SPECIAL ECONOMIC ZONES OR ‘SPECIAL EXPLOITATION ZONES’ – THE CASE OF INDIA: POLICY IMPLICATIONS FOR SOCIO-ECONOMIC DEVELOPMENT AND FUTURE PROSPECTS”

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Abstract

The Government of India, in April 2000, announced the introduction of Special Economic Zones (SEZs) to enhance foreign investments, promote exports and to make Indian industries globally competitive. As of 2008, more than 500 SEZs have been proposed, 220 of which have been created. However, unfortunately these SEZs have courted immense controversies as they have left a trail of violence and destruction behind them in different parts of India. They have come up on the fertile agricultural lands of the farmers whose lands have been acquired by the Central and State governments, and in many cases even without proper compensation, leading to dispossessing of small and marginal farmers. Besides, several other legal issues are yet to be settled between the government and the farmers.

Furthermore, as the SEZs have been declared as ‘foreign territories’ in terms of business and taxes, they have been virtually exempted from labour legislation, environmental regulations and tax laws. All this has accelerated a “race to the bottom” in terms of violation of human rights and environmental standards.

The fall out of this 'legal' land grab being perpetuated in the name of 'public good' has posed serious consequences to the social and economic stability of India in the long run by the fast-track implementation of the SEZ policy. The competitive structure of Indian industry is likely to get distorted by SEZs, as now every industrialist and entrepreneur wants to move to an SEZ region to get maximum advantages at minimum cost, leaving out the small and medium entrepreneurs most vulnerable in the market. Even the very rationale of these SEZs as enhancing foreign investments, promoting exports and generating employment has been seriously challenged. The stage is, thus, all set for a long and fierce national debate over India’s economic policy.

The present paper, complete with references and data, explores the implications and future prospects of SEZs in India, and attempts to find a balanced solution to the needs of public good and private profit in the current age of globalization.

Keywords: SEZs, EPZs, World Bank, IMF, Economic growth, Trade liberalization, Export promotion, Investment, Employment, Land acquisition, Exploitation

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There has been much debate about the role and relevance of Special Economic Zones (SEZs) in the economic growth of a country, and whether they should be the first option, or the next best policy. The debate is intense and acrimonious, atleast in India, which has divided the public opinion. Widespread agitation and violence by farmers against the SEZs in recent years have hogged the limelight and hit the headlines of almost all national dailies of India. Crisis, confusion and controversies have marred their successful implementation raising serious doubts about their future prospects. Critics have, therefore, skeptically labelled India’s SEZs variously as ‘exploitation zones’ (Patkar, 2009), ‘Engines of Growth or Engineered Scams?’ (CII, 2006), ‘Neoliberal Enclosures In India’ (Bose, 2007), ‘Special Robbery Zone’ (Mahajan, 2006), ‘zones of boon or disaster’ (Menon, 2006), ‘zones of accumulation by dispossession’ (Singh, 2009), and the renowned historian, Prof. Sumit Sarkar, calls it “the biggest land grab movement in the history of modern India”.

However, support in good measure has come in too mostly from the elites of the society, such as, the industrialists, private investors, land developers and of course the economist – who have stood by with the government’s initiative of liberalizing the trade and commerce through the SEZ policy. The data, however, on the subject is still not easily available as SEZs operating in various cities have refrained from passing on the critical details to the NGOs and researchers for obvious reasons. Still, on the basis of independent surveys and media reporting, a fair impression of their working and performance can be obtained.

**Concept, Objectives and Background**

SEZs, by definition, are ‘specifically delineated duty-free enclaves’, which are deemed to be foreign territories for the purposes of trade, commerce, duties and tariffs. These zones are suppose to act as engines for export-led economic growth. Such a geographical region has economic laws that are more liberal than a country's economic laws. Usually the goal is an increase in foreign investment. Globally, the philosophy behind SEZs is to attract more capital to enhance economic activity in the location and step up exports. The tax sops offered make it a profitable proposition to invest in such ventures.

EPZs, the earlier version of SEZs, were legitimized by development state theory, which popularized the role of state in economic development. Since the state did not have the resources to provide a conducive, tax-free environment for the entire economy, nor was it possible to allow foreign participation in the process of industrialization to the whole country, small enclaves that operated like economic engines were created to bypass bureaucratic bottlenecks. Today, the SEZ covers a broad range of more specific zone types, including Free Trade Zones (FTZ), Export Processing Zones (EPZ), Free Zones (FZ), Industrial Estates, Free Ports, Urban Enterprise Zones, and others. The shift from export-processing zones or EPZs, which were industrial enclaves, to industrial townships-SEZs- has been a fundamental change in the development sector.

SEZs are neither new to the world, nor to India. Worldwide, the first known instance of an SEZ was an industrial park set up in Puerto Rico in 1947 to attract investment from the US mainland. In the 1960s, Ireland and Taiwan followed suit, but in the early 1980s, China established its now world famous Shenzhen SEZ and with this, the SEZs gained global currency. **Following the Chinese examples, Special Economic Zones have been**
established in several countries, including India, Iran, Jordan, Poland, Kazakhstan, the Philippines, Russia, and Ukraine. North Korea has also attempted this to a degree, but failed. In the United States, SEZ are referred to as "Urban Enterprise Zones". According to a study by the Indian Council for Research on International Economic Relations (ICRIER), New Delhi, the number of SEZs have risen from 176 zones across 47 countries in 1986 to more than 3,000 across 120 countries by 2007 employing more than 42 million people (Financial Express, 2005).

The idea of SEZ is not new to India as it was one of the first in Asia to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting exports. In fact, India was the first in Asia to set-up an EPZ in Kandla (Gujrat) in 1965 followed by the Santacruz EPZ in Mumbai in 1973. Later EPZs were established in Cochin, Falta, Madras and NOIDA in 1984 and Vishakapatnam in 1989. Thereafter, more proposals for EPZs came up from other states also. However, the EPZs did not prove to be quite effective and failed to live up to the expectations. This was primarily because the EPZ policy was deficient by several factors like limited power of zonal authorities, absence of single window facility within the zone, rigid custom procedures for bonding and bank guarantees, restrictive FDI policy, procedural constraints and severe infrastructural deficiencies. Further, this outward looking policy was just limited to the EPZ, creating in effect, an economy within an economy, with no connection to the larger Indian hinterland. Economic policies were framed that did not take into account the proper functioning of the EPZ.

Apart from the shortcomings in the then government’s EPZ policy, India adopted heavily protectionist policies which resulted in the decline of its share of world trade from 2% in the 1950s to 0.5% in the 1980s. A major reason attributed for this was the socialistic pattern of economy that India adopted immediately after independence. Socialism, which had driven and inspired our freedom fighters and constitutional framers, was then considered to be the right choice as India was overwhelmingly backward and under-developed. This economic model, which considered the state as engines of growth and gave the State a commanding role to play in development, laid a strong foundation of India’s industrial process and protected India’s nascent industries and enterprises from foreign competition.

However, over the years, the pre-ponderant role of government in matters of industrialization gave birth to a number of industrial and business malpractices such as, license raj, red-tapism, orthodox business practices, non-involvement of foreign business and barriers on imports and exports. This had an adverse impact on economic growth making it pathetically slow, sluggish and that was stereotyped as the ‘Hindu Growth Rate’. As is true that social and economic development go hand-in-hand, the slow economic growth cost India its social development also. Health, education and social reforms remained dismal in most of the country, a direct consequence and indicator of the fact that social growth is not sustainable without economic development (Vaidyanathan, 1983).

The socialistic economy, thus, with all its attractions, failed to boost India’s economic growth. Her economic performance, today, when seen in comparison to the ‘East Asian Miracle Economies’ has been lackluster. Thus, although being the first in Asia, India could not reap the benefits of being the first mover.
India's economic scenario during 1990s

The state of Indian economy during the beginning of the 1990s was pathetic as India’s foreign reserves had almost depleted and the economy was on the verge of bankruptcy. While globalization gained momentum at the end of the Cold War, India continued to perform poorly on trade and commerce sector which was then a mere 2% of the world trade. The low quantum of its world trade was attributed to the absence of world-class infrastructure, an unstable fiscal regime and the multiplicity of controls and regulations.

However, in contrast, India developed a world-class information technology and ‘business process outsourcing’ (BPO) sector. In subsequent years, it started exporting these services globally and this produced an increase in the economic growth during the rest of the 1990s and thereafter too. Driven by the domestic market and the new found spending power of the Indian consumer, India’s economy in the 21st century, is on the fast track. In 2005, the World Bank reported India’s GDP to be US$3.63 trillion in terms of purchasing power parity, ranking fourth in the world (World Bank, 2005).

The 2006 World Bank Report cautioned the world community by stating that with a population of 1.1 billion and a GDP per capita of US$3,400, India was a rising power that no country or any international organization could afford to ignore. India’s middle class consisting of 300 million people and its expansion would raise consumption and make economic growth faster and more sustainable (World Bank, 2006).

But it was realized that growing only in the BPO and service sector, and lagging behind in the export manufacturing sector, where India is considered the poorer cousin of China, would not help a nation in realizing the goal of a developed nation. India till then was still wrestling with high poverty and unemployment rates amounting to almost more than ten percent of its population. To overcome these handicaps, strong growth in the industry, infrastructure and manufacturing sector was fixed as the next main target along with a growth in exports to bring in the much needed foreign currency. Thus, a major shift in the economic policy of the country was affected to create more space for attracting foreign direct investment and foreign entrepreneurs in India. It was assumed that given their greater economic efficiency, the private sector would not only help in increasing the economic growth rate in the country and boost employment but also lessen the economic and financial liabilities of the government.

A) Policy Reforms: SEZ approach as a strategic tool for speedy industrialization

With this background and intention, India, at the beginning of the 1990s, adopted the policy of establishing industrial enclaves- SEZs/EPZs- as an important multi-dimensional strategic tool to boost economic growth, employment generation, rise in exports, attract foreign investors, to make Indian and foreign firms more competitive, and to attract global technology and manufacturing skills. All this was to be done by expediting the process of industrialization through reforms in its external trade policies.

Private investors and foreign direct investment were sought to be attracted through the SEZs which were designed to serve both domestic and export markets. But as the investors and the FDI needed a congenial climate coupled with flexible laws to invest
their resources, technology and skills, the government initiated a series of policy reforms aimed at setting up such zones. These zones were envisaged to have world-class infrastructure with integrated real estate, power and transportation facilities, single window clearance approval and administrative processes, flexibility, internationally-competitive labor laws and transparency/clarity of governance.

At the same time, the SEZs were contemplated to have the potential to remove the infrastructural problems, procedural complexities, bureaucratic hassles, and barriers raised by monetary, trade, fiscal, taxation, tariff, and labour policies. These structural bottlenecks were perceived to be affecting the investment climate adversely by decreasing the production and increasing the transportation costs. Since countrywide development of infrastructure was expensive and implementation of structural reforms would require time, due to given socio-economic and political institutions, the private sector was sought to be given a commanding role to play in the economic and financial development of the country through the SEZs. It was expected that SEZs when operational would offer high quality infrastructural facilities and support services, besides allowing for the duty free import of capital goods and raw materials. Additionally, attractive fiscal incentives and simpler customs, banking and other procedures, it was decided, would be offered in zones.

It was with this belief that the idea of SEZ policy materialised with the government. During 1991-2000, the Government of India (GoI) liberalised export policies and licensing of technology and implemented tax reforms providing various incentives through wide-ranging measures. This phase was marked by progressive liberalisation of policy provisions and relaxation in the severity of controls and simplification of procedures. Focus had been on delegating powers to zone authorities, providing additional fiscal incentives, simplifying policy provisions and providing greater facilities. These measures led to progressively opening up of the economy.

Further measures were initiated by the Government through its EXIM Policy (1997-2002) which introduced a new scheme from April 1, 2000 for establishment of the Special Economic Zones (SEZs) in different parts of the country. The new policy measure, which allowed SEZs to be set up in the public, private or joint sector or by state governments, aimed at attracting larger foreign investments in India and to promote the export-oriented manufacturing sector and to provide a level playing field to the domestic enterprises and manufacturers which could be competitive globally.

The new policy also affected the replacement of the old EPZ regime by a new scheme of "Special Economic Zones" (SEZs) with several lucrative incentives/benefits that were not available in the earlier scheme. Conceptually, SEZs and EPZs are slightly, but not fundamentally, different- the former is an industrial estate whilst the later is an industrial township.

As per policy:

1. SEZs are permitted to be set up in the public, private, joint sector or by the State Governments with a minimum size of 1000 hectares.
2. The number of incentives, both fiscal and non-fiscal, has also been extended to the units operating in SEZs.

3. Several measures have been adopted to improve the quality of governance of the zones. These include relaxation in the conditions for approval process and simplifying custom rules.

4. Development Commissioners have been given the labour commissioner's powers. SEZ policy is thus the most significant thrust towards ensuring the success of export processing zones.

5. From November 1, 2000 the Export Processing Zones at Kandla, Santa Cruz (Mumbai), Cochin and Surat have been converted into SEZs.

6. In 2003, other existing EPZs namely, Noida, Falta, Chennai, Vizag were also converted into SEZs. As on June 2005, 53 SEZs had been approved by the Government of India out of which 11 SEZs are functional and the rest 42 SEZs are under establishment.

However, the policy was criticised on grounds that India’s attempt to convert its Export Processing Zones (EPZs) into Special Economic Zones (SEZs) would be an insurmountable task. Notwithstanding, India has gone full steam ahead and to a considerable success.

The Special Economic Zones (SEZ) Act, 2005

To give further boost to India’s exports, employment and investment in SEZs, the government enacted in May 2005 the ‘Special Economic Zones Act, 2005’, the rules of which were notified in February 2006. The SEZ Act gives a wide area of discretion to the State and Central Governments to regulate an SEZ as they see fit. One of the major reasons for introducing the new pro-SEZ legislation is to help meet the government’s $150 billion export target by 2008-09.

The Act reiterates its commitment to a long-term and stable policy for the SEZ structure. Under the Act, a new sop is available to firms operating in the zones. The firms are eligible for getting an extended Income Tax holiday for 15 years: 100 percent exemption for the first 5 years, 50 per cent for next 5 years and then in the next five years, the income ploughed back for investment in capital goods is exempt up to 50 per cent. SEZ developers are also entitled for exemption from income tax for 10 years. The only condition imposed on the firms is that they must have a positive net foreign exchange earning (NFE) (Ministry of Commerce and Industry, 2005).

In addition to tax breaks, the law provides a one-stop clearance and approval mechanism for setting up SEZ units. SEZs are regarded as foreign territory for the purpose of duties and taxes, and operate outside the domain of the custom authorities. SEZ units are allowed to retain 100 percent of their foreign exchange earnings in special Export earners Foreign Currency Exchange accounts. They are free to sell goods in the domestic tariff area (DTA) on payment of applicable duties. Sales from DTA firms to SEZ units are on par with regular trade transactions and hence eligible to benefit from all export incentive
and foreign currency exemption schemes. In addition, many state governments have granted a sales-tax exemption for DTA-SEZ sales. SEZ units are also exempt from the central government’s service and excise tax regimes.

As of 2007, more than 500 Special Economic Zones have been proposed, 220 of which have already been created (Ministry of Commerce and Industry, 2008). The smaller ones constitute major proportion of SEZs. 19 SEZs have area more than 1000 hectares and covering more than half of the total area under SEZs. Only 26 SEZs have area between 200 and 500 hectares. The highest approvals were accorded to state of Maharashtra followed by Andhra Pradesh and Tamil Nadu (ibid). Most of these are located in coastal areas where transportation and other supporting infrastructure facilities are available for export processing. Given the high number of SEZs, the World Bank in its 2007 report, expressed concerns and has raised questions about their sustainability. Currently, experts are studying the feasibility of setting up export-oriented SEZs in Mysore, Kolar, Hubli-Dharwad, Belgaum, Karwar and on the outskirts of Bangalore (FKCCI, 2006).

B) Impact of SEZs

Government efforts to boost India’s industry, infrastructure and manufacturing sectors through SEZs have, however, courted immense controversies and invoked serious criticisms from various quarters. Scholars have variously questioned the government’s initiative saying why is India rushing for the SEZs, unmindful of huge controversies that are coming up in the process? Why is India advocating this neo-liberal zones’ policy so forcefully even when politicians of the extreme left and right have joined with representatives of the International Monetary Fund and the head of India's Central Bank-the Reserve Bank of India (RBI) - to oppose the SEZs. Besides, after all why are a wide cross-section of people so opposed to an initiative that on paper at least provides for special export-promoting industrial areas with superior infrastructure facilities and tax concessions and which is meant to showcase India’s manufacturing prowess and its burgeoning services sector, especially its world-class enterprises in the area of information technology? Thakurta, a critic, opine that the SEZ issue has indeed polarized India as the UPA government, which floated this concept vigorously and which now itself seems to be a divided house from within. What to talk of the opposition parties, even the Prime Minister’s Office (PMO) and the ministries of finance, commerce and industry, agriculture and finally the rural development, the key players in the SEZ game from the government side are all pulling the horse in different directions, thus producing confusion and making the situation more complex (Thakurta, 2006).

An evaluation of the SEZ project, however, brings to light both its positive and negative sides. Although subjected to vehement criticisms, SEZs have a modest record of accomplishments too. The following discussion would highlight their contribution to the economic build up of the country.

The positive side

Given the unlimited concessions offered to the industry and the prospects of lucrative returns that these EPZs/SEZs offer to the private investors, it is felt that SEZs would
increasingly facilitate the expansion of India’s economy. This is evident as private investors are running to the government for setting up SEZs. A micro analysis of this phenomenon reveals that EPZs have had a catalytic effect in promoting new production sectors, exporting new products and in building up the country’s image in certain products in international markets. Statistics reveal that EPZ exports in India increased from less than Rs 10 lakh in 1966 to over Rs 9,772.7 crore in 2002. Over the same period the total employment increased from 70 to around 89,000 and net foreign exchange earnings increased from Rs 1,60,000 to Rs 4319.5 crore (Financial Express, 2005).

The foundation of the modern jewellery industry in India, for instance, was laid in EPZ in Mumbai in 1987-'88. It was there that the ‘wax setting technique’ was introduced in jewellery production, which made mass scale production possible and dramatically transformed the labour-intensive jewellery industry from its cottage industry status into a highly mechanized modern industry (Khan, 2008).

The fact that multinational corporations (MNCs) are increasingly flocking to India augers well for the SEZ movement. While over half of India’s economy is service-based, India’s manufacturing sector is growing at roughly nine percent (EIU, 2006) and India’s exports have been growing at 26% annually (Ministry of Commerce and Industry, 2006), even though the SEZ movement can be said to be in its infancy. Many foreign investors now see India as an attractive destination and have described its newfound project as looking “turbulent on the surface but stable underneath”. India’s “stability beneath the surface” arises from low labour costs, a well-established legal and dispute resolution system, fully-functional financial institutions and transaction management systems, a large and young population, in contrast to China’s aging population, government de-regulation in certain industries, and an English-speaking workforce (Sud, 2006). With the SEZ ACT 2005 getting the President's assent on June 2005, and permission given to establish as many as 45 new zones in the private and joint sector, it is quite apparent that the future industrialisation of the country will be closely interlinked to and concentrated in the Special Economic Zones.

The positive impact of liberalization has been evident in so far as the current 15 SEZs maintain US$780 million in investment and have created over 100,000 jobs. Since the introduction of liberalization, the GDP growth rate in the country has been relatively much higher than prior to liberalization years (Fulton, 2007).

Further, investment in the infrastructure of SEZs is expected to exceed US$ 2 billion (Stanley, 2005). An encouraging part of the Indian SEZs is the fact that more sectors are being allowed 100 percent foreign-owned equity in Indian-based ventures. A number of sectors are subject to automatic approval and the entry process simply involves notifying the Ministry of Finance. However, there are certain sectors where FDI caps on foreign-owned equity persist, and others that require approval from the Ministry of Finance. There has been an enthusiastic response to the SEZ scheme from the Industry which is manifested from the flow of investment and creation of additional employment in the country. The SEZ scheme has generated tremendous response amongst the investors, both in India and abroad, which is evident from the list of Developers who have set up SEZs.

A study sponsored by the Indian Council for Research on International Economic Relations, New Delhi in 2007 with the objective of examining the impact of SEZs on
human development and poverty reduction in India, reveals that ‘employment generation' has been the most important channel through which SEZs lend themselves to human development concerns, in India. Employment generated by zones is remunerative. Wage rates are not lower than those prevailing outside the zones. Besides, working conditions, non monetary benefits (such as transport, health and food facilities), incentive packages and social security systems are better than those prevailing outside the zones, in particular, in the small/informal sector. It says that labour intensive, skill intensive and technology-intensive firms co-exist in India's zones and, therefore argues that all the three effects described above are likely to be important in the Indian context

The study, however, cautions that the creation of SEZs alone does not ensure the realization of their potential. The government will need to play a more proactive role for effective realization of the full range of benefits from SEZs (Agarwal, 2007).

Supporting the role of the SEZs in the promotion of exports, Dr Ajit Ranade, Chief Economist of the Aditya Birla Group, notes that 54 per cent of the country's GDP now comes from services, while agriculture contributes only 17 per cent (Ranade, 2007). Currently, there are four industries that are among the most promising drivers of SEZ investment in India – telecommunications, biotechnology, electronics and automotives.

**Telecommunications**

With a subscriber base growing at an average rate of 26 percent from 2003 to 2005, (ITU, 2006), the telecommunications industry presents huge opportunities to manufacturing investors. In May 2006, the Minister of Communications and Information Technology announced a plan to target 500 million phones in India by 2010, effectively one phone for every two rural houses (India currently has 150 million telecommunications consumers). The government will facilitate an additional US$10.88 billion for investment in hardware manufacturing (Maran, 2006). With no restriction on foreign equity holding in the manufacturing of telecommunications equipment, the prospect of 350 million new phones being sold over the coming five years presents an immense opportunity to hardware manufacturers. Furthermore, mobile lines have overtaken land lines. India is currently one of Nokia’s largest markets. In 2005, Nokia India’s revenues were estimated at US$2.02 billion, contributing 6 percent of its global sales (Sukumar, 2006). The company’s manufacturing facility in Chennai produces 30 million mobile phones annually, accounting for 10 percent of its global volume (Giridharadas 2006).

Motorola, another multinational cell phone company, has also recently signed a Memorandum of Understanding (MoU) with the Tamil Nadu Government to set up a US$100 million manufacturing facility (Chennai Property Report, 2006). These examples point towards a bright future for Telecommunications in India. Besides Telkom Malaysia, in 2006, acquired 49% of India’s Spice Telecom and is seeking to expand its India network further (Telekom Malaysia, 2006).

**Biotechnology and Pharmaceuticals**

Revenues in India’s biotechnology industry have crossed the US$1 billion mark and grew by over 35 percent in 2006 (MEA, 2006). Encouraged by the results, India’s Ministry of External Affairs is prioritizing biotechnology and healthcare to attract FDI. A recent
example of this was the inauguration of a sector-specific SEZ with no FDI restrictions in
the drugs and pharmaceuticals industry in Pune early 2006. The 55-acre zone is a
US$260 million project located a few hours from Mumbai (Biospectrum India, 2006).
The liberalization of the insurance sector and fast growing purchasing power of the
Indian consumers have fuelled growth in India’s pharmaceuticals and healthcare industry.
Healthcare spending is expected to increase from its current US$17.2 billion to US$40
billion by 2012, with the private sector forming a sizeable portion of this market.

Coupled with this is the influx of medical tourism, as costs in India’s medical sector are
estimated to be a tenth of those in United States (Khanna, 2003). Demand from medical
tourists is expected to attract investment in state-of-the-art healthcare facilities in India
going forward. The National Capital Region is becoming a healthcare hub, with various
medical centres emerging around the Delhi and Gurgaon area. Artemis Health Institute,
for example, is developing a 500-bed multi-specialty hospital in Gurgaon by 2007 and is
hoping to further expand its presence in 20 cities.

Automotive and Electronics production

Two highly technology-intensive sectors of manufacturing – electronics and automotive –
are thriving in India. Chennai is home to many international automotive manufacturers,
including a factory that produces a new car for Hyundai every minute (Giridharadas,
ibid.) BMW is also developing a 22-acre car assembly plant to manufacture its 3 Series
and 5 Series, by 2007. It targets to produce 1,000 cars in its first year of operation and
1,700 in the following year (Muralidhar, 2006). These factories in Chennai contribute to
India’s 15 percent annual growth rate in automotive manufacturing – a sector which
includes local manufacturer Bajaj Auto, which produced 2.4 million vehicles in 2005
(Business Survey in India, 2006).

On the electronics front, computer manufacturer, IBM, plans to increase its current level
of investment in India threefold to a hefty US$6 billion in the next three years
(Palmisano, 2006). The booming electronics industry benefits not only multinational
white goods manufacturers like LG, Samsung, Sony and National, but also local giants
producing consumer durables, such as Videocon, Godrej and Onida.

The United Nations has extolled India's "strong economic performance" in 2005, driven
largely by the manufacturing sector, booming domestic demand for consumer goods as
well as infrastructure development. In its flagship publication, World Economic
Situation and Prospects 2006, released in New York, the UN report also took due note of
the "strong response by the business community to opportunities created by an
expanding domestic market as the middleclass grows — thus sustaining consumption
demand — infrastructure bottlenecks started to be addressed and prospects of exports
remained positive". Singling out the Bharat Nirman (Building India) programme, which
comprises investments totalling $40 billion over a four-year period starting in 2005, the
report said this would add impetus to demand for industrial goods over the medium
term. India’s services sector also performed well, supported by the continued strong
growth of information technology (IT) services as well as tourism and tourism-related
activities.
As these and other industries flourish and generate funds for the government, the SEZs housing these industries have had a positive impact on people in various ways. Recent instances of successes have benefited the people in the following ways:

1. Changing the present occupation pattern
2. Generating new employment opportunities for the local populace
3. Self-employment with the compensation money
4. Better infrastructure and living conditions
5. Contract opportunities for the local population
6. Further self-employment opportunities through training

Going by the above account, it is clear that the SEZ project has delivered results. The government has resolved to go ahead with rapid creation of new SEZs. But the moot question is: will this be enough to attract the vast pools of foreign investment that India seeks? Going by the data available, critics contend that the quantum of export and the revenues generated by the SEZs is not in tune with the concessions offered to the private investors. Besides, there are several other issues that have over-shadowed the positive side of the SEZs.

b) Negative Impact of SEZs

Recent examples of widespread violence and pitched battles fought between the protesting farmers and the police in several states over the SEZs’ implementation, leading to the death of several protestors have raised a serious question mark on the feasibility and desirability of the SEZs. The procedural and operational aspects of SEZs have created serious problems of humanitarian character and led to widespread agitations by farmers, social activists, academics, environmentalists, fishermen and so on and so forth. Analysts argue that the SEZs have created controversies on several social and economic issues pertaining to export promotion, financial loses, diversion of prime agricultural land, displacement of farmers, environmental degradation, crisis of food security, lack of alternative livelihoods and the non-application of protective legislations for workers in SEZ areas (Chatterjee, 2008: 28-49).

i) The Economic Impact: The ‘export promotion’ argument

The economic viability of the SEZ project relating to the export promotion has come under a scanner. Statistics available from the Commerce Ministry reveal that the average annual EPZ export growth rate declined continuously. During 1966-1980 average annual export growth rates of EPZs was over 77%, whereas during the post 2000 period (2001-2003) it came down to 7%. The reasons generally attributed are growth of exports outside the zones and the fact that bulk of the exports from EPZs was to the former Soviet Union and East European countries. These nations were not too bothered about quality and price as there was little competition. But with the break up of USSR and the East European block, the scenario changed and exports declined.
Likewise, while the net foreign exchange earning in absolute terms increased phenomenally after the mid 1980s, the rate at which it grew remains stagnant, and in fact, started declining after 1998. Also, more than half of the foreign exchange earned by the industrial units through exports is spent for importing goods and raw materials. For instance, in 2004-2005, exports from Madras Export Processing Zone (MEPZ-SEZ) amounted to Rs.1590 crores. However, Rs.859 crore was spent for imports. According to the 2006 UNCTAD report, China recorded FDI inflows at $72.4 billion in 2005 while the FDI’s inflows of India stood at barely $6.6 billion.

Indicators available from a study conducted by International Confederation of Free Trade Unions (ICFTU) in 2008 point out that the foreign exchange earned by all the 811 units in the 8 Zones put together came to only Rs. 18,309 crores, (4.08 billion dollars) a mere 5% of India's exports during the fiscal 2004-05. As much as two-thirds of this is used by them for imports of raw materials and components. Add to that, the profits transferred from the country by wholly owned foreign companies, the revenue loss from tax concessions, and the hidden costs of the natural resources used up by the Zones - and the SEZs actually appear to be a net drain on the economy. That 100,650 people have gained employment may be cited as a saving grace, but this is also of a suspect nature, with workers exploited the way they are.

Inspite of these facts, not much data is available with regard to the export generation from the SEZs as neither the government nor the Zones themselves are conducting such an assessment. The Cochin Zone administration could provide only two figures: the government has spent Rs.96 crores so far on infrastructure development, and that the total exports from the Zone were Rs.463 crores for the year 2004-05. The value of their imports, or the revenues lost by providing tax concessions and exemptions to units operating in the CEZ were not available with them.

Scholars contend that if exports and the consequent revenue generation have not risen substantially through the SEZs, then why is the rest of the land being acquired? “For export promotion, employment generation…? Nonsense…” says B.R. Sabde, an activist working on the SEZs. He rubbishes the argument that the huge chunks of land being acquired by the government would be used for setting up industries to boost exports. Terming such claims as the 'great export lie' being propagated by the government, he asserts that the SEZ policy of the Maharashtra government does not have a clause to prevent the goods manufactured in the SEZs from being sold within the country – although companies can do so if they pay sales tax on the goods, which is a small thing considering the mammoth sops that they will be getting in terms of 100 per cent Foreign Direct Investment, 100 percent exemption from stamp duty and registration charges, customs, service tax, 100 per cent exemption from income tax for five years and so on, apart from substantial subsidies on electricity and water. He says that while a minimum of 2,500 acres of land are required for developing an SEZ, very little of this land will actually be used for industry. If the SEZ is based on a single industry, as little as 25 acres are sufficient. In case of the IT industry, even 10 acres suffice. Even in SEZs with multiple products, a maximum of 35 per cent of the land will be used for production purposes (Sabde, 2006).

Critics opine that more than the export and employment generation, it is the banking, insurance and hospitality industries, residential complexes, entertainment and shopping
complexes and so on that would be coming up on the farmers’ acquired lands. Except West Bengal, in all other states only 25% of grabbed land is used for industrial purposes. In WB it is 50%. In rest of the land residential infrastructure, entertainment parks, playing grounds, water parks, shopping malls, cineplexes have been established. The elite related to SEZs enjoy these benefits while the toiling workers and their poor children are deprived even of the right to the life of human beings.

As per SEZ Act, only 35% land would be for industrial set up while the remaining would be for other non-industrial purposes. According to a rough plan, 40 per cent of the SEZ will be set aside for greenery, sewage and water treatment, 25 per cent for real estate development and the rest 35 per cent for developing the SEZ. It is quite clear that when industries come up, these services will be required and will have to be provided and for this, large chunk of land will be acquired. In the Mumbai SEZ, according to the Navi Mumbai Special Economic Zone Development Pvt. Ltd., the concept of 'Walk to Work' is being mooted. And once residences of the expensive sort come in, all sorts of services are also going to be provided as a matter of course.

The actual intention behind the SEZ idea, says Gajanan Khatu, a senior labour leader and president, Lok Rajniti Manch, an NGO in Mumbai, is "to grab as much land as possible, and as cheaply as possible. It will be more fitting to call these zones 'Special Real Estate Zones', as the real beneficiaries are builders." And the profit margins are huge. The land that is purchased at per hectare prices will then be sold at per square foot. It is hardly surprising that the biggest builders in the country – Dalmia, Mahindra, Ansal, Banyan and others apart from Reliance – are queuing up before the government with SEZ proposals. He asserts that rural folk constitute some 70 per cent of the population and this lies at the crux of a thinly-disguised land grab in the garb of SEZs.

Observers note that in fact no nation has so far proved that real development—progress and welfare of all sections of people—is possible through exports alone or FDI. In a submission to World Trade Organization (WTO) in April 1999, India itself had raised concerns of developing countries on the quality of FDI inflows. Studies have shown that between 25 and 40 per cent of FDI has a demonstrably negative impact on host countries. This is the cost in terms of using scarce domestic resources inefficiently and this substantially outweighs the benefits of national income. Still, in the World Economic Forum held in Davos in January 2008, the focus of the India Economic Summit was how India can achieve Chinese growth rates although the Prime Minister Dr. Manmohan Singh reiterated that India was not interested in adopting China's "growth first, equity later" model.

In the present circumstances, a question, thus, arises whether exports per se justify an income tax rebate? In the past, when the country was starved of foreign exchange, the Central Government decided to give exports a special break. It was justified then. But to create income tax-exempt zones now in the name of foreign exchange, when India's foreign exchange reserve has crossed $140 billion appears without justification. Incidentally, for export-oriented units (EoUs) outside the zones, there is a sunset clause on income tax. Section 10-B of the Income Tax Act envisages their income tax benefit will end in March 2009.
Supporters of SEZs claim that the zones will accelerate industrialization and generate employment. They claim that as agriculture can no longer absorb the large numbers entering the workforce, so any kind of industrialization is better than none. However, this has been seriously challenged. Although, statistics of the Commerce Ministry reveal that the SEZs provide thousands of people with their livelihood. For instance, when the Kandla zone became operational, it had only 70 employees. Now over one lakh people work in 946 units in different SEZs, and with the number of zones increasing sharply, as the Commerce Minister points out, a few more lakh employment is expected to be generated. There will be more economic activities as a result of the ripple effect of these employments (1 lakh = 100,000).

It is indeed true that these “foreign territories”, which enjoy huge tax concessions and financial incentives, provide livelihoods to thousands of people. But several controversies have arisen as to what sort of employment do the zones create? Are the benefits of SEZs in terms of employment sustainable? It is important to remember here that apart from providing the best infrastructure, these zones entice investors with promises of cheap labour and peaceful work environment. However, they have not lived up to their promises and to the expectations of the people. As such, the gains generated by SEZs in terms of employment have not been viewed upon as long-term. According to a study conducted by Society for Participatory Research in Asia (PRIA) in 2008 on the plight of workers in Indian zones, few workers have long-term employment contracts. Short-term contracts are used for flexible hiring and firing and for avoiding costs such as maternity and redundancy pay.

Sashi Ratnakar Singh, a development studies scholar at the Tata Institute of Social Studies (TISS), Mumbai challenges the export and employment arguments of the SEZ proponents in India. Comparing the performance of SEZs in India with other countries, he says that while in China, these projects had generated 30 million jobs and that while in South Korea, the projects facilitated the move from manufacturing to services, in India, 63 percent of SEZs are for IT alone, which employs a paltry 1.2 million people. While in the US, these zones are located in poor (“backward” in Indian parlance) areas, which had been bypassed by industry, in India, the SEZs are being setup on fertile agriculture lands. Further, while the government had supported these ventures in other countries, in India it was by private capital, which is profit-driven (Singh, 2007).

According to Singh, in 2004-5, SEZs accounted for only 1 per cent of the factory employment in India and 5 per cent of its exports. But unfortunately, the government only provides figures of how many jobs will be created, and not how many people will lose their traditional livelihoods due to the SEZ. Thus, the very rationale for these pampered projects, according to him, doesn't seem to hold good, at least by the record so far (Ibid).

Further, with regard to the impact of SEZs on local livelihoods, the opinion is not positive as it has been argued that the SEZs will not create employment for local population but will instead lead to distress migration of locals since the jobs created will need education and skill levels unreachable for most of the people. Therefore, the communities such as those of the fisher folks, farmers, landless labourers, women, Dalits...
and other marginalized will remain untouched by all new employment opportunities arising out of the SEZs (Focus on the Global South-India, 2006).

It is notable, however, that the opinion of the leading scholars on the employment potential of the SEZ is not uniform. While the Nobel laureate Amartya Sen supports the setting up of SEZs in India and the need to shift from agriculture to industry to generate employment (Sen, 2007), economists like Jagdish Bhagwati of Columbia University observe that India needed SEZs only during the pre-reform era, not now. He says, “It made sense to have SEZs in the pre-reform era when policies of the country as a whole could not be tweaked. That period warranted the setting aside of certain exclusive economic zones with low trade barriers and other favourable policies to enhance growth. Now India needs only clear policies that will integrate the country into the world market” (Bhagwati, 2006).

**Regional imbalance**

The SEZs have been criticized for leading to regional developmental imbalance by neglecting the small towns and promoting them near the already developed metros like Delhi, Gurgaon, Mumbai, Pune, and in other developed cities of Gujrat, Karnataka, Tamil Nadu and Orissa. No SEZ for example, is coming up in the north-east, which already suffers from the problem of alienation and discrimination. It is feared that many backward states that are underdeveloped will continue to be sentenced to remain so and this would eventually lead to regional imbalances that will throw up complicated problems.

**ii) Financial liabilities of SEZs**

The government describes SEZ’s as the ‘future islands of excellence’. Officials of the Ministry of Commerce and Industry, Govt. of India, manning the SEZ policy have claimed that the SEZs will stimulate investments of over Rs. 1,00,000 crore, create over five lakh jobs and also bring in net revenue of Rs. 44,000 crore. One government projection says that 94 SEZ’s dealing with IT will itself create as many as 12.5 lakh jobs.

But opponents of the SEZs reject the government’s enthusiasm and instead ask at what cost will the ‘future islands of excellence’ be achieved? They argue that there has been no Cost-Benefit analysis conducted for SEZ projects or assessment of economic losses as a result of diversion of agricultural land to non-agricultural purposes. Even the Finance Ministry does not share this optimism and has instead expressed apprehension that once the zones become operational, the government, as a result of the tax sops offered to the SEZs, may end up losing revenue worth over Rs. 1,75,000 crore annually as against the projected investment of Rs. 3,60,000 crore (Menon, *ibid*).

This is bound to put government budgets under strain, leading to adverse impact on the social sector and other welfare spending of the government. The Planning Commission and the Reserve Bank of India (RBI) have also sounded a cautionary note on this count. In its Annual Report 2005-06, the RBI notes that the revenue losses can only be justified if the SEZ units ensure forward and backward linkages with the domestic economy. To what extent this would happen is not at all predictable (Choudhary, 2008).
The RBI has in fact told banks that they should not treat SEZ’s as infrastructure projects but as real estate development activity. The primary issue is the widespread apprehension that the SEZ’s will be hijacked by developers who will, with government help, corner huge swathes of rich, agricultural land with a measly compensation handed over to farmers which will not have any resettlement and rehabilitation policy.

As many of the proposed SEZs are IT related software parks and technology hubs, the argument put forward by critics is that there is no need for a SEZ for IT as they would have done well anyway as India has an edge and has solid human resource that is growing by the day. This prompted the Commerce Secretary, Gopal Pillai, to say that the government will now go slow on approval for IT SEZ’s. As many as 148 IT SEZ’s has been granted approval and another 70 are likely to be okayed as they have been cleared in principle. However, this has met with sharp reaction from the IT industry as the SEZ was a perfect dream for them since the existing Income Tax Act allows them tax sops only for another four years, i.e, till 2010. If they manage to get into a SEZ before this period, they could again ride on a tax holiday for another decade or more.

Detractors of SEZs argue that since under the SEZ Act (Section 26 to 30) and SEZ rules, excessive Tax and Tariff concessions are being given to companies for a consecutive period of 15 years, it would increase the burden of taxation on the common people. There is a distinct possibility that many existing manufacturing units would shift base to the SEZ just to escape tax. The SEZ would, thus, be a great place for them to park as it would not only be better in terms of doing business but also help them reap huge tax benefits making their profits soar. Once given the status of SEZs, contend the scholars, private industries will simply reap massive benefits provided by the government, the most critical being land acquisition in the name of ‘public purpose’. Further, as the definition of the economic activity in the SEZ Act is very opaque, it will give free hand to any activity- service, packaging, entertainment, hotels, golf course etc. All these activities would get all the concessions and subsidies from the government. The disproportionate growth of SEZs will consequently adversely hit the farming sector, small scale industries, manufacturers and entrepreneurs in the long run.

These apprehensions are proved by a report on the Export Processing Zones by the Comptroller and Auditor General of India (CAG Report, 1998) which highlights a grim scenario. It says, "Customs duty amounting to Rs 7500 crores was forgone for achieving net foreign exchange earnings of Rs 4700 crores and the government does not seem to have made any cost benefit analysis." In spite of this critical remark, the Central Government, in the 1999-2000 Budget, raised the corporate tax holiday period in EPZs from 5 to 10 years (Suchitra, 2006).

Another CAG report, which covers not just EPZs but all export promotion schemes, reveals a negative scenario. According to the report, the Union Government has forgone a whopping Rs 39,704 crore of duty under export promotion schemes during 2003-04, accounting for 82 per cent of customs duty collected in that year. The duty was forgone under schemes relating to advance license, duty exemption pass book (DEPB), export promotion capital goods (EPCG), export promotion zones (EPZ), export oriented units (EOUs) and refund under drawback and other schemes, the report said. In the previous two fiscal years, the concessions amounted to 62 per cent of customs duty collected and in 2000-2001 it was 43 percent (ibid).
It was perhaps because of this deeply worrying scenario that the Finance Minister P. Chidambaram himself cautioned the nation on the financial implications of the SEZs and warned that they will deprive the exchequer. He observed that SEZs "distort land, capital and labour costs" and that as a consequence of extending so many tax and other financial concessions- customs duties, income tax, sales tax, excise duties and service tax- the exchequer will lose Rs.160,000 crore till 2010 (D'Monte, 2007). According to the Citizens' Research Collective, a Delhi-based NGO, the annual tax revenue foregone on these ‘pampered’ and ‘so-called’ export zones is five times the expenditure on the National Rural Employment Guarantee Programme (NREGP), which some have, shockingly, castigated as ‘hand-outs to the landless poor’. That amount alone could feed 55 million people a year.

In the light of above, questions have been raised as to what does India, or for that matter any other developing economy, benefit from providing the zones and their units with fiscal, forex and exim incentives and making them secure by administrative, legal and regulatory regime? But unfazed by these criticisms, proponents of SEZs argue the other way round, asserting that it is primarily due to the incentives offered, foreign investors have been encouraged to invest in countries that would otherwise not be the natural choice for FDI. A Commerce Ministry report too emphasized this point when it contended that "national loss" should be weighed against benefits such as foreign direct investments, export potential, generation of employment, transfer of technologies and skills, and economic growth of the country as a whole (Ministry of Commerce and Industry, 2002).

Ila Patnaik of the National Institute for Public Finance and Policy accepts the argument of the SEZs’ proponents that undoubtedly exports play a significant role in boosting GDP but in the case of a country like India having a sizeable domestic market, the choice lies with the producer to either export or supply to the domestic market. She doubts the government’s export argument and says that household consumption in India at 68 percent of the GDP is much higher than that of China at 38 percent, Europe at 58 percent and Japan at 55 percent. This is an important source of strength for the domestic manufacturing industry of India (Patnaik, 2006).

Given the high level of consumption of Indian households, it is quite possible that this rush is fuelled not by the desire to export out of the country but by the possibility of exporting from SEZs into the Domestic Tariff Area (DTA). The SEZ Act is also designed to facilitate this since any unit within the SEZ can export to the DTA, after paying the prevailing duty, as long as it is a net foreign exchange earner for three years. It is therefore a win-win situation for these units.

The concessions in a SEZ will, thus, reduce the cost of capital while labour reforms will ensure trouble-free operations. Further, given the considerable international pressure to reduce industrial tariffs, SEZs will be able to export to the DTA at highly competitive prices. She cautions that this does not augur well for units outside the SEZs who will now face unfair competition. As cheaper imports have already played havoc with the livelihoods of artisan sector of the economy, cheaper imports into DTA from SEZs will also adversely affect the domestic industry. It is no wonder, therefore, that many of them now want to migrate into SEZs.
iii) Social Consequences of SEZs

**Acquisition of land**

One of the several controversies surrounding the social impact of SEZs, the most important has been concerning the land acquisition for the SEZs – the manner in which land is being acquired and the prices that are being paid for the land - mostly fertile agricultural land. Although the central and various state governments in India have claimed that land acquisition is being done for industrial purposes and this is in public interest, the forcible acquisitions and the resulting mayhem present altogether a different story. This is evident from the fact that there have been violent agitations in West Bengal, Orissa, UP, Maharashtra and other states. State governments have not hesitated to acquire land even (mis)using draconian emergency powers available in the Land Acquisition Act.

Since 2005, 267 SEZs have been approved by the Commerce Ministry. Out of this, 41 SEZs have been approved in Maharashtra alone, and the amount of land to be acquired ranges between 2,500 and 10,000 hectares of land per SEZ. Out of this, almost 75% of the land proposed to be acquired for the SEZ projects is agricultural land. Inspite of this there has been no project information sharing with the local farmers. The land acquisition is proposed by the State Industrial Development Corporations immediately after the approval of the project without sharing any project information with the local people. Since environmental public hearings is not mandatory for these projects and ‘single window’ clearance procedure would be applicable to industries under SEZ, the affected people would not have any space to voice their opinion about the land acquisition process and the projects’ impact.

In an article, Sampreet Singh records the violence and oppression that has gone into land acquisition for SEZs, in Maharashtra and at Dadari, U.P. where the police resorted to firing and lathi charge to remove protesters from land acquired by Reliance Energy Generation Limited elsewhere (Singh, 2006). In an article written in Marathi-'Dhanwantanchya Jameen Balkav' (Land grabbing by the rich)- the author highlights the dubious 'land politics' going on in the Pen, Uran, Panvel, Rajgurunagar and Karla tehsils in the Raigad district of Maharashtra, where Reliance is acquiring 10,000 hectares of land in 45 villages. In Raigad, police firing was supplemented by violent and intimidating activities by local criminals, who were hired by the Reliance to do so (Sangvai, 2006).

Initially, Reliance was supposed to buy the land at a price of Rs.4 lakh per acre. But soon tactics changed and the Maharashtra government in July 2008 announced that since farmers were refusing to part with their land, the land would now be acquired 'officially' through government machinery – the Maharashtra Industrial Development Corporation (MIDC) under the State's Industrial Development Act (IDA) of 1961. These areas would then be transferred to the developer for industrial use. Critics assert that this is a blatant misuse of official powers as the IDA is a more sweeping piece of legislation, which is being resorted to protect the developer from dealing with farmers and other land-owners. Here, and in many other places, the state machinery is playing the role of real estate agents for the big business houses. It is believed that Reliance, which has control of 60,000 out of the 1,40,000 acres of land sanctioned till date in the name of SEZs, is going
to emerge as the largest landlord in the country, and this leaves the implications open for consideration.

Dr. R.N. Sharma, head of the Urban Studies at the Tata Institute of Social Sciences (TISS), Pune reports how the City and Development Corporation of the Maharashtra government acquired land of 54 villages, displacing 90,000 villagers for New Mumbai at a paltry 50 paisa per sq ft in the late 1960s. It is now selling for up to Rs.3,000 per sq ft and most of the original inhabitants have been reduced to doing petty jobs somewhere else (Sharma, 2007).

Sharma deplores the entry of large builders like the Ansal Group of Delhi, Tata Housing and DLF in SEZs, which only reinforced the suspicion that the entire exercise is meant to appropriate land through undemocratic means. "The corporate sector doesn't acquire land directly, but through official agencies," he alleged. Retired revenue department officials from states were being hired by SEZ promoters for Rs.1.5 lakh a month. Lest the role of builders appears exaggerated, he observed that the Eleventh Five-Year Plan envisaged that one-third of the foreign direct investment into the country would be in real estate (Ibid).

In 'Special Lootmar Zone' (special robbery zone), the author points out that in the three districts of Pen, Ural and Panvel, nearly 50,000 farmers will become totally landless. But since the residential lands of the villagers cannot be acquired, the villages will not be moved. Residential land is the land on which the villages are actually located. The villages itself will not be removed with the effect that they will continue to exist inside the SEZ. Only agricultural land is being procured for SEZs (Mahajan, 2006).

While this has been played up by Reliance as proof of its magnanimity, activists allege that this is a ploy to disqualify the villagers for rehabilitation. The fact is that on the one hand this situation will disqualify the villagers a right to rehabilitation, on the other hand the gram panchayats of these villages will lose their rights completely and the villagers will have to live within the SEZ with identity cards. The people are questioning this.

Activist Alka Dhupe, a researcher in Mumbai, recently did an investigative case study of the proposed Maha Mumbai SEZ which is to come up adjoining the present Mumbai city (land in Raigad district is being procured for this project). In her report, she questions the viability of the very idea of SEZs in infrastructural, social and economic terms. Of the 14,000 plus acres of land required for the SEZ, the procurement process of 10,000 acres is yet to begin. And given the stiff resistance from farmers, the entire process could take a lot of time, which would make the 10-year deadline sound too optimistic (Dhupe, 2006).

In West Bengal, the government acquired level fertile agricultural land in West Medinipur for Tata Metaliks in 1992, in preference to undulating wasteland that was available nearby. This led to a massive dispossession of small and marginal farmers. In the case of the Century Textiles Pig Iron Plant in the same area, the state government acquired about 525 acres of land for a proposed plant in 1996. However, till 2003 the factory had not come up and neither had all the original land owners been fully compensated. Later, the company decided that pig iron production was no longer profitable and refused to pay the compensation and take over the land!
The protests in Nandigram and Singur in October-November 2007 against establishment of SEZs created a huge political turmoil resulting in unabated violence in which scores of farmers were killed and hundreds wounded in police firing. In Singur, the government acquired prime agricultural land for a car factory, in this case, for Tata Motors. The Tatas have been given land, water and electricity at throwaway rates, while the government picked up the tab of approximately 130 crore for compensation. After the fiasco with land acquisition for industrial purposes in West Bengal, the central government, on the contrary advocated, that developers should deal directly with owners to give them a better deal, without intermediaries (Ganguly, 2007).

The severity of the Nandigram and Singur firing incidents can be gauged by the fact that the government, soon after these incidents in November 2007 announced a suspension of all land acquisition for establishing new SEZs until a new policy on the rehabilitation of displaced people was announced. This followed an intervention by Sonia Gandhi, president of the Congress party, which leads the ruling United Progressive Alliance (UPA) who expressed concern at the large-scale uprooting of people from agricultural lands and the loss of livelihoods. The Marxist chief minister of West Bengal, Buddhadeb Bhattacharya, where these firing incidents occurred, and who himself is a strong supporter of the SEZs, declared that no SEZs will be set up in the state unless his allies in all the four parties that comprise the ruling Left Front grant their full consent. These violent incidents also compelled the government to concede that agricultural land will not be acquired for this purpose.

It is to be observed that till now, state governments have acquired land under the Land Acquisition Act of 1894. The Act is to be used only for a public purpose or for use by a company with prior notification and by paying compensation to the owner. It was originally devised to create a system of irrigation canals and roads. But in recent decades it has been used to buy land from reluctant peasant farmers for private profit. The enormous power available to governments has led to many blatant abuses under the garb of the SEZ Act, 2005. The farmer has no choice but to sell his land. The price paid is often well below the market rate. Those who lack clear title to land get just a pittance. Some 70% of India's 1.1 billion people depend on agriculture and they are facing the brunt of LAA, 1894. Unfortunately, the misuse of the Act is not a new thing. Even in the Nehruvian period, it was claimed that public sector and government projects would be the only purposes for which land would be acquired by the state. However, contrary to this, land was then acquired for private industry by state governments.

In the wake of these incidents, several questions have been raised as to how is such a huge amount of land to be procured? For what purpose is this land going to be used? Why the insistence on fertile agricultural land? What sort of compensation will the farmers receive? And more important, what is to become of the thousands of fisher folk and farm labourers who are also dependent on this land though they have no ownership rights?

**Displacement of farmers**

The SEZs projects have uprooted a vast majority of peasants whose lands have been acquired by the government. What is worst is that the displaced populace has not been able to find an equivalent livelihood or other means of survival. SEZs have come to
create fewer benefits, including jobs, in relation to the number of people they displace. Communities have got split, families divided, and large numbers have been reduced to penury. It is estimated that various "development" projects have displaced some 38 million people in India since independence - about double the entire population of such countries as the Netherlands or Australia. Studies show that not even half the number of those displaced get properly resettled or rehabilitated. Some have been displaced more than once.

In India, the agricultural community is already under attack from market forces that are making it tough to farm. The farmers are emotional about the land that they have farmed for years and just giving it up so that industry can be set up, is not something that can be easily digested. Already, there have been numerous protests and farmers are now realizing the need to stick together to defend their right to their farmland.

**Exploitation of workers**

Exploitation of labour in the SEZs is an international phenomenon. Exploitation of workers has become a common practice in the SEZs of India too, since it is not just the land, but even the democratic rights of workers and laborers that are being hugely compromised. Virtually in all industrial zones, there is a shameless exploitation of workers. Low wages and more working hours have become established practices. In a book recently released by the *Kenya Human Rights Commission* revealed: “jobs that pay poverty wages do not significantly improve the lot of workers, nor raise their economic status. They reflect the worst effects of globalisation and contrary to their objective of empowerment end up becoming factories for the manufacture of poverty” (KHRC, 2004).

P.N. Venugopal, an independent journalist based in Kochi, gives a detailed account of how the exploitation of workers takes place in the SEZs where the atmosphere is usually very intimidating. According to him, once workers enter the premises, they do not have any contact with the outside world. “The work atmosphere is oppressive; the eerie stillness of work is only occasionally broken by a woman asking for permission to use the toilet, even for which restrictions have been imposed and for which only few minutes are given”. Workers, particularly, female have complained that no matter how hard they work, they are scolded and shouted at in front of others. There are very few days when they wouldn’t have cried. The workers are reluctant to talk, and are afraid of being quoted (Venugopal, 2005).

Most of the women workers come from far away places and are often the only bread winners of their families. Groups of five or six of them rent a room and live together with very limited facilities. A frugal meal of rice and a curry cooked once in a day is shared among them as breakfast, lunch and supper. Workers say that they took up employment with great hopes, but now feel trapped and helpless as they cannot give up and go back since their families are totally dependant on them and there are very few alternatives (Ibid).

Despite employing more than 3500 women, the Cochin zone, like other ones, does not provide accommodation facilities, nor are there any crèches. Transportation facilities are inadequate. The workers are taken by vehicles to the factories for the morning shift, but
they are left in the lurch once the shift is over. "After the night shift, we are taken in a vehicle and all of us are forced out in front of the first house where some among us stay. All the rest run for their life in the dead of the night," says a young female worker working in a ceramic unit. The lofty ideals of each zone developing into townships catering to all the needs of the work force including housing, education, medicare remain only on paper. Often the shifts run 10-12 hours a day to achieve production targets, without the workers receiving any overtime allowances. Workers complain that their health is ruined working continuously to complete the stipulated target. The zones do not even allow them to take a day's leave to go to the doctor (ibid).

This is corroborated by reports from another independent researcher, Kasturi, who reveals that although Cochin SEZ, which is the smallest one, and which has comparatively better working conditions than the others, presents a dismal picture of human rights violations of the workers. According to him, 60% of the total workforce is women, indicating that there is fair gender equality. But the flip side is that approximately 55% of the total workforce is made up of contract workers, who do not enjoy any of the benefits and privileges that regular employees do. The Contract Labour (Regulation & Abolition) Act 1970 specifically prohibits employing contract workers in activities which are "permanent and perpetual" in nature. Almost all the activities conducted by the units in the C-SEZ are permanent and perpetual in nature and yet the practice of employing contract workers goes unabated. Workers are paid as low as Rs. 35 to 75 a day, and are often made to work more than the stipulated eight hours for no extra payment. The rules of the Minimum Wages Act offer no protection to contract workers. Although the Minimum Wages Act does apply to permanent work, only those industries that are brought under its purview by the government can be thus regulated, and so far the IT and Readymade Garment sectors have been left out. Thus the majority of workers in the Cochin Zone receive no effective protection under the Act. Many workers complain that the Provident Fund and Employees State Insurance contributions collected from them are not being remitted. Worse, they have to part with anything between Rs. 10 to 15 daily to the contractor as his commission. Recruiting agencies get paid for the contracted amount from the companies in the Zone. It is they who then make the payments to the workers on a monthly basis after deducting their commission (Kasturi, 2007).

Exploitation is not limited to the blue collar jobs; even the sophisticated Information Technology jobs are facing the brunt of exploitation in the form of ‘traineeships’. Employees are appointed as trainees for eleven months on meager wages, and then their employment is terminated. They are then reappointed again as trainees after a reasonable lapse of time and the trainee cycle continues for any period of time one is willing to let oneself be 'trained' (ibid).

Since the industries are export-oriented, the emphasis is on minimizing production costs to competitively price the product in the international market. Women workers constitute 70-90% of the workforce, and it is they who bear the brunt of the competition. To meet the production targets, they are compelled to work harder and longer until they burn out or quit. They work 10-12 hours a day without or improper overtime payment. Minimum wages are not paid. Social security benefits are not implemented. Women are forced to work in the night shifts. Maternity leave is not allowed and sexual harassment of women workers is common in the zones (Preeta, 2008).
A study on female factory workers, mainly at the Madras-EPZ done by Padmini Swaminathan, director, Madras Institute of Development Studies, revealed that the women suffered from frequent headaches due to tension and intense concentration at work, acute back pain, joint pains, swelling in the legs, severe abdominal pains, various types of allergies, skin ailments, and piles (the result of sitting in the same position for hours on end). The majority of women working in the garment units suffered from respiratory disorders such as asthma, persistent cough and breathlessness. Hard work, strain and stress due to stiff targets and unhealthy work environment have taken their toll on the workers' health (Swaminathan 2007). Her studies further disclose that even pregnant women do not get any consideration when work targets are set, and that they too are forced to work standing or sitting for hours at a stretch. Companies reportedly prefer unmarried women who are assumed to be more efficient and more easily available for overtime work. Some companies employ women on condition that they do not get married or pregnant in the near future.

It is unfortunate that despite numerous reports of widespread exploitation of workers in various SEZs, the government has taken virtually no steps to step in and control the pathetic working scenario in SEZs. However, Development commissioners (DCs) of various zones have standard answers to questions about the plight of workers: the zones are not exempt from labour laws; the SEZ workers are entitled to all the rights and benefits enjoyed by workers; why don’t they complain if there is any violation…… etc. The answer is simple: they are afraid that they will lose their jobs. Workers complain that they are often forced to present a rosy picture of their companies to factory inspectors and enquiry commissions.

Although trade union activities are not banned inside the zones, restrictions on the right to join trade unions, the right to collective bargaining and the right to strike are common features of all the zones. Companies campaign strongly against trade unions and threaten employees with dire consequences if they associate with such organisations. “It is difficult to organise contract labourers, especially women,” says E Ponmudi, secretary, M-EPZ Employees Union. “They are so scared that they literally run away on seeing us.” He alleges that while enjoying all the benefits of the zones, the industries squeeze workers in order to maximise their profits, while the central and state governments protect the interests of multinationals by liberalising labour laws.

**Labour laws and Trade Unions in SEZs**

In India, 93.2% of total work force still comes under the unorganized sector. Liberalizing of labour laws under SEZ Act (Section Sec.49) is bound to adversely impact the social security and livelihoods of the large labour force and worsen the condition of labour in this country further.

Though, unlike in many other countries, in India, labour laws are applicable to the SEZs too, in practice, they are rarely implemented. Workers hardly benefit from any of the labour laws — not just because the laws are not implemented properly but also because there are many loopholes in the existing zone legislation. For instance, all the zones in the country have been declared as 'public utilities' under the Industries Disputes Act and complicated procedures restrict the workers from going on strike. A minimum of six weeks' notice is required before resorting to strikes. Restrictions on the right to join trade
unions, right to collective bargaining and the right to strike are common features of all zones. Companies campaign strongly against trade unions and threaten the employees with dire consequences if they associate with unions. Except in emergency situations, state government agencies themselves require prior permission of the Development Commissioner to inspect the industrial units in the zone (Kanitkar & Kulkarni, 2006).

Even though, Kerala has a tradition of militant trade unionism, the unions have not been able to effectively protect the rights of workers in the zone, union leaders admit. Only about 1500 of the total workforce of 7000 are members of any trade union. There are trade unions in only 21 of the 79 units functioning in the Cochin Zone, the majority of them being led by the Centre for Indian Trade Unions (CITU). "Attempts to organize the contract workers have not bore any fruit," admits Nasser, Joint Secretary of the CSEZ Workers Association (CITU) "They are afraid. They fear retribution from managements and contractors", he adds. The women workers also allege that they were tutored on what to say to the State Women's Commission and the Labour Commission when they visited the Zone. They confess that they always abide by the management's instructions, for fear of reprisals, as also from apprehension that the company itself might close down, if they revealed the truth. "The work culture of the Zones is akin to that which existed during the Industrial Revolution in Europe; mindless exploitation," comments advocate Shiny, President of the Workers Union, an independent trade union (Venugopal, ibid).

A 2004 survey conducted by the International Confederation of Free Trade Unions (ICFTU), based in Brussels, is highly critical of India’s labour laws and levels of unionisation. It notes that labour rights appear to have been eroded there in recent years from an already poor base, at least according to recent reports by union groups. It states that the minimum membership for Indian workers to form unions is set at a hundred, which it believes is too high and restricts freedom of association. It says there are no trade unions at all in certain areas of the country. Only about 30 million of India’s 400 million workers are covered by these seemingly less-than-comprehensive laws and regulations. The country’s many informal workers have very little protection.

Attacking India’s current SEZs, the ICFTU report says that although they have been designated as vital industries or “public utilities” it carries a longer notice period for strike action than applies elsewhere in the country: 45 days. Unions are not allowed access to workers in SEZs, despite laws to suggest they are. Since trade unionists are not able to enter, organising is extremely difficult and union activity rare in the EPZs. It states that as many as 90% of workers in SEZs are women and that many are simply too scared to mobilise to form unions and are prevented from interacting with each other, This is despite the fact that conditions are often sub-standard, even for India.

Quoting the ICFTU report, James Rose, says workers are in constant fear of being singled out for vilification by management and anyone who dissents is sacked. As a means of protecting themselves from prosecution, many manufacturing companies hire workers under bogus company names, leaving the employees without any recompense or line of responsibility. Workers at one SEZ in Noida were sacked for demanding labour laws be applied there while another one in the state of Delhi has been exempted from most labour laws and has banned all unions (Rose, 2005).
However, some SEZs abide by the labour laws and cater to the demands of the buyers regarding work environment, apart from providing their workers with better working conditions. They recognise workers’ basic rights and realise the importance of productive labour and healthy industrial relations. For instance, Tyco Electronics Tools India (the Indian subsidiary of Tyco International, a US based multinational) in the Cochin zone which manufactures precision tools and employs highly skilled workers, pays their employees a decent salary. This is probably because international buyers insist on healthy and safe working conditions and reasonable wages. They have a crucial role in determining the working environment in the firms. Some buyers even visit the companies and place orders only when they are satisfied. While some lucky employees benefit from this, there are thousands of workers who are trying to support their livelihoods in an atmosphere of threat, fear and uncertainty.

**Development Commissioners**

In order to 'facilitate the smooth functioning' of the zones and to stop 'outside interference' the powers of the labour department were transferred two years ago to the Development Commissioners (DCs), who are in charge of the administration of the zones. Further, powers under the Industrial Disputes Act have been delegated to the DCs and the units in the SEZs are now declared public utilities under this Act, which forbids strikes and agitations. The DC is a serving bureaucrat in the State government and plays a crucial role.

With this change in the law, the last resort for redressal of grievances of workers has been taken away. The administration admits without reservations that their responsibility is only to see that the units function without any interruptions. DCS have gone on record to say that they cannot bother about the conditions under which the employees work nor about the contract labourers.

**iv) Legal Aspects of Controversy**

Queries have also been raised over the legal aspects of the SEZs. It has been said that the SEZ Act was passed in haste without much public debate due to which several anomalies and anti-people provisions have crept in the Act. There was no public consultation, nor even in the Parliament. In Rajya Sabha, the Upper House of Parliament, this bill was passed with only a one day discussion, thus undermining many of the objections (Parliamentary Debates, 2005). The entire process of SEZ, it is alleged, was undemocratic, secretive and without any study of the natural resources, the rights of the people or consultation with the people. It has been argued that the proponents of SEZs are working against the letter and spirit of Indian Constitution, which promises right to life and livelihoods to citizens through Article 21 of the Constitution.

In any democracy, the State is expected to be the protector of the common and marginalized people and their rights. However, with the measures like the SEZ, it is contended, the State itself is violating the right to life and livelihood of people for the sake of promoting the interests of rich private parties. The present SEZ Act 2005, SEZ Rules 2006, and subsequent State policies grossly negate the ideals of a socialist, democratic republic proclaimed in the Indian Constitution.
Foreign territory and Special status of SEZs

The Act makes a reference to the SEZs as ‘foreign territories’ and accords them a 'special status’. This has attracted the ire of critics who argue that this is discriminatory since they challenge the fundamental right to equity under Article 14 of the Constitution. Under the provisions of the Act, in no SEZ can a person enter without an identity card, which violates the right to movement under Article 19.

Sadhana Mahashabde, an advocate based in Mumbai, raises objections over the term "foreign territory". “Maharashtra has gone one step further”, she opines, “by demarcating SEZs as industrial townships to function as self-governing, autonomous bodies”. She asserts that the status of deemed foreign territory to SEZs will encroach upon the rights of the local self governments like Gram Panchayats and will be violation of the 73rd Constitutional Amendment. People within SEZs could not elect their own local government bodies. This is in conflict with the 73rd and 74th amendments of the Constitution, which mandate the devolution of powers to local authorities (Mahashabde, 2007).

The status of deemed foreign territory of the SEZs will snatch the sovereignty of locals from their lands, and natural resources which is the backbone of local economy and sustenance. It will also violate their fundamental right to movement as Indian. The fact that the SEZs would have their own regulations, the rights for environmental and labour related clearances, security arrangements, which actually means that they would be self-contained privatized autonomous entities. This, it is said, is against the Indian Constitution and nationhood and the impact of this provision could be seen in any SEZ where independence is a forgotten ideal and where the government has been treating native soil as territorial possessions of foreign nations, exempt from taxes, rules and safeguards that apply elsewhere. In the process, the only losers are the workers.

Compensation issue

Related to land acquisition is another vital issue of compensation. It is asked whether the farmers who are ready to give off their land get a fair deal? Most of them fear they will get peanuts compared to what the developers will make. The Commerce Ministry, on its part, is arguing that farmers would be well compensated. Punjab Chief Minister, Capt. Amrinder Singh, has already gone on record saying that land acquisition is a deal between the farmers and the SEZ developers and the government has nothing to do with it!

According to the law, when land is acquired, market price of lands nearby is taken into account. But the government and Reliance sources are silent on the actual price being offered to the farmers. Officials of the Maharashtra State Urban Development department, say that it will not be proper to discuss compensation amounts since notifications have not yet been issued. But the secrecy on the issue has also forced many farmers to sell their lands off to private agents for fear that they may get even less from the government. In September 2008, a committee led by former Supreme Court judge Sujata Manohar had determined a price of Rs.5,000 per square meter, which amounts to
Rs.2 crore per acre. (The current land price in Navi Mumbai is Rs.55,000 to Rs.75,000 per square metre.). However, the government has not taken any concrete decision in this issue till now.

Critics challenge government’s contention saying that farmers do not know what to do with liquid cash. He contends that it is the kind of money they never saw before and as they do not know how to manage it, invest it or recycle it for some other activity, it is often spent wastefully. Or it goes into gambling or liquor dens. Farmers are never counseled on how to spend the money or on how it can be made to grow. Land is sold and money is soon over. Having lost the only kind of livelihood they knew, they are caught in the whirlpool of debt. Thus the issues that arise are far too sticky to have immediate and easy solutions (Menon, ibid).

v) **Impact on Natural Resources and Environment**

The SEZ Act, it is said, has all the potential to increase the burden on environment and natural resources as there are no provisions for monitoring of the cumulative environmental impacts of all the units coming under one SEZ. As under the Environmental Clearance Regulations of the SEZ Act, environmental public hearings will not be mandatory for these projects and ‘Single Window Clearance’ procedure would be applicable to industries under SEZ, the affected people would not have any space to voice their opinion about the land acquisition process and the projects’ impact. The large scale industrial growth would lead to excessive use of water, increased deforestation and environmental pollution in ecologically sensitive and fragile areas like coastal belts. The proposed amendments in the Act would completely deregulate SEZ growth in coastal areas affecting fisher communities.

There are other worries too, for instance, the Maha Mumbai SEZ's massive water requirement is to be met by the Hetwana and Morba dams in Pen and Khalapur tehsils respectively, but the activists worry about capacity problems at Hetwana reservoir. Activists working for local voluntary organizations in Mumbai note ruthless exploitation of water sources will cause rapid ground water depletion in the area. The Raigad district irrigation department has proposals for nine medium and 14 small dams, but apart from the huge investment involved, it will create a burgeoning rehabilitation problem. To add to all this, is the trans-harbour line to connect Mumbai with Maha Mumbai. It will cost thousands of crores of rupees over and above the cost of developing the SEZ. The large number of labourers required for all the construction work will likely cause an expansion in Mumbai's slum areas.

**Opposition to SEZs and the Government’s response**

As violence gained momentum against the SEZs in various places, such as, Kalinganagar (Orissa), Kakinada (Andhra Pradesh) and Nandagudi in Karnataka and Nandigram (West Bengal), in particular, political opposition too grew simultaneously against the government’s SEZ policies. The Congress Party, in opposition in the states of Orissa and Karnataka, opposed SEZs, and so did the opposition Bharatiya Janata Party (BJP) in the centre. The trade union wing of the BJP – the Bharataiya Mazdoor Sangh (BMS)- also opposed SEZs. At the level of the central government, criticism came from the Ministry
of Finance and the Reserve Bank of India about the possible contribution of SEZs to employment and infrastructure generation at the expense of the government’s revenue. The result of these challenges was positive as the government stalled all the then SEZ approvals between January and May 2007.

**Parliamentary Standing Committee on Commerce**

To prevent the reoccurrence of the Nandigram-like episode, the government handed the issue to the Parliamentary Standing Committee on Commerce, headed by the national level opposition BJP leader Murli Manohar Joshi in July 2007. In its recommendations to the Vice President Bhairon Singh Shekhawat, the committee sought a freeze on SEZs. It said “the committee feels that the undue haste in approving SEZ proposals and the consequent proliferation of SEZs have contributed to the development of resistance against the SEZ policy. There is an imperative need to understand the cause of farmers’ agitation and grievance”. Cautioning the government, it opined, “Giving huge chunks of cultivable land for SEZs and other non-agriculture projects will have a huge impact on the nation’s food security.” It therefore, asked the government not to clear any new special economic zone (SEZ) till the SEZ Act and Rules are amended to address the grievances of farmers and other affected stakeholders. It also called for a fresh look at the policy as a whole so that it could be made “people-friendly” (The Hindu, 2007).

It gave the following guidelines for the SEZs:

a) That the maximum size of a multi-product SEZ should be 5,000 hectares of fallow land or 2,000 hectares of one crop land. There should be no SEZs on multi-crop land.

b) That land should be taken on lease from farmers and farmers should be paid periodic rentals.

c) That the state government should set the benchmark price for land and farmers should be paid a price higher than that price.

d) It was urged that the processing area in an SEZ should be raised from 35 percent of the total area to 50 percent of the same.

e) The committee noted the lack of representation from the Ministry of Agriculture in the implementation of SEZs.

**National Policy on Rehabilitation and Resettlement, 2007**

In October 2007, the Central government formulated the ‘National Policy on Rehabilitation and Resettlement, 2007’, which replaced the ‘National Policy on Resettlement and Rehabilitation for Project Affected Families, 2003’. The policy is positive and victim-friendly. The new policy and the associated legislative measures aim at striking a balance between the need for land for developmental activities and, at the same time, protecting the interests of the land owners, and others, such as the tenants, the landless, the agricultural and non-agricultural labourers, artisans, and others whose livelihood depends on the land involved.
The R&R policy discourages the investors from acquiring land that are fertile. Displacement is to be kept at a minimum. Social impact assessments based on rigorous surveys of the area and public hearings have been proposed. Alternative locations for habitation, especially for the tribal people, are to be done. Land acquired for one purpose should not be used for other purposes. It was discussed within the cabinet that the government may be allowed to acquire 30 percent of the total land required by developers, especially in order to acquire contiguous land, which may be tough for private players on their own.

The benefits under the new Policy shall be available to all affected persons and families whose land, property or livelihood is adversely affected by land acquisition or by involuntary displacement of a permanent nature due to any other reason, such as natural calamities, etc. The Policy will be applicable to all these cases irrespective of the number of people involved. Some of the benefits to the affected families under the policy are; land-for-land, to the extent Government land would be available in the resettlement areas; preference for employment in the project to at least one person from each nuclear family within the definition of the ‘affected family’.

Earlier, in July 2007, the Ministry of Rural Development drafted a National Rehabilitation and Resettlement bill which is now pending before the Parliament for approval. The bill, a departure from the earlier drafts, has some potentially positive aspects (Dhoot, 2007). Some of the main provisions of the bill are:

a) Developers would be solely responsible for rehabilitation of displaced persons.

b) The processing or manufacturing area within an SEZ would be 50 percent of the total SEZ area rather than 35 percent of the same, as was the case before.

c) Proposal for 100 percent consent from the local people before approving SEZs. This provision was to ensure that another Nandigram type violent protest would not be repeated as a consequence of forced land acquisition by invoking the LAA of 1894.

**Local Level Solutions to Land Acquisition**

The Ministry of Commerce and Industry (MOCI) has stated that the problem of land acquisition could be solved locally in many places by winning the consent of the people. Even though there is no clear legislation around what would constitute fair and equitable acquisition, MOCI stressed three things when matters came to a head after the violence in Nandigram:

a) The MOCI stressed the need to obtain 100 percent consent of the people living in the local area. This meant that the relief and rehabilitation package would have to be generous, if private players were to use the benefits accorded by the SEZ Act and the State governments. The Sri City success story described above reveals how consensual land acquisition was possible in the context of a generous relief package coupled with social entrepreneurship. However, some state governments are of the view that they should be actively involved with creating the consent and acquiring land as this work will not be easy for investors.
b) Emphasis was laid on utilising dry or non agricultural land. This meant that industrialisation was likely to increase living standards in areas where agriculture was inhibited by poor climatic and soil conditions.

c) Displacement of people was to be kept to the minimum level.

Thus, through all these measures, the government has sought to meet the challenges posed in the implementation and operationalisation of the SEZs. These measures have reduced the peoples’ opposition to the SEZs atleast for the time and until no fresh controversy is created in establishing the SEZs.

C) SEZs in India and China: A Comparative Account

Advocates of SEZ policy in India have often cited China’s record economic growth rate fuelled by the Special Economic Zones (SEZs) as the reason for India to adopt and continue with this approach despite certain shortcomings. Murosoli Maran, the former Commerce and Industries Minister, the brainchild behind India’s SEZs, was greatly impressed and inspired by the Chinese development model of the SEZs.

Since the 1980s, China implemented a series of measures and policies with the sole purpose of achieving rapid economic growth. As a result, China today has almost 10 percent GDP growth (EIU, 2006) and over 11 percent industrial growth in 2005 as compared to India’s current projected real GDP growth of 7.2 percent (EIU, 2006) and industrial growth of 7.9 percent (EIU, 2006). However, as evidence over the years has shown that while single-minded pursuit of exports has helped China touch record growth figures, millions have been left behind, besides incurring huge environmental costs, and lowering the efficiency and effectiveness of economic policies.

Shankar Gopalkrishnan, in a masterly piece of article writes, “…The general impression that China’s special economic zones are a remarkable success is an incomplete one. Left out of the picture are inequalities in development, arable land loss, real estate speculation and labour violence”. He points out that as more arable land is taken over for urbanization and industrialisation, issues related to changes in land use have become a major source of dispute between the public and the government. Protests against land acquisition and deprivation have become a common feature of rural life in China, especially in the provinces of Guangdong (south), Sichuan, Hebei (north), and Henan province. Guangdong has been worst affected. Social instability has become an issue of concern. In 2004, the government admitted to 74,000 riots in the countryside, a seven-fold jump in ten years. Whereas a few years ago, excessive and arbitrary taxation was the peasants' foremost complaint, resentment over the loss of farmland, corruption, worsening pollution and arbitrary evictions by property developers are the main reasons for farmers’ unrest now (Gopalakrishnan, 2007).

This description is corroborated by a World Bank report which says that between 1996-2005, "development" in China caused diversion of more than 21 percent of arable land to non-agricultural uses, chiefly highways, industries and SEZs. Per capita land holding now stands at a meager 0.094 hectares. In just thirteen years, between 1992 and 2005, twenty million farmers were laid off agriculture due to land acquisition (World Bank, 2006).
Despite this so-called neo-liberal development and increased prosperity in China, China's countryside, reports a newspaper, still has over 26.1 million people living in absolute poverty and is home to 18 percent of the world's poor (Xiwang (2005).

It has been reported that the problems confronting India’s SEZs are quite common with the SEZs in China also and the situation there is no better than India (Bhagwati, *ibid*). While rural China is up in arms against acquisition of land, SEZs like Shenzhen in Guangdong showcasing the economic miracle of China, are beset with problems. After growing at a phenomenal rate of around 28 percent for the last 25 years, Shenzhen is now paying a huge cost in terms of environment destruction, soaring crime rate and exploitation of its working class, mainly migrants. Foreign investors were lured to Shenzhen by cheap land, compliant labour laws and lax or ineffective environmental rules. In 2006, the United Nations Environment Programme (UNEP) designated Shenzhen as a 'global environmental hotspot', meaning a region that had suffered rapid environmental destruction (Goswami, 2007).

Further, according to Howard French, the New York Times bureau chief, most of the year, the Shenzhen sky is thick with choking smoke, while the crime rate is almost ninefold higher than Shanghai. The working class earns US$ 80 every month in the sweatshops and the turnover rate is 10 percent – many turn to prostitution after being laid off. Further, real-estate sharks have stockpiled houses which have caused prices to spiral and have created a new generation of people, infamously called as "mortgage slaves".

Commenting on the development strategy of China, Feldstein writes that the mindless pursuit of growth following the mode of high input, high consumption and low output has seriously impacted the environment. Around 60 per cent of companies that have set up industries in the country violate emission rules. In 2004, China consumed 4.3 times as much coal and electricity as the United States and 11.5 times as much as Japan to generate each US$1 worth of GNP. Some 20 per cent of the population lives in severely polluted areas and 70 percent of the rivers and lakes are in a grim shape (Feldstein, 2006). The Chinese government has admitted that pollution costs the country a staggering $200 billion a year - about 10 per cent of its GDP.

It has been argued that while export-driven policy for economic growth has helped China touch record growth figures, the income gap is widening and rapidly approaching the levels of some Latin American countries. Going by a recent report of the *Chinese Academy of Social Sciences*, China's ‘Gini coefficient’ – a measure of income distribution where zero means perfect equality and 1 is maximum inequality – touched 0.496 in the year 2006. In comparison, income inequality figures are 0.33 in India, 0.41 in the US and 0.54 in Brazil. Further, the rural-urban income divide is staggering – annual income of city dwellers in China is around US $1,000 which is more than three times that of their rural counterparts. According to reports, between 1978 and 1995, the Gini coefficient of rural income increased from 0.21 to 0.34 and that of the urban from 0.16 to 0.28 (Ke-sha, 2005).

Commenting on the levels of inequity in China and India in recent years, Perkins notes that in certain areas such as asset distribution or years of schooling China's levels of inequity are lower (i.e., more favourable) than India. However, when one takes a look at the aggregate level, the picture is different. The levels of inequity in China have been
rising through the last three decades, whether between rural and urban, within them, or on an aggregate basis. With the economy opening up rapidly post-1995 and also due to the massive concessions that China was forced to make in order to join the WTO, the trend continues and the aggregate Gini coefficient in 2006 was around 0.5 (Perkins 2005).

It is in this backdrop that India's SEZ thrust must be seen. Following China, India is replicating a similar model where vast tracts of agricultural land are being acquired for creating SEZs and other industries. The September 2005 notification on Environment Impact Assessment is lax for industrial estates, including SEZs, and apprehensions of ‘dirty industries’ coming up in these zones are quite real. Further, with drastic changes in labour laws favouring industry being considered, the plight of workers in these SEZs will be similar to those in China. Such a mode of development is environmentally unsustainable and socially undesirable.

Critics further observe that it is now widely acknowledged that Chinese exports have also been boosted by its undervalued currency, something which Ben Bernanke, chairman of the US Federal Reserve, terms as an "effective subsidy". This is a luxury that Indian exporters do not enjoy. Therefore, such a strategy by India would be questionable. India must be cautious of copying China's SEZ-approach. The Chinese experience, thus, offers a valuable lesson for India (Huang and Khanna, 2003).

Fulton too drives the same point when he says that notwithstanding the fact that Chinese experience with export-driven economic growth definitely offers many sobering lessons, it is important to bear in mind that the Indian SEZs cannot be based entirely upon those of their Chinese counterparts. Despite certain similarities, India and China are very different countries "with fundamentally distinct societies, legal systems, and cultures. These exogenous differences necessitate different methods of implementing SEZs. One key difference is that India is a liberal democracy while China is not, and as such, India's government would have to consider not only the economic consequences of its actions but also the political consequences"(Fulton, 2007).

Still there are many other areas where India can learn from China in the SEZ area. China has initiated a series of measures to arrest social tensions and rising inequality in rural areas. In April 2004, the State Council, China's cabinet, halted the ratification of farmland for other uses and started to rectify the national land market. The Minister of Agriculture, Du Quinglin, promised "not to reduce acreage of basic farmland, change its purpose or downgrade its quality".

A World Bank report says that China also abolished agricultural tax in 2006 and increased subsidy for food grain production by 10 percent. To boost rural income, the selling price of grain was increased by 60 percent in 2005. In 2004, out of a total 900 million farmers in China, 600 million received US$ 1.5 billion (Rs.6,630 crores approximately) as direct subsidies. 52 million of the Chinese farmers have joined in the rural old-age insurance system and 2.2 million received pensions in 2005. More than 80 million farmers had participated in the rural cooperative medical service system by the end of 2004, and 12.57 million rural needy people had drawn allowances guaranteeing the minimum living standard by the end of 2005 (World Bank Report, 2006).
India, on the other hand, either does not have any of these safety nets or is in the process of dismantling the few that exist. There is much to learn as well as unlearn from the Chinese experience. Until that is done, millions of poor across the country will be made to pay an even higher price than the Chinese did for following this flawed approach.

**Conclusion: Challenges and Future Prospects**

With so many complications involved, questions are being raised whether the large number of SEZs that are still in pipeline would materialise at all? And finally if yes, at what cost? Will the SEZ movement succeed in transforming India into a global manufacturing leader? Unquestionably, India possesses strong fundamentals for becoming a manufacturing hub. These include an abundant supply of well-educated labour, a tradition of domestic manufacturing exemplified by companies like Bajaj and Videocon, a fast-growing market of middle-class consumers and, for the most part, political stability. To this list of advantages, the SEZ movement has added a strong dose of political will to attract FDI – often a decisive factor in winning big FDI projects.

But the way the SEZ policy is being implemented in India has presented numerous challenges, particularly on the social and humanitarian side. The plight of the workers, their lack of job security, long working hours, meager wages, failing health, no right to protest against injustice and constant harassment are perhaps the greatest challenge confronting the implementation of the SEZs.

Besides this, the central government has been vehemently criticized for forcibly acquiring the rich and fertile agricultural lands of the farmers for the SEZs. It is being repeatedly asked as to what kind of a development goal is one that will render around 50,000 farmers landless (per SEZ), destroy livelihood sources for a much larger number of people, remove all the checks against exploitation of labour and cause huge chunks of resources, private and otherwise, to pass on into private hands and degrade the environment irretrievably? Is the administration prepared for the huge backlash of discontent, protest and social upheaval that oppression on such large scale could trigger? These questions are not going to be easy to answer.

The opponents of the SEZs are increasingly challenging the government on the point that its SEZ policy is being used as an official tool by big industrialists to grab lands from farmers for making money. The violent protests in Nandigram and Singur in recent years against establishment of SEZs, the looming danger of displacement of over 125,000 farmers and fishermen in the SEZ at Uttan-Gorai near Mumbai and the aggressive protests of millions of people from the states of Haryana, Orissa, Maharashtra and others for not giving their lands for SEZ projects are but some glaring instances proving that SEZs are still far from being a success story in India.

Scholars feel that the central issue to be addressed is not the encroachment on land for agriculture but the displacement of people. The numbers displaced by development projects in post-independence India are not known because the government has not released any reliable figures on this. However, informed estimates put the number at 40-50 million. Almost all of these people are involuntary displacees. That is largely due to the misuse of the Land Acquisition Act of 1894, which allows the government to exercise
the right of eminent domain for compulsorily acquiring private lands for a public purpose. They assert that the Act is silent on what constitutes public purpose and has been (mis)used to acquire land for commercial projects on the argument that there would be some collateral generation of public benefit like food security or employment or self-reliance. Thus, what is needed is to put a stop to its misuse and adopt a clearer definition of public purpose if the Act continues to be used for commercial or private projects (Desai, 2008).

Although compensation is paid by the government to the displaced persons, it is reported that even seemingly attractive offers of compensation are refused by project-affected people and this because of the lack of viable enforcement mechanisms, the courts in most areas often being dysfunctional at best. Hence, it is pointed out that unless India’s states can rise to the challenge of rebuilding their credibility – which implies the creation of institutions for enforcing compacts between citizens and governments – the political environment facing the continuation of economic reform will be inhospitable at best (Jenkins, 2007). Even where compensation is paid to the farmers, the later do not know what to do with liquid cash. It is the kind of money they never saw before. As they do not know how to manage it, invest it or recycle it for some other activity, it is often spent wastefully. Or it goes into gambling or liquor dens. Farmers are never counselled on how to spend the money or on how it can be made to grow. Land is sold and money is soon over. Having lost the only kind of livelihood they knew, they are caught in the whirlpool of debt.

Critics lament that the SEZs in India have virtually become a joke as the zones were supposed to have been set-up on wastelands and agriculturally infertile lands. But their being established on fertile and agricultural lands, the forcible displacements and dispossession of the of farmers and their lands, and then doling them out to big builders at throw away prices is no less than a cruel joke perpetrated on the hapless farmers, artisans and fishermen and other unorganized people who survive on these lands by the combined nexus of politicians-bureaucrats and businessmen. These rich agriculture lands are then covered under SEZs to build buildings, malls and supermarkets. The SEZs, have thus, been hijacked by the land sharks for whom this has become a lucrative business (Pant, 2007).

Further, many states with no ports are setting up SEZs. In others, the local political leaders are supporting the development in their constituency with no regard to the natural advantages of the geography. Unconcerned with the plight of the people, the governments seem to be falling over each other in parleying away chunks of land to the people with clout and money. Not only that, the establishment of SEZs have also caused huge revenue loss to the government as it has encouraged the tax-paying businesses to shift to tax-free zones. All these issues have given rise to acrimonious debate and vehement protests from important personalities, social activists, politicians and many NGOs. They have disputed the government’s claims of their being popular and outright successful.

However, despite the many shortcomings in the idea and the implementation of SEZs, it is no doubt true that India needs to create 10 million jobs a year to accommodate its vast army of unemployed people besides to boost its external trade, especially the manufacturing sector. The method chosen by the government to accomplish this goal
through the SEZ road seems to be right as it has been proven successfully in many countries, including China, which has reaped rich dividends through the SEZ policy. But while following the Chinese model, India must be wary of a wholesale importation of China’s methods. India must acknowledge and take into account the vast differences between the two countries when crafting its own policies.

No policy or approach, howsoever good, would yield the desired results if it is not implemented in a humane, realistic and prudent manner. If the SEZs are to be any success in India, unfair and undesirable practices, such as, the forcible land acquisition, dispossession of farmers from their lands without adequate compensation and rehabilitation, poor working conditions of workers in the SEZs etc. would have to be done away with. These should be supplemented with certain positive measures, for instance, the SEZs should be ideally set-up in geographies where other commercial and global business interests can be fulfilled. The land being made available for the SEZs should be either unfit for farming or should be a low yield land. The farmer should be compensated properly, given a stake in the SEZ and absorbed by the SEZ activity. The government should let the farmers acquire shares in the new SEZ. This can later be sold by them at market price. This way the disappointment and the resentment of the farmers can be avoided and a smooth passage of the setting-up of the SEZs can be ensured. Furthermore, in its zeal to promote the SEZs, the state should not extend excessive concessions, all the more so in an era of economic liberalisation. This will backfire and would cause a major loss of government revenues as most businesses and capital would move into the SEZ areas. This being so, the very purpose of the SEZ policy would stand defeated.

A great obstacle to India’s emergence as a manufacturing superpower remains its weak infrastructure. Manufacturing in today’s world is inescapably dependent on a robust electricity grid, good roads as well as efficient ports and airports. Foreign investors and Indian government leaders alike are acutely conscious of India’s deficiencies on these fronts, as reflected in India’s frequent black-outs and brown-outs as well as 32-hour waiting periods for deliveries even between well-connected cities like Kolkata and Mumbai. In response to these problems, the Indian government has begun establishing SEZs near ports and harbours, while welcoming a certain amount of foreign investment in port and airport management.

In tackling India’s infrastructure problems, the Indian government will need to overcome the financial constraints posed by its large structural fiscal deficit. This implies the need to explore innovative financing models for infrastructure development – ‘Build-Operate-Transfer’ (BOT) projects for example, or the liberalization of FDI into the infrastructure sector. These factors, combined with a proactive role from the government in marketing the SEZs, will go a long way in providing the much-needed momentum in development of SEZs and in attaining the overarching objective of boosting India’s exports and attracting export related foreign direct investment (FDI).

The future prospects of SEZs in India will depend, to a great extent, on how successfully and speedily the government is able to minimize, if not completely weed out the, the uglier side of the SEZs. As of now, the situation is not too comfortable and is causing anxiety to the government notwithstanding its repeated assertions of its being successful. Unless there is a significant change in the objectives, provisions of the Act and
Regulations, there is every doubt that the entire SEZ process would lead to widespread discontent and explosive situation in the Indian countryside, which would make impossible for the corporate sector to implement the SEZ policy even with the government complicity. If done forcefully, the government along with the corporates will be judged guilty of crime against the people and Constitution of India.

India, today, is standing at the cross-roads of development, where a step in the right direction would lift the country to the ranks of world’s economically powerful countries, and a wrong step in a wrong direction would throw India into unbound troubles and make the present situation much messier.

With so many controversies, challenges and uncertainty surrounding the SEZs, the prime question at the moment is whether the country really needs Special Economic Zones? Sampreet Singh, a critic, succinctly remarks: “Not Special Economic Zones, but ‘Special Justice Zones’ would have been more appropriate for India at this juncture!” (ibid).

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