

# From midget to giant

In the manner in which the zones have been planned, it looks almost certain to catapult India to the big league of global manufacturing giants. **Sakyasen Mitra** reports

**W**ith billions of dollars being invested in a slew of Special Economic Zones (SEZs) in India, the industrial scenario in the country is undergoing a dramatic change. The success of SEZs in China and even in the Gulf region - where several billion dollars in foreign direct investment (FDI) flows have been recorded - has triggered off a flurry of activities in India.

The Central Government in Delhi and all the state governments have realised the importance of attracting FDI, to expand the economy and to generate jobs. And unless they do away with red-tapism they will never be able to counter China's dominance in foreign direct investment (FDI). Over the last ten years, aggregate inflows of FDI to India averaged roughly \$45 billion against over \$150 billion to China in new agreements. India still lags way behind in luring away business investments from China. "It is high time we did something about it," points out the Indian Commerce and Industry Minister Kamal Nath. "Until we provide a single window clearance for FDI we will not be able to keep pace with the investments taking place in Asia, more so in China. That is why we are laying added emphasis on the special economic zones (SEZs)." Even Prime Minister Manmohan Singh is very keen to successfully implement SEZ in India as it was he who dreamt of a liberalized economic India."

So what exactly are SEZs? They are vehicles of holistic economic development. SEZs are vehicles to deal with deficiencies in infrastructure, bureaucratic hassles and barriers raised by monetary, fiscal, trade and labour policies. It is not that India is recently promoting the concept of SEZ. India's first SEZ (at that time it was called a free port and later Export Processing Zone or EPZ) was set up way back in



**POWER POINT:** Announcing the birth of an SEZ close to Cuttack in Orissa

1965. However, since the new century, the EPZ concept has received a boost and now currently features at the top of India's economic priorities as a means to attract FDI that will substantially propel India towards economic development. The Ministry of Commerce and Industry is quite confident that SEZs will attract investments of \$200 billion including FDI of \$50 billion and create an additional 5,00,000 jobs by the end of the 2007-08. "We are quite confident that our laws will establish the perception that India has a very strong manufacturing base," points out Nath.

To keep the investors happy, the SEZ Act was framed in 2005 and it became operative in February 2006. The Act provides for setting up of SEZs in public, private, joint sector or by state governments. It was also used to convert some of the existing Export Processing Zones into SEZs. Accordingly, the Government has converted Export Processing Zones located at Kandla and Surat (Gujarat), Cochin (Kerala), Santa Cruz (Mumbai), Falta (West Bengal), Chennai (Tamil Nadu), Vishakapatnam (Andhra Pradesh) and

Noida (Uttar Pradesh) into SEZ. The Government has also approved three new SEZs at Indore (Madhya Pradesh), Manikanchan Park (West Bengal) and Jaipur (Rajasthan). All the three are already in operation.

The Act has a number of salient features, the most important among them being the tax benefits. The Act offers a financially lucrative fiscal incentive package, which ensures exemption from customs duties, central excise duties, service tax, central sales tax and securities transaction tax to both the developer as well as the units operating within the SEZ. The Act also offers a tax holiday for 15 years against the seven year tax holiday that is being enjoyed at present. The 15-year benefit offers 100 percent tax exemption for the first five years, 50 percent for the next five and 50 percent of the ploughed back export profits. It also offers 100 percent income tax exemption for 10 years out of the 15 years for SEZ developers.

However, tax benefits are not the only salient features of the Act. It also provides the stakeholder the opportunity of estab-

## Current Status of Upcoming SEZs

SEZ	Status	Investment	Employment
Nokia, Tamil Nadu	Commenced commercial Production	\$100 million	Direct: 2,800 Indirect: 10,000
Quark City, Chandigarh	Inaugurated	\$500 million	35,000 by May 2007
Flextronix, Tamil Nadu	Commenced operations in November	\$ 100 million	3,000
Apache SEZ (Adidas group), Andhra Pradesh	Construction started	\$ 50 million	Around 25,000
Brandix Apparel, Andhra Pradesh	Construction started	\$ 100 million	Around 25,000 by March 2007

Source: Directory of SEZ in India, Govt. of West Bengal

lishing free trade and also warehousing zones to create world class trade-related infrastructure to facilitate import and export of goods. The aim is just to make India a global trading hub. It also allows public private participation in infrastructure development. Finally the Act also allows the setting up of offshore banking units and international financial services.

There are also other lucrative propositions that the Act has for the investor. It provides an expeditious and single window clearance mechanism for them. Earlier, getting a clearance to set up shop in India took a minimum of five to six months. Gone are those days and now an investor can expect to get clearance within seven days if all the paperwork is in order.

Also another important feature of the Act is that it provides a comprehensive SEZ policy framework, something that satisfies the requirements of the main stakeholders in an SEZ, namely the developer and the operator as well as the out-zone supplier and the occupant.

The result since the Act became operative has been there for everyone to see. The rush to set up SEZs in India has suddenly increased tremendously. The total number of approvals and in-principle approvals across 21 states of India currently stands at 212 and 152 respectively. An unimaginable dream at the start of the century. But then that is exactly what has happened and as on date 34 SEZs out of the approvals have already been notified.

There have been many critics of the SEZ, both in the past and at present. However, even the Leftists of India have felt the need for the SEZ. In fact the Left parties worked hand in hand with the present UPA Government to frame the new SEZ Act. West Bengal, a state in India ruled by the Left for the last three decades, has been a prime mover for the SEZ. The Chief Minister of West Bengal, Buddhadev Bhattacharya is quick to point out, "The

development of rural India is only possible if investments come into the country. And we feel that SEZs will play a major role in attracting FDI thereby giving the country's economy a boost. We would have dissociated ourselves from the project if we had felt that it was harming agriculture in India. But then that is not happening as some critics are trying to point out." Bhattacharya's words no doubt will go a long way in encouraging investors. India's Left parties have always been in the forefront of labour and trade union movement

**SEZs are meant to be the catalyst for socio-economic independence and improving the export-import structure.**

and strikes. But it is heartening to note that even if there is a Left-proposed industrial strike in West Bengal, the state administration takes special measures to keep the SEZ running. Other Left party leaders have been quite candid in their thoughts about the SEZ.

Left leaders based in Delhi have proclaimed both directly and indirectly that they were not averse to the idea of modifications to labour laws if it meant the economic development of India.

That India has wanted SEZs to prosper is quite clear from comments made by pan-India politicians. State governments of are cooperating with the Union Ministry in Delhi for the promotion of SEZs. The

Union Minister for Agriculture, Food and Civil Supplies, Sharad Pawar, feels that SEZs will contribute substantially to the development of the country's infrastructure. "The investors should be allowed to come in as they will play a major role in creating a proper investment infrastructure. Once we start attracting investors the sky is the limit as in India the cost of manufacturing any item is quite low and investors are going to keep this issue in mind. In fact the foundation of the modern jewellery industry in Mumbai was laid only through the SEZ," points out Pawar. The jewellery industry in Mumbai aptly describes how an SEZ can contribute to the development of economy. In 1987-88, the "wax setting technique" was introduced for the first time in jewellery production. Overnight, the cottage industry was transformed into a mechanised modern industry with the SEZs accounting for 55 per cent of the total Indian jewellery. As it is, the availability of low cost labour makes India a very lucrative destination for investors. And now with various tax benefits also on the anvil, the benefits of SEZ are there for everyone to avail of.

Within the next decade, India is all set to become a booming trading hub in South East Asia. The Government is taking all possible steps to ensure the speedy development of infrastructure, transparency in administration and simplifying of laws. Special emphasis is being laid on surface transport, development of ports and airports and strike free zones. The aim is quite clear: to provide cent per cent cooperation to the investor. The Chief Minister of Orissa, Navin Patnaik, is quite candid when he says, "Currently international steel giants POSCO are setting up an SEZ in Orissa with an investment of \$12 billion. When an investor spends that kind of money we will definitely provide him with a lot of benefits." 🌈