

employee has a salary 10 times²¹ that of the Indian workers indicating that there is an enormous gap between the different employees of the global Nokia family.

Conclusions

The public costs for the Nokia SEZ are of two kinds; the first is the direct expenditure by the Tamil Nadu government, among other things in creating infrastructure and reimbursing Nokia's VAT payments; the second is the loss of income if normal taxes would have been applied. Of the known direct costs for the public the VAT reimbursements dominate. Together with the subsidised land the Tamil Nadu government is estimated to have paid Nokia Rs 645.4 crore.

The main objectives of SEZs according to the national SEZ Act are to (i) generate additional economic activity, (ii) promote exports of goods and services, (iii) promote investment from domestic and foreign sources, (iv) create employment opportunities, and (v) develop infrastructure facilities. Our findings indicate that the Nokia zone, like other SEZs, are mainly for the Indian market, and there are loopholes in existing laws which allow domestic sales of mobile phones to count towards export (objective ii). The Nokia SEZ and other electronics manufacturing has led to investments in Chennai to set up the plants (objective iii). But every rupee invested in fixed assets by Nokia is paid back by the Tamil Nadu government via its offer to reimburse VAT leaving only the operational costs to be covered by the company. In effect the government is paying for the company's infrastructure investment and we have every reason to believe this type of agreement is standard for Tamil Nadu (to achieve objectives ii and iii the state government paid for objective v). The relatively poor pay of the workers and unmet employment protections make the employment creation argument weak (objective iv).

In sum, for the benefits given to Nokia, very little reciprocity exist in benefits for India. We can only congratulate Nokia on getting an amazing host of concessions and freebies to enter what is now the world's fastest growing market for mobile phones. Its profitability is certain to be significant although actual data on the

mobile phone business is not available. But to think that the success of a private company based in Finland has anything to do with the development of India seems very far-fetched. Put in a different way, of what use is increased economic activity (objective i), if the benefits of this activity only goes to one company? This clearly reiterates the fundamental flaws in the SEZ policy and legislation. It demonstrates that the success of a SEZ comes at an enormous public price.

NOTES

- 1 PIB Press Release, 21 May 2009, "Special Economic Zones" - Backgrounder. <http://pib.nic.in/release/release.asp?relid=48806> (accessed 1 June 2009).
- 2 An added factor, which has not attracted much attention, is the possibility for a large company like Nokia to get concessions both as a SEZ developer on the creation of infrastructure, and the benefits of a SEZ unit during operations. Developer benefits mean no customs on imported construction and no service tax on services performed in the SEZ including construction related ones. Unit benefits include income tax, service tax and excise tax exemptions. In the case of the Nokia SEZ it was additionally possible to extend the developer benefits to all the companies within the zone by registering a special society, the "Nokia Telecom SEZ Society", under the Tamil Nadu Registered Societies Act. This allowed all the units to become co-developers with Nokia and get the infrastructure incentives.
- 3 A second MoU which contains amendments of certain sections of the original MoU was signed between the parties the same year on 18 July.
- 4 *The Hindu* (8 April 2005), "A Breakthrough for Tamil Nadu in Hardware Segment" <http://www.hindu.com/2005/04/08/stories/2005040806090100.htm> (accessed 21 April 2009).
- 5 The MoU also indicates that other units in the SEZ would get the same benefits assuming at least investment of Rs 300 crore.
- 6 The VAT rate for mobile phones is 4% in most states but, for example, in West Bengal it is 12.5% making the exact amount of the reimbursement somewhat different from the example provided here.
- 7 This cap, strangely, seems to apply only to the local sales tax reimbursement and not VAT as stated in both the 6 April and 18 July MoUs. It therefore remains unknown whether there is at all a cap on the VAT reimbursements or not.
- 8 *The Financial Express* (7 April 2005), "Chennai to Host Nokia Plant", <http://www.financialexpress.com/news/chennai-to-host-nokia-plant/129642/0> (accessed on 1 June 2009).

- 9 CNBC-TV18 Moneycontrol (7 December 2007), Nokia India to Invest \$75 mn to expand Chennai Plant, <http://www.moneycontrol.com/india/news/business/nokia-india-to-invest-75-mn-to-expand-chennai-plant/17/15/316244> (accessed 1 June 2009).
- 10 P 12 of the Schedule of MoU, 6 April 2005, Government of Tamil Nadu, 2003, "Tamil Nadu New Industrial Policy 2003". <http://www.tn.gov.in/misc/indpolicy2003.pdf> (accessed 20 March 2009).
- 11 Government of India, Comptroller and Auditor General of India, 2008. Performance Audit Indirect Taxes - Report No 6 of 2008. New Delhi http://cag.gov.in/html/reports/indir_taxes_2008_6_PA/section_3.pdf. Lease deed between SIPCOT and Nokia signed 19 July 2005.
- 12 SIPCOT is the State Industries Promotion Corporation of Tamil Nadu, a state government entity.
- 13 Deed of Lease entered into on 19 July 2005 between Nokia and SIPCOT.
- 14 How either of these prices was arrived at is not known since the price mentioned on SIPCOT's website, at present, is Rs 60 lakh per acre. It must have been significantly higher than Rs 8 lakh in 2005. SIPCOT Sriperumbudur, http://www.sipcot.com/Industrial_complex_sriper.htm (accessed 21 April 2009).
- 15 Government of India, Comptroller and Auditor General of India, 2007. *Audit Report (Commercial)*, Tamil Nadu for the year 2006-2007, New Delhi. http://cag.gov.in/html/cag_reports/tn/rep_2007/com_chap_4.pdf
- 16 Annexure to July MoU.
- 17 2008, "Nokia to Double Its Workforce at SEZ", *Business Standard*, 13 May, <http://www.business-standard.com/india/news/nokia-to-double-its-workforce-at-sez/37393/on> (accessed 22 May 2009).
- 18 2008, "Dream Factories", *India Today*, 10 June. http://www.indiatoday.in/index.php?id=2534&option=com_content&task=view§ionid=7&catid=37 (accessed 22 May 2009).
- 19 According to TN government labour department's "Labour Inspection report form 2A" dated 30 July 2008.
- 20 Department of Inspectorate of Factories, Registration certificate regarding contract labour 30-07-08.
- 21 P 10 of MoU signed 6 April 2005.
- 22 Numbers taken from the Nokia Annual Accounts 2008. Based on Euro 5,615 million spent on wages and salaries in 2008 and 1,25,829 people employed by the Nokia Group at the end of 2008. http://media.corporate-ir.net/media_files/irol/10/107224/reports/Nokia_in_2008.pdf
- 23 India PPP dollar rate was Rs 14.67/\$ in 2005 when the real exchange rate was Rs 44.10/\$. For Finland the corresponding rates were Euro 0.98/\$ PPP with real exchange rate being Euro 0.80/\$. This gives a PPP-adjusted Nokia Chennai wage of \$4,417 per year and an average Nokia global wage of \$45,535 per year. The global wage is 10.3 times higher. World Bank (2008) 2005 International Comparison Program Global Results: Summary Table, <http://siteresources.worldbank.org/ICPINT/Resources/icp-final-tables.pdf> (accessed 30 April 2009).

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