Comment

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The SEZ balloon could burst

With elections ahead, it could prove to be dry tinder that blazes out of control

The clamour appears to have diminished; but that could be misleading. Ever since the ministry of commerce announced its plans for introducing the special economic zone (SEZ) policy, the entire issue has been greeted first by ecstasy, then with caution, and thereafter with derision in several quarters. And now, everybody appears to be waiting to see how the SEZ show pans out.

It could possibly be because the SEZ balloon has the potential of becoming a hot potato. Ever since opposition parties began protesting at the way prime agricultural land was being acquired by promoters of SEZs at throwaway rates, thus depriving a large rural community of its livelihood, even the ruling party has issued warnings that agricultural land should not be acquired by SEZs. But the Centre can only warn or recommend. Land distribution has always been a state subject. And some state governments may find the temptation of profits far too strong to pay heed to the political or social repercussions that picking

Storm brewing

Politically, land acquisition for SEZs may prove an explosive problem

Financially, the commerce ministry sees annual revenues of Rs 44,000 cr from the SEZs, while finance ministry feels they would bleed the exchequer of Rs 1.75 lakh cr by 2011

Practically, these SEZs are nowhere near as large as they should be

up land from small agriculturists could trigger. That there is much money to be made is easily discernible from the prices that are being paid to farmers for their land, and the price pegs indicated for the retailing of business and dwelling units in these SEZs.

That is the political side of the storm that is expected to blow across India very soon. There is also the financial tornado that the SEZ policy threatens to unleash. The finance ministry has gone on record that the SEZ policy - which promises significant tax breaks and financial incentives to units located there - could cause a revenue loss to the exchequer amounting to a whopping Rs 1.75 lakh crore by 2011. The commerce ministry rubbishes such fears, pointing out that the SEZs could cumulatively result in additional revenues of Rs.44,000 crore every year. But, neither side has put up a white paper to justify its claims and fears. In the absence of financial details, it is possible that the SEZ policy could end up being tarnished as another financial and real estate scam.

Then there is the practical side to the SEZ policy. When the SEZ concept was first mooted, it was meant to ease the way business could function and grow in the country. The idea was to make these SEZs autonomous in respect of town planning and infrastructural development; the SEZs were supposed to offer units located in them freedom from the inspector raj that the sales, excise, labour and factory inspectors are known to have unleashed on companies unwilling to pay 'chai-pani' money, which is nothing more than a respectable phrase for protection money. These units were also supposed to work out quite clearly residential and commercial complexes within the SEZ so that there could be better town planning, and much better location of work and home premises.

And this is where the policy is most likely to fail. To be meaningful, an SEZ needs to be very large. In India, the government has insisted that the minimum size for a multiproduct SEZ should be 1,000 hectares (3.86 sq miles). For product-specific zones, it is 100 hectares, and for IT, biotechnology and jewellery, just 10 hectares. Compare this with the economic zones that China has. For instance the Shenzen SEZ is spread over 126 sq miles (32,634 hectares). That would be akin to having a whole of Mumbai (169 square miles) or New Delhi (293 miles) as an SEZ. The current policy is not geared to creating the economies of scale and the infrastructure that any meaningful SEZ ought to have.

How will it create its own airports, sea ports or even rail heads in just 100 hectares of space? It appears to be more like a property development exercise than in attempting to create an economic environment that could allow India to come out a winner.

So you have a politically explosive land acquisition problem, a financial problem and a practical problem confronting the SEZ policy. Given the fact that elections are just round the corner, it could well prove to be dry tinder that blazes out of control.

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