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EXPORT PROCESSING ZONE (EPZ) APPROACH IN INDIA WITH ABROAD

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INTRODUCTION

A Export Processing zone (SEZ) or free Trade Zone (FTZ is typically an enclave of units operating in well defined area within the geographical boundary of a country where certain economic activities are promoted by a set of poilicy measures that are not generally applicable to the rest of the country. These zones are known by different name such as Free Trade Zones (FTZ) Industrial Free Zones Export Processing Zones (EPZ) Bonded Free ones Maquiladoras (Mexico) and Export Processing Zones (China) These zones offer high quality infrastructure facilities &Support services and allow duty free imports of capital goods and raw materials. In addition attractive fiscal benefits, relaxed labor laws and simpler procedure are also offered in such zones. Over the years this concept has expanded and evolved to encompass larger areas, higher levels of integration with the defined geographical boundaries and increased integration and the local economy. EPZs today are not only a tool for export development but also contains in them the potential of generating economic spin off of enormous proportions leading to regional development. The international experiences of EPZs lend credibility to the fact that Countries like China, Ireland, and Philippines etc. have achieved high economic growth supported by strong performance of their EPZ's.

VISION TOWARDS EPZ FOR UPCOMING GENERATIONS

The objective of the entire zone is consonance with the state economic policies for overall economic development. Nevertheless, these have aroused out of different economic compulsions. Abroad EPZ's objectives were to initially attract high level of foreign investment with open foreign investment policy and later on to infuse high technology in to the economy.

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Indian EPZ’s are primarily being geared to attract FDI, export promotion, employment generation and technology infusion.

AREA FOR IDEAL EPZ

International experience shows that the size of EPZ's generally varies from 2 to 800 square kilometers. Size is influenced by the degree of self-sufficiency and integration in the zone. However, a minimum land area is necessary to support a desired level of economic activity. The areas of the zones are remarkably large unlike India, In China the Shenzhen EPZ is 327 Sq. Km and Hainan is 34,000 Sq. KM (Entire province is declared as EPZ). As per the latest policy, in India the size of EPZ should be 1000 Hectares (10 Sq. KM) It hardly needs reiteration that only large sized zones can generate economic activity on some reasonable scale In a small zone, the requisite infrastructure and services can not be provided nor multiple economic activity be promoted. The EPZ's promoted at various parts in India are much bigger than existing EPZ, though compared to the Chinese EPZ's their size is by and large still small.

FACILITIES TO EPZ

Well developed infrastructure facilities are a major attraction for investors International experience also shows that government participation in developing zone infrastructure, especially in the initial stages, has played an important role in their success. Quality infrastructure and reliability of services help improve efficiency of operations. Availability of integrated facilities and services such as housing, recreation, educational and health care are added attractions to investors. A larger domain of infrastructure facilities and supporting services make EPZ's more attractive for investors. In China the EPZ's are part of the larger cities and enjoyed good social infrastructure and urbanization. The Shenzhen transport infrastructure is best service industrial infrastructures in terms of ready to move in furnished offices, per built warehouses and onset staff accommodation. In Chine the more emphases is on good transport and other external infrastructure.

PRIVATE PARTICIPATION FOR EPZ

Another key success factor in successful zones has been the involvement of private sector in developing, operating and maintaining core infrastructure components. This has been achieved through private infrastructure concessions. International investors attach significant importance to "sustainable and reliable" infrastructure that would ensure assured service standards. Governments have also played an important role in developing infrastructure through direct funds support and by providing contentment liability support such as revenue shortfall support, credit enhancement, guarantees and exchange interest rate protection. In the last 10-15 years, there has been a steady growth in privately owned or managed zones.

EVOLUTION AND CONCLUSION

In 2000, the governmental of India introduced a new Export Processing Zone (EPZ) Scheme in the Export & Import Policy, with a view to provide an internationally competitive and hassle free environment for export production. Foundation of Indian EPZ can be traced back to lay down of Export Orient Units (EOUs) which were industrial units specializing in manufacturing for the purpose of exports. Thses EOU's which are specialised in exports later also switched into trading related activities. That, is they manufactured and traded for exports. Since they were open to such combined export activity, they came to be known as free trade zone (FTZ Then came the need for support infrastructure & logistic facilities for efficient and smoothly functioning of these FTZZ. The integration of all of the above came to be known as Export Processing Zones.

The policy for EPZ's provides for setting up of EPZ's in the public, private, joint sector or by State Governments. Following are the salient features of the EPZ policy. The details job EPZ scheme and draft EPZ bill 2004 are given as Annexure I & IV.

- Duty free enclave and shall be deemed to be foreign territory for the purposes of trade operations and duties and tariffs.

- Goods going into the EPZ area from DTA shall be treated as deemed exports and goods coming from the EPZ area into DTA shall be treated as if the goods are being imported.

- EPZ units can be setup for manufacture of goods and rendering of services, production, processing, assembling trading, repair, remaking, reconditioning and “re engineering including making of gold/silver/platinum jewellery and articles thereof or in connection therewith.

- EPZ's should have and area preferably of 1000 hectares.

- EPZ's unit would have to be positive net foreign exchange earners and would not be subject to any minimum value addition norms or export obligations.

- 100% FDI would be permitted for all investments in EPZ's except for activities under the negative list.

- No fixed wastage norms.

- Duty free goods to be utilize within the approval period of five years.

- The ministry of commerce and industry through issue of a notification can also convert the existing Special Economic zones (SEZs) into EPZ.

- The development commissioner would be responsible for administrative control of the zone.

As per the recent Exim policy 2009-11, a policy was declared by the government to permit Offshore Banking Units (OBUs) in EPZs. Detailed guidelines for setting up and OBU are being worked out by RBI. This should help some of the cities emerged as financial nerves centres of Asia.

Units in EPZs would be permitted to undertake hedging of commodity price risk, providing such transaction are undertaken by the units on stand alone basis. This will impart security to the returns of the unit.

It has also been decided to permit external commercial borrowings (ECBs) for tenure of less than three years in EPZs. The detailed guidelines will be worked out by RBI. This will provide opportunities for accessing working capital loans for these units at internationally competitive rates.

IMPORT AND EXPORT PROCEDURES

The EPZ units may import and export through port , airport, land custom stations, ICD ,CFS courier mode (other than valuables) and post parcel. The software development units may import and export through data communication and telecommunication links. So far as exports through data communication and telecommunication links are concerned, the procedure and practice being followed in case of EPZ/STP units may be adopted font EPZ units . As for import of software through above modes ,the units may be asked to file the Bill of Entry within 24 hours of such imports along with bank attested invoice and other relevant documents for obtaining national "out of charge ". The documents such as invoice etc. in respect of such import shall be routed through banks. The director or the STP/development Commissioner of EPZ shall certify the value of such software. Further, in case of such software imports , instructions issued by RBI, if any, may be followed .

In case of imports the Bill of Entry wi th specially stamped endorsement as "EPZ Cargo" shall be filed with the Asst. Commissner/ Deputy Commissner of Customs in the EPZ for assessment. For procurement of gods from domestic sources by EPZ units, the procedure and practice being followed in case of EPZ units may be adopted. In both cases , i.e.. both in respect of imported and domestically procured cargo, the goods may be assessed on the basis of documents furnished by the units. There will be no physical examination of goods and "out of charge" may be given after verifying the marks and numbers on the packets only.

When the goods imports are required to be sent to a EPZ located at a station away from the place of import ,the same may be allowed under normal transit procedure. In case of exports, for assessment of Shipping Bill , the procedure as applicable to the EPZ's shall apply mutatis mutandis in case of EPZ's also . There shall be no routine examination of the export consignment by EPZ customs authorities.

CONCLUSION

There are certain distinct characteristics of the EPZ model which have been illustrated below.

- International experiences show that Govt. have largely developed Export Processing zones and have invested the necessary funds to create zone infrastructure. As an extension, Govt. have also taken the principal responsibility for marketing these zones internationally. Unlike this the primary thrust of the Indian EPZ model is to facilitate 'private sector led' EPZ's. This has opened up possibilities for developing EPZ's in the private sector and joint sector.

- Keeping in view learning from other countries, the Indian EPZ model also envisages a minimum size of 1000 ha for all green- field EPZ's. As highlighted earlier, a minimum critical mass or size is necessary to give rise to the desired economic multiplier. The combined utilized area under all EPZs and FTZs in India is 2100 acres i.e. less than 1000 hectares, the minimum size stipulated for green field EPZ. The simultaneous conversion of existing EPZS I FTZs into EPZs provides an opportunity to test and fine tune the EPZ policy before being finally applied to green field EPZs .

- Experience of comparable countries shows that decisions such as location selection, number of EPZ's be promoted and the focus for investment attraction have largely been influenced by national govt. In the Indian EPZ model, states are being encouraged to take these choices while the central govt. is largely focusing on policy-making and facilitation. This has resulted in a number of proposals from states for developing EPZ's . Since much of the funding for EPZ's is envisaged through private sector/banks, soundness of the business model, competitive differentiation and market forces would be the key determines of bank ability of these projects.

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