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## India tries to tame its red-tape jungle

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**MADRAS, INDIA** - As India races China to draw new business in the globalization sweepstakes, it is hobbled by the grinding bureaucratic legacy of 1950s socialism.

Foreign businesses must navigate a gantlet of clerks, codes, and certifications to garner the 70 separate approvals needed for setting up shop here. It usually takes at least three months.

But this infamous bureaucracy is getting a makeover. A new law that creates special economic zones, or SEZs, aims to streamline the process and lure foreign investors away from a booming China. The law follows a growing body of evidence that links a reduction in red tape to increased economic growth, experts say.

"I don't see why we can't achieve a seven-day clearance time [for businesses to open]," says Sreekumar Chatra of PricewaterhouseCooper, Bombay, who was an adviser to the Indian government on setting up the SEZs.

So far, 11 SEZs have been set up in places like Bombay, Ennore, and here in Madras. The zones are acres of land set aside by the government on the outskirts of cities. They're walled off and have comprehensive facilities, including their own utility services, banks, and government offices.

Fifteen-year tax breaks are given to foreign investors and many regulations, such as export tariffs, are removed from international trade. In fact, SEZs are treated as foreign territories for purposes of trade operations, duties, and tariffs.

The government's loss of taxes and tariff revenue from the zones was one of the main concerns of the finance department prior to their creation, according to Mr. Chatra. But the government realized, "If you don't do this, you won't get the [many times] larger investments," he says.

But tax breaks are on the bottom of investors' wish lists, according to Chatra. "More than anything else, what Indian and international companies want is a high degree of speed, a one-stop clearance," he says.

Now a zone commissioner gives just one approval that is tantamount to the 70 outside of SEZs. How fast things get done will ultimately depend on individual commissioners' turnaround time, but officials claim the market itself provides checks and balances. "If you delay [the investor's] papers, he has the option to go to another place. So, this must be investor friendly," says Ramesh Ram Mishra, secretary of the department of industries in Tamilnadu.

Chatra says the next thing investors look for is "plug and play" infrastructure. This includes good buildings, roads, easily available utilities, transportation facilities, offshore banking, and even a special court to resolve economic disputes expeditiously.

Since the Indian government is cash-strapped, private players are persuaded to develop infrastructure in the new zones, says P.V. Jaganmohan, joint commissioner of the Madras Export Processing Zone, now upgraded into a special economic zone. "Once they create the infrastructure, administration and monitoring will be [our responsibility]."

Investors seem willing to fork out money to build their own premises-related infrastructure because it gives them control over how things are constructed. Also, the advantages of being in a SEZ with reliable infrastructure and uninterrupted power supply may offset the extra cost, say business executives here, many of whom did not want to speak on the record.

The creation of the SEZs is India's effort to comply with new World Trade Organization directives against protectionist markets. Recent studies by organizations like the World Bank link a reduction in red tape to economic expansion, including foreign investment. And India has reason to move fast. Right now, Asia's giant sucking sound is foreign dollars heading to China. In 2003, foreign direct investment to China was \$53.5 billion, compared with \$4.3 billion to India, according to business analyst AT Kearney.

For now, the zones are being run in small designated pockets. Chatra explains that SEZs are a way of testing out deregulation "in a controlled environment" and then phasing in liberal policies across the country. "There are too many rigidities in the system. All of them cannot be removed in one go," he says. "That would require a revolution."

Chatra says the new SEZ law will be a big step toward dispelling the fear among foreign investors that it's difficult to do business in India. "It will establish a perception that India has a very strong, competitive manufacturing base," he says.

The law is geared primarily toward the manufacturing sector, which is trammled by far more regulatory constraints than information technology, for example. Because IT is a late arrival to India, it escaped many of the bureaucratic regulations governing manufacturing.

"The [information technology] sector has grown because of one thing: no interference from the government. It created the right climate," says K. Subrahmaniam, president and chief executive office of Covansys, a US software development unit located in the Madras Export Processing Zone.

By boosting the manufacturing sector, India isn't necessarily staking out a position on a par with China; its ambitions are more modest.

"India could be a manufacturing base for South Asia," says Mishra.

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