2.1 Review of literature

Special Economic Zone is a geographical region that has economic laws different from a country's generally applicable economic laws, with the underlying objective being an increase in economic growth and activity through increased foreign investment. SEZs have been established in many countries including the People's Republic of China, India, Jordan, Poland, Kazakhstan, Philippines North Korea and Russia.

Globally, establishment of SEZs have revolved around achieving the following basic objectives:

- Economic growth and development- through exports and backward integration
- Infrastructure development
- Employment generation
- Up-gradation of managerial and technical skills

Achievement of the above objectives through SEZ's is typically facilitated through the following:

- Exemptions and deductions from direct taxes
- Exemptions and deductions from indirect taxes
- Hassle free environment
- Relaxed foreign investment norms
- No currency restrictions
- Easy immigration/recruitment for foreign nationals
- Excellent infrastructure facilities.

Government of India, like almost all other nations, has been endeavoring to develop exports. It is important to the entire economy as a whole. For the purpose government adopts various measures to help exports as the export promotion provides various benefits to the entire economy.

2.1.1 Benefits of exports to the economy:

- Where the domestic market is small, foreign market provides opportunity to achieve the economy of scale and growth;
- Where the supply of various commodities is more than the domestic demand;
- Where exports enable the country to achieve export-led growth;
- Where the export markets may help mitigate the effects of domestic recession;
- Where enough foreign exchange is required to finance its imports, service its foreign debts or to face the trade deficits; and
- Where export promotion may require to maintain its position against the international competition or to level the domestic economic activity.
2.1.2 Principal objectives of export promotion measures in India

- To compensate the exporters for the high domestic cost of production;
- To provide necessary assistance to the new and infant exporters to develop the export business;
- To increase the relative profitability of the export business in comparison to the domestic business.

2.1.3 Organizational set up for promotion of exports

Ministry of commerce: The ministry of commerce, government of India, is the first step to promote and regulate the foreign trade of the country. It is assigned very important role concerned with foreign trade of the country including commercial relation with other countries, promotion and regulation of foreign trade and state trading etc. The department of commerce in the ministry looks after the various matters of foreign trade through the eight divisions viz. –


2.1.3.1 Autonomous Bodies:

1. Export Promotion Councils, Commodity Boards and Authorities: A number of Export Promotion Councils are formed under the administrative control of Ministry of Commerce to perform both the advisory and executive functions. Instead of Export Promotion Councils some Commodity Boards are formed to regulate the production, development
and exports of some products like Spices Board, Coir Board, Tea Board etc. On the other hand Export Development Authorities are also constituted for some products like The Marine Products Export Development Authority (MPEDA), The Agricultural and Processed Food Products Export Development Authority etc.

2. **Export Inspection Council:** It is a statutory body responsible for the enforcement of quality control and compulsory pre-shipment inspection of various exportable commodities.

3. **Indian Institute of Foreign Trade:** It is engaged in training of personnel in modern techniques of international trade, organization of research in problems of foreign trade, organization of marketing research, area surveys, commodity surveys and market surveys, and dissemination of information arising from its activities relating to research and market studies.

4. **Indian Institute of Packaging:** It is engaged in research on raw materials for the package industry, organizing the training programmes on packaging technology and stimulating consciousness of the need for goods packaging technology etc.

5. **Indian Trade Promotion Organisation:** It is formed by merging together the Trade Fair Authority of India and Trade Development Authority of India. The main objects of Indian Trade Promotion Organisation are:
   - To develop and promote exports, imports and upgrade technology through fairs in India and abroad;
• To compile and disseminate trade relation information;
• To undertake publicity through the print and electronic media;
• To organize visit of foreign buyers and trade delegations to industry and trade establishments in India to promote trade contracts;
• To organize export development programmes, buyer-seller meets, and integrated marketing promotion programmes for trade and industry in India; and
• To assist Indian companies in trade development.

6. **Federation of Indian Export Organisation**: It is an apex body of various export promotion organizations and institutions. It functions as a primary servicing agency to provide integrated assistance to government recognized Export Houses and as a central coordinating agency in respect of export promotion efforts in the field of consultancy services in the country.

### 2.1.3.2 Advisory Bodies

**Central Advisory Council on Trade**: The commerce and industry minister is the chairman of this council. The council consists representatives from different organizations and individuals with business standing and expertise in the field of trade and commerce. It advises government on matters relating to:

- Export and Import policy programmes;
- Operation of import and export trade controls;
- Organisation and development of commercial services; and
- Export credit Guarantee Corporation.
2.1.3.3 Public Sector Undertakings

The ministry of commerce and industry has the following public sector undertakings:

- The State Trading Corporation of India and its subsidiaries;
- The Minerals and Metals Trading Corporation of India and its subsidiaries;
- The Spices Trading Corporation; and
- The Export Credit Guarantee Corporation.

2.1.3.4 Attached and Subordinate Offices

- Office of the Director General of Foreign Trade;
- Directorate General of Commercial Intelligence; and
- Offices of Development Commissioners.

2.1.4 Export Incentives

The scheme of providing export incentives is a widely employed strategy of export promotion. The main object of export incentives is to increase the profitability of export business. The rational of these incentives is to compensate the exporters for the high domestic costs. These incentives are as follows:

2.1.4.1 Duty Drawback or Duty Exemption: The exporters are either exempted from the payment of excise or customs duties while procuring inputs like raw materials and intermediaries or, in case where the duty is paid on the inputs, the duty is refunded. Eligible exporters are also entitled to interest free bank credit against the duty drawback applicable to them up to a period of 90 days, or up to the time they realize the drawback, whichever is earlier. With the application of
MODVAT, a large number of products, covered by MODVAT, can be exported in bond and in that event, the duty relief in the form of drawback would be restricted only to basic customs and auxiliary duties suffered, if any, by the inputs.

There are two types of duty drawback rates, viz, all industry rate applicable to a group of products and brand rate applicable to individual products not covered by the industry rate. The all industry drawback rates are derived from estimates of average quantity of value of materials used in manufacture of exports, the average amount of duties paid on imported materials or exercisable materials used in manufacture of these goods, and the average amount of duties paid on the materials wasted in the manufacturing process. Such average industry rates are fixed by the Drawback Directorate in the Ministry of Finance.

**Awards:** The exporters are encouraged by various awards to recognize the excellence in exports. Different categories of exporters are awarded differently. These awards are given on the basis of certain specified criteria such as development of markets for products which have not been exported previously, substantial increase in exports, successful introduction of new products, product development etc.

**2.1.4.2 Assistances:** Some assistances or facilities are provided to exporters. These assistances and facilities are as follows:

**Marketing Assistance:** The government of India has been taken a number of steps to assist the exporters in marketing field. These steps include sponsoring,
conducting or assisting in some other ways in market surveys and research, collection and dissemination of marketing information, organizing and facilitating participation in international trade fair and exhibitions, credit and insurance facilities, release of foreign exchange for export marketing activities, quality control and pre-shipment inspection, identifying various markets and products with export potential, helping buying-selling interaction and assistance in export procedure etc. Some crucial market development schemes are as follows:

i. **Export Risk Insurance:** International business assumes different type of risks for which various measures have been adopted to provide insurance covers. The Export Credit Guarantee Corporation (ECGC) has various policies to cover different risks associated with export marketing, overseas investments, exchange rate fluctuations etc. It also extends the exports credit risks cover to the commercial banks.

ii. **India Brand Equity Fund:** The government of India established India Brand Equity Fund to promote 'made in India image' abroad. A 'Brand Acquisition Fund' has to set up to help Indian corporate in acquiring big international brands put up for sale and build them up as Indian brands in the international market.

iii. **Institutional Assistance:** The export marketing is also assisted by forming various organizations like Commodity Boards, Export Development Authorities etc.

iv. **Market Development Assistance:** Market development assistance is available for market and commodity researches, trade delegations and study
teams, participation in trade fair and exhibition, establishment of offices and branches in foreign countries and grant in aid to export promotion councils and other approved organizations for export promotion.

v. **Market Access Initiative Scheme:** This scheme is also implemented by other countries. This scheme includes the activities considered necessary for focused market promotion efforts.

vi. **Trade Fairs and Exhibitions:** The organizing of trade fairs and exhibitions is very effective for promoting products by Indian exporters and manufacturers. The cost of participating in international trade fairs and exhibitions is subsidized and the ITPO plays an important role in organizing and facilitating participation.

**Financing Institutional Assistance:** The government of India helped in establishing various financial institutions to provide financial supports to exporters. The Export-Import Bank, Commercial banks, Specified commercial banks and other financial institutions provide pre-shipment and post-shipment finance to exports and also provide suppliers' credit including line of credit to promote Indian exports.

**Quality Control Assistance:** The Export (Quality Control and Inspection) Act empowers the government of India to make necessary regulations to improve the quality of exports and to ensure that goods of appropriate quality are exported from the country.
Establishment of Export Hubs: The government of India has formed various export hubs like Export Promotion Zones (EPZs), Technology Parks (TPs), hundred percent Export-Oriented Units (EOUs) and Special Economic Zones (SEZs) as a part of export promotion.

Export Processing Zones (EPZs): These are industrial estates which form enclaves from the national customs territory of a country. These zones are generally situated near seaports or airports and their entire production is usually intended for exports. These zones have well developed infrastructure facilities. Hundred percent foreign direct investments in these zones are allowed. The units established in these zones may import capital goods; raw materials, plant and machinery etc. for export production without payment of duties. Domestically procured goods for export purposes are also eligible for duty exemption.

Free Trade Zones (FTZs): A Free Trade Zone may be a part of adjacent to a port or situated nearby any seaport or airport. Generally goods imported by these zones are re-exported without any processing and without paying any duty.

Technology Parks (TPs): The government of India also introduced some schemes to establish Electronic Hardware Technology Park (EHTP) and Software Technology Park (STP) for production and development of technological goods for exports. The import and export from these technology parks are generally duty free.
**Export Oriented Units (EOUs):** An hundred percent export oriented unit offers its entire production for exports. The relevant export promotion councils will set the export targets of these export-oriented units. The scheme of 100% export oriented units had been designed to create additional export capacity.

**Special Economic Zones (SEZs):** Special Economic Zones are export hubs to boost the country’s export. SEZs may be set up by any state government, corporate body or in private-public partnership. The units established in a SEZ should be net foreign exchange earners and only labour law and banking law will operate in these zones, however, these units may also do domestic sales by paying all relevant duties. Hence such SEZs have tremendous impact on exports, inflow of foreign investment and employment generation. The big push of development envisaged by SEZs should be expected to have a very significant impact.

**Export Houses and Trading Houses:** An export house is a registered exporter holding a valid Export House Certificate issued by the Director General of Foreign Trade. The objective of establishing Export Houses, Trading Houses etc. is to recognize the established exporters with a view to build marketing infrastructure and expertise required for export promotion. These houses will operate as highly professional and dynamic institutions and act as important instruments of export growth. The merchant and manufacturer exporters, EOUs and units located in EPZs, EHTPs, STPs etc. may also be recognized as Export
Houses, Trading Houses, Star Trading Houses and Superstar Trading Houses subject to the fulfillment of the criteria laid down by the government.

2.2 Research Methodology

The following methodology was adopted for the research purpose:

2.2.1 Sample Design

India needs strong local foundations for global trade. India's position is unique since we have a large number of poor people, depending upon agriculture and traditional industries like handicrafts, leather and textiles. Therefore, we need to create incremental employment by boosting of labour-oriented products. According to a recent study, exports supported nearly 16 million jobs in 2004-05, out of this, nine million was direct employment, and we can bring about major growth in employment by boosting exports. We have to plan to focus on agri-products and key segments like handlooms, handicrafts, leather, marine products and horticulture. Large, organized players like the IT industry can take care of themselves. We need to help the unorganized sectors to turn more competitive and face global challenges. The aam aadmi should benefit from exports and that's the big challenge. The special Economic Zone is a new concept, which will play a key role in our moving towards an equal distribution of resources to reduce regional disparity within the country. The migration of capital, labour and technology across geographical boundaries will reduce disparity at all levels of growth. SEZs will be the launch pad for future economic growth and have come to stay.
It is very difficult for researcher to select a specified area or units of study for research purposes as the exports through special economic zones and their consolidated results are awaited for a long period. Hence, researcher is bound to use the published data obtained from various sources. In addition to it a broad questionnaire was prepared to collect the primary data from various units of various special economic zones selected randomly.

2.2.2 Period of Study

The study was conducted both at macro and micro level. For the macro level the study period was taken from 2004-2007 for the purpose to analyze the trend of export through special economic zones. Though the period of study for trend analysis is very short but it gave a solid picture and wide base for the future of special economic zones. For micro level study, the period relates to one year that is from 2005-06.

2.2.3 Collection of Data

The present study is based on both the primary and secondary data. The primary data were collected by direct personal interviews with the related officers, staff of units established in SEZs and management of SEZs. The care was taken that prejudiced suppression of the facts does not occur at the time of personal interviews. To achieve this end, an assurance was given to interviewees that no information, data secrets and involvements would be leaked out of any cost except the interpretation given in the proposed study. For this purposes a comprehensive questionnaire was framed and pre-tested to collect the necessary information from the officials of the units and SEZs.
To make the study more analytical, logical and scientific, and to arrive at a definite conclusion, the secondary data were also collected from export houses, directorate of information, commerce and industry ministry, fact books, manuals of exporters and published data in various newspapers and magazines etc.

2.2.4 Tabulation, analysis and interpretation of data and information

Data collected from different sources were tabulated and classified chapter-wise so as to make the study systematic and scientific. Different tables were prepared for the purpose to concentrate on each and every aspect of this study. After tabulation of data, an analysis was made using different statistical tools so that the factual position of the related aspects might be found out and the reliable conclusions might be drawn.

In the end the result of the study were interpreted in such a simple and systematic manner so that these may prove useful to the exporters, management of various SEZs, export houses etc. to understand the analytical study in particular in one way and to the public, industrialists, state and central government etc. in other way to analyze the situation in general.