**New Horizon in the East – Promise in the West**

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**[International Business – GATT – WTO : CHINA – INDIA –**

**Maharastra (NMSEZ) – Bengal – Bankura]**

Since many centuries the business was carried out across the borders of the countries. Such business was termed as international business. The term ‘intentional business’ according to American Heritage Dictionary refers to any commercial, industrial, or professional endeavor involving two or more nations. The concept of international business mainly concerns with sources provided worldwide and also concentrates on the goals fixed by any business organization as well as the challenges & prospects of global business. International Business over the years gradually transforms into global business. The entire process may be referred as Globalization. The sociologists, Anthony Giddens defines globalization “As a decoupling of space and time, emphasizing that with instantaneous communications, knowledge and culture can be shared around the world simultaneously”. According to Gidden to understand the concept of globalization, it is necessary to look the following stages.

The first great expansion of European capitalism took place in the 16th century. There was a big expansion in World Trade and investment in the late nineteenth century. The first World War and the interlude of antifree trade protectionism that led to the Great Depression in 1930 brought this to a stand still and virtual blockage of development and employment. (Bengal Femine was the by product of that trade protectionism).

The end of second World War brought another great development of trade liberalization after the initial progress of 1875 AD to 1925 AD. Development of Multinational companies (MNC), Transnational companies (TNC’) started producing & selling the domestic markets around the globe. Liberalisation of trade resulted the liberalisation of colonies (India became independent in 1947).

The fall of the Berlin wall and the collapse of Soviet Union ended the cold war between two titans of World politics.

In the years since World War II the governments have adopted free market economic systems vastly increasing their own productive potential and creating innumerable new opportunities for international trade and investment.

Main benefits that may be derived from the globalisation are – (a) the expansion of democratic governance (b) increased information technology and capital flow (c) increased liberalisaiton and deregulation of trade, finance and labour markets, (d) pressure for improved human rights (e) competition on knowledge, innovation, skill, productivity (f) closer linkage of countries and regions through economic institutions, international treaties, and multinational agreement – g) abolisation of large scale conflicts among nations h) removal of discrimination among different caste, creed, religion (h) Availability of commodies to consumers at a lower price with high quality (removal of fear of femine) (i) improved standard of living of the common persons (j) balanced development of world economy.

**General Agreement on Trade and Tariffs**

**(GATT)**

Globalisation emanates from free trade among the countries in the world. The free trade mechanism is characterised by the absence of trade restrictions or trade barriers among trading countries. Governments started negotiations for spectacular reductions in barrier to each other’s commerce to stimulate international trade and investment. In this process of dynamic trade relationship, trade conflicts may arise among the trading nations to protect the economic interest of domestic industry & welfare of their people. To prevent trade conflicts into political conflicts, (war at large), a common basic economic agreement was needed among the nation.

General Agreement on Trade and Tariffs (GATT) was established in 1947 as part of the Bretton Woods Agreement. It came into force in 1948. After several rounds of discussions between USA, UK, Canada, in the Bretton Wood conference it was agreed that the world economy would be organised around three institutions :-

1. International Monetary Fund (IMF)
2. The International Bank for Reconstruction & Development (World Bank)

iii) International Trade Organization (ITO) [Organization late did not come into existence].

**Objective of GATT** (as stated in preamble)

a) Raising the standard of living and the progressive development of the economics of respective countries b) Ensuring full employment with large and steady growing volume of real income and effective demand c) Better utilization of the resources of the world d) Expansion of production and international trade e) Recognizing the international trade as a means of achieving economic and social advancement f) Equalising and lowering trade barriers.

**Fundamental principles of GATT**

1. Most Favoured Nation Treatment (Art-I) – MFN means that every time a member state improves the benefits that it gives to one trading partner, it has to give the same “best” treatment to all other GATT contracting nations, so that they remain equal.
2. National Treatment (Art – III) – Parties / Members must not accord discriminatory treatment between imports and similar types of domestic products. Members are not allowed to apply internal taxes or other internal charges, law, regulations affecting imported or domestic products so as to provide protection to domestic production.
3. Reciprocity – It implies that nations should offer an equivalent exchange for benefits they gain Reciprocity is the central principle governing GATT negotiation. One nation reduces its level of protection in return for a reciprocal level of reduction from its trading partner.
4. Prohibition of Quantitative Restrictions & protection through tariff – It includes prohibition, prohibition except under defined conditions, global quota, global quota allocated by country, bilateral quota, automatic licensing, non-automatic licensing, quantitative restrictions made effective through state trading operations, mixing regulations, minimum price triggering quantitative restriction, voluntary export restrain.
5. Dispute Settlement – Dispute settlement system of GATT is considered to be one of the cornerstone of the multilateral trade order. Aggrieved nation may appeal against the nation from whom nation is harmed in Dispute Settlement Body for settlement of disputes. Award is implemented by positive consensus by the both parties.

**World Trade Organisation (WTO)**

World trade became very complex. Loopholes in multilateral trading agreement under GATT were heavily exploited. Even the institutional structure of GATT and its dispute settlement system were giving cause of concern (EC blocked the banana dispute).

To overcome the anomalies GATT members started negotiation. Negotiation round started in Punta del Este, Uruguary in September 1986. It was the land mark trade negotiations round in the history of the world. The final agreement was signed on 15th April, 1994 in Marrakesh, Morocco. On of the fundamental agreements embodied in Uruguary Round Marrakesh Agreement is the establishment of World Trade organisation. Hence Jan1, 1995 the WTO was formed to replace GATT with increasing effectiveness. WTO provides some flexibility to the developing countries in implementing their commitments.

By being members of WTO, the member countries are eligible to get the following benefits. (a) The system helps to promote peace (b) Disputes are handled constructively (c) Rules make life easier for all (d) Free trade cuts the costs of living (e) provision of more choice of products and qualities (f) Trade free from disputes raises incomes (g) Trade stimulates economic growth (h) The basic principles make life more efficient (i) Governments are shielded from lobbying (j) The system encourages good governance

**Topical Chart of GATT’94 / WTO Agreement**

**Part A – GATT 1994**

1. Non Discrimination : [(a) Most Favoured Nation – Art-I; (b) National Treatment – Art-III; (c) Non Discriminatory Administration of Quantitative restrictions – Art-XIII ;(d) Exceptions to Rule of Non discrimination- Art-XIV].
2. Concessions / Binding of Tariff & Non tariff barriers

[(a) Schedules of concessions – Art-II; (b) Nullification or Impairment – Art-XXIII; (c) Territorial Application – Custom Union & Free trade area – Art-XXIV; (d) Withdrawal of concessions – Art-XXVII; (e) Modification of Schedule – Art-XXVIII].

C. Quantitative Restrictions [(a) General Elimination of Quantitative Restrictions – Art-XI; (b) Non Discriminatory Administration of Quantitative Restriction – Art – XIII; (c) Exceptions to the Rule of Non Discrimination – Art-XIV]

D. Trade Facilitation [(a) Freedom of Transit – Art-V; (b) Fees & Formalities – Art-VIII]

E. Trade Regulation [(a) Customs Valuation – Art VII; (b) Marks of Origin – Art IX; (c) Publication & Administration of Trade Regulations – Art X]

F. Unfair Trade Remedies [(a) Anti Dumping & Countervailing Duties – Art VI; (b) Subsidies – Art XVI].

G. Safe guards / Authorised Deviation from GATT Rule : [(a) Restrictions to Safeguard Balance of payments / developed countries – Art XII (b) Governmental Assistance to Economic Development / developing countries – Art XVIII (c) Emergency Action on imports of particular products – Art XIX (d) General Exception – Art XX (e) Security Exceptions – Art XXI).

**Part B – Uruguay Round Agreements**

1. Uruguay Round Final Act
2. Goods Related Agreements
   * 1. Basic Agreement – (a) GATT 1994 (b) Marrakesh Protocol.
     2. Trade Facilitating Agreements – (a) Customs Valuation (b) preshipment Inspection.
     3. Trade Regulating Agreements – (a) Technical Barriers to trade (b) Import Licensing (c) Rules of origin (d) Sanitary & Phytosanitary standards (e) State trading (f) Government Procurements.
     4. Safeguards / Escape clanse Agreements.
     5. ‘Unfair Trade’ Remedy Agreements (a) Implementation of Art VI / Antidumping (b) Subsidies / Countervailing Measures.
     6. Sectorally Focused Agreements (a) Agriculture (b) Textile (c) Civil Aircraft.
3. Non goods Related Agreement (a) Trade Related Investment Measures – (TRIM) (b) General Agreement on trade in services (GATS) (c) Trade Related Intellectual property (TRIPS).
4. Institutional / Structural / Process – (a) Agreements Establishing WTO (b) Dispute Settlement Understanding (DSU) (c) Trade Policy Review Mechanism (TPRM).

Most notable development in WTO Agreement from erstwhile GATT’47 agreement may be noticed in Dispute Settlement Mechanism. In GATT’47 a positive consensus was neened to adopt the verdict of DSB but in WTO agreement panel report of DSB is automatically adopted unless consensus is to the contrary i.e. **reverse consensus**. A fixed timetable in stipulated form solving disputes among nation is present WTO agreement. WTO dispute settlement system serves to pressure the right & obligations of Members under the WTO Agreements and to clarify the existing provisions of WTO Agreement in accordance with customary rules of interpretation of public international law.

The fundamental objective of the trade policies is to explore the opportunities of international trade while providing protection to the domestic industry.

The main components of the trade policies are :-

A) **Tariff** : The tariffs refer to the tax imposed on imports from other countries. Tariff is considered as a protectionist measure, as they increase the price of the imported goods in the domestic market. Tariffs are of two kinds, *specific* and *advalorem*. *Specific tariff* are levied as fixed charge for each units of imported goods where as *advalorem tariff* is levied as a portion of the value of the imported value. There are five different effects for imposition of tariff.

1. It leads to reduction in consumption in the importing countries.
2. It increases the domestic production of the products.
3. It improves the balance of trade position of the country.
4. It generates the revenue for importing country.
5. It reduces the economic welfare of the importing country.

B) **Subsidies :** The subsidies are in the nature of financial cushion or incentives extended to the domestic producers to make good the difference in the value of domestic goods and those imported from foreign countries to make them withstand the stiff competition from the foreign products.

As per WTO, subsidy shall be deemed to exist if :

1. there is a financial contribution by a government or any public body within the territory of the member.
2. A government practice involves direct transfer of fund, potential direct transfers of funds or liabilities.
3. Government revenue that is otherwise due is foregone or not collected.
4. A government provides goods or services other than general infrastructure.
5. A government makes payment to a funding mechanism or directs a private body to carry out one or more functions as stated which would normally be vested in the government & practice, in no real sense, differs from practices normally followed by government.

Three categories of subsidies –

* 1. **Red light subsidy or prohibitated subsidy** – subsidies which are specifically designed to distort international trade – like subsidies based on export performance, currency retention schemes involving a bonus of exports, provision of subsidized domestic input, exemption on direct tax, exemption from cumulative indirect taxes on inputs used in export products & others.
  2. **Yellow light subsidies or Actionable subsidy** – Subsidy is permitted unless (a) one countries subsidy hurt the domestic industry in an importing country (b) they can hurt rival exporters from another country when the two compete in third market (c) domestic subsidy in one country can hurt exporters trying to compete in the subsidizing country’s domestic market.
  3. **Green Light Subsidy** – **non actionable subsidy** – like industrial research, pre competitive development activity, assistance to disadvantageous region, or certain types of assistance for adopting existing facilities to new environmental laws or regulations. Here countervailing duties (CVD) are not attracted.
     1. **Import Quotas** – The import quotas are in the form of trade restrictions either on the quantity or value of goods imported in the country. There are two basic types of quotas. *Absolute quota & tariff rate quota*. Absolute quota limits the quantity of imports to a specific level during a specified period of time. Tariff rate quotas allow a specified quantity of goods to be imported at a reduced tariff rate during the specified quota period. The import quotas are widely regarded as being more harmful than tariff. The main reason is that quotas involve the state allocating licenses to importers, whereas tariffs rely on price mechanism.
     2. **Dumping** – Dumping is a kind of policy implemented by countries to find foreign market for the excess of production and to mobilize foreign exchange. Durmping occurs when a foreign producer sells a product in the other country at a price that is below that producer’s sale price in the country of origin (home market) or at a price that is lower than the cost of production. Types of Dumping are (a) *Long term dumping* – is undertaken where increasing output reduces unit cost and provides additional profits even with lower export prices (b) *Cyclical dumping* it occurs when temporary surpluses are sold off clear. This may disrupt markets and may be counteracted by antidumping duties to secure long run domestic supplies (c) *Predatory dumping* – it applies where price cutting is practiced to raise market share (to drive away the rivals from the market) and to obtain monopoly (d) *Strategic dumping* – is one manifestation of the new theory of strategic protection. Government trade policy is adopted in such a way that domestic firm can capture monopoly rents from research and development investment or other fixed costs offering economic of scale.
     3. **Countervailing Duties** – Generally in red light & yellow light subsides, when imports of subsidised goods harm a competing domestic industry, countervailing measures may be used. They are used to counter balance the effect of the subsidy by imposing CV duty on the import of subsidised goods or securing quid pro quo commitments from the subsidizing country. No CVD will be imposed against green light Subsidy.

**Reforms in China**

After independence, young India adopted the path of socialism. Reform of China may be analised before analysing India.

It was the wide-ranging series of socioeconomic reforms in the late 1970s that eventually drove China from an inwardly focused, highly centralized economy to one of the most important manufacturing and trade nations in the world.

* The foremost reforms were in the rural economy. In the household responsibility system, which replaced the commune system, communes leased plots to individual households for 15 years (later 30 years). A fixed share of production was delivered by the household to the village and kept the balance to consume or to sell in private markets that quickly developed. The results were noteworthy. From 1978 to 1986, the value of farm output at current prices practically tripled. By the rising rural incomes which were increasingly supplied by town and village enterprises (TVEs)-collectively owned firms formed by local governments that took advantage of increased rural savings and the pool of available labour created by increased farming efficiency created a high demand for consumer goods. Industrial production in the countryside accelerated, to an average of 30 percent per annum during the 1980’s. The TVEs’ share of industrial output rose quickly from almost nothing to more than a third of total industrial output. As industrial output rose, trade and investment reforms were quickly transforming an isolated country that had no FDI inflows and a ratio of total trade to GDP of only 10 percent in the mid-1970s, compared with more than 30 percent in many NIEs and Southeast Asian economies. Three related sets of reforms facilitated this transformation. The first was trade reform undertaken on a piecemeal basis from the late 1970s through the 1980s. New foreign trade corporations (FTCs) to bypass the existing FTCs authorized by the central Government were licensed by the local governments. By the end of the 1980s, the number of FTCs had flourished to over 5,000 and the number of domestic firms with trading rights had increased to over 10,000. This liberalization of the trading environment at the firm level was accompanied by a gradual liberalization of the tariff regime.
* The second policy initiative was the liberalization of Foreign direct Investment (FDI). This upturned the policy of careful monitoring of foreign activities in the country, even through the initial reforms were confined to a few coastal areas in the southern part of the country. China was able to attract enormous inflows of FDI, so that by the mid-1990s it was the largest recipient of FDI among developing countries. Three coastal cities *(Shenzen, Shantou, and Xiamen)* and a province *(Hainan)* were designated as “special economic zones” in 1980, and this was expanded to 14 coastal cities in 1984. These regions have grown at double-digit rates ever since.
* The third reforms involved the exchange rate. The currency was devalued in real terms over the 1980s and early 1990s and foreign currency transactions were gradually deregulated. The current account was made fully convertible in the late 1990s. The special economic zones generally enjoyed a greater level of external sector liberalization.

These reforms led to a transformation of China’s links with the outside world. Exports grew very fast for two decades, in absolute terms, from $10 billion in 1978 to $195 billion in 1999 and as a percent of GDP from less than 7 percent to about 20 percent over the same period. The response of FDI was slower at first, but increased swiftly by the end of the 1990s. From $57 million in 1980, it rose to over $40 billion by the mid-1990s, an increase of 700 percent in less than 20 years. The special economic zones were the crucial point for both exports and FDI, particularly in the 1990s. The end of that decade witnessed the rise of the enterprises with foreign investments accounted for over 40 percent of total exports. To take advantage of the spread of the “new economy”, China has made a giant leap towards the development and spread of fiber optic technology to increase telecommunications capacity.

**Reforms in India**

India followed a strategy of growth controlled and directed by the Government for most of the period from independence in 1947 until beginning of the 1990s. This strategy focused on control of the economy through four complementary policies : extensive regulation of international trade and investment, control of key sectors of production, central control of domestic investment, and an elaborate system of licensing and regulation.

In pursuit of an import-substitution strategy, the Government introduced regulations to control foreign exchange transactions and imports, with the former allocated according to a priority list. Debt repayments received the highest priority, followed by capital goods, raw materials, and lastly, consumer goods, which were rarely approved. Policies toward foreign investment depended upon the ability to earn foreign exchange and the Government’s attitude to the role that the foreign investment could play. Between 1957 and 1970, joint ventures were encouraged but the first oil shock and a balance-of-payments crisis resulted in a reversal of policy. After the second oil price shock of the late 1970s, the policy was reversed again.

To control key sectors of the economy, the Government nationalized several industries including commercial banks, life insurance companies, and large firms in processing and manufacturing fertilizer, mining, chemicals, steel, and oil. By the 1980s, the Government owned nearly half the country’s Industrial assets. The returns were low and efficiency was poor. Because the financial sector was owned by the state and foreign capital investment was controlled, the Government had a virtual lock on how investment was allocated in the economy.

Early 1980s witnessed a plunge in the economy due to a steep hike in the oil prices by the OPEC countries. India’s import bill augmented and exports lagged behind. Trade deficits rose high. The Gulf war in 1990-91 aggravated situation. Trade deficits rose to Rs. 16,934 crore. This was the environment when the International Organizations stepped into and offered help. But assistance was made available by these organizations on their own terms and conditions. These included the adoption of stabilization and structural adjustment programme by India. IMF and World Bank had the following three components :

* Stabilization, which implies cutting down fiscal deficit and the rate of growth of money supply.
* Domestic liberalization which consists of relaxing restrictions on production, investment, prices and increasing the role of market signals in guiding resource allocation.
* External sector liberalization or relaxing restrictions on international flows of goods, services, technology and capital.

The first major step towards globalization was by making the currency fully convertible, which means determination of its own exchange rate in the international market without official intervention. IMF insisted, in 13% real devaluation of rupee by July 1991. In pursuant to this the government fixed the target rate of inflation at 9%. Finally both put together constituted the desired nominal devaluation of 22%. The next step was towards convertibility or rather current account convertibility. This term denotes the freedom to buy or sell the foreign exchange for the following international transactions :

* All payments in connection with foreign trade, current business;
* Payments due as interest on loans and as net income from other investments;
* Payments of moderate amounts of amortization of loans or for depreciation of direct investments;
* Moderate remittance for family living expenses.

The next step is regarding import liberalization. In 1992-97 import and export policy allowed free import of all items including capital goods. The rate of duty of all goods were reduced from 110% to 85%. Import duty cuts were announced for machine tools, ores and concentrates and steel. India being a member of WTO had to phase out or cut down the quantitative restrictions. (India became member of WTO from 01.01.1965 & China became member from 11.12.2001).

Opening of foreign markets was the third step. A range of incentives and facilities were offered to foreign investors and non-resident Indians. In the New Economic Policy in the year 1991, automatic permission were granted for direct foreign investment of upto to 51% foreign equity. The companies were allowed to use their trademark in India and they could deal with immovable properties in India. Reputed foreign investors were allowed to invest in India capital; market subject to registration with SEBI and approval of RBI. Hundred percent foreign direct investment was allowed in the sector of telecom (for certain activities), pharma, hotels, airports etc.

Initially to boast up exports and for creation of job opportunities export processing zones (EPZ) are created. The original idea behind the creation of EPZs was to allow employers to import materials to be worked on and then re-exported without having to pay duty. It was seen as a cheap way of creating jobs without spending scarce taxpayers’ money and avoiding a bureaucratic system of reimbursing import taxes on goods intended for export. However, from the beginning, this seductive idea had a major drawback. It requires the sealing off of the zone or of designated factories, often behind high fences, to prevent untaxed goods being smuggled into the rest of the economy.

In India, the first zone was set up in Kandla as early as 1965. It was followed by the Santacruz export processing zone which came into operation in 1973. The government set up five more zones during the late 1980s. These were at Noida (Uttar Pradesh), Falta (West Bengal) Cochin (Kerala), Chennai (Tamil Nadu) and Visakhapatnam (Andhra Pradesh). The EPZ in Surat became operational in 1998.

The idea of the so-called Special Economic Zones (SEZs) was first mooted by the Ministry of Commerce’s Export-Import Policy, 2000, in an obvious attempt to copy the model evolved in China. In 2005 the SEZ Act was passed by the Indian parliament and came into force from February 10, 2006.

According to the Indian Ministry of Commerce’s website, the SEZ is a specifically delineated duty free enclave and shall be deemed to be foreign territory for the purpose of trade operations, duties and tariffs.

Under the new Act SEZs are permitted to be set up in the public private, joint sector or by the State Governments with a minimum size of not less than 1000 hectares. The SEZ is supposed to be an almost self-contained area with high-class infrastructure for commercial as well as residential inhabitation. The SEZs will have their own security, operation and maintenance rules and all environmental and labour clearances vested with the Development Commissioner of that SEZ.

Following this policy the existing EPZs were all converted into SEZs, and at present there are eight functional Special Economic Zones located at Santa Cruz (Maharashtra), Cochin (Kerala), Kandla and Surat (Gujarat), Chennai (Tamil Nadu), Visakhapatnam (Andhra Pradesh), Falta (West Bengal) and Noida (Uttar Pradesh) in India. A SEZ at Indore (Madhya Pradesh) is also now ready for operation.

In addition18 approvals have been given for setting up of SEZs at Positra (Gujarat), Navi Mumbai and Kopata (Maharashtra), Nanguneri (Tamil Nadu), Kulpi and Salt Lake (West Bengal), Paradeep and Gopalpur (Orissa), Bhadohi, Kanpur, Moradabad and Greater Noida (U.P.), Vishakhapatnam and Kakinada (Andhra Pradesh), Vallarpadam/Puthuvypeen (Kerala), Hassan (Kamataka), Jaipur and Jodhpur (Rajasthan), on the basis of proposals received from the State Governments.

## Objectives of EPZs and SEZs

In 1989, a report of the Comptroller and Auditor General of India clarified that EPZs were meant for earning foreign exchange, develop export oriented industries, stimulate investment and generate employment opportunities beside creating an internationally competitive environment for export production at low cost. The SEZ Act 2005 also considers ‘promotion of foreign trade in goods and services’ the most important objective of SEZs.

According to its advocates, a well-implemented and designed SEZ can bring about many desired benefits for a host-country : increases in employment, greater FDI, general economic growth, foreign exchange earnings, international exposure, and the transfer of new technologies and skills.

The Commerce and Industry Minister, Mr. Kamal Nath, has hopes of drawing Rs. 1,00,000 crore worth of investments over the next three years with an employment potential of over five lakh, besides indirect employment during the construction period of the SEZs : investments in sectors such as information technology, pharmaceuticals, biotechnology, textiles, petro-chemicals and auto parts.

The incentives :

As mentioned earlier the number of incentives offered to investors for setting up and operating in SEZs are for more liberal than was the case with the EPZs. Among the non-fiscal incentives offered in Indian SEZs for example, are :

* Exemption from industrial licensing for manufacture of items reserved for Small Scale Industries (SSI).
* 100 percent FDI investment through automatic route to manufacturing SEZ units.
* Facility to realize and repatriate export proceeds within 12 months.
* No cap on foreign investment for SSI reserved items.
* “Write-off” of unrealized export bills upto 5%.
* Profits allowed to be repatriated freely without any dividend balancing requirement.
* Single window clearance at the zone level via the good office of the Development commissioner.
* Full freedom for subcontracting, including subcontracting abroad.

Due to uprore from the farmers lobby in different parts of the country recently Kamal Nath assured farmers that in future Centre will approve SEZ proposals only when they are backed with certificate issued by the State Government concerned. The certificate should specify that agricultural land above the stipulated 10% will not be used for the project without specific clarification from the state government.

It should be worth mentioning that the world over, the majority of successful SEZs have been built with government capital. There are few precedents of private capital building economic zones or earning returns out of them. Of course, hundreds of private companies have invested billions of dollars in building their factories and offices within SEZs.

Dubai’s Jebel Ali Free Zone, is the one of the world’s most successful zones and home to over 5,000 businesses. In the 1980s, Dubai’s ruler, the late Sheikh Rashid bin Saeed Al Maktoum, pumped in $3 billion in a port in Jebel Ali. It later became the Jebel Ali Free Zone and much of the initial investment (worth $9 billion at current prices) was virtually written off before the zone was handed over to the Jebel Ali Free Zone authority (JAFZA) for management. Today, JAFZA is a commercial organisation. But it is financially supported by the Dubai government, its sole owner. JAFZA’s mandate is to attract investments, create jobs, and promote trade and industry. Profits, and a reasonable rate of return on the capital invested, are only secondary objectives.

Similarly, China’s successful SEZs were initially capitalised with government money. These were then leveraged for bank lending (again encouraged by the government). Mostly, the government set up and funded the SEZs. Their mandate was not profit, but investment promotion. They were to be more like development agencies than profitable corporations.

In this connection the largest initiative taken in this regard in public private model (NMSEZ) in Maharashtra is to be looked into before examining the industrial prospect of our state.

**Reforms in Maharastra (NMSEZ)**

**Maharastra**

It has more than 23000 working factories, nearly 1 million factory workers with 94 major industrial estates. Its percapita gross output is 2.5 times of the national average. During last decade Maharastra received worth $33 billion investment, and 392 FDI worth $2 billion. Maharastra has country’s highest power capacity of 14,000 MW.

**Navi Mumbai Special Economic Zone (NMSEZ)**

NMSEZ is under implementation of City & Industrial Development Corporation of Maharastra (CIDCO) – company entirely owned by Government of Maharastra & it is the nodal agency of the development of Special Economic Zone. Tata Economic Consultancy Services (TECS) evaluated the feasibility study. CIDCO appointed a consortium comprising Ernest & Yong, CRISIL Infrastructure Advisory Services & Chesterton Meghraj to prepare business plan for Special Purpose Vehicle and provide assistance during Joint Venture partner selection process. CIDCO has appointed Mcclier (an AECOM company of USA) as master planner for the project.

NMSEZ project is proposed to be executed through Special Purpose Vehicle (SPV). CIDCO proposes to transfer land development rights and existing infrastructure in the SEZ area to SPV. CIDCO proposes to develop the project jointly with strategic partners who would assist CIDCO in the planning, development and marketing of SEZ to potential tenant. CIDCO proposes to offer management control and majority equity stake (51-74%) in the SPV to strategic partners.

Development Plan – Total area available for development of NMSEZ is around 4377 ha (43.77 Sq.Km.) (including 1850 ha regional park zone). The capital cost of entire project at Rs. 2,600 Cr. (Rs. 26 billion). CIDCO proposes to finalise the development phasing plan in consultation with the prospective investor. CIDCO proposes to transfer the land development rights in a phased manner which will be linked to achievement of agreed upon milestone.

The project enjoys full support from Government of Maharastra. The following initial have been taken by the state government to start the project in order to make the SEZ as a top leading force in the country. a) Appointment of CIDCO as the nodal agency for development of the project b) Setting up regulatory framework to promote development of SEZs in the state c) Setting up of a high level committee headed by Chief Secretary to expedite the Joint Venture selection process. CIDCO is a quasi government body & would facilitate the interaction between NMSEZ & Government of Maharashtra.

The project would be implemented as a joint venture between CIDCO and a single strategic partner or a consortium with majority control being held by strategic partner or consortium. Financial investors could hold a stake in the project. CIDCO would transfer land development rights to SPV and SPV would issue equity to CIDCO as part compensation for the transfer of development rights & assets. The SPV shall be a single point of contract for the tenants and shall be responsible for the timely completion of the projects to ensure the quality of services proposed to the provided. SPV would also be responsible for collection of bills, complaints and redressals. However, the final service structure for provision of various services to the units within SEZ would be determined by the strategic partner in consultation with CIDCO. The Development commissioner (D C) shall have the administrative control over SEZ. Further he would interact closely with the SPV management and act as a liaison between SPV & government. CIDCO, the strategic partner and the other financial partners would have representations in the board of SPV in proportion at to their holding of the company. The commission would function as a quasi government body as per rules laid down in Hand Book of procedure for SEZ. As per SEZ rules, powers of several state & central government departments e.g. Labour Commission, Pollution Control Board and many others shall vest with DC, thus making DC the single point authority for SEZ. SPV management will work along with DC.

NMSEZ organization will not have a static nature. As the development of the zones progresses as per the planned phases, the focus of the organization will change. The change will have to be supported by appropriate internal changes it its design. The first phase will begin with the formation of NMSEZ and will have land and infrastructure development as its main focus. This will essentially require a project based approach with the existence of mobile teams that move across zones to execute development projects. At the same time the organization will have to market aggressively to make its presence felt and value proposition known to attract tenants. The second phase will begin when the focus shifts to utilisation of developed infrastructure. This phase will bring and even increased focus on marketing with the objectives to sell the entire capacity available. At the same time the organization will be efficiently operating its established infrastructure capabilities and continuing to build where required. Exemplary services standards will be maintained by the organisation to ensure its business facilitation services are amongst the best. The organisation structure required here would be similar to that of a utilities company. The third phase will begin when the infrastructure is more or less utilised and the focus is on community development. Once the organisation has let out all the established capacity the focus would be on running the facilities and services smoothly for the industrial commercial and residential area. The organisation will then have a culture that engrains high standard of service quality & pilot performance. With a balanced focus on industrial needs and social needs the organization would come close to resembling a municipal corporation.

Utilies – Units would have a choice of facilities including plotted land, flatted factories and built up office space area. Plotted land shall be available to units on long term lease (either 30 yrs. or 50 yrs.)., Whereas flatted factories and office space would be available on 10 yrs. lease.

For abundant water supply CIDCO has constructed its own dam in Navi Mumbai for adequate water supply of 465 MLD. (i.e. 170 billion litres per year i.e. 170 blpy). [In West Bengal Dwarekeshwar, Gandheswari reservoir project at Bankura has a total live storage capacity 130 billion litres]. A network of pumping station with necessary water pipelines is under construction. Construction of sewerage and water treatment plants within SEZ is under way. Effluent treatment plants along with tankers, dumpers and trucks for waste disposal has been budgeted. Power supply to SEZ would be availed of through a major transmission substation from Khargar. This substation is of 400/132/33 KV capacity and is connected to the main state power grid. For power requirement proposal for further augmentation by commissioning second phase of Dhabol power station of 1450 W. The road system planned at New Bombay consists of expressway arterial road, local roads, flyovers. The total length of express ways in New Bombay will be about 200 KM.

The planning of social infrastructure in New Bombay was developed keeping in mind the modern parameters of land use. 58% of land in various neighborhood centres of Navi Mumbai is reserved for parks, gardens, green belts, open areas, non development zones and aforestation.

Environmental assessment is made in detail (Not discussed here).

The indicative capital cost for entire project has been estimated at Rs. 26 billion ($ 520 million). As per the techo economic feasibility report prepared by TECS, the capital cost at Rs. 2216 Crore. It consists of (i) cost of land Rs. 417 Crore. (ii) Internal infrastructure Rs. 1152 Crore. (iii) Miscellaneous fixed asset Rs. 30 Crore. (iv) preliminary and preoperative expenditure Rs. 320 Crore. (v) Impact of inflation Rs. 216 Crore. (vi) working capital (maintenance, salaries, wages and overheads is estimated at Rs. 75 Crore. Per year and expected to be met from trade credit).

Assuring a debt equity ratio 1.5 : 1 the equity capital of Joint Venture would be Rs. 886 Crore. This includes the capitalized value of land which is CIDCO’s contribution to equity. TECS assumed that debt can be sourced at 12% pa with a moratorium of 2 yrs. and repayment period 15 yrs. Revenue and costs for NMSEZ. The SPV is likely to generate revenue primarily through state of land, flatted factories and built up office space, as well as provision of utility services like power and water. Additional revenue streams include revenues from services like water treatment and sewerage, waste disposal, infrastructure maintenance etc. Various revenue stream for SPV includes cost of products / services offered to the prospective investors, residents and from the entities which would be taking advantages of product or services offered by the SEZ.

# Reforms in Bengal

Liberalisation of Indian Economy was firmly made in 1991 under the leadership of Late P.V. Narasima Rao with collective participation of famous personalities like Monemohan Singh, Chidambaram, Alualia. Several regime had changed but the policy was not deviated. The need of improvement of infrastructure was felt on the very onset of the process of development which was initiated under the young leadership of Late Rajeeb Gandhi. In 2004, the most talked about infrastructure development initiative was taken by flagging off the Golden Quardilateral project which may be compared to the Green Revolution of Mrs. Gandhi. The speed of development has been accelerated since installation of present leadership of the Cental government.

Steadily the central government becomes the epicenter of the storm of development. Such policy initiatives altered the state leaderships like Chandrababu Naidu, S.M. Krishna to revolutionise their state economy. At present the leader of all the states are in the mad race for such development.

In this context, the most conservative, ideology bearer like Marxist parties started campaigning against such process. These parties started acting as brakes on the process of such wild acceleration, because they feared the bankrupey faced by South Asian countries like South Korea, Thailand & Latin American countries like Mexico, Argentina etc. They voiced for enforcing an alternative check & balance of such race. They also raise the questions whether such wild globalization process would benefit the majority of our poor class.

The West Bengal Government is ruled by Marxist parties for more than three decades based on popular votes. They never compromise with the process of development for the sake of only politics. They examined the cause of the fall of Chandrababu Naidu, or S.M. Krishna for lack of confidence of the common people on the economic policy of the government. Taking the lesson the able present leadership of “Budha – Nirupam” combo started showing the alternative ways by providing protective nets to the disadvantages class. They started attracting Foreign Direct Investment in big way by keeping the most states way behind without losing the mass sentiments as the global investors already tasted the policy adopted by the Chinese ruler, the mentor of the present leadership of Bengal. The trust of the investor will be exaporated if the present rulers fail to deliver the promises made. It is a very critical juncture in the fate of Bengal where if the promises of industrialization fail, it will be very difficult to regain the trust again. But if Bengal succeeds then investors around the globe will beeline towards Bengal.

In this context, one must analyse the *TATA – Singur* episode. A public hue and cry is raised by a section of people on the plea that the fertile agricultural land is being destroyed in the name of industrialisation. Their argument is that the best agricultural land should not be used in any purpose other than agricultural purpose, otherwise the state will loose its food security. In market economy everything has its own value. Investors always frame any project analysis based on cost advantage analysis. Critics who are advocating the industrialisation process in the arid land of backward districts like Bankura, Purulia, they must realize the lack of infrastructure condusive to the industry in those areas. Why the investors do not prefer those places inspite of the fact of low price of land? In present competitive world of business the investors always prefer most suited place for their business. For that reason, every government of nearly all countries are trying to provide the opportunities to their highest possible level to attract the investors. ‘TATA’ is a very old famous renouned trust worthy Indian industrial group. Their investment in the state will give more momentum to the speed of investment. Such opportunities should not be spared for the sake of a little loss of agriculture. For this reason the land is acquired at the cost six times of annual produce which is more than 50% premium of existing norms.

*David Ricardo* in his book *“The principles of political Economy”* laid down the basic foundation of international trade theory – *“The theory of comparative advantages”* which is regarded as fundamental principles even in recent days also. As for example a country / state should specialize in producing and exporting goods in which its comparative advantages in greatest, and should import goods in which comparative disadvantages in greatest as a fact of simple economic theory – the gains to domestic consumers from foreign trade will almost always be greater than the additional gains to domestic producers from purely domestic trade.

Absolute advantages look forward to complete productivity disparities meanwhile comparative advantages look forward to dissimilarities at relative productivity and according to advantages there would not be any trade going on between places when one place has absolute advantage over one or more products. The *modern theory of factor endowments*, propounded by *Bertil Ohlin & Eli Heckscher*, explains the causes for comparative cost differences. It is understood that there should be certain reasons for differences in opportunity cost for producing any product in different places. A place has a comparative advantages in the production of goods that uses relatively large amounts of its abuduct factors of production and a comparative disadvantages in the production of goods that utilize relatively large amount of its scarce factors of production. Why the land of Park Street, Gariahat are not being considered for agriculture & why the multistoried building, shopping malls are not been developed in Vediasole, Suknibasa or in Pratappur. The simple answer is the market economy. *Gottfried Haberler* propounded the *opportunity cost theory*. The opportunity cost is the value of alternatives which have to be foregone in order to obtain a particular thing. As for example Rs. 1000 is invested in the equity of Rama News Print Ltd. and earned a divided of six percent in 1999, the opportunity cost of this investment is 10% interest had this amount been deposited in a commercial bank for one yea term. The opportunity cost approach specifies the cost in terms of the value of alternatives which have to foregone in order to fulfill a specific act.

More than 60% import of our country is petroleum products which is mostly imported from Middle East countries. Mumbai part has the proximity of those countries for importing those products. Steadily Mumbai became the energy centre as well as economic nerve centre of India. Presently huge gas reserves are discovered along the eastern coastline of India, and this gas reserves may change the energy centre to the eastern side of our country. Vast mineral belts in Bihar, Jharkhand, Orisssa, as well as in Bengal lies nearby Kolkata. Besides this, all West Asian countries are underdeveloped, terrorist prone. Whereas all countries lying eastern side of our country are developed or fastly developing peaceful countries. A very fast economic development is underway in those countries situated in the Eastern part of our country. Kolkata is the nearest metro to those countries. Opening up of Nathula pass and proposal for international corridor from Kolkata, via Bangladesh, Mayanmar to these eastern fringe countries (via extension of NH-35) brings the golden opportunity to the entire state. Billions of dollars of trade will pass via those connections. Kolkata may becomes the economic centre of India. Development will be made along the arterial route (NH34) across the Bengal from Siliguri to Barasat near Kolkata. Barasat has the potential to be developed as international gateway of trade coming through Nathulapass & Bangladesh – Mayanmar corridor. **‘Nabadiganta’ (Sector V of Slat Lake)** may becomes the frontend of such industrializations. Due to proximity of International airport, development of & renovation of port (Kulpi, Haldia, Kolkata port) may again bring back the past glory of Kolkata.

In near future if condusive environment is created major trade may enter India via Nathulapass and Bangladesh corridor and leave Bengal via NH2 and NH6 to different parts of our country.

A vast arid thinly populated are in Western fringe of Bengal in between NH2 and NH6 has a great potential to become a highend industrial zone like Pune in Maharashtra.

Let us discuss the prospect of Bankura, the epicenter of that area.

**Promise in Bankura**

Bankura is located in the Western part of the state of West Bengal. Total area of the district is 688200 hectares (ha) out of which 119214 hectares (ha) is forest land. Highland and medium land are consisting of 1,76,915 hectares (ha) & 1,50,611 hectares (ha) respectively. Entire district contain low fertility of soil. The district is divided into three distinct topographical regions viz. the hilly terrain in Western part, undulating Central part and alluvial plain in the Eastern part. The hilly region is characterised by large granite rock, Central part by red latterite & Eastern part by alluvial loamy soil. This undulating terrain of about 90,000 ha is susceptible to soil erosion and the hard granite base leaves lesser scope for economic production of agriculture. A major part of the land in the central region is lateritic in nature and the soil is devoid of many basic nutrients essential for normal crop.

Concentration of population is very less compared to state of West Bengal and population density in the Western part of the district is much less compared to the rest of the district. The district Bankura occupied 7.75% of state’s geographical area and has a population of about 3.98% of the state with high percentage of schedule caste (31.37%) and schedule tribe (10.34%) and other backward class people. Per capita income of this district is much below the state average. Literacy rate only 63%, much lower than national & state average. The district is enmarked as backward district by planning commission and is capable of enjoying all sorts of benefits under ‘Green Light’ subsidy enmarked in WTO Agreements. No CVD will be attracted here.

A study on distribution of operational holding according to size class reveals that average size of holding in the district is 1.02 acre. Out of total 475605 holding 67% belongs to marginal size class average holding size of 0.53 acre and over all the size of holding is less than 2 ha. for 90% of no of holding. Low fertility, low water retention capability of the soil, makes the soil low productive in terms of any types of agriculture. In Western past, the entire soil is either latterite or granite in nature which is very much suitable for construction activity and very much unsuitable for agriculture. The price of land is very less due to desert type & arid in nature.

**Bankura Town**, the district head quarter is well connected with rest of India., South Eastern Railway connects Bankura with all major metros of India. Once abandoned BDR is being now upgraded to Broad Gange. NH60 passes through the Bankura Town which connects NH2 (about 50 KM at Durgapur) NH6 (about 120 KM at Kharagpur). Kolkata is only 185 KM by Road and 230 KM by Rail from the Bankura Town. Bankura Town may be connected with Jamsedpur, Jharkand (about 100 KM) via Khatra, Mukutmonipur. It is with in 100 KM vicnity of Dhanbad Jharia, Ranigunge mineral belt and as well as Jamshedpur mineral belt. Recently a large track of coal block and methane gas reserve are discovered in this district. Haldia port is within 175 KM from Bankura Town.

Inspite of high connectivity with all metros, port, mineral belts – Bankura still is considered as backward district in terms of both industry and agriculture due to lack of availability of water, poor water retention capacity of soil, and due to high average altitude of land (Average 120M MSL in compared to only 4M MSLin Kolkata)

The district receives annual railfall ranging 1100-1400mm in a year, (not a poor figure), out of which 90% precipitates during Monsoon months (15th June to 15th Oct.) Inspite of high rainfall, the district is enmarked as drought prone area due to undulation of land and poor water retention capacity.

If a suitable dam-reservoir project is developed in the Western part of the district, entire arid defuncted land may be developed as most industrial place in India. The place may be developed as Special Economic zone like the NMSEZ in Maharastra only by taking a little bit of state initiative.

**Dwarakeswar – Gandheswari Reservoir Project** may be considered to be taken up by way of Public-private participation model. A brief note is narrated below. (i) A dam across Dwarakeswar river about 27 KM upstream of Bankura town in Suknibasa (ii) a dam across Gandheswari river 15 KM upstream of Bankura town at Chamkara (iii) one barrage at Pratappur 2 KM downstream of confluence of two rivers and on river Dwarakeswar (10KM from Bankura town). Dwarakeswar Dam has a huge catchment of 755 Sq.KM including 104 Sq.KM intercepted catchment of existing small irrigation schemes from Dangra, Beko, Futiary & Majra rivers. Gandheswari Dam has a catchment of 233.36 Sq.KM & Pratappur barrage has the catchment of 1750 Sq.KM including an uncontrolled catchment of 761.55 Sq.KM. Recent study reveals that precipitation in catchment of Dwarakeswar is 1278 mm (annual average), 1105 mm (monsoon average) and for Gandheswari it is 1233 mm (annual average), 1069 mm (monsoon average). Study is made based on records between 1965 to 2000. Annual average yield of Dwarakeswar catchment is 48541 hectremetre (ham); for Gandheswari catchment 11519 ham, uncontrolled catchment yield of Pratappur barrage is in between 73453 ham to 13521 ham. Reservoir live storage capacity for Dwarakeswar Dam is 7772.84 ham (77.73 billion litre) & Gandheswari is 5334.35 ham (53.34 billion litre). [In this connection it should be worth mentioning that water requirement for NMSEZ is about 170 Billion litres per year for 43.77 Sq.KM of NMSEZ. Here water require for 20 Sq.KM SEZ, satellite township at Pratappur and existing requirement of Bankura Town may be assumed about 80 to 90 billion litres per year. Water availability may be assumed 200 blpy (based on 70 blpy of annual inflow). The seepage loss from the reservoirs will be very negligible in course of time, so may be neglected. Area of submergence of Dwarakeswa dam is 2551ha & Gandheswri is 1664 ha. The project report is prepared for irrigation purpose consisting two main canal for each dam and one canal system from the barrage. Entire dam & canal system may cost Rs. 300 Crores. With approx construction time requirement is 8 years.

Drilling investigation releaves the availability of fresh sound stable rock in both the Dam areas and dam sites & it falls within seismic zone – III of IS 1893-2000 (Low to medium risk).

Opportunity cost is much favourable to industry than agriculture. If entire reservoir project is earmarked for industrial purpose the cost of the project may be reduced in the tune of 150 crore for the absence of distribution system. In addition, the hazards of acquiring the land of canal system, specially better agricultural plots in the eastern part of the command area will be absent. Project may be easily completed within 2-3 years. time frame if the entire project including cost is taken up by private initiatives like NMSEZ and if state provides the cheap land surrounding that dams & reservoirs. State will function as facilitator and not as implementer. Cost of project will be recovered by the private body by way of leasing out of those cheap lands to prospective investors. Otherwise a state may develop one corporation & set up special purpose vehicle in which different venture capitals or PE (transnational private Equity Fund) may participate for higher appreciation. For belter infrastructure upgradation of NH60 to four lane super fast highway, quick completion of extension of BDR to Eastern Railway network, development & extension of road link from Mukutmonipur to Tata Nagar should taken up. In addition to upgradation of Santaldihi thermal power station, electric power plant in the vicnity of dam site and the methane reserve site may be built up to provide un interrupted power supply in that region.

Two SEZ around Dam site encompassing around 10 Sq.KM of land for each SEZ and residential accommodation in satellite township vicnity of barrage site near Bankura Town may be considered for developing the entire zone into a high and industrial region in the country. It may act as major backend manufacturing base of entire new age industrialization grid of our state., Weather climate with relatively low humidity makes the place suitable for textile industry. Due to availability forestry, it is very much suitable for Paper Industry. As Bankura is not far way of Haldia, entire down stream industry of Haldia Petrochemcial industry may be developed with fullest utilization of Haldia Petrochem resources. Due to vicnity of rich mineral mines, the place may be developed as centre for mining industry. The place is most suitable for high end speciality chemical, drug industry, electronic industry (due to front end linkage with Naba Diganka near Kolkata). If a small airport is built up along with development of high bandwidth telecommunication infrastructure – then entire zone may be converted into knowledge city with special emphasis of KPO (Knowledge Process Out sourcing), LPO (Legal Process Outsourcing). Lastly, abudunt supply of arscenic free, potable water will attract the investors. Peaceful friendly political environment will be an added advantage to the global investors.

1. 🟊 B.C.E (J.U), LL.B (C.U.), Master of Engineering (Structure), Master of Laws (Contracts including Mercantile Law), PGD (International Business Law), Fellow- Institution of Valuers, Chartered Engineer; Co-author along with Dr. J.K. Das (Ph.D from Banaras Hindu University), title *“Legal Framework for Engineering Arbitration in India”* (ISBN:81-89659-00-6; pages 396); At present working under Irrigation & Waterways Department, Government of West Bengal. [↑](#footnote-ref-2)