhanced their port cities with strategic trading role by providing them with benefits in export processing and transshipment.
- Export Performance-WTO has identified significant export products from EPZs and these are, garments and electronic gadgets.
- Garments from Bangladesh, Television receivers from Malaysia and Mexico, and other equipments from China have been on peak during the 1990s.

- Employment Effects- EPZs employment rate has increased sharply in few countries like China, Philippines, Costa Rica, Dominican Republic and Sri Lanka by 2002.
- The EPZs have provided employment to young women in developing nations, and female make up bigger share of working population in export led industrialization.
- This EPZ entirely depends upon the foreign demand. For example- jobs related to manufacturing have disappeared in Bangladesh in 2000, because of the competition in Asian and African garments export industry and also fallout from the war in Afghanistan.

THERE ARE ESSENTIALLY FOUR GROUPS OF EPZ COUNTRIES

- First case is of those countries where three quarters of employment in the manufacturing sector is accounted for by EPZ industries, such development is only conceivable in very small country where industrialization and manufacturing is associated with EPZ.
- Second are the countries where EPZs are the main job providers in the industries, such as Singapore, Malaysia, the Dominican Republic, Sri Lanka and Tunisia, where EPZ provides employment to nearly 15-35% of the total.
- Third are the countries where EPZs provide employment to 5-6% of the total such as Taiwan, China and Republic of Korea.
- The fourth and the last group is formed by the countries where employment generated by EPZ is marginal, that is below 1.5% and represented by Brazil, Egypt and the Philippines. This group also includes developing countries which were operational in mid 1980s.

TREND OF DEVELOPMENT IN INDIA

- **Initial phase-1964-1985**
- The first zone was set up in Kandla as early as 1965 followed by Santa Cruz in 1973 with no clarity in objectives. The policies were rigid and the package of incentives and facilities was not attractive. The entrepreneurs had to get clearance from individual clearances from various state government and central government departments. Custom procedures for bonding, bank guarantees and movement of goods were rigid. The policy of Foreign direct investment was also highly restrictive.
- Three committees were appointed by the government of India to review the working of the zones during this phase. Kaul Committee reviewed Kandla, Review committee on Electronics reviewed Santa Cruz and Tondon Committee reviewed both the zones.
- These committees pointed out constraints faced by EPZs, like absence of policy; infrastructural deficiencies; limited powers: limited concessions; procedural constraints, etc.

- **The Expansionary phase-1985-1991**

- The Tandon committee strongly recommended to locate 4 to 5 more zones in the country to promote exports. The high cost of production structure created by heavy protection reduced the competitiveness of Indian exports and it was suggested that free trade zone would serve to be useful instrument of export promotion.
- Government decided to establish four more zones in 1984. These zones were at Noida (Uttar Pradesh), Falta (West Bengal), Cochin (Kerala), Chennai (Tamil Nadu). In 1989, Vishakhapatnam EPZ (Andhra Pradesh) was established.

- **The Consolidating phase-1991-2000**

- In 1991, the LPG was introduced in Indian Economy, and this phase was marked by progressive liberalization of policy provisions and relaxation in the severity of controls and simplifications of procedures.
- The policies focused on delegating powers to zone authorities; providing additional fiscal incentives; simplifying policy provisions and providing greater facilities.
- The scope and coverage of EPZ scheme was also enlarged in 1992 by permitting the agriculture, horticulture and aquaculture. In 1994, trading, re engineering and re conditioning units were also permitted to set up.

- **The Emergence phase-2000 onwards**
- The EXIM policy (1997-2002) introduced a new scheme from April, 2000 for the establishment of SEZ in different parts of the country. SEZ was permitted to set up in public, private and joint sector or by the State Governments with a minimum size of not less than 1000 hectares.
- Improvement in policies, better incentives and government support through SEZ was seen significantly.

Performance Indicators

- The performance of EPZs have been done through the following indicators; Gross Exports, Gross Exports per unit of employment, Net Exports, and Value Addition.
- The EPZ exports increased in India from less than RS. 1 million in 1966 to Rs. 97727 million in 2002.
- Over the same period, total employment increased from 70 to around 89000.
- Net foreign exchange earnings increased from Rs. 0.16 million to Rs. 43195 million and value addition increased from 21% to 44%.
- What is noticeable is, gross EPZ exports registered an impressive growth rate over the period 1966-2002.
- Gross exports rose much faster than employment in these zones.
- Growth of value addition had not been promising over this period
- In a holistic way, exports and foreign exchange earnings of EPZs in absolute terms increased substantially but the value addition remained stagnated.