

## SPECIAL ECONOMIC ZONES

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*A Special Economic Zone (SEZ) is a geographical region that has economic laws that are more liberal than a country's typical economic laws.* Usually the goal is an increase in foreign investment. The number of Special Economic Zones (SEZs) continues to expand globally. According to World Bank estimates, as of 2007 there are more than 3,000 projects taking place in SEZs in 120 countries worldwide. SEZs are viewed as an important policy instrument to promote industrialisation and economic growth, generate employment, and for regional development. **However, the costs and benefits of SEZs have generated an intense debate.**

In April 2000, the Government of India announced the introduction of SEZs to enhance foreign investment, promote exports and make domestic enterprises competitive globally. According to the Indian Ministry of Commerce's website, the SEZ is a duty-free enclave and shall be deemed foreign territory for the purpose of trade operations, duties and tariffs. *The SEZ Act was passed in 2005 and came into force on 10<sup>th</sup> February 2006.*

The SEZs are almost self-contained areas with high-class infrastructure for commerce as well as residential habitation. They have their own security, operation and maintenance rules, and all environmental and labour clearances are vested with the Development Commissioner of each SEZ. The incentives offered to investors for setting up and operating in SEZs are far more liberal than those of the EPZs (Export Processing Units), the forerunners of the SEZs. (Some important fiscal and non-fiscal incentives are listed in Appendix 1, and some key commitments of state governments in Appendix 2.) *As of 2007, more than 500 SEZs have been proposed in India, and 237 of them created.* This has raised the concern of the World Bank,

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which questions the sustainability of such a large number of SEZs. **The Indian SEZs are said to closely follow the Chinese model.**

### Lessons from China

China's record growth rate, fuelled by the SEZs, is often advocated as the reason for India to adopt this approach. Since the 1980s, China implemented a series of measures and policies with the main purpose of achieving rapid economic growth. *This single-minded pursuit of growth has lowered the efficiency and effectiveness of economic policies, besides incurring huge resource and environmental costs.* **The Chinese experience offers a valuable lesson for India.**

The mindless pursuit of growth involving huge inputs and low outputs has seriously impacted the environment. 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 GDP, according to the *Taipei Times*. Some 20% of the population lives in severely polluted areas (*Science in Society*) and 70% of the rivers and lakes are in a grim shape (*People's Daily*). Around 60% of the companies that have set up industries in the country violate emission rules.

### Indian SEZs

*It is against this backdrop that India's SEZ thrust must be seen.* India is using vast tracts of agricultural land to create SEZs and other industries. The September 2005 Environment Impact Assessment points out that our country is lax for industrial estates, including SEZs, and that the apprehensions of dirty industries coming up in these zones are well-founded. With the drastic changes in labour laws in favour of industry that are being considered, the plight of workers in these SEZs will be as pitiful as in China. **Such a type of development is environmentally unsustainable and socially undesirable.**

*The share of Indian SEZs in total exports is slightly above 5%.* This has been the case in almost all the East Asian countries where SEZs have been promoted. *The 2002-05 sectoral pattern of SEZ exports* shows that labour-intensive, first generation firms (textile,

food and leather) coexist with skill-intensive second generation firms (gems and jewelry, software, engineering) and technology-intensive third generation firms (drugs and high-value electronics and engineering products).

### Is Export-Driven Growth through SEZs Desirable for India?

There is no doubt that exports play a significant role in boosting the GDP. However, when a country has a sizeable domestic market, the choice lies with the producer to either export or supply to the local market. Ila Patnaik of the National Institute for Public Finance and Policy observed in the *Indian Express* in December 2006 that household consumption in India perhaps accounts for 68% of the GDP. This is much higher than in China (38%), Europe (58%) and Japan (55%). It is thus quite possible for SEZ units to export into the Domestic Tariff Area (DTA) rather than out of the country. Any SEZ unit can indeed do so after paying the prevailing duty, as long as it has been a net foreign exchange earner for three years.

Whether SEZs are beneficial for development remains a subject of controversy. In a country with 65% of the population depending on agriculture as a means of livelihood, industry should complement agriculture. *The SEZs however use valuable resources for industry instead of and at the cost of agriculture.*

### Where India and China Differ

Since the Chinese experience with export-driven growth offers many sobering lessons, **India can learn from China in many respects.** *For China has of late initiated a series of measures to arrest rising inequalities and social tensions in rural areas.* In April 2004, China's State Council (Cabinet) halted the approval of farmland for other uses and started to rectify the national land market. The Minister of Agriculture, Du Quinglin, indeed promised "not to reduce the acreage of basic farmland, nor to change its purpose or downgrade its quality".

In 2006, China also abolished the agricultural tax and increased the subsidies for foodgrain production by 10%. To boost rural incomes, the selling price of grain was increased by 60% in 2005. *In 2004, 600 mn farmers out of 900 mn received US \$ 1.5 bn (Rs 6,630 cr approximately) as direct subsidies.* About 52 mn Chinese farmers

joined the rural old-age insurance system in 2005, and 2.2 mn received pensions. More than 80 mn farmers were participating in the rural cooperative medical service system by the end of 2004, and 12.57 mn needy villagers had drawn allowances guaranteeing the minimum living standard by the end of 2005.

*India, on the other hand, does not have any of these safety nets or is in the process of dismantling the few that exist.* Until we learn from the Chinese experience, **millions of poor across India will be made to pay a heavy price for the country's flawed approach.**

### SEZs and Land Acquisition

Unmindful of the fact that the per capita landholding is already at an abysmally low 0.25 acre, the Government of India is using the draconian Land Acquisition Act 1854 to purchase any land that it sets its eyes on. In the first phase of clearances, 1.25 lakh hectares of prime agricultural land are in the process of being acquired. In the second phase, an almost equal area is to be obtained. It was only after an increasing tide of protests that the Ministry of Commerce asked the state governments not to acquire agricultural land and to pay the prevailing market value. But will such instructions be followed? *More than 86,000 hectares of land will be required for the 237 SEZs already approved. Most of this land will have to be bought from farmers, displacing an estimated one million people.*

Companies such as Salem, Reliance, Tata, Arcelor Mittal and Posco are already under fire after state governments forcibly tried to acquire land for their projects. *It is estimated that close to one million people (twice the number of jobs that the SEZs promise to create!) who primarily depend upon agriculture for their survival will be the victims of land acquisition.* At least 21 protestors have already died in resulting clashes with the police. On the whole, companies have relied on the police to help them take possession of the allotted land rather than trying to engage the affected communities to address their concerns.

*The SEZ policy, as it now stands, allows developers to buy large chunks of land at throwaway prices.* Extensive tax breaks are fuelling speculative investments, causing fears of a real estate

bubble. Developers are allowed to use upto 50% of the land for non-industrial purposes that may include residential complexes, malls, hotels, recreation clubs and so on.

The 2007 Brochure of the Sustainable Finance Summit (</ad.asp?aid=262&asid=16>) and human rights groups are outraged by **the large-scale displacements and loss of livelihoods that the SEZs will cause**. They also criticise the government for giving generous fiscal incentives to industry, while cutting the subsidies on food. As the human rights activist Medha Patkar notes, “*the government is distributing land to private companies, which is against the farmers and workers of the country*”. Himanshu Thakkar, the founder of the South Asia Network on Dams, Rivers and People, adds: “The conversion of land to SEZs would mean destruction of groundwater recharge systems, contamination by the release of industrial effluents and crisis of water for the neighbouring communities.”

### Will Companies Act Responsibly?

Will companies act responsibly while buying land directly from farmers? Will they succeed where the government has failed? The biggest challenge before companies is to create a climate of trust and to engage with a range of stakeholders. This won't be easy, given the extensive resentment and bitterness among farmers and the NGOs' skepticism of the SEZ model of development.

A sensitive understanding of the deep-rooted cultural aspects of land ownership in India will be a key advantage for any company wanting an effective engagement with farmers. *Farmers will also expect what they regard as fair compensation and rehabilitation benefits*. Companies willing to offer training and employment opportunities to displaced families will thus have an advantage.

Companies will moreover need to address the NGO concerns regarding mass displacement and lack of rehabilitation measures, as well as the fair treatment of workers and the environmental impacts of SEZs. Smart companies can use the amended land rules to strengthen their position in the Indian market by constructively engaging in the real issues and finding innovative solutions. Shareholders and stakeholders will be watching closely.

Despite the current hype over SEZs in developing countries, the long-standing controversies about the beneficial effects of SEZs on the economy have not subsided. *One of the most debated aspects is their impact on labour standards, labour relations and human development*. Though a significant body of literature addresses these concerns, the empirical evidence remains ambiguous. **Certain enormous drawbacks have however become obvious.**

### Special Economic Zones or Special Exploitation Zones?

**With the proliferation of SEZs, the laws of the land are being redefined to give royal benefits to the rich and powerful.**

As their name suggests, the SEZs have a special status, very special indeed. Except for floating their own currency, they more or less operate like **princely estates**, and even have special courts to try economic offences. Thanks to the state largesse in the name of ‘production incentives’, *the SEZs are duty-free zones*. They enjoy a complete exemption from excise duty, custom duty, sales tax, octroi, mandi tax, and turnover tax as well as an income-tax holiday for ten years. These are some of the inducements! You may get an idea of their royal privileges by reading the lists of their fiscal and non-fiscal incentives and of the state commitments in their favour in Appendices 1 and 2!

*The exemptions are estimated to total a revenue loss of more than Rs 1.75 lakh cr to the state exchequer within five years*. This staggering amount is enough to feed the country's 320 mn people who go to bed hungry for a number of years, or to guarantee an employment to at least two members of each of the rural families for the next five years. In a way, this ‘revenue loss’ is in reality **a kind of Privy Purse** – a grant given to the princely states after India's Independence – **for the new ‘Maharajas’**. The tax exemption currently enjoyed by the IT sector comes to an end in 2009-10. But the IT units will probably become SEZs by then, thereby nullifying any claims of employment and revenue generation.

Legally authorised to disallow any inspection, search or seizure without prior permission, and to operate their private security systems, *these princely estates are for all practical purposes autonomous*. That is how the former princely estates operated – of course, with

the blessings of the British Empire! *The state governments vie with each other to attract entrepreneurs to set up SEZs.* For instance, the Haryana Chief Minister flew to Mumbai to invite a top industrialist. The Gujarat government sent a team abroad to invite investments for SEZs. The Orissa government is even seeking an amendment to the Scheduled Area Tribal Immovable Property Act to allow outsiders to buy tribal land! And the Union Commerce Minister Kamal Nath went around, seeking investments from European countries for the SEZs. After all, he has the huge responsibility of fulfilling the Prime Minister's dream of turning India into an international workshop! *Our Central and State Governments thus show their eagerness to hand over India's prime land to the industrialists – the Tatas, Ambanis, Mittals, and even the foreigners!*

**We should moreover calculate the annual loss in income of the displaced farm households.** According to the 2005 Report of the National Sample Survey Organisation (NSSO), the average income of a farming household stands at Rs 2,115 per month: cultivation (Rs 969); animal husbandry (Rs 91); wages (Rs 819); and non-farm business (Rs 236). The displaced farmers will immediately lose Rs 1,060 from the first two sources. Therefore, each farming household will lose Rs 12,720 per year. *The total loss of annual income for the 1.14 lakh displaced families thus works out to Rs 145 cr.* Unless a proper rehabilitation policy is set up, most of these farmers will end up deeply marginalised within a few years.

*It is also estimated that 82,000 agricultural labourers' households will lose their wages because of the SEZs.* As per the National Rural Labour Commission, an agricultural worker gets an average of 159 days of work per year. According to the 2005 NSSO findings, the average daily wage of an agricultural labourer is Rs 51. Even if they have only one worker per family, *the agricultural labourers' households will lose Rs 67 cr per year in wages.* Put together, the total loss of income of the farming and agricultural workers families comes to **Rs 212 cr a year.** For the marginalised, the loss of income has disastrous implications. *For their small piece of land or their daily labour is their only economic security.*

**The proliferation of SEZs further shows that food security is no longer our national priority.** Otherwise, no sensible

government would tinker with the country's dwindling ability to produce food for its own population. Conservative estimates indicate that the nation will suffer a loss of Rs 250 to 400 cr from the reduction of the area under cultivation of foodgrains alone. *Foodgrain production is expected to drop by at least 4 to 5 lakh tonnes a year.* One should also remember that these are only conservative estimates, for the losses will be much higher in the land under high-value crops.

The Commerce Ministry officials and the pro-SEZ lobby are of course claiming that the SEZs will stimulate investments of over Rs 1,00,000 cr, create over 500,000 jobs and also bring in net revenues of Rs 44,000 cr. One government projection even foresees that 94 SEZs dealing with IT will create as many as 1.25 mn jobs! But such promises have so often turned out to be mirages in the past!

**Who will be held accountable if the promise of job creation remains unfulfilled?** First of all, the Ministry of Commerce has no true basis for telling us how many jobs will be created. It is merely a guess-estimate. Secondly, if the past experience is any indication, the actual jobs added by the industries are only a minuscule of what they promise. In the 1980s for instance, Pepsico promised to create 50,000 jobs in Punjab. Yet, in reply to a 1991 parliamentary question, the Ministry of Food Processing acknowledged that *the multinational company had created only 482 jobs*, 210 of them for unskilled workers. Industrial houses seek the advice of consultancy firms like Price Waterhouse, Ernest and Young, and Feedback Ventures to prepare master plans for the promoters, but their work is to write the proposals in such a format that they get the government's nod. The state governments too utilise their services to ensure that the land transfers do not invite unnecessary litigation.

In essence, if you are rich enough to hire a consultancy firm, you can aspire to be a modern-day prince. It is a free-for-all activity. If you can mobilise political support by hook or crook, you can rest assured that you are on the right path to royalty. Whether you finally deliver your promises is something that you can leave to the consultants to take care of. Nowhere else than in India will you find such a pliable government and a supporting bureaucracy that helps you not only to identify the location of your princely estate but also provide all the necessary sops, support and protection.

*In China*, from where India drew inspiration, *only seven major SEZs* – at Shenzhen, Shantou, Xiamen, Zhuhai, Hainan, Dalian and Pudong – *have been set up so far*. These SEZs, all in the public sector, came after much debate and deliberation, and all of them are situated along the coast and *only in wastelands*. *In India, all these norms have been thrown to the wind*. The world over, there are only some 400 SEZs. *Will the Indian SEZs produce an economic magic? Or will they create a string of affluent islands amidst the cesspool of poverty, hunger and deprivation?* For the entrepreneurial princes, our nation is building estates at its own cost. For the rest of the country, exploited in the name of development, sub-Saharan Africa is the only comparison.

### Is Rehabilitation Feasible?

The promise of proper rehabilitation of project-affected people has not been fulfilled anywhere in India. Great numbers of farmers who were compelled to give up their land for dams, mines, infrastructure or industries have become destitutes without an alternative livelihood. For instance, in spite of a policy of land-based rehabilitation, thousands of families in the Narmada Valley are left with only an offer of meager cash. On the whole, governments have not shown a genuine capacity to rehabilitate people.

The first objective of the 2003 National Rehabilitation Policy (NRP) is “to minimise displacement and identify non-displacing and least displacing alternatives”. This is yet to be complied with. The Monitoring Committee has not been activated. The new and improved draft of the 2005 NRP, approved by the National Advisory Council chaired by Sonia Gandhi in 2006, is still to be taken for final regional and national consultations and is not yet accepted by the Cabinet. This draft has a larger consensus of people’s organisations across the country.

### Are SEZs Democratic?

The SEZs will certainly widen the disparity between agriculture and industry and between small and large industries, as well as within the urban communities. **They thus violate the equity principles expressed in the Preamble and Directive Principles of our Constitution.**

**The SEZs are moreover against the basic tenets of Indian democracy.** *In many ways, they are anti-democratic and anti-constitutional.* For instance, how can the government forcibly bypass the local self-governments by creating autonomous SEZs? How can it avoid elections and put the SEZs under the almost total control of Development Commissioners? How can it destroy the equality maintained in the judicial system since independence by designating special judges for the SEZs and thus creating a special niche for the corporates? How can it negate the principle of affirmative action for the disadvantaged and favour the rich and powerful by exempting them from many laws and duties?

**The anti-labour nature of the SEZ Act is also obvious.** By declaring all the services and industries in the SEZs Public Utility Services, the Act tramples on the labour legislation, hard-earned by the people’s struggles. It is also unacceptable to delegate the powers of the Labour Commissioner to the Development Commissioner, for this will severely compromise the role of the former.

### Basic Issues and Concerns

All this shows that there are serious concerns regarding the 2005 SEZ Act as well as India’s development and industrialisation policies. Let us sum up some of the main concerns.

1. *It has become evident by now that the SEZ Act was passed by the political parties without much serious study and thinking.* It was never placed before the people for democratic debate and consensus. **The Act needs a serious review from the socio-economic and environmental viewpoint.** Any such review must be transparent and inclusive. For this, the Act has to be translated and disseminated. A thorough consultation has to take place and the politicians and bureaucrats have to become accountable to the people.

2. The Act mainly aims at the promotion of exports, mostly by private companies. Yet, it claims to serve a public purpose. The clause allowing to use only 35% of the land for real industry is not rational.

3. Every industry that becomes part of a SEZ has to be treated at par with other enterprises. *Every project should be approved on the basis of certain criteria such as impact assessments, the benefit-cost ratio, employment generation, and sustainability.*

4. A sound environment is the right of every citizen. Particular attention should therefore be paid to the environmental impacts of the projects on the land, water, and pollution. The people's rights must be respected. Since some years, the EIA (Environmental Impact Assessment) has often been seriously compromised to favour the industries and the plans of the corporates.

5. *The significant social and economic impacts of the SEZs on the people and their communities, especially through land acquisition, must be seriously taken into account. People's livelihoods must be protected, and socio-economic inequalities reduced rather than increased.* The transfer of huge resources from the agrarian communities to the industrialists and developers contravenes the principle of justice, which demands that we give priority to the farming populations and the unorganised sector.

6. As already pointed out, the SEZ Act was promulgated without a proper consultation process. Its centralised decision-making process and top-down approach express an utter disregard for the people who are to sacrifice their lands, properties and livelihoods, and even their socio-cultural heritage. It completely bypassed the 73<sup>rd</sup> and 74<sup>th</sup> constitutional amendments, which give primacy to the Gramsabhas and Bastisabhas.

7. The use of force, lathis, bullets and section 144 by the police or even the use of political cadres to oust the people are inhuman and illegal. They also indicate that the people have not given their consent, in Singur, Ghaziabad and elsewhere. All state governments must be directed not to use force, with immediate effect.

## Conclusion

*Instead of abating, the controversies around the SEZs will only increase.* The Reserve Bank of India has in fact told the banks not to treat the SEZs as infrastructure projects but as real estate development activities. There are widespread apprehensions that the SEZs will be hijacked by developers who will, with the governments' connivance, corner huge swathes of rich, agricultural land. While only a measly compensation will be handed over to farmers who will be left without resettlement and rehabilitation.

Why has there been such an aggressive government overdrive to promote SEZs in India on such a massive scale? A part of the sad truth is that after 60 years of Independence basic services and facilities have not been ensured for all the people. *Hence, special areas are being demarcated for special people. Most people will however continue to live without the necessary power, housing, water, roads and green areas. And millions will remain hungry and malnourished!* **Islands of prosperity will be established for the rich and the powerful, while the lesser mortals will live on the fringes and become still more marginalised.**

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## Appendix 1

### Fiscal and Non-Fiscal Incentives

*The main attraction of the SEZs lies in their fiscal incentives.* (These are often used to manipulate accounts and increase the companies' profits in ways that mere manufacturing and exports never can.) **These are some of the main fiscal incentives given to investors in Indian SEZs:** 1) 100% income-tax exemption for 5 years and 50% for 2 more years; 2) 100% income-tax exemption for 3 years & 50% for 2 more years for off-shore banking units; 3) treatment as exports of supplies from Domestic Trade Areas to the SEZ; 4) carrying forward of losses; 5) exemption from Central Excise duty on procurement of capital goods, raw materials, consumable spares, etc., from the domestic market; and 6) reimbursement of Central Sales Tax paid on domestic purchases.

**The non-fiscal incentives include the following:** 1) exemption from industrial licensing for items reserved for Small Scale Industries (SSI); 2) 100% FDI for SEZ manufacturing units; 3) facility to realise and repatriate export proceeds within 12 months; 4) free repatriation of profits without dividend balancing; and 5) freedom for subcontracting in India and abroad.

## Appendix 2

### Commitments to be Undertaken by State Governments

1) The SEZs are free from environmental restrictions. 2) Water, electricity and other services are provided as required. 3) The

SEZs are given full exemption in electricity duty. 4) The generation, transmission and distribution of power within the SEZ is allowed. 5) The SEZs are exempt from state sales tax, octroi, mandi tax, turnover tax and any other duty/cess or levies on the supply of goods from DTAs. 6) The SEZs are declared Public Utility Services and the powers of the Industrial Disputes Act and other Labour Acts are delegated to the Development Commissioner. 7) The SEZs are ensured single-point clearances and minimum inspections under state laws and rules.

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### SUGGESTIONS FOR FURTHER READINGS

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