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Free Trade Zones (FTZs) to Special Economic Zones (SEZs):- The Great Indian Dream by Thothathri Raman and Prof. Parag Diwan, Pentagon Press, New Delhi, 2002, pages 306, Price Rs 495.

The Book “Free Trade Zones (FTZs) to Special Economic Zones (SEZs):- The Great Indian Dream” has dealt extensively with Special Economic Zones (SEZs) of China and Export Processing Zones (EPZs) of India, including a small topic on similar zones in other countries. The book, besides other factors look into the reasons for the failure of Indian EPZs. The book is divided into two sections. The first section comprehensively deals with the developments that resulted in the setting up of SEZs in India. This section gives an insight to the similar zones in other countries with special reference to the Chinese SEZs. The second section deals with the administrative procedures, notifications and documents with regards to setting up of these zones.

India is all set to open a number of SEZs all over the country to further increase country’s exports and attract foreign investment. The controversies regarding SEZs such as, widening of regional inequality, labour exploitation increases the importance of any study on preferential zones. In one view, the attractiveness of special preferences in Special Economic Zones may fade away once the WTO policies are fully implemented, because as per the WTO rules, a country as whole may be considered as a preferential zone. However in a huge country like India setting up of SEZs may help to solve infrastructural problems in a relatively short period because of the focused approach on development of a specific area by pooling resources and expertise. In this context it may be indicated that, the medium term export strategy 2002-2007 points out that, a pragmatic solution to attract foreign investment in India and increase exports is to identify and prioritise specific infrastructure projects within SEZs.

According to the book under review, the Indian SEZs cannot be compared with Chinese SEZs, in respect of their size, the type of industries or even the economy of the country. The authors indicate that merely demarcating a piece of acreage and calling it a SEZ is not going to solve the problem. What would spur investment in these zones is action matching the words and infrastructure matching expectations of the investors. It means declaration of setting up of EPZs/SEZs alone is not enough. Concrete measures has to be taken to put the policies into practice. A similar study by Ashok Kundra (2000), “The performance of India’s Export Zones A comparison with the Chinese Approach” , points out that, India should learn from its own earlier EPZ experience which has been characterized by poor infrastructure, lack of objective clarity, centralized management structure and absence of linkages with the domestic economy.

China established its first special economic zone in Shenzen in the beginning of 1980’s, as a virtual laboratory for experimentation with a free market economy. The abundance of cheap labor and customs free industrial environment has helped Shenzen. Some of the secrets of its success are the investments from Hong-Kong and Taiwan, fiscal incentives, delegation of powers (local governments were given powers to negotiate concessions with firms interested in investing in the SEZs) and relaxed Labour laws. Shenzen was the first Chinese city to be given legislative authority which gave the city a control over local policy. Trade unions were ineffective in the SEZs. Contractual labour is permitted and hence, the costs of doing business are far lower. Authors mention that, the SEZ fitted very well with the psyche of the Chinese people as historically Chinese firms were encouraged to specialise in their core areas of competence.

A major drawback of the preferential trade region policy, is that although the southern coastal provinces have grown rapidly, the hinterland of China has been left behind. The book has not given adequate attention to problems faced by SEZs like, the bottlenecks in power, housing, diversion of agricultural land and widespread smuggling in the coastal provinces especially in some of the Chinese SEZs like Shenzen. The problem of migration to SEZs and resultant inflation in prices of even food articles is also a cause for concern. The spatial structure of the SEZs is generally unbalanced, since most of the shops are selling luxury consumer articles, while everyday goods are sometimes difficult to buy.

China's market economy is further developing and with more areas opening to the outside world, the rest of the country is gradually catching up. Many of the favorable policies, which once applied only to the SEZs, are now enjoyed by other regions. Although SEZs continued to be an entry point for new ideas to be introduced nationwide, SEZs may not be a suitable model for the western regions in China partly due to geographical differences. The proximity of such zones to near by trading groups /countries is important for the take off of these zones. It may be indicated that, Indian EPZs, unlike Chinese SEZs, are not having this geographical advantage. For example most of the Chinese SEZs are neighboring East Asian countries. As authors note, "Without the strong connection from Hong-Kong, Guangdong's SEZs may not have accelerated China's export". In this context it may be noted if the proposed free trade arrangements in South Asia develops, it may relatively help some of the zones in India like Positra SEZ (Gujarat), Mumbai (SEEPZ) and Cochin SEZ.

In the Chinese case, it may not be correct to presume that units set up in EPZs or SEZs are meant only for exports. That may be true for smaller countries such as UAE, South Korea or Taiwan, which have limited domestic market. But not for India or China which have large expanding markets. If foreign investors are to be lured to set up export-oriented units in SEZs, they need to be given incentives for domestic market access as well. Chinese SEZs have been exchanging 'market' for "technology"; for example in case of Shenzen SEZ, the Shenzen Provisional Technology Regulations had helped much in technology transfer to China. According to this regulation, the supplier is responsible for training the Chinese party and must ensure that the recipient masters the entire technology. India need to learn from the Chinese experience for evolving a win-win situation for all.

Regarding labour laws, the study points out that Chinese labour laws are loose and the foreign investors negotiate wages each time they receive a new export order. Foreign investors are free to hire or fire in the zone. There is, virtually, no uniform law for the SEZs. Each has introduced its own legislation to govern investment and approval procedures relating to FDI. Before the national policy on foreign investment is passed, an SEZ promulgates its own legislation to test its effectiveness. SEZs in China are like a city rather than an industrial park. It may have a number of sub-zones, which would include an export processing zone, tourism zone etc. The book gives a detailed discussion on management of labour in the SEZs. India has merely stated the SEZs as public utilities under the Industrial Disputes Act. This will not serve much purpose as is borne out by the EPZ experience. Authors reproduces an article by a national trade union pertaining to the FTZs in the country about the unfriendly labour atmosphere in the zones. The instances like workers do not getting paid leaves and maternity leaves, instances of child labour etc are cited. It further says that zone authorities usually support the owners and neglect health and safety of the workers. The book under review does not make any specific comments on any of these allegations. The study should have made some comments on this and recommended some policy measures for Indian zones to avoid the labour disputes / problems to the maximum. It would have been very useful for grasping a comparative picture if the study has covered labour conditions in SEZs of China as well.

India was the first country in the Asia-Pacific region, to establish an FTZ at Kandla, Gujarat. Government of India has now permitted the development of EPZs in the private, state or joint sector. The cumulative exports from all the EPZs reached US $ 1117.5 millions in 1998-99 and they accounted for a share of only 3.9 per cent of Indian exports, against a desirable share of 5 per cent. According to the study, in India, FTZs operate in more or less the same manner as in almost all the other countries, and offer lucrative packages to entice the investors. India established its first SEZ in Positra, Gujarat. The tax incentive in this zone is for 15 years instead of 10 years in the existing FTZs.

The book also presents a brief discussion on Nanguneri zone. Nanguneri SEZ has been promoted by TIDCO, Tamil Nadu Industrial Development Corporation, which has since transferred its rights to ATMAC of the US and retained merely one per cent control over the project. Here author gives excessive focus on the geographical features of different regions, which may not be very relevant. Authors points out that land acquisition is the trickiest of the problems in setting up an SEZ. SEZs may do well to develop a network of partnerships and stimulate the networks using the talents of the local population. It also gives a list of companies involved in building of the Indian SEZs like Jurong Town Corporation of Singapore, Sumitomo Corporation of Japan etc. The book presents a brief list of guidelines for setting up of a unit in SEZ, which will be informative to the corporate sector. The authors gives information on rules and regulations in India to set up liaison offices, project offices etc. Authors mentions that the Free Trade Area of the Americas (FTAA) would eventually replace the North Atlantic Free Trade Association (NAFTA). Most of the countries in the Americas belong to one of the five major regional economic organizations. Some of those organisations are NAFTA, CACM, the Andean Pact, CARICOM etc. with each claiming to a free trade area. These organizations are of particular importance now that the move is toward a hemispheric free trade by the year 2005.

The book strongly supports the view that greater delegation of power to local authorities is necessary for the success of SEZs. In China the local authorities of SEZs have power to grant approval for foreign investment upto US $ 30 million. There is very little intervention from state government and central government. This is in stark comparison to the operation of SEZs in India, where the local authorities do not have such legislative freedom. If appropriate support and powers are given to local authorities and state government by the central government the SEZs in India may be successful. Availability of skilled labour and English speaking population is an asset in India. Greater interaction between authorities in charge of Indian SEZs and other SEZs worldwide will be a helping factor. It is interesting to know from this study that the incentive package in India may even be a shade better than that of Chinese SEZs. But in relation to the labour laws and decentralisation of powers, it falls short of expectations. In this context it may be indicated that the draft cabinet note on the proposed SEZ act, had recommended vesting all power relating to the regulation of SEZs to the development commissioners (DCs), which may give the necessary legislative freedom to local bodies in India to promote SEZs in an effective manner.

In the epilogue author indicates that SEZs can survive only based on their uniqueness and attractiveness. The SEZ managements should keep a track of the progress of the working of the SEZ units independent of the official agencies involved. Periodic statistics should be collected about the various aspects of units working in the zone. Frequent interaction between the units and management and a common media and communication strategy is a must. A common platform for marketing may be developed, quality of life of people should be ensured. The list of frequently asked questions on SEZs presented in the book is useful for readers of the subject. Section II of the book gives a detailed presentation of the procedures, notifications and documents relating to the setting up of SEZs.

Even though the book under review gives a detailed information on the preferential zones, the issues like the role of Chinese and Indian diaspora in the development of SEZs could have been addressed adequately. Chinese expatriates have played a major role in investment in Chinese SEZs. On these lines, the resources from NRIs may be utilised to develop emerging Indian SEZs. Linkage of industries in domestic tariff area and industries in SEZs is another area which the book has not explored much; for example policies regarding DTA sales by the SEZ units, collaboration between DTA firm and firm in SEZ, subcontracting etc. The earlier Indian EPZs linkage with the hinterland was checkmated by restrictive procedures for sub-contracting etc. Here it will be worth to point out the linkage strategy adopted by the Chinese SEZs; for example in China, inland enterprises had made use of the advanced techno-managerial skills etc from SEZs by establishing representative offices in SEZs, through training their personnel in zones etc. It is important to note here that Shenzen SEZ have invested heavily in inland provinces to build over 500 co-operatives projects. In retrospect we can say that the book is very timely and informative on the topic.

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