

PRIVILEGED EXPORT ZONES

N.N. Sachitanand

India's first Export Processing Zone, confined to production of electronics goods was established ten years ago. But, its performance has not been upto expectations either in promoting exports or foreign investors. N. N. Sachitanand writing in the Madras "Hindu" assesses its performance over the past decade and maintains that the experience of Bombay's SEEPZ provides several important indicators that could ensure better results in the new Export Processing Zone contemplated in India. During India's six year plan period four more such zones are to be established at Falta near Calcutta, Meenambikkan near Madras, Noida near Delhi and in Cochin. Since there appears to be no retraction on this policy, at least the Government can learn from the SEEPZ experience and take steps for better performance in the new zones, he states.

When the Santa Cruz Electronics Export Processing zone (SEEPZ) was established in Bombay in 1974, the Union Government had hoped to achieve the following objectives through it:

(1) promote a rapid expansion of electronics goods export from the country;

(2) expose Indian professionals to the latest product design and production technology (brought in by top-notch foreign companies investing in the Zone). This exposure would ultimately result in the enhancing of technology in the rest of the country by horizontal transfer from these professionals working within the Zone.

(3) raise the technological level of electronics ancillary industries in the country, especially those catering to the units in the Zone;

(4) earn substantial foreign exchange.

INCENTIVES

To enable the achievement of these objectives and attract foreign investors to the Zone, the Government offered a basketful of incentives and facilities which not only did away with all the irritants and impediments faced by an enterprise elsewhere in India but also placed the Zone company in a highly competitive position with respect to

manufacturers anywhere in the world. Licensing for import of capital goods and other production materials was waived, imported capital goods, toolings, spares, raw materials and packaging materials were allowed in free of customs duty, products made in the Zone were exempted from central excise duties and other levies, relaxations were made in local levies, foreign equity upto 100 per cent was permitted, foreign capital invested in the Zone was allowed to be repatriated at any time, foreign investors were allowed to remit freely to their countries profits and dividends earned after payment of taxes, a subsidy on wages was offered during the first six months of training, the Zone units were statutorily exempted from power cuts, all the Zone enterprises were given public utility status under the Industrial Disputes Act, telecommunication facilities were given on top priority basis, ready-built space in standard design factories was offered at low rents for those entrepreneurs who did not want plots for constructing their own factories and so on.

Obtaining all clearances for putting up the enterprise, which in India is usually a nightmarish experience involving considerable running around and agonising delay, was arranged at a single point - the SEEPZ Board - within a maximum of 45 days only. Customs clearance was provided within the Zone itself and procedures simplified to ensure

almost immediate clearance of consignments, both incoming and outgoing.

ENCOURAGING EXPORT CURVE

Despite these "heavenly" conditions (so it would seem to entrepreneurs outside the Zone), SEEPZ failed to attract the jostling queue of foreign investors which was expected. After comparing the carrots dangled by similar zones in South Korea, Taiwan, Singapore and Sri Lanka, from April, 1981, SEEPZ units were exempted from tax on their profits for an initial period of five years. This has resulted in an increase of enquiries from some big foreign firms.

The question now arises has SEEPZ performed upto expectations? The export curve shows an encouraging trend with a low growth rate in the initial years but a rapid acceleration in the last two years. Between 1976/77 and 80, exports rose slowly from Rs. 3 crores to Rs. 11 crores. Thereafter, the growth rate has been around 70 per cent to 80 per cent per annum (80/81 - Rs. 19 crores; 81/81 30 crores; 82/83 - Rs. 54 crores and 83/84 - Rs. 70 crores expected.)

RETURN NOT ADEQUATE

However, a discouraging factor is that in the last nine years of its existence SEEPZ has contributed only Rs. 40 crores as net foreign exchange earnings for the country with total exports being Rs. 175 crores and total imports (including Rs. 14 crores in capital goods) amounting to Rs. 135 crores. When one considers that the total exports is around Rs. 8,000 crores per annum now, the contribution by SEEPZ with all the concessions and facilities given to its units, is piddling. Certainly it is not an adequate return for the nearly Rs. 10 crores already spent by the Government on development and maintenance of the Zone.

The high level of imports into SEEPZ points to another disturbing factor - the minimal use of local supplies. This is because, contrary to expectations of high technology manufacturers in SEEPZ the Zone is being used by foreign investors mainly for assembly operations in order to take advantage of the low wage cost in India. Thus SEEPZ is far from meeting the desired objective of enhancing the technological level of hinterland electronics ancillary industries. There is of course, no scope for Indian professionals working in the SEEPZ units picking up design know-how. The assembly production line techniques employed in the SEEPZ units are for scales of production usually too large for replicating in the hinterland given the low demand levels of the Indian market.

UNEVEN PERFORMANCE

The performance of the units located in SEEPZ has been uneven. Of the 75 units sanctioned only 45 are now operating. Roughly, 50 percent of the operating units have kept upto the projections given in their original project reports about quantum of exports and value added. There are 18 units exporting more than Rs. 50 lakhs per annum each, seven units exporting between Rs. 25 lakhs and Rs. 50 lakhs and nine units exporting less than Rs. 25 lakhs a year and 11 non-exporting units. Among the non-exporters, four units are sub-contracting to other enterprises in the Zone and seven are non-active.

Among the 75 units originally sanctioned, 12 have downed shutters. Their products included cassette tape recorders, ceramic capacitors, black and white, TV sets, X-ray units, wire-wrapping boards, aluminium foil capacitors and digital watches. A recent review of the reasons for the poor performance of SEEPZ units identified poor marketing know-how, product becoming obsolete and international prices dropping too low as the primary causes.

As a result of this review and the representations made by the Zone units the Union Government permitted as of April 1983, the zone enterprises to export 25 per cent of their production to the hinterland. Of the 12 units which applied for such export, 10 have already received their sanctions. Their products include rectifiers, semi-conductors integrated circuits, capacitors, printers, carbon and metal film resistors. It is hoped that this inland outlet will provide a cushion for the units in distress due to a slump in international demand or prices.

However, how far the Indian buyer will opt for SEEPZ products remains to be seen since the only advantage he gets is ready availability of the product. In all other respects obtaining the product from SEEPZ is as good as importing from abroad since an import licence is needed and excise duty as well as import duty (in the form of additional excise duty) are levied on the SEEPZ product to the same extent as if it is procured from abroad.

FOR BETTER PERFORMANCE

Although the experience with SEEPZ has not been all that encouraging, the Union Government is obviously sold on the idea of privileged export processing zones. During the Sixth Plan period, four more such zones are to be established at Falta near Calcutta, Meenambakkam near Madras, MOIDA near Delhi and Cochin. Since there appears to be no retraction on this policy at least the Government can learn from the SEEPZ experience and take the following steps for better performance in the new zones;

(1). Select the entrepreneurs with greater care, especially with respect to their international strength and marketing arrangements.

(2). Insist on a technology flow for each enterprise so that the Zones do not become a mere haven for exploiting the cheapness of lo-

cal labour. If Singapore can do it, there is no reason why India with a much higher inherent technical strength should not.

(3) Meet the social infrastructure needs of expatriates working in the Zones. A residential enclave around each Zone, with facilities such as an international school and supermarket, for the foreign personnel, is a must. The housing units can be leased out to the Zone, units according to the period of their requirement.



Women working in a watch making factory.

(4) Telex and telephone connections are provided within two months to every Zone enterprise in its office premises inside the Zone. But no such priority is extended to the residence of the chief executive. This is a serious drawback because the difference in time zones between India and the foreign principals of the Zone enterprises quite often necessitates the chief executive ringing up the foreign headquarters late in the night (when it is day there). This cannot be done if the only telephone connection is in the office within the zone

(5) To promote the development of local ancillaries in the hinterland, the value added criterion should be so fixed that the operation of a Zone enterprise does not become a mere assembly of imported parts.

(6) A problem faced by the

SEEPZ units is the disposal of imported equipment which has outlived its utility. Till now such equipment was allowed to be sold inland on an ad-hoc basis after payment of customs duties charged on the depreciated value but at rates prevalent at the time of import.

Now the Customs and Excise Department has been asked to modify the Customs Exemption Notification permitting taking out of old or surplus equipment from the Zone by paying customs duty

at current rates on the depreciated value of the equipment which is based on a prescribed lifetime for the equipment. This policy modification needs to be executed before the other zones are set up.

(7) There is tremendous competition among the newly industrialised countries in Asia to attract foreign investors to their export zones. While the Indian Government has provided a number of incentives, there is need to match what the others offer. For example, the five-year tax holiday, which SEEPZ offered rather late in the day, to match similar benefits given by Sri Lanka, Taiwan, South Korea and Singapore, has certainly attracted some big fish who would not nibble previously. In the same manner, the Government needs to have another look at the taxes on dividends, royalties and know-how fees and salaries of foreign person-

nel and either reduce them or eliminate them altogether to keep the lure of our Zones on par with those of competing countries.

PASSING CRAZE

(8) In the eagerness to fill up a zone, the authorities may let in fly-by-night operators who are only temporarily interested in making use of the facilities and concessions in order to cash in on a passing craze. This can lead to sickness and a high morality rate in the zone. For example, SEEPZ is saddled eight videotape recording units whose total capacity is 37.5 lakh cassettes a year and which are now underworked since they have run out of availability of new movies to record. Such types of enterprises, which have strictly no technological function, should be avoided

(9) The zones that are coming up now will be offering both vacant plots for selfconstruction of factories and also built-up space on lease. It has been the experience of SEEPZ that entrepreneurs prefer built-up space since they can immediately start production. Of the 54 plots offered by SEEPZ in its area, only seven enterprises have constructed factories and started production.

On the other hand the demand for built-up space has been so high that the SEEPZ authorities have had to treble the originally sanctioned covered floor area and are planning further substantial expansion. This is a point to be kept in mind by the authorities of the new zones when they do their project planning.

In the ultimate analysis, small countries like South Korea, and Sri Lanka or city States like Hong Kong and Singapore can reasonably hope to achieve export led growth through their free trade zones. But for a large country like India with its immense internal market, the correct strategy should be growth-led exports. And for this short-cuts like free trade zones will be of marginal utility. The real spurt in exports will come only if the trade and industrial policies are so liberalised that enterprises can grow in strength and become internationally competitive without props.

Courtesy: 'THE HINDU'