CPR OCCASIONAL PAPER SERIES

SPECIAL ECONOMIC ZONES

Promise, Performance and Pending Issues

CENTRE FOR POLICY RESEARCH
Dharma Marg, Chanakyapuri
New Delhi-110021

March 2009

March 2009

Copies of this Publication can be obtained on request by e-mail from Kamal Jit Kumar, Chief Librarian and Programme Officer and can also be downloaded from the CPR website.

e-mail: cprindia@vsnl.com
Website: www.cprindia.org

CONTENTS

INTRODUCTION

Over the past few months, the CPR has been engaged in studies about some of the aspects of the Special Economic Zones (SEZs). This set of four CPR Occasional Papers addresses different facets of what continues to be a contentious subject.

The first paper, by S N Menon and Soumya Kanti Mitra, provides an overview of the rationale underpinning the SEZ policy. It points out the benefits of an export-led growth strategy and argues that the SEZ policy is driven by the objectives of increasing (a) economic activity, (b) exports, (c) investment, (d) employment and (e) infrastructure. Put otherwise, the core objective would be to increase export-oriented economic activity. Investment and infrastructure would be prerequisites for this to happen, while employment would be a consequence of increased activity. It states that, "*with the country's GDP growth being fuelled by the services sector, particularly IT and IT-enabled services, it was necessary to promote manufacturing activities*" and recommends that the "*locations for the new SEZs should be selectively done so that they spread development and address existing regional imbalances.*"

The second paper by Partha Mukhopadhyay, which appeared in the *Seminar* of January 2008, raises a number of questions about this approach and questions the seriousness and rigour of the approval process. It examines the structure of fiscal concessions, the compensation policy adopted and the credibility of the projected figures, based on the variation across different projects of a similar type and finds them lacking. Based on data available from the Ministry of Commerce, it finds that most of the SEZs are in the IT/ITES sector and a large share of projected employment is also expected to come from this sector. Furthermore, the SEZs also appear to be concentrated in a few relatively developed districts, near urban centres. This will mean that the additional economic activity engendered by the fiscal concessions for SEZs will be in a sector that is already doing well, as in the Information Technology (IT) and Information Technology Enabled Service (ITES). Further, regional imbalances will worsen as a result of the concentration of SEZs in a few locations. Thus, the experience on the ground seems to indicate that SEZs are not proceeding in a manner expected by Menon and Mitra in their paper. They are not promoting manufacturing nor are they mitigating regional imbalances.

The location of SEZs is more fully explored in the third paper by Partha Mukhopadhyay and Kanhu Charan Pradhan. The paper examines the district wise location of SEZs and relates them to the characteristics of districts as available in the census. It finds that most of the SEZs, especially the tiny (less than 100 hectares or 1 sq. km. in size) SEZs are concentrated in districts in the top quartile of urbanisation. It then goes on to statistically examine this phenomenon and shows that the share of male non-agricultural workers in the total work force, indicating the extent of pre-existing industrialisation in a district and proximity to six megacities are key explanatory variables in determining the location of SEZs. This reinforces the concern about the exacerbation of regional imbalance expressed in Mukhopadhyay's paper.

The fourth paper by Sivaramakrishnan focuses on a hitherto little examined aspect of the Special Economic Zone policy, namely its implication for urban growth and the governance of the SEZs. The paper by Mukhopadhyay and Pradhan brings out quite clearly that most of the SEZs are located close to existing urban centres. The proximity to megacities appears to be highly preferred. Sivaramakrishnan's paper argues that the SEZ is conceptualised not only as a production centre; it is also an urban centre. However, the existing policy is unclear about both urban growth implications and their management. The emerging model of governance promoted by different states and also encouraged by the Centre appears to be 'non-municipal'. The paper presents the views of various stakeholders such as government departments and individuals expressed in the hearings of the Parliament Committee on SEZs. The recommendations of the Moily Commission on Administrative Reforms have also been presented. Nevertheless the 'non-municipal' approach, enabling an SEZ to become a private 'fiefdom' rather than a part of the country subject to the Constitution and the laws of the land appears to prevail. The paper also critically examines how a constitutional loophole, namely the Proviso to Article 243Q, is being exploited for this purpose.

Since the SEZ issue is complex and multi-faceted, it is difficult to do justice to it in a set of four short papers. A number of key issues remain unaddressed, among which two are perhaps especially critical: (a) the fiscal and macroeconomic implications of SEZs and (b) the manner of land acquisition involved in assembling the land for SEZs. While it may appear that both of these issues have been extensively discussed in the literature, the debate on them has often been a restatement of positions rather than an engagement with the issues.

As noted above, most of the SEZs are tiny (less than 1 sq. km.) and ostensibly focused on IT/ITES. The most generous assessment of this development is that the SEZ policy is an attempt to continue the benefits so far enjoyed by the IT/ITES, under another guise, that would otherwise have disappeared after 2009.

On the fiscal side, the proportion of economic activity within SEZs can be expected to increase (as a share of total economic activity in the country), if the environment provided by SEZs proves relatively advantageous. A key policy feature is export-related tax exemptions in SEZs. To the extent that external market focused economic activity shifts to the SEZ, the implications are likely to depend on the benchmark chosen. Under the existing policy, there are export-related tax exemptions but this was supposed to change. The extent of fiscal losses will vary depending on whether the benchmark chosen is the existing policy or the proposed removal of exemptions. If domestic market focused economic activity shifts to SEZs, the implications are likely to be complex under the existing policy, since movement of goods outside the SEZ for domestic market sales will attract customs duty, but may not attract other local taxes.

Overall the fiscal, regulatory and administrative measures being taken indicate that "any rational businessman" to quote the words of a prominent industrialist, "would conclude he is better off being in a SEZ rather than elsewhere"[1]. If this is so, the SEZ will merely attract investment that would have been made anyway.

The other aspect which receives limited attention in these papers is the question of land acquisition. Menon and Mitra treat it in some detail and argue for an approach where the state takes a less coercive role and transactions are achieved to the extent possible voluntarily through the market. This is also the approach that seems to have been adopted by the Land Acquisition Bill currently under consideration.

The state acquisition of land vis-à-vis the private purchase of land rests on how one perceives the state. There are many problems with allowing direct private transactions relating largely to information and power asymmetry. The extent of these problems will differ from one location to another, depending in large measure on how well the local community is integrated to the market. The more market-integrated it is, the easier it is to shift to

1. India's Special Economic Zones, *The Economist*, 12 October, 2006.

private transactions, because the information asymmetry will be lower (assuming that the power asymmetry will not increase with market integration). The insertion of the state into this transaction can only help if it is seen as a neutral arbiter between competing aims of prospective and current claimants rather than as siding with one or the other.

In regard to land acquisition, it appears the validity or otherwise of the use of eminent domain for acquisition of land for SEZ continues to be a contentious issue. While some aspects have been discussed in the fourth paper, in summary it can be said that the current land acquisition policy does not ensure financial security for the displaced, fairness in sharing of the gains or facility to take advantage of the economic change from agriculture to industry. Indeed based on the previous track record, any reasonable person would disbelieve the government's assurance of basic rehabilitation, leave alone such tall promises. The basic problem is a lack of trust in the state. In the final analysis, until the state is seen as a fair arbiter and not as an instrument of expropriation, conflict is inevitable.

K.C. Sivaramakrishnan

CPR OCCASIONAL PAPER SERIES

OCCASIONAL PAPER NO. 16

Special Economic Zones
The Rationale

S. NARAYAN MENON

and

SOUMYA KANTI MITRA

CENTRE FOR POLICY RESEARCH
Dharma Marg, Chanakyapuri
New Delhi-110021

March 2009

About the Authors

1. **S. Narayan Menon is former Secretary, Ministry of Commerce of Government of India and Senior Fellow at the Centre for Policy Research**

   Email: paltimenon@yahoo.co.in

2. **Soumya Kanti Mitra is an Independent Researcher and Consultant based in Kolkata**

   E-mail: skm3450@yahoo.com

March 2009

The Paper can be downloaded from the CPR website.

e-mail: cprindia@vsnl.com
Website: www.cprindia.org

I

SPECIAL ECONOMIC ZONES
THE RATIONALE

S. Narayan Menon and Soumya Kanti Mitra

1. OVERVIEW AND MOTIVATION

1.1 The Special Economic Zone Act (June 2005), and the Rules (February 2006) came into force with a set of objectives which included development of world class infrastructural facilities, creation of employment opportunities, promotion of investment from domestic sources, export promotion of goods and services, and generation of additional economic activities. The Act and Rules further envisaged that there should be simplification of procedures and practices for development and conduct of businesses, single window clearances in matters relating to both State and Central governments for setting up of units in a Special Economic Zone (SEZ) and simplified compliance procedures and documentation with an emphasis on self-certification. There was also the need to incorporate tax concessions within a single law – direct as well as indirect, for both developers and units entering the SEZ.

1.2 In the stage before the enactment of the SEZ Act, Export Promotion Zones were set up by the Government of India (GoI) in different parts of the country. These zones were established solely through budgetary allocations from the GoI. The units located in these EPZs were primarily meant for exports with very little linkage with the domestic tariff areas (DTAs), i.e. the areas outside the zone. The policy to create SEZs was first announced in 2000 and reiterated in the Commerce Minister's Exim Policy speech for 2002-2007. From 2000 onwards, the government EPZs along with the sole private sector EPZ at Surat were converted into SEZs. This process was completed by the end of 2003 when all the EPZs were formally notified as SEZs. However, except for a few changes, the rest of the design of these zones remained as in the past. The new SEZ Act and Rules notified in 2006 changed this entirely. The Central government's responsibility was limited to the appointment of a Development Commissioner with a small complement of staff to supervise the functioning of SEZs according to the guidelines contained in the Act and Rules, and to oversee the Approvals Committee at the level of the SEZs and Board of Approvals (BoA) at the Ministry of Commerce and Industry. An Empowered Group of Ministers (EGOM) was also constituted for troubleshooting. The procurement of land, development of infrastructure, both social and physical, attracting new units to the processing area and management of the zone were to be the responsibility of the private sector developer who had to fund and manage the entire project on a commercial basis. These private developers were also expected to work closely with the concerned State governments.

1.3 The debate on SEZs is mainly about whether they, or economy-wide liberalisation with an infrastructure extending to all corners of the country, is the better option. India is not only a developing economy, but a liberal democracy too where there are competing demands for public investment. According to the most recent estimates, for the period 2007-12 we would need to invest in excess of US$ 475 billion, in infrastructure alone, at current prices – of which US$ 160 billion will be required for energy, US$ 66 billion for railways, US$ 49 billion for national highways, US$ 11 billion for seaports and US$ 9 billion for airports. That kind of money is simply not available with GoI, and to marshall it the Centre would have to evolve consistent policies to attract funding over the next three to five years. Hence, islands of world-class infrastructure will have to be created through private investments in a spatial manner to attract units for both foreign direct investments (FDI) and domestic investments. SEZs will have to suffice until the country can attract the huge amounts required for building such infrastructure. India's economy still contains rival vested interests and administrative imperfections. However, when one looks at the existing SEZ scheme there is an urgent need to unbundle some parts of the SEZ package.

1.4 India's economy had emerged drained and underdeveloped at the time of Independence. Under Jawaharlal Nehru's leadership the country adopted the prevailing policy idiom of the day – import substitution, allied with heavy industry under state tutelage. As resources were scarce and private industry did not have the ability to invest in core sectors like steel, power and irrigation, amongst others, the Soviet model had become the most influential exemplar for developing economies. The changes that followed hastened the exhaustion of 'sterling balances'. (The latter had accrued to India as UK War Credits because of her contributions to World War II.) Even the share of India's global exports fell, while there was downward pressure on terms-of-trade. Finally, the shortages, which were entailed by the diversion of investments away from consumption goods, inevitably led to the beginnings of inflationary tendencies.

1.5 The above situation led to the beginnings of a policy re-think and a stress on small industry and exports. The latter being the key attributes of the Third Five Year Plan of the sixties, they yielded a concrete forward step in the shape of the Export Processing Zone at Kandla (1965). However, the difficulty was that Kandla, and most later EPZs, were very strictly quarantined from the domestic tariff area (DTA). Accordingly, there was no let up – either in rent-seeking behaviour within the economy, or any lessening of inefficient (wasteful) import substitution. These traits were not only a hurdle in the way of trade; they also wasted scarce capital by misallocating investment (thanks to the licence Raj) within the economy. Worse, the permit raj also excluded competitive imports. Plus, not only did the licence permit raj turn India into an unfriendly foreign investment destination, it even forced domestic capital to adopt highly unorthodox methods to get official go-aheads. There could be no sweeping, or rapid, redress to the problems that have been outlined above. The 'socialist' *zeitgeist* of the period ensured that economy-wide measures of liberalisation would neither be acceptable, nor possible.

1.6 That was to change later on however – and lead on to SEZs.

2. EVOLUTION OF EXPORT PROCESSING ZONES (EPZs)

2.1 Background

2.1.1 EPZs had been internationally well accepted right from the start. Even at that time, they were a global phenomenon evident in Spain, Ireland and Malaysia. The ASEAN countries were some of the first to utilise EPZs to increase exports and relax foreign exchange constraints. EPZs were also used as test bases for trade liberalisation, taxes and other policies, which were then applied to the economy as a whole.

2.1.2 The rate of increase in their numbers has been exponential. There were 176 zones across 47 countries in 1986, but that number stood in excess of 3,000 across 116 countries by 2003, with a large number being located in developing countries.

TABLE 1: ESTIMATES OF EPZs

	1975	1986	1995	1997	2003
No. of EPZs	25	47	73	93	116
No. of countries with EPZs	79	176	500	845	>3000
Employment in EPZs (million)				22.5	42

Source: Aradhna Aggarwal, "Export Processing Zones in India: Analysis of the Export Performance," ICRIER Working Paper 148, November 2004; p 1

2.1.3 India, meanwhile, had been the first Asian economy to set up an EPZ – at Kandla in 1965, followed in 1973 by the Santacruz Electronics Export Processing Zone (SEEPZ).Matters, in fact, took off in 1989, following a report by the Comptroller and Auditor General of India (CAG). It defined EPZs as being meant for earning foreign exchange, developing export-oriented industries, stimulating investment and generating employment – apart from which they were also set up to create an internationally competitive environment for export production at low cost. Subsequent policy documents have reiterated the low-cost export production motif.

2.1.4 The Draft SEZ Bill (2004) also held that the "promotion of foreign trade in goods and services" is the most important of all SEZ objectives. The Centre fielded this Bill after it took the step of replacing the old EPZ scheme by SEZs. Matters were concretised when the government passed the SEZ Act (2005). The Ministry of Commerce has even gone on record, saying that – apart from exports – SEZs will attract investments to the tune of Rs 1,00,000 crore (with Rs 25,000 crore more in FDI), plus create 5 lakh new jobs by December 2007. But the collapse of engineering exports from EPZs since the mid-90s also seems to suggest that SEZs need to avoid items depending on 'scale economies'. However, all that came much later.

2.2 Ground Realities

2.2.1 The nature of the pre-1991 investment ambience can be intuited from the myriad approvals that were needed in order to set up an industrial enterprise. An entrepreneur with business intents had, first, to get 'in principle' approval from the Ministry of Industry. If granted, that led to the issuing of a Letter of Intent (LoI) with which the businessman could take the next necessary steps to finalise project requirements on other fronts. Thus, all capital goods imports would have had to be cleared through a licence issued by the Chief Controller of Imports and Exports (CCI&E) in the Ministry of Commerce; but the final approval would have to be obtained elsewhere – from a committee in the Ministry of Industry! The CCI&E figured prominently in imports of raw materials and components too; it had to be approached annually for separate licences. But even that step had to await 'essentiality' and indigenous 'non- availability' clearances from the Directorate General of Technical Development (DGTD – the technical arm of the Ministry of Industry). Businessmen had to further clear foreign technology collaborations via specific approvals from a committee chaired by the Finance Secretary and serviced by the Ministry of Industry. Finally, even the Ministry of Finance got a look-in if the industrialist wanted to source funds for his project. In that case the latter had to apply to the

Controller of Capital Issues (Ministry of Finance) for approval to approach the capital market. Only after everything had been tied up, and the unit was about to go into production, could the entrepreneur approach the Ministry of Industry again – this time for an 'Industrial Licence'!

2.2.2 Matters were made even more complex in 1969 with the enactment of the MRTP Act (1969). Firms covered by the act had to obtain separate MRTP clearances from the Department of Company Affairs. In addition, the desire to promote small-scale industries (SSIs) persuaded the government to reserve 836 items for the small-scale sector. That was in addition to the list of industries that stood reserved (since 1956) solely for the public sector. The year 1977 also witnessed a ban on locating industries in the largest twenty to thirty cities – a ban that was extended in 1988 to include the municipal areas of all towns, cities and to specified areas of influence around the largest twenty-one cities.

2.2.3 The sum total of the above yielded Prof Raj Krishna's famous, 3.5 per cent, 'Hindu rate of growth' – a number that would not be breached until the 1980s. Only then was there a serious reconsideration of the earlier economic models that had been so firmly entrenched right since Independence.

2.3 Early Lacklustre Performance

2.3.1 As for the early EPZs, they had largely been unable to make any serious dent in India's economic aggregates and, even in 2004-05, such zones accounted for just (a) 5 per cent of total exports, (b) 1 per cent of factory employment and (c) 0.32 per cent of manufacturing investment[1]. Investigations strongly suggest, however, that EPZs lost momentum in the 1990s, following the collapse of the major Eastern Bloc markets that used to absorb 87 per cent of their exports. That slowdown persisted until the mid-90s, and only since then has there been an upturn.

2.3.2 All said and done, it is China that has emerged as the ablest practitioner of the SEZ policy. That seems to vindicate the hypothesis that zones that are well defined geographically, and restricted, are the ones which are best suited for export processing – i.e., for value-addition based on very high import content. That electronics and gems & jewellery should turn out to be the most successful Indian EPZ exports seems to bear out this conclusion. However, there are many other aspects about Chinese SEZs: they are (i) far

---

[1] Aradhna Aggarwal: "Special Economic Zones: Revisiting the Policy Debate", *The Economic and Political Weekly*, 4-10 November, 2006, p. 4532

bigger than Indian EPZs or SEZs, (ii) far fewer in number, with units therein (iii) operating in line with the liberalisation that is fast taking place in China's DTA.

2.3.3 The inference that one can clearly draw from the foregoing is that SEZs/EPZs/EOUs would greatly profit if the rules which govern the domestic tariff area (DTA) were also to change. Not only would convergence of that nature facilitate the emergence of economy-wide competitiveness and optimise resource allocation it would also stall the needless re-location of industry in favour of SEZs.

2.4 A Potentially Rewarding Future

2.4.1 It is plain that, today, there are more pros than cons in installing SEZs. The government is on the right path in joining hands with the private sector to promote such zones. Thereby it can hope to generate additional economic activity, develop infrastructure, increase investment – domestic as well as FDI – raise net export earnings, boost employment, and (in the process) induct R & D. The strongest pro-SEZ argument is that the DTA, one that is driven by the States – all of which have differing economic persuasions – has long been unable to meet any of these expectations. That apart, the Centre has no choice either. Witness India's vast heterogeneity, and the bitter diversity of opinion on liberalisation. New Delhi can do no better than to adopt a policy package which, even if it falls well short of the ideal, is yet the best that would be attainable while steering clear of unsettling dissension or harm.

2.4.2 That also explains why the Centre has done a wise thing by just legislating a framework while leaving the initiative for liberalisation to the local political forces within States. Accordingly, the Special Economic Zone (2005) Act sets out only the encompassing framework within which the State, should it want to help itself, must conduct itself. (That – along with supplementaries – was the package that was ratified on 20 February, 2006.)

2.4.3 In short, the Centre has left to State governments the task of mooting SEZs and announcing working rules. Many of them have been eager to adopt packages that are 'SEZ Act-compliant' in terms of investment and industrialisation. (Himachal Pradesh, Gujarat, Karnataka, Maharashtra, Tamil Nadu, Haryana and Andhra Pradesh are names that immediately come to mind.) These packages are increasingly tailored to improve the State's chances of attracting capital investment in the face of rivalry from other similarly competing States. Yet, not all States have been so proactive:

thus far, only a handful have taken the initiative to set up 93.3 per cent of all SEZs!

2.5 The Upside of Exports

2.5.1 We have already noted that the importance of exports had not been entirely overlooked. Indeed, the creation in 1965 of an export processing zone (EPZ) in Kandla, followed by another in Santa Cruz (1973) suggests quite otherwise. Kandla, in fact, was set up soon after the Third Five Year Plan (fashioned by the Chakravarty-Eckaus-Lefeber-Parikh model). That was also a sign of the beginnings of a backlash against import substitution. Aradhna Aggarwal, who has extensively researched EPZs and SEZs, wrote thus in 2006:

> *A micro level analysis of the zones' contribution to industrialisation efforts in India 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. The foundation of the modern jewellery industry in India, for instance, was laid in SEEPZ 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 mechanised modern industry. SEZs accounted for over 55 per cent of total Indian jewellery exports in 2002-03. Zones have also been instrumental in creating the base for the growth of the electronics industry through technology transfers, spillovers and demonstration effects. Until the early 1980s, electronic hardware exports were primarily originating from EPZs. Even during 2000-02, the share of SEZs in total hardware exports was as much as 26 per cent. The Indian software saga also really began in SEEPZ, Mumbai. The first major breakthrough in India's software exports came in 1977 when the Tatas established a unit in SEEPZ in partnership with Burroughs, an American company, to export software and peripherals. A further breakthrough in the progress of the industry occurred when, in 1985, Citibank established a 100 per cent foreign-owned, export-oriented, offshore software company in SEEPZ. This company drew attention to the possibilities available for offshore software development in India. Soon after, Texas Instruments and Hewlett-Packard established subsidiaries in Bangalore, in 1986 and 1989, respectively and the rest is history.*

2.5.2 In fact, the most notable aspects about EPZs were their relatively smaller size, total export orientation, and their tenuous link-ups with the DTA. Indeed, the procedural hassles ('transaction costs') which characterised indigenous markets meant that very few businessmen even tried to cultivate backward linkages with the DTA. Their share of exports was 10.45 per cent, 10.84 per cent and 9.07 per cent over 2004-05, 2005-06 and 2006-07 (April-December) respectively. Annual foreign exchange earnings over 2004-05 to 2006-07 (April-December) were US $ 8700 million, US $ 11200 million and US $ 8100 million (provisional) respectively.

2.6 The Share of EPZs in the Total Exports of the Country

2.6.1 But the present question, of course, is whether SEZs were at all needed, seeing how India already had EPZs right since 1965. Kandla came into being in 1965 and the Santa Cruz Electronic EPZ in 1972 (spread over 2.8 sq km and 0.4 sq km respectively). The others which followed were Cochin (0.4 sq km), followed by Falta, Madras, Noida and Vizag. The latter too were small – being mostly 1 sq km in area, barring Vizag, which had 1.4 sq km.There were 513 functioning EPZs by 1997. But a quick look at their performance will show that they operated well below expectations. That was sure indication that they were of small importance to businessmen.

2.6.2 Even the employment creation ability of EPZs was very small: they came to employ just 0.0009 per cent of the workforce, and accounted for less than 4 per cent of India's total exports. Worse still was their high import intensity of export. Suffice it to say that imported inputs ate away up to 62 per cent of their total export earnings.

2.6.3 One can only conjecture that things might have been very different had the performance of EOUs and EPZs been enclosed inside a more liberal DTA. But the controls characterising the DTA only further multiplied the shortcomings that had already been plaguing them. To reiterate, the full package includes shortages (often contrived), politics of rival power centres, and an absence of world-class infrastructure. Also, right from the beginning EPZs were earmarked as export platforms, with joint-ventures thrown in. That was the understanding that made them eligible for economic incentives like the supply of better infrastructure and tax holidays. But even that was not enough to keep up with the times, and India has undergone no less than four phases in the evolution of her EPZ policy. Finally, the units that had earlier been located within EPZs had few, if any, linkages with the domestic tariff area (DTA).When the change in nomenclature of these EPZs re-notified, as SEZs, in 2002-03 took place, there was hardly any change. It remained up to the SEZ Act, and the Rules which were notified in 2006, to change the entire design and concept of these zones.

2.6.4 It was precisely with the intent of surmounting such shortcomings that the policy of Special Economic Zones (SEZs) was announced in April 2000. The zones were intended to create engines of economic growth, supported by quality infrastructure, complemented by an attractive fiscal package and having the minimum possible regulations. A related aim was to attract foreign investments into India. SEZs started operating from 1.11.2000 to 09.02.2006 under the provisions of the Foreign Trade Policy. The fiscal incentives that they were eligible to get were showcased through provisions in the relevant statutes.

3. EXPORT PROCESSING ZONES – BEGINNINGS AND EXPANSION

3.1 Phase I: 1965—1985

3.1.1. The first change occurred at the end of the 1970s, when India suddenly found herself unable to match either the value, or volume, of her exports with the much higher value of imports that was occasioned by the second oil price shock. The government therefore decided to boost exports and set up four more EPZs in 1984 – in Noida (UP), Falta (W Bengal), Cochin (Kerala) and Chennai (Tamil Nadu). The Visakhapatnam EPZ (Andhra Pradesh) was also established in 1989, but became operational only in 1994. Barring Chennai, the EPZs in all other locations were situated in industrially backward regions. But what is remarkable is that the government never really specified the main aims for the creation of such EPZs. Nor were there any significant changes in the laws and procedures pertaining to them. Therefore the latter were condemned to remain just a part and parcel of India's import-substitution (MS) strategy – meaning that they too were at the mercy of the entire gamut of policies and controls that applied to the rest of the economy. Such policies were inflexible, and were circumscribed by unattractive incentives and facilities. There was no single window facility within such zones, and entrepreneurs had to acquire individual clearances from various State government and Central departments. Day-to-day operations were subject to rigorous controls, examples being customs procedures for bonding, bank guarantees, and the movement of goods. FDI policy was very restrictive too. Even the Zone Authorities enjoyed very limited powers. That put India at the bottom of the international ranking on business environment indices, something that even occasioned various government-appointed committees to review the working of EPZs. All of them identified the same problems, reporting that EPZ growth was being hampered by numerous handicaps, including the absence of a clear policy, lack of any implementing authority empowered to co-ordinate and control centrally, the presence of numerous procedural constraints, infrastructure deficiencies, limited concessions and limited powers on the part of EPZ authorities to take on-the-spot action. Yet, none of the committees' suggestions got adopted. The only change that (belatedly) occurred was the government's 1980 introduction of the Export Oriented Units scheme (EOU). That facilitated the creation of EOUs outside the EPZs' boundaries. Also, EOUs were to be administered by a 'zone administration'.

3.2 Phase II: Consolidation 1991-2000

3.2.1 In 1991, a massive dose of liberalisation was administered to the Indian economy. In this context, wide-ranging measures were initiated by the government for revamping and restructuring EPZs also[2]. This phase was thus marked by progressive liberalisation of policy provisions and relaxation in the severity of controls and simplification of procedures. The focus had been on delegating powers to zone authorities, providing additional fiscal incentives, simplifying policy provisions and providing greater facilities. The scope and coverage of the EPZ / EOU scheme was enlarged in 1992 by permitting units in the agriculture, horticulture and aqua culture sectors. In 1994, trading, re-engineering and re-conditioning units were also permitted to be set up.

3.3 Phase III: Re-Emergence 2000-Onwards

3.3.1 This period has witnessed a major shift in direction, thrust and approach. The EXIM Policy (1997-2002) has introduced a new scheme from 1 April, 2000 for the establishment of Special Economic Zones (SEZs) in different parts of the country. The SEZ is an almost self-contained area with high-class infrastructure for commercial as well as residential inhabitation. SEZs are permitted to be set up in the public, private, joint sectors or by the State governments with a minimum size of not less than 1000 hectares. The number of incentives both fiscal and non-fiscal has also been extended to the units operating in SEZs. Several measures have been adopted to improve the quality of governance of the zones. These include relaxation in the conditions for the approval process and simplifying customs rules. More recently, Development Commissioners are given the labour commissioner's powers. SEZ policy is thus the most significant thrust towards ensuring the success of export processing zones. From 1 November, 2000 the Export Processing Zones at Kandla, Santa Cruz (Mumbai), Cochin and Surat were converted into SEZs. In 2003, other existing EPZs namely, Noida, Falta, Chennai, Vizag were also converted into SEZs. In addition,

---

[2] See Ashok Kundra (2000): *The Performance of India's Export Zone: A Comparison with the Chinese Approach*, Sage Publications. New Delhi.

approval was also given for the setting up of 26 SEZs in various parts of the country in the private / JT sectors or by the State.They include SEZs at Nanguneri (Tamil Nadu), Positra (Gujarat), Kulpi (West Bengal), Paradeep (Orissa), Bhadohi and Kanpur (Uttar Pradesh), Kakinada (Andhra Pradesh), Dronagiri (Maharashtra) and Indore (Madhya Pradesh). Besides, Santacruz EPZ was also extended in terms of size by adding 11 acres.

3.4 EPZs – An Assessment

3.4.1 The initial EPZs achieved little owing to the 'closed' nature of the rest of the economy (i.e., the DTA). The precise reasons for non-performance have been pointed out in a very recent OECD Trade Policy Working Paper[3]. The authors write:

> *While the first Indian EPZ was established already in the 1960s, EPZ policy has not been part of a coherent national strategy and its impact on the Indian economy was minimal. According to the Confederation of Indian Industry, the Indian EPZ policy of the 20th century failed to address issues related to administrative inefficiencies, rigid customs procedures for bonding and bank guarantees, foreign ownership and infrastructural shortcomings. However, in April 2000, the Government of India adopted a new policy framework titled 'Export and Import Policy 2000' for the establishment of public, private or joint public-private SEZs. The objective was to provide internationally competitive and business friendly environments for goods manufacturers and services suppliers. Existing EPZs were converted into SEZs and private zones were allowed to be controlled by both Indian and foreign companies. By March 2005, 811 companies were operating in eight functional SEZs, generating INR 18.3 billion (US$ 4 billion approx.) in exports and providing employment to 100,650 workers of which one-third were women. Given these rather modest results, the 'Special Economic Zones Act 2005' was enacted in February 2006 and it has triggered a rush to establish new SEZs. By September 2006, 181 new zones had been approved and another 200 applications were pending...*

3.4.2 With hindsight, though, it is clear that the initial, and tentative, creation of export processing zones (EPZs) could not really be expected to deliver the goods. They did not go far enough, and would hardly allow the economy as a whole to transcend the inefficiencies, cost-overruns, and delays associated with the LP-Raj. At best, they would selectively permit, and promote, some limited freedoms in trade and industry.

---

[3] Michael Engman, Osamu Onodera and Enrico Pinali "Export Processing Zones: Past and Future Role in Trade and Development", OECD Trade Policy Working Paper No. 53.

4. SEZS – EMPIRICALLY FOUNDED DREAMS

4.1 Transition

4.1.1 The transition from EPZs to SEZs was crucial because of one single characteristic: EPZs had been created and conceived as enclaves within the larger DTA, but had no real dealings with them; nor did the rules governing them make them the happy hunting ground for domestic industry that sought to re-locate their activities in order to place them beyond the reach of domestic customs, excise and other laws. The beginnings of the changeover were seen with the FTP of 2002-07, after the Commerce Minister stressed the need to revamp EPZs and aim for SEZs. Indeed, his precise motivation behind the changeover was spelt out in his speech introducing the EXIM policy for 2002-2007. He therein said that the *"Special Economic Zones, announced in 2000 is taking up roots and four existing EPZs have been converted into SEZs. 13 New SEZs have already been given approval […] India cannot be left behind and SEZs are the symbols of Indian endeavour to remain internationally competitive and relevant. They are our best dream-projects and are firmly based on success everywhere."*

4.1.2 The policy comprised a fiscal package along with certain entitlements and concessions. The latter included CST exemption for supplies from the DTA to SEZs, duty drawbacks for DTA suppliers 'exporting' to SEZs; the exemption of DTA supplies to SEZs from the Income Tax and Customs Acts – and SEZ access to external commercial borrowing. They were also allowed to make overseas investments and undertake commodity hedging. In addition, international banks would be allowed to set up branches within SEZs, but be kept free of India-based commercial banking obligations like the CRR and SLR. SEZ units would be able to get finance at international borrowing rates from the branches of such banks.

4.1.3 Earlier on, all EPZs were set up by the Central government, with infrastructure being funded by State governments. In SEZs, on the other hand, one gives private developers, direct tax benefits for a block of ten years and they can also avail of indirect tax benefits through customs duties waivers and other benefits. Similarly, units set up in these zones could also avail of both direct and indirect tax concessions with single window clearances. Exports of products to the DTAwould be subject to normal customs and other duties.

4.2 Devolution of Powers Since 2005

4.2.1 The SEZ Act (2005) limited the responsibility of the Central government to just the appointing of a Development Commissioner (DC) – along with a small complement of staff to supervise the functioning of SEZs. The latter must conform to the guidelines contained in the Act and Rules. The DC oversees the Approvals Committee at the level of the SEZs and reports to the Secretary in the Department of Commerce who is the Chairman of the Board of Approvals with the Government of India. As mentioned earlier an EGOM was constituted to discuss and decide contentious issues .At the same time, it became the responsibility of the private developer to install infrastructure – social or otherwise – attract new units to the processing area, and manage the zone. It is also the developers' responsibility to fund and manage the project on a commercial basis and work closely with the State government concerned.

4.3 SEZ Land Use and Area Limits

4.3.1 The maximum permissible size of SEZs has been changed, and re-set at 5000 ha for multi-product zones after the 5 April EGOM. State governments may however reduce that even further. The minimum processing area limit was also re-set at 50 per cent for both types of SEZs (35 per cent is the norm for multi-product zones, but that can be relaxed by an extra 25 per cent). The minimum for multi-product SEZs has now been fixed at 1000 hectares. SEZs in Union Territories or special States could settle for less: 200, 100 and 50 ha respectively.

4.3.2 A Parliamentary Committee has recently suggested that this maximum size can be further restricted to 2000 ha. But it is the State government which has to take the final call on the SEZ size – which explains why the Centre has not stipulated the 'maximum' size to be allotted. The above rule would not apply during the conversion of existing EPZs into SEZs.The same holds good when notifying an additional area as part of such an SEZ, or to product-specific port / airport-based SEZs. This differs from the earlier dispensation when the processing area had been pegged at 35 per cent for multi-product SEZs – barring the smaller ones, or those that are nearer to the urban centres. Only the latter had earlier been allowed to retain 50 per cent of the area for processing owing to their proximity to common municipal services. In any case there is some extra caution on view when it comes to the issue of housing (which falls within the non-processing area category): thus, the construction of only 25 per cent of permissible housing will be allowed in the first instance – while the developer proceeds (as planned) with the remaining complement of infrastructure. The remaining housing construction will only follow effective demand, and the emergence of likely shortages. Any deviation from the non-processing area would lead to the State governments having to provide for the social infrastructure at their cost!

4.3.3 Minimum processing areas have been pegged at 1000 ha for multi-product SEZs, and 100 ha for sector-specific ones. Whereas IT SEZs should occupy 1 lakh sq metres, others involved in bio-technology or the manufacture of gems and jewellery have been earmarked 40,000, and 50,000 sq mts respectively (the figures are correspondingly less for the Special States). Meanwhile, it is the distinction between processing and non-processing activities that is the key to arriving at an understanding of what imparts independence and efficiency to SEZs. The underlying intent for sequestering that proportion of land is to allow SEZs to function independently, to provide accountability and better infrastructure. All these get achieved without straining already existing municipal, or other, services. In fact, the SEZ developer would have to fill in all the processes and services that would be needed for the SEZ units to operate at peak efficiency. These services include civic amenities, infrastructure such as roads, sewage disposal, green / open spaces, housing, supply of power and water, and education. Self-sufficiency and planned infrastructure have the added advantage that non-processing areas can be kept free of unplanned habitation like slums, which might later turn into a political *fait accompli*.

4.3.4 Clearly, the most notable feature of the SEZ Act (2005) is that it creates self-contained zones, and addresses the requirements of the principal stakeholders (including the developer, operator, entrepreneur, external suppliers and residents.) Unlike in the earlier cases of FTZs or EPZs, the SEZ Act (2005) creates a complete package that embodies all incentives, regulations and every other aspect of the policy framework. .Finally, different classes of SEZs, with differing 'minimum area' stipulations have been prescribed based on the SEZ Rules (2006). In that context it is important that multi-product and single-product SEZs have to be given contiguous land, the only exceptions being the ones that are to specialise in IT / ITES, gems and jewellery and biotechnology. The latter need only 25 acres and can be near existing conurbations, whereas the larger SEZs would have to be located at a distance and served by (often freshly made) trunk roads and related infrastructure.

4.3.5 Meanwhile, 5 April 2007 has been declared as the cut-off date for land acquisition, meaning that the BoA will consider only the following cases: (a) land that the State government allotted prior to 5 April, and of which it had prior possession; (b) land that had initially been acquired against 'in principle' approval (by either the State government or one of its undertakings) but transferred thereafter, by 5 April, and with no dispute outstanding; and, (c) land of which the applicant already has possession and no acquisition would be involved. Indeed, the BoA would not consider any case that involves ‘compulsory’ land acquisition (proposed, or consummated) after 5 April, 2007. But the acquisition can go ahead in case persons interested in the land unanimously decide to withdraw their objections. As for certain States whose laws regulate the ownership of land, the government may notify, and assign, the land to a Development Agency – who would then lease it out to end-user(s), to be used according to an agreed-upon master plan.

5. THE OBJECTIVES OF THIS STUDY

5.1 Official Aims

5.1.1 The main objectives of the study were to assess the extent to which official aims and intents have been attained in relation to SEZs, which were spelt out on 22 August, in the latest set of Lok Sabha responses to certain starred questions about SEZs. The aims include:

a) Generation of additional economic activity;

b) promotion of exports of goods and services;

c) promotion of investment from domestic and foreign sources;

d) creation of employment opportunities; and

e) development of infrastructure facilities.

5.2 Economic Activity – Investment and Exports

5.2.1 Variables such as investment, output and exports are reliable proxies for economic activity. In the case of investment we see (from official figures that have been updated till 31 August, 2007) that domestic developers have already put in 81 per cent of their proposed investment total of Rs 1,00,395.8 crore, while Indian units have invested only 6 per cent of their proposed total of Rs 1,66,785 crore. But the tables are turned when it comes to FDI: foreign developers have sunk 26.8 per cent of their proposed FDI total of Rs 16,138 crore, but foreign units had already brought in 47 per cent of their proposed Rs 1,917 crore in investment. Indeed, Rs 1,48,440 crore is the total investment expected to materialise by December 2009 from the 114 units notified already until 31 March, 2007. However, taking 303 units, the investment figure should rise to Rs 3,00,000 crore – providing 4 million additional jobs into the bargain.

5.2.2 As for output, we supply only export figures. The latter is a good indicator of the output of units within SEZs – units that are going from strength to strength. Exports during 2006-07 amounted to Rs 34,787 crore – already a 52 per cent increase over the 2005-06 figure of Rs 22,840 crore. The official prognostication is that even this amount will rise to Rs 67,300 crore by 2007-08 and go on to outstrip Rs 1,00,000 crore by 2008-09.

5.3 Tax Concessions

5.3.1 Tax concessions have been extended as incentives, both for the units and the SEZ developers. However, such concessions are available through Sec 80 1A to infrastructure developers even outside SEZs. Also, developers pay no customs or excise duties for BoA-authorised improvements in SEZs. But tax concessions to developers are extended on export income for a 10-year block out of 15 years (Sec 80-IAB of the I-T Act). Other exemptions include waivers of CST, State excise and ST, MAT (Sec 115JB of the I-T Act), dividend distribution tax ((Sec 115O), and service tax (Sections 7, 26 and the Second Schedule of the SEZ Act of 2005). One similarity with non-SEZ units is that the latter too can import raw material inputs duty-free, and get tax reliefs for the creation of infrastructure. Units, in turn, get import duty waivers for development, operation and maintenance. They also get 100 per cent Income Tax exemption on export income for the first five years, 50 per cent for the next five and, 50 per cent on reinvested export profits for five more. But it is important to note that the presence of such units does nothing towards upgrading competitiveness, or business ethics, within India: SEZ units have to pay all the usual duties and customs imposts for 'exports' into the DTA. Finally, SEZ units have the liberty to undertake External Commercial Borrowings. That can be to the tune of $500 million annually (with no maturity restrictions) but via recognised borrowing channels. These waivers have been the subject of much debate, but even they pale into insignificance when contrasted with the nature of fiscal sops available elsewhere. The UAE, for instance, fully waives corporate tax – and does so in perpetuity. Ireland exacts just 10 per cent from corporate manufacturers. China gives just a 2-year I-T waiver, but only levies corporate tax (at 15 per cent)[1] when units show a profit. Such policies, and numbers are immensely more attractive than the 30-33 per cent rate of corporate taxation in India.

5.4 The Cost of Fiscal Waivers

5.4.1 The sum total of the tax that will be forgone comes to Rs 57,531 crore, assuming a corporate tax rate of 33.6 per cent, a 20 per cent profit margin

---

1 This rate has since been revised to 25 percent.

and a projected export turnover of Rs 8,00,000 crore. But the government claims that the revenues that flow from direct and indirect, taxes would be much greater. After comprehensive discussions with stakeholders, the Parliamentary Standing Committee (PSC) on SEZs has okayed the Commerce Ministry's view that SEZs will be beneficial for the economy.

The PSC notes that SEZs will yield Rs 1.5 lakh crore as indirect revenue and create 5 lakh direct (and 15 lakh indirect) jobs. The Commerce Ministry has also disputed remarks that tax waivers to SEZs will lose over Rs 1.5 lakh crore in revenue terms. The Ministry noted that these were hypothetical numbers as without the SEZs the investments from which these revenues accrued may never have taken place. The Commerce Ministry has instead said that "*on the contrary economic activities and employment generated in SEZs will far outweigh the tax exemptions*."

5.4.2 That apart, the Commerce Ministry has also said that SEZs cannot be singled out for the haemorrhage in revenues. It has claimed that the revenue losses that the Finance Ministry has projected include over Rs 50,000 crore in direct taxes, about Rs 40,000 crore in indirect taxes and the remainder on zero-duty imports of raw material for export. The Ministry was of the view that "*the raw material duty remission is provided for all exports, [meaning] that loss can not be attributed to the SEZ policy*." The note further adds that direct and indirect tax incomes accruing to the State and Central governments will be much greater than the estimated loss in tax takings. It says, "*The benefits derived from multiplier effect of the investments and additional economic activity in the SEZs and the employment generated thus will outweigh the tax exemptions and losses on account of land acquisition. Stability in fiscal concession is essential to ensure credibility of government intentions*." A final comparison with the dispensation of the earlier fiscal waivers for EPZs would not be amiss.

5.4.3 The incentives package was not attractive initially. Prior to 1981, there were no income tax concessions and tax holidays of five years were offered only in 1981. Nor did standardised excise exemption procedures exist. Suppliers had to first pay excise and then claim a refund only after they could provide proof of supply. Even if inputs in Kandla were all entitled to excise exemptions, there was no State sales tax exemption until 1974 and no Central sales tax (CST) exemption until 1978. DTA sales were only permitted against import licences and rates of duty were exorbitant. Subcontracting of production was not allowed.

5.4.4 Only in the 1980s did some favourable policy changes materialise. The condition of import licence for DTA sale was waived in 1987. Subcontracting for job work in DTA was allowed with the approval of the

Assistant Commissioner of Customs, and in 1986 EPZ units were granted reimbursements of CST. Even then, there were no significant changes in other laws and procedures pertaining to EPZs. It was only in the 1990s, with the government simplifying and rationalising tax structures and introducing major tax cuts, that the incentive package was made more attractive. The duty on DTA sales was reduced to 50 per cent of customs duty in 1991 and the rate of duty on sale of rejects was reduced to 50 per cent of the applicable duty. Besides, DTA sales entitlement for agro based EPZ units was raised in 1992 to 50 per cent of production. EPZ units were given the option in 1995 to switch over to the export promotion capital goods (EPCG) scheme. In the EXIM policy for 1997-02, additional DTA sale was allowed to units based on indigenous raw materials, provided they fulfilled the export obligation. Electronic hardware units were allowed to sell up to 50 per cent of production in the domestic market on payment of applicable duties. Software units were permitted to effect online DTA sales. Finally, tax rates falling in the rest of the economy also eroded the relative advantages of SEZ units vis-à-vis other domestic firms. Even now, the incentives may not be substantial. Furthermore, many managers complain that the incentives are not managed efficiently. Many of them face delays in realising incentives: the rules of exemptions are complex; information is unavailable, staff uncooperative and corruption widely prevalent. Often, firms have to make irregular payments to get the drawbacks.

5.5 Labour Laws

5.5.1 The labour laws that hold within SEZs are identical to the State and Central ordinances that apply within the DTA – the only difference being that, within the zones, the Development Commissioners also double as Labour Commissioners. That has been done to favour rapid dispute-resolution. At the same time it is important to note (again) that it is the State governments that are the real administrators, and – also to an extent – interpreters of labour laws. A curb on unruly / unpredictable industrial action has been the declaration (reiterated every 6 months) of SEZs as 'essential public units'. That was done from even before the passage of the SEZ Act (2005) since such units must meet export deadlines and provide uninterrupted infrastructure services. Indeed, Section 49 of the SEZ Act (2005) prohibits the Central government from making any changes in the laws that relate to the welfare of labour in SEZs. In practice, in fact, labour in SEZs get superior working conditions since units have to comply with the conditionalities of their (external) buyers.

6. THE ISSUE OF LAND ACQUISITION

6.1 The national debate on Nandigram is by no means any different in nature from earlier protests regarding acquisition of land for projects, and one need not look further back than 2006 to note similarities.

6.2 Indeed, 2006 saw the notification of the rules under the SEZ Act (2005) – and they are on the way to creating no less than 300 land-intensive, enclaves. The year 2006 also witnessed popular, anti-SEZ agitations – especially in UP (Dadri, Ghaziabad), Haryana and Maharashtra. Ghaziabad's Dehat Morcha had kept alleging that there were 4.20 lakh acres (1 acre = 0.4 hectares) in the NCR region that government agencies had acquired only in order to re-sell it to property developers and corporates. SEZs have even been creating fissures inside the UPA. It needs no very great political acumen to gauge how embarrassed the CPM must be in West Bengal following the State's Nandigram debacle. However, this is not what is so often alleged as the "*unbridled privatisation of land for purely commercial use devoid of public purpose*". It might even be argued that things are much more upfront, and draconian, in China, where SEZs are few, but the whole economy is run by the government on quasi-market principles (and certainly, there is no place for unionised labour).

6.3 As for those who seek a "public purpose" it should suffice if they understand that an expanding cake is one very important part of that story – but one that had been totally missing during India's long (initial) years of 'planned' development. The other half of the story is that India's political class has kept the economy's main landowners timelessly trapped in crystal – with neither education, electricity (except for the farmers of the North West) nor even basic health care. It is that long history of defaults that has kept farmers chained to their land and made a bogey out of out-migration. Only after they have garnered the wherewithal to tap into this cornucopia will the farmers feel comfortable enough to let go of their land. Meanwhile, the government – like Caesar's wife – must be above suspicion, and the best way it can attain that status would be by revisiting the question of the power of eminent domain for land acquisition for public purposes. That should be accompanied by proper land pricing (with industry preferably in direct negotiation with landed farmers and the government keeping out of their way).

6.4 Land pricing, and particularly where agricultural land is acquired by State governments, needs to be carefully and transparently done. The existing process of arbitration and adjudication on appeal needs to be re-examined and sharpened. Failing that, we will have to live with the perception of inequity in the land acquisition process – something that will surely spike the actions of the buyer on the one hand, and farmers on the other. Worse, executive clumsiness has also played into the hands of the opposition: rival parties have often been able to garner a constituency based on their demonstrative dissent on the matter of dispossessing farmers from their land. As for the real extent of the problem, there is land aplenty – but even that is not enough for the degree of political opportunism that infuses this debate.

6.5 In this context, it is interesting to note that the total land area in India is 2,973,190 sq. kms and total agricultural land is 1,620,388 sq. kms. What is being sought for SEZs is in the region of 2058 sq. kms – which would be just about 0.069 per cent of India's total land area. Nor would it exceed 0.12 per cent of total agricultural land.

6.6 There is, anyhow, no immediate alternative to SEZs for India. However, the land transfers that these would entail would also mean that real estate pricing must be got right for a smooth transition. Alternatively, valuations may be arrived at in several different ways – i.e., via revenue records, acquisition price, and so on, but they would mostly differ. Ideally, though, what farmers get should reflect not only the opportunity cost of losing their holdings (in terms of future earnings); it must also factor in the inevitable jump in land prices once it looks as though the area might be declared an SEZ. (That would be easy to extrapolate, based on the type and fertility of the land in question, and the expected value of the product for which the SEZ seems likely to be earmarked.) Land acquisition at sub-market rates set by State governments would be the biggest let-down for landholders – especially if they know that an area is destined for much bigger things. That, actually, is the biggest argument for letting intending investors talk directly to landholders. The latter could then bargain for better prices. The experience of Nandigram, Singur (although the latter is not an SEZ) and similar areas shows that cultivators and villages, are no longer willing to take State governments at their word or make big sale-price sacrifices. Even the official claim that landholders should sell at a discount to partially defray the State's costs of re-location, training and job placement rings hollow. It merely holds out the promise of employment, little more. Also, it totally ignores the fact that persons who have been cultivators by tradition may set a very low, zero, or even negative, weight on the relocation / retraining promised by the State. Indeed they might even turn the State government's logic on its head and claim supra-market rates. Their logic: they must be compensated for the traumas of re-location, loss of profession and the arduous business of retraining.

6.7 So, it would really be best if intending industrialists got into direct contact – either with particular landholders, or with any institutionalised body that has been put together through all-round agreement from the local farming community. The latter can even retain real estate professionals to determine the sale value of the land that they currently hold and would like to sell to industry at a fair price. Attempts to include dispossessed landholders have, on occasion, gone even beyond just promises of 'employment guarantees for one person per family' – the most prominent of which have been the mooted idea of land-equity swaps. The way that would work would be through a handover by the SEZ developer of equities (shares) to the seller of land. The quantum of handover would, in turn, be determined by the total value of the land being relinquished – over and above the pre-agreed price-based consideration. The only problem is that other, existing shareholders might feel that such handouts would lower the total dividend kitty and force them to settle for less. That could punish the company in the bourses by inducing stock sell-offs and lowering the value of its equity. But even this added burden on the company might be lightened if the latter manages to strike a contract with those who are parting with their land. The *modus operandi*, in that case, would be for both sides to agree to treat the equity as though it were bonds (or borrowings by the unit from erstwhile landholding shareholders). The company, in that case, would have to only pay out interest on a regular basis until (say) it feels that it will break even – after a pre-agreed interval. Only thereafter would it start distributing dividends based on profits. Not only would that be a help to the unit which might face the usual cash-flow problems initially; it would also dispel the income (dividend) uncertainty which landholders dread. They would get an initial income flow that is guaranteed but, when the unit is on a sounder footing, exchange that for profit-based dividend earnings.

6.8 Nor is there any reason to be discouraged by the way this scheme has run into flak elsewhere. In Dubai, for example, the shares of Emaar – which is building the world's tallest skyscraper – started falling on 19 March, 2007 when the company announced a land-equity deal that would raise the Dubai Government's stake in Emaar to 51 per cent. It fell 17.4 per cent till 23 August, when it rose 5.6 per cent and again by 6.8 per cent on 26 August, when it announced that it would not be going ahead with the swap but working with the government in property development instead.

6.9 In India, though, there seems to be little to comment under this head, except to reiterate that 'discretion' still rules the manner in which the states price SEZ land for particular industrial applicants. Overall, though, it is clear that the initial outgo on land (a capital asset) would be a vital component in the making – or breaking – of the fortunes of any SEZ unit. It is also understandable that the States are competing with others for investment; so who can accuse them if they decide that a capital loss today would be far outweighed if it could seduce a well-run brand that harbours bright prospects. Nevertheless, even that has a major downside.

6.10 To tackle the sensitive issues that were being debated, a directive was issued by the PM to form an EGOM so that contentious issues could be discussed and resolved. The EGOM has in a series of meetings (widely reported in the newspapers) attempted to end the uncertainty about the future of the SEZ policy – in regard to land acquisition in particular. Recently, the Centre also lifted the ban on new proposals and revised the ceiling on the area for multi-product SEZs. New Delhi in fact has amended the principal SEZ Rules, 2006 (vide the SEZ (Second) Amendment Rules, 2007 ("Amendment Rules") with effect from 16 March, 2007). A new rehabilitation policy is on the anvil and the State governments have been informed that developers of SEZs should buy land directly from the farmers without recourse to land acquisition procedures as far as possible. Many State governments have issued guidelines in keeping with the Centre's directive.

6.11 Moreover, it is worth noting that the BoA does possess internal safeguards against misuse by predatory developers. It employs a 24-point checklist to weigh the applicant's financial details, going on to examine land availability and contiguity, recommendations of the State government, projected investment (including FDI, plus its source), export potential (and track record), and employment potential. Applicants are anyway expected to possess minimum group net worth of Rs 250 crore or a minimum investment target of Rs 1,000 crore for multi-product SEZs. The BoA lowers those to Rs 50 crore, and Rs 250 crore, for Sector Specific SEZs where land requirements are limited between 10 hectares and 100 hectares. As for the percentage of SEZ land, which might be utilised for manufacturing, it can vary by activity-type. Initially, multi-product SEZs were limited to just 25 per cent for processing, but that was later raised to 35 per cent (on 6 June, 2006), and, more recently, to 50 per cent. Sector specific SEZs are allowed 50 per cent for processing. The rest of the SEZ is reserved for public goods like infrastructure (power generation and water supply), habitation and community services (schools and skill-development facilities, housing, business complexes, hospitals, hotels, recreation and entertainment facilities amongst other things). Indeed, Rule No 10 of the SEZ Act (2005) allows the developer to apportion the land in the non-processing area for business and social purposes like the ones mentioned (above). The sole proviso is that such constructions should be eligible for exemptions and concessions only with the approval of BoA.

6.12 But the most notable aspect of the SEZ Act (2005) is that it creates self-contained zones and addresses the requirement of every principal stakeholder including the developer and operator, entrepreneur, external suppliers, and residents too. The Act is a complete package embodying all incentives, regulations and every other aspect of the policy framework. That is very different from the earlier guidelines for EOUs and Export Processing Zones (EPZs). Incidentally, the latter were not expected to have any links at all with the DTA. We have also noted certain SEZ 'firsts' in functional areas, like in obtaining clearances, documentation and self-certification. The Act also stipulates a Development Commissioner who exercises such administrative powers as are conferred by the Act. It is then up to State governments to further delegate the powers of the Labour Commissioner to oversee labour laws within the SEZ. That way, the Development Commissioner can exercise the powers of the Labour Commissioner, plus those of the Chief Inspector of Factories. State governments can also create special courts to try all notified offences or suits of a civil nature – State High Courts being the next courts of appeal.

7. INVESTMENTS, EXPORTS AND FISCAL CONCESSIONS

7.1 A stepped up investment profile both domestic and foreign was the central rationale for the formation of SEZs. FDI flows into the economy along with embodied (contemporary) technology and, to the extent, complements the host economy's R&D efforts and spending. Another effect of FDI is that it promotes greater specialisation via intra-industry trade, along with better access to the pool of international technological knowledge. Indeed, export-oriented countries show a strong association between exports and increases in the stock of imported machinery. (That, quite naturally, leads also to a positive relationship between exports and the domestic stock of machinery.)

7.2 There was also the need to attract Foreign Direct Investments into areas where developed infrastructure was available and hassle free. With the country's GDP growth being fuelled by the services sector, particularly IT and IT-enabled services, it was necessary to promote manufacturing activities on priority. The experiences of investors in the zones during the period after the enactment of the Act and the notification of the Rules need to be studied. Would these investments have come into the country if the SEZ policy were not in place? What are the other imperatives that attracted these investments both foreign and domestic?

7.3 The SEZ Act of 2005 offers an attractive package of fiscal incentives and derogations for developers of SEZs, and the units entering them. The range of derogations spans the full range of direct and indirect taxes. As per the provisions of Section 50 of the SEZ Act (2005) both the Centre and the State must legislate derogations from State taxes, levies and duties to SEZ Developers and Entrepreneurs. They must also devolve powers to SEZ Development Commissioners. Also, there are exemptions from customs duties, central excise, central sales tax, service tax, and the securities transaction tax. Rule 12 of the SEZ Act (2005) is on the import and procurement of goods by the Developer; it allows him to import, or procure, goods from the DTA with waivers on duty, taxes and cess for authorised operations.

7.4 Units also get a tax holiday for 15 years in which their earnings stay fully (100 per cent) tax exempt for the first five years, and 50 per cent for the next five. Even the final five years see them being tax exempt on 50 per cent of the export profits they plough back. Moreover, the SEZ Act also offers developers 100 per cent IT exemption for 10 years, in a block period of 15 years. Those may look like big giveaways, but maybe they are not!

7.5 The following is the gist of what some of the best-performing SEZ units (Nokia, Flextronics, Apache etc) have to say. They cite the high costs of (interrupted) power, bad infrastructure, and high transactions costs in general. These shortcomings had prevented them from investing in India earlier. Such deficiencies, they assert, make them internationally uncompetitive. With the new SEZ policy in place they have now started investing. As matters stand, though, there would have been a very short supply of SEZ Developers had there been no tax concessions. Few of them would have been willing to invest Rs 2,500 crore-plus in a multi-product SEZ were they to be denied a time frame for positive returns. For, not only would the financing and installation of world-class infrastructure then entail longer-than-usual gestation periods, potential developers could also take their money elsewhere other than in India (to tap very similar benefits – ones that have already been in place for many years.)

7.6 "Competition for investment" is the name of the game in SEZs – despite which India's fiscal breaks fall well short of what is internationally available to investors. The UAE, for instance, has some of the most attractive Free Zones offering 100 per cent exemption from corporate taxation in perpetuity. Ireland imposes just 10 per cent corporate tax on manufacturing – something that enabled it to ascend the ladder of inward FDI from a rank of 21 (2004) to 7 (2005).Yet another way to woo international capital is the one that

China has chosen. Units in Chinese SEZs get income tax breaks for only two years after they attain profitability, and even the rate of corporate tax, at 15 per cent,[2] is higher than Ireland's. But land is allotted free-of-cost, and units have the power to hire-and-fire!

7.7 That apart, there is competition (perhaps unintended?) for investment even from within India! That is because tax breaks very similar to those reserved for SEZs have already been available to 100 per cent EOU and STP units. These include direct tax exemptions, which will be available for such units until 2009. Quite apart from which, SEZ units get corporate tax derogations only on their export incomes, while DTA sales attract duties identical to those which are levied on any other importer. So, even here it can be asserted that the nature of the Indian economy is such that businesses do need extra compensation in the form of derogations. They do, both for unrequited (and clandestine) outgoes like gratuities or high levels of power theft, and also for having to operate under the constraints of insubstantial – or erratic – infrastructure. The latter, especially, must be complemented by the private creation of what are, ideally, public goods.

7.8 Currently, the assessment of India's fiscal sops and subventions must factor in the following. It might seem that we have been bending over backwards to woo FDI, and even domestic investment, into India's SEZs, but that idea gets dispelled directly we study what the packages on offer elsewhere are. Even on the incentives side, SEZs are a sure way to ensure that States feel the heat of competition for investment and attempt to get their economic act together! That, for instance, is what can be said to have impelled the CM of West Bengal to reindustrialise the State – in spite of many obstacles that have come in the way.

7.9 On the revenue loss issue, which is an area of much criticism, it must also be remembered that should there be no new investments, there will then be no addition in tax revenues. Perhaps, losing tax revenue for a limited number of years while infrastructure is being created, manufacturing encouraged and stimulating demand is a better option for growth. A clear vindication of this viewpoint is how West Bengal attracted entrepreneurs to its Haldia Petrochemicals Project – a billion dollar project of the 1990s. The sales tax waivers and excise concessions that were built into project financing at that time attracted the sort of investment that made it feasible to go ahead with the project. Haldia Petrochem is a living example of how a mammoth industrial complex might be developed, along with

---

2 This rate has since been revised to 25 percent.

downstream industrialisation and employment with revenues being sacrificed for a limited period from the date of commercial operations.

7.10 It is also a lesson that the SEZ policy can well be utilised as a tool to attract and locate investments in those parts of India which have traditionally lacked infrastructure – such as Jharkhand, Chattisgarh, Uttarakhand and the North East. Orissa too is a case which demonstrates how huge investments can be attracted by using such policies. All that underscores the importance of SEZs, as being the only instrument through which individual States can express their level of commitment to industrialisation, employment creation and a sounder fiscal footing.

7.11 Another rationale for the formulation of SEZs was to increase the net inflow of foreign exchange. Such increases are of two types: one obvious channel is via exports that should be internationally competitive since they originate in SEZs. The second conduit is that of higher inflows of foreign direct investment (FDI), that get attracted to more liberal, and less expensive, locations. In 2006-07, exports were estimated to be Rs. 34787 crore (Rs. 9301 crore by new generation SEZs), which was a growth of 52 per cent over Rs. 22840 crore in 2005-06. The projected exports by all 156 SEZs (19 old and 137 new) in 2007-08 are expected to amount to Rs. 67088 crore and by 2008-09 exports from the SEZs are likely to cross 100,000 crore.

7.12 In sum, SEZs offer States the democratic choice of either raising the bar or living with what they already have. It provides them a window through which they could attract investments both domestic and foreign. We end this chapter with an admission that India's fiscal giveaways would be costly, but that they should be seen in the nature of an investment in the future.

7.13 Some official loss estimates were provided in a written reply to the Lok Sabha on Friday, 24 Nov, 2006, by the Minister of State for Finance, Mr S S Palanimanickam. That was a year back, but the Finance Ministry had fed in details of additional SEZs-in-the-making. That had led the Finance Ministry to hike the estimated revenue loss from tax concessions to SEZs to Rs 1 lakh crore-plus for the period 2006-07 to 2009-10. Indeed, the Department of Revenue has since estimated the revenue loss for this period to be Rs 1,02,621 crore. (The loss on account of direct taxes – deriving, for instance, from IT Exemptions in SEZs – is put at Rs 53,740 crore and Rs 48,881 crore owing to indirect tax concessions.)

7.14 But this face-off between the Ministries of Commerce and Finance is an old one. The Finance Ministry highlights the extent of revenue loss but the Commerce Ministry counters it by stressing positive revenue gains over the next five years! (The Left Parties have been lobbying for the removal of tax concessions under SEZ law). Indeed, the benefits from SEZ far outweigh the feared losses! That is also what has been said by the Parliamentary Standing Committee (PSC) on SEZs. It reiterated that SEZs will be severally beneficial for the economy. The PSC noted that SEZs, apart from generating Rs 1.5 lakh crore for India as indirect revenue, will also go on to create jobs for as many as 5 lakh people (directly) and 15 lakh (indirectly).The Commerce Ministry also finds that the tax losses (to the tune of Rs 1.5 lakh crore) feared by the Finance Ministry are hypothetical. The Commerce Ministry, in a note, had said "*on the contrary economic activities and employment generated in SEZs will far outweigh the tax exemptions*." The ministry also says that raw material duty remission is provided for all exports by EOUs and STPs (software technology parks) – meaning the loss cannot be attributed to SEZs. Further, the note adds that the direct and indirect tax income accruing to State and Central governments will be far higher than the estimated tax loss.The Commerce Ministry also instances the potential benefits that will be derived from the multiplier effects of new investments and additional economic activity in SEZs. In addition, it underlined the utmost need to maintain stability in the fashioning of fiscal concessions; that would be essential to ensure that the government does not lose credibility.

8. EMPLOYMENT

8.1 "*India needs to generate 200 million jobs over the next 20 years*" – Planning Commission.

8.2 The Indian workforce will be augmented by over 71 million people by the year 2010. But where are the 71 million jobs? And how many jobs would there be for the 48 million rural youth who will enter the workforce by 2010? According to Nasscom, the IT and BPO sector would be themselves generating 8.8 million jobs by 2010 (but mainly for the urban educated). Therefore, the felt need is that there is an urgent requirement to convert India into a global manufacturing hub by soliciting international brands and companies to establish their manufacturing base there. Only then might manufacturing growth attain parity, or even overtake, the growing services sector.

8.3 Indeed, this focus on jobs makes India somewhat distinct from all the other developing economies, and it is rare in other economies that employment has been the main motivating force behind the creation of SEZs. China, for instance, aids entrepreneurs in its SEZs by easing lay-offs and ensuring that businessmen are better able to weather the downward phases of business cycles. In India, though, it is different; employment creation – direct as well as indirect –has been one of the main objectives behind the creation of SEZs.

8.4 A look at Article 5 (1) (d) in Chapter II of the SEZ ACT (2005) confirms that. It says the Central government, while notifying any area as a Special Economic Zone (SEZ) or an additional area to be included in the SEZ and discharging its functions under this Act, shall be guided by the following guidelines for notifying an SEZ. It includes:

a) working to increase the amount of economic activity;

b) promoting the exports of goods and services;

c) the promotion of investment from domestic and foreign sources;

d) creation of employment opportunities;

e) development of infrastructure facilities; and

f) maintenance of sovereignty and integrity of India, the security of the state and friendly relations with foreign states.

8.5 Remarks in this context that there is no stress on labour rights and human welfare is not correct. It is on record that all economies that have set up such zones have also tended to preserve intact most of the features of their DTA labour laws. (The only two exceptions in this regard are China and Mauritius). Even in India, the provisions of Section 49 of the SEZ Act (2005) deny all powers to the Central government to relax any of the laws that relate to the welfare of labour in SEZs. No SEZs have separate labour laws. The implication of that is, labour in SEZs is protected by all applicable national, and State labour laws. In fact, SEZ labour has it even better since dispute resolution has been put on the fast track. That has been done through the delegation of powers of the Labour Commissioner to the Development Commissioner under the Industrial Disputes Act. (Indeed, that step had been taken even before the enactment of the SEZ Act (2005)). The only 'halter' that serves to rein in frequent, or unruly, labour disputes comes in the form of six-monthly official declarations that SEZ units are deemed to be 'public utilities'. That seems to have contributed to the stemming of flash strikes, or other export-disruptive steps.

8.6 An assessment made by the Department of Commerce (as on 31 December, 2007) indicates that investments made in 187 notified SEZs to the tune of Rs. 56,000 crore will create employment for 100,000 jobs in 2008 itself. The same zones by December 2009 are expected to attract investments up to Rs 283,319 crore and direct employment for 2,109,589 additional jobs. The assessment further indicates that for the 404 SEZs where formal approvals have been given, investments will flow to the extent of Rs 300,000 crore and create four million additional jobs.

8.7 Finally, employment-wise, the Commerce Ministry quite rightly predicts improved levels of economic activity and thus, labour absorption. That would offset the initial revenue losses born of tax derogations. It would also heighten activity and employment. Indeed, last November, senior Commerce Ministry officials had projected the creation of 80,000 additional jobs by December 2006 – with indirect employment being three times as great as direct. They had then gone on to predict the creation of over five lakh additional jobs within SEZs (and 15 lakh outside) by December 2007. Total investment is pegged at around $30 billion by 2011, accompanied by the additional employment of 15 lakh within SEZs.

9. MANAGEMENT OF MULTI-PRODUCT ZONES

9.1 How is the extra-industrial / urban aspect of the SEZ being addressed?

a) Who is responsible for providing the various services that local urban bodies typically provide?

b) Who is responsible for undertaking and enforcing the planning function of the area, e.g., zoning, building bye-laws, etc?

c) Who is responsible for providing low-income housing, affordable education and health, etc?

d) How will these services be financed? To what extent is public support, if any, available?

9.2 The SEZ Act and Rules stipulate that the developer will be responsible for installing the infrastructure and subsequently for its management. At the SEZ level the Approvals Committee is headed by the Development Commissioner (an officer of the rank of Joint Secretary to GoI). The Approvals Committee would have representation from various agencies of the State and Central governments and it is they who would be responsible for giving guidelines to developers for the management of SEZs; these representatives would also include experts on urban management, environment and other areas.

9.3 With respect to zoning and municipal laws, it would be up to the Approvals Committee to develop their framework – keeping in mind the size and location of SEZs. The objective of the policy is to install infrastructure that is internationally competitive, and erect a framework of well managed security and public services. Only that would outgrow the older Indian industrial models that also entailed the parallel creation of industrial-township slums, overstretched infrastructure, and the total breakdown of law and order.

9.4 It is the responsibility of the developer to attract private capital to provide affordable housing, basic education, health care, recreational facilities and similar social infrastructure. He is expected to do this through a transparent calling of bids and with the final approval of the Development Commissioner (Approvals Committee). The cross subsidisation of services can be envisaged too, with units in the SEZ contributing so that their employees may reap the benefits of priced services at affordable rates.

9.5 The financing aspect will be taken care of by the fact that developers and State governments will be expected to synergise their activities very closely. The State governments could chip in to fill in project-specific financial shortfalls, for example by part-financing the creation of an engineering college or a skill-formation institute.

10. CONCLUSION

10.1 Whether or not a SEZ induces trickle-down, or knock-on, effects depends on the speed with which investor expectations get met, and also (as noted above) on how much more difficult it is to conduct business within the DTA. Derogations from the DTA's regulations and levies are central to this scenario.

10.2 In this context it is notable how early SEZs, like the one in Bangalore, have provided lessons to other late-comers like the ones subsequently set up in Hyderabad, Noida, Andheri (SEEPZ), Surat, Kandla, Chennai (MEPZ), Vishakhapatnam (VSEZ), Kolkata (Salt Lake), Indore or Jaipur. And some have done better than others in this game: Noida and Hyderabad, in particular, have stolen a march over their peers in the investment and net-exports game.

10.3 As for the expectations about 'projected benefits', they can be said to be contributing by default. That is to say, SEZs (much more than EOUs) have been doing what they have been set up to do, i.e., earning foreign exchange and — in the case of software – they have also been utilising human resources, skills which had few takers hitherto. Indeed, they can confidently be expected to do more of the same as and when India's basic and higher education system gears itself up to meet the imperatives of ever-greater value-addition.

10.4 In this context, it is also very significant that comparable SEZs in other countries such as China, USA, Thailand and the like are all ahead of India in the literacy race; that is what explains why they have been able to enrich many more of their citizens by drawing massively on much deeper reservoirs of skill and proficiency. It also explains the ease and proficiency with which their populaces have been able to embrace the transition from a rustic lifestyle.

10.5 As for the various inspections that might be consolidated or waived for SEZ units, the answer is – leave the private sector to largely self-monitor aspects that can be left to market forces. The only caveat here is that one should also ensure that they have the incentive to act thus. And that can be instituted only by ensuring greater openness, competition – contestability, in short. An ambience that does not stifle competition and promotes private enterprise is the key to this. And such an ambience in turn necessitates import liberalisation plus a watering down of the DTA's regulatory framework.

10.6 Competition is better than inspection also because it obviates the possibility of collusion between inspectors and proprietors – a procedure that might pass muster in official documentation, but which will surely be exposed in a more competitive marketplace. Hence the only aspects that should be left to government intervention, or subvention, are the ones relating to the creation and supply of public goods, or such like. That is so because underinvestment is the norm for such activities; they yield little to an individual private investor since they create positive externalities that can be appropriated with cost by others who sidestep the cost of investment.

10.7 Finally, it is vital that infrastructure building should not be confined merely to the immediate operating environs of coastal SEZs. They must be laid out in a manner that enables SEZs to dot the entire economy, including the hinterland. The locations for the new SEZs should be selectively done so that they spread development and address existing regional imbalances. Only then will SEZs fulfill a public function by sourcing inputs from all across the economy – lowering costs, raising value-addition and hiking living standards all around. Government budgetary support should lead to investments such that SEZs can reap greater externalities. These must be interwoven into the overall framework of the larger SEZs. It is understood that the Planning Commission is already making an attempt to provide external infrastructure support to SEZs.

10.8 This paper has discussed the issue of size and its linkages to the processing and non-processing zones of SEZs. But it merits consideration whether this piecemeal, SEZ-specific, approach cannot be complemented by another – one in which a single, large, non-processing zone is established to serve not one, but a number of non-contiguous (but proximately situated) SEZs. That will enable SEZs to come up in disparate pockets of inferior agricultural land in which farmers would have no interest. We have also attempted to show how vital the SEZ scheme is for all-round economic development. Not only does it unleash the creative energies of the private sector, it also lightens the development burden of the government (which can then concentrate its effort in other 'basic human needs' areas), inducts FDI along with the latest technologies, and evens out the growth momentum across all regions.

References

Aggarwal, Aradhna (2004)"Export Processing Zones in India: Analysis of the Export Performance ", ICRIER Working Paper 148, November 2004

Aggarwal,Aradhna (2006) "Special Economic Zones: Revisiting the Policy Debate", *The Economic and Political Weekly*, 4-10 November, 2006, p 4532

Engman, Michael; Osamu, Onodera and Enrico Pinali (2007) "Export Processing Zones: Past and Future Role in Trade and Development", OECD Trade Policy Working Paper, No 53, http://dx.doi.org/10.1787/035168776831

Kundra, Ashok (2000): *The Performance of India's Export Zone: A Comparison with the Chinese Approach*, Sage Publications. New Delhi.

Fact Sheet on Special Economic Zones (as of 2 January 2008)

SEZ Act 2005	Passed by Parliament in May 2005Recd. Presidential assent on 23rd June 05Came into effect on 10th Feb 06 supported by the SEZ Rules
No. of valid formal approvals	216 (out of 404)
No. of Notified SEZs (As on 2 January 2008)	188 (out of 404)
Land requirement:	Ground Realities:Total Land in India : 2973190 sq kmTotal Agri Land in India: 1620388 sq km (54.5 per cent)SEZs formally approved and notified – Approx 561 sq km In principle approvals (167) :Approx. 1531 sq kmTotal Area for proposed SEZs (FA+IP) – Approx. 2092 sq km which would not be more than 0.070 per cent of the total land area and not be more than 0.128 per cent of the total Agricultural Land in India.Formal Approvals incl. notified SEZs:Approx 56108 hectaresProposals from SIDCs / St. Govt. Agencies: 95Land requirement for the 95 proposals: 21626 ha
No. of valid In principle approvals	167
Investment made in notified SEZs	Rs. 52354 crores
Employment created in notified SEZs	59356 persons (Direct Employment generated after February 2006) (as on 30.11.2007)
Employment in Private / State Govt. SEZs which came into force prior to SEZ Act, 2005	35477 persons (Direct Employment) – (most of the employment generated after 2004-05) (as on 30.11.2007)
Expected investment and employment from SEZs (by December 2009):	By the notified SEZs as on 30th September 2007:Investment: Rs. 2,85,279 croresEmployment: Over 2,100,000 additional jobs (Direct Emp.)
Exports in 2006-07	Rs. 34787 crores (Rs. 9301 crores by New Generation SEZs) Growth of 52 per cent over Rs. 22840 crores in 2005-06
Exports effected during six months of 2007- 08 (April-September, 07)	Rs. 25103.79 crores
Exports projected by all 207 SEZs (19 Old + 188 New) in 2007-08	Rs. 67088 crores200 per cent increase in 2 years Exports from SEZs likely to cross 100,000 crores by 2008-09

Summary of Investment and Employment in SEZs
(as of 2 January 2008)

A.	**No. of units in Central Govt. SEZs**	**986**
	No. of units in State / Private Sector SEZs established prior to SEZ Act	284
	No. of units in 188 SEZs notified under SEZ Act	148
	Total	**1418**
B.	**Employment:**	
	Current employment (Direct)	
	Govt. SEZs	181125
	State / Private Sector SEZs established prior to SEZ Act	35477
	188 SEZs notified after SEZ Act	59356
C	**Investment made:**	
		Rs. crores
	Central Govt. SEZs	
	Govt. investment	595.57
	Private investment	3087.96
	FDI	955.45
	Total	**4638.98**
	State/Private Sector SEZs established prior to SEZ Act	
	Investment including FDI	2638.2
	Investment in 188 notified SEZs:	52354
	Total	**59631.18**

CPR OCCASIONAL PAPER SERIES

OCCASIONAL PAPER NO. 17

The Promised Land of SEZs

PARTHA MUKHOPADHYAY

CENTRE FOR POLICY RESEARCH
Dharma Marg, Chanakyapuri
New Delhi-110021

March 2009

About the Author

Partha Mukhopadhyay is Senior Fellow at the Centre for Policy Research

E-mail: partha@cprindia.org

March 2009

The Paper can be downloaded from the CPR website.

e-mail: cprindia@vsnl.com
Website: www.cprindia.org

II

THE PROMISED LAND OF SEZs[1]

Partha Mukhopadhyay

1. INTRODUCTION

1.1 In the last year, Special Economic Zones (SEZs) were a much discussed issue. Most of the discussion focused on two issues, viz. (*a*) the acquisition of land, rehabilitation, the consequences for farmers and agricultural output, and (*b*) the cost of the various tax benefits provided to developers of SEZs and the units to be located in them. While these are important issues, they address only the cost aspect of the equation. Taking another path, this paper tries to determine the expected benefits from SEZs and whether they are being achieved. For this, it relies not on aggregate data but on projections made by the developers of individual SEZs that form the basis of claims advanced by the Ministry of Commerce and Industry. What does the data say about the promised land of SEZs, the exports, the nature of investment and employment, regional dispersion and governance?

2. EXPECTED BENEFITS

2.1 While the preamble to the SEZ Act 2005 says that SEZs have been established 'for the promotion of exports', section 5 of the Act says that the Central government will be guided by the following principles while notifying any area as a SEZ, viz.: '(*a*) generation of additional economic activity, (*b*) promotion of exports of goods and services, (*c*) promotion of investment from domestic and foreign sources, (*d*) creation of employment opportunities, [and] (*e*) development of infrastructure facilities.

2.2 The brief discussion in both Houses of Parliament on the SEZ Bill in May 2005 indicates that lawmakers were more concerned with investment,

---

[1] This paper was first published in *Seminar* January, 2008. (See http://www.india-seminar.com/2008/581/581_partha_mukhopadhyay.htm). The text remains the same except for minor copyediting changes. However additional tables, indicating the present status up to 1 August, 2008 have been added. Both the original and updated tables are presented in this version.

growth of manufacturing and employment and referred to costs only in passing. The focus was much more on the condition of labour, the role of the State governments and the private sector in the administrative structures, and most critically, employment.[2]

2.3 The lawmakers saw exports not as an end in themselves but as a route to increasing employment. The Minister for Commerce and Industry, Kamal Nath stated in the Lok Sabha: 'We no more talk of exports to earn foreign exchange. [In the] Foreign Trade Policy which was announced by the UPA government…we kept the focus on how we would generate employment. In fact, exports today represent one of the most important employment generating activities.'

2.4 The other benefit apparently expected from SEZs is inclusive development. Speaking in the Rajya Sabha the minister said: 'A concern expressed by almost all the members was that the development which takes place, the SEZs which takes place, don't happen in a localised area. What happened in China? Largely the development and SEZs there are highly localised. We don't. We have always stated that our developmental process has to be all-inclusive. Not only all-inclusive but must encompass all states. That is not the Chinese belief. So, we cannot have a Chinese concept.' So, will SEZs help increase employment growth, especially manufacturing employment and help spread development more evenly?

3. COSTS

3.1 Discussing benefits does not mean that the issue of costs is resolved. There are serious deficiencies in our land acquisition policy. With changes in economic structure, the pattern of land use will change. If the new uses generate enough surpluses, most affected persons can be persuaded to part with land voluntarily. Unfortunately, in India, state power has been used not to overcome recalcitrant hold-outs, e.g., through super-majority provisions, but to subsidise the cost of acquisition.

3.2 Dispossessing poor farmers to subsidise SEZs is *prima facie* unconscionable. In the land acquisition process, it is important to ensure (*a*) security for the family whose livelihood is being affected, (*b*) fairness,

[2] The Parliamentary Standing Committee on Commerce, however, did address the land acquisition issue and recommended a reduction in the maximum size of the SEZs, a proposal that the government acceded to by putting a cap of 5000 hectares on the SEZ, which it now seems to be reconsidering (see 'Govt. may ease land ceiling on multi-product SEZs', *Indian Express*, 4 December 2007 http://www.indianexpress.com/story/246437.html)

BOX :1: *Sharing the Gains*

One idea that has gained currency is to give affected persons a stake in the proposed project. This is not always sensible, since it ignores the possibility that the project may fail. There is little logic in making a deprived section of the population absorb the cost of failure, especially when they had little choice in initiating the project. Ideally, they should share in the gains, while their losses should be limited. One way to achieve this would be to transfer the payback from successful projects into a community fund that would go towards improving common physical and social infrastructure, like electricity, water, road connectivity, schools and hospitals. In case the project fails, the government would assure that it would finance these services instead.

The challenge is to ensure premium educational, health and physical infrastructure in the affected area so that the next generation, the teenage children of the forty year old can aspire to be and work as an engineer or manager in the factory and not as an unskilled worker. This is not romantic utopia. Even within our existing institutional system, our little-touted Navodaya Vidyalayas, coupled with an extensive scholarship and training programme, can make this happen.[3] Sadly, any reasonable person would disbelieve the government's assurance of basic rehabilitation, leave alone such tall promises. The basic problem is a lack of trust in the state. In the final analysis, until the state is seen not as an instrument of expropriation, but as a fair arbiter, conflict is inevitable. The way to gain such confidence is by repeated demonstration of good intent. Regretfully, there are no signs that the state wants to start on this path.

i.e., enabling them to share in the gains (Box 1 addresses some of the recent suggestions in this regard), and (c) capability to take advantage of the changes in economic structure. Our current land acquisition policy ensures none of these. Even when one agrees with the objectives of SEZs, this aspect needs to be thought through much more carefully.

3.3 Similarly, the fiscal benefits for SEZs are ill-designed. The current structure of incentives for SEZs envisages a tax holiday for five years, then a low tax rate for the next five, and an investment tax credit for the final five. Various estimates of revenue loss as a result of these incentives have been presented but a greater cost may be induced by investment distortions. Tax holidays tend to reward the founding of a company, rather than investment in existing companies and benefit short-term investments,

3 While the Tatas have undertaken an initiative to train some local Singur youth in ITIs (Industrial Training Institutes), this effort is limited. The Singur project has been abandoned since the first publication of this paper.

characterised by companies that can quickly relocate from one jurisdiction to another. This undermines the effort to attract long-term stable investments. So, if tax incentives are indeed necessary, and this in itself is debatable, an investment tax credit or a lower tax rate may be better than a blanket tax holiday.

3.4 Thus, the SEZ policy may be much more costly than necessary, but is it delivering the expected benefits? Earlier this year, the Ministry of Commerce and Industry began releasing data on the commitments made by developers in their applications for the grant of SEZ status. These promises are the basis of the Ministry's projections of employment and investment in the SEZs. A close look at these data can help us understand the promised land of SEZ.

4. DATA ON SEZs

4.1 For comparability, we focus only on the 154 SEZs that have been notified under the SEZ Act. These SEZs occupy a total of 20,388 hectares, i.e., about 204 sq km. Information about the name, location, area and type of SEZ is available for all 154 SEZs. For the purposes of analysis, the types of SEZ have been grouped under four broad heads, viz. (*i*) IT / ITES, which includes information technology (IT) and IT enabled services (ITES),[4] (*ii*) Existing Strengths, which cover our current export basket, i.e., apparel, textiles, gems and jewellery, footwear and pharmaceuticals, (*iii*) Multi product, and (*iv*) Others.

4.2 Table 1 shows the number of SEZs for which data are available for an additional set of sixteen items of data. It is curious that data on items mandated in the SEZ application are not available for all the notified SEZs. Indeed, only three notified SEZs seem to have provided the necessary details. This shows the approval process in poor light.

4.3 Table 2 shows the share of different types of SEZs for six different parameters, viz. (*a*) number of SEZs, (*b*) area under SEZs, (*c*) proposed investment by the developer, (*d*) proposed investment by units, (*e*) proposed direct employment, and (f) proposed indirect employment. This provides a measure of sectoral concentration of SEZs. As a measure of the geographical concentration for each of these six items, the table also shows the share of two States, viz. Andhra Pradesh and Gujarat and five States, viz. Andhra Pradesh, Gujarat, Karnataka, Maharashtra and Tamil Nadu, usually the top two and top five States, except as noted below.

---

[4] This includes electronic hardware, which is a very small proportion of this group.

5. NUMBER AND AREA OF SEZs

5.1 To begin with, consider the number of SEZs and the area under SEZs. As is clear, the IT/ITES sector dominates the number of SEZs, with almost two-thirds in this sector. However, most of these SEZs are small in size and therefore the large multi-product SEZs, though much smaller in number, dominate in size, with over half the area under the eight multi-product SEZs that have been notified so far. Geographically, more than three-fourths of the SEZs by number and 92 per cent by area are in the five States. Of this, two-thirds of the area is in just two States. The distinction in share between number and area occurs because Gujarat has relatively few IT/ITES SEZs and more large multi-product zones.

6. INVESTMENT

6.1 Information about proposed investment by the developer is available for 109 SEZs, with a projected total of over Rs 100,000 crore,or USD 25 billion, apparently over five years.[5] Of this, 46 per cent is in IT/ITES, another 4 per cent is in Existing Strengths and 25 per cent in Multi-Product SEZs, amounting to 75 per cent. The remaining 25 per cent is in other types of SEZs of which 17 per cent is in port and power. Locationally, 83 per cent of this investment is in five States with 62 per cent in just two States. In this instance, the five States are not the top five. If one replaces Maharashtra by Kerala, which accounts for 12 per cent of the total, the share of the top five States jumps to 89 per cent.

6.2 Information about proposed investment by units is available for a much smaller number of SEZs, only for 63 SEZs, with a projected total of Rs 166,785 crore. For purposes of comparison, the investment in manufacturing in India in 2005-06 alone was Rs 360,000 crore. Of this, 9 per cent was in IT/ITES, another 4 per cent was in Existing Strengths and 78 per cent in Multi-Product SEZ, amounting to 91 per cent. Locationally, 92.4 per cent of this proposed investment was in AP and Gujarat (46 per cent each), followed by Karnataka, Punjab and Haryana, who add another 4.4 per cent. The proposed investment in units is therefore extremely skewed, even more so than investments by developers. To illustrate, 40 per cent of this, Rs 67,500 crore, is accounted for just by one 10 sq km Multi-Product SEZ in Kakinada.

---

5 This is not clearly mentioned but is inferred from the fact that the SEZ Application Form mentions that the projections are over a five-year period.

7. EMPLOYMENT

7.1 The criticality of employment as an objective is well exemplified by the Minister for Commerce and Industry, Kamal Nath, who, at the end of the debate in the Lok Sabha, said: 'With these few words, I request, the support for this Bill to start a new avenue for employment generation'.

7.2 Information about proposed direct employment is available for 110 SEZs, projecting a total of 2.14 million employees. Of this, 61 per cent is in IT/ ITES and another 15 per cent is in Existing Strengths with a further 21 per cent in Multi-Product SEZ, amounting to 97 per cent. It is interesting to note that the 1.25 million direct employment proposed to be created by the IT/ITES SEZs alone exceeds the current employment in that sector. Further, 85 per cent of this proposed employment is in the five States, with 40 per cent in Andhra Pradesh alone, of which two-thirds is from IT/ITES SEZs.

7.3 In addition to direct employment, information about proposed indirect employment is available for 82 SEZs, with a projected total of 2.94 million employees. The methodology for calculating the indirect employment is not apparent and varies widely across SEZs, even in the same sector, as noted later. Of this indirect employment too, 68 per cent is generated by IT/ITES, another 12 per cent is in Existing Strengths and 17 per cent in Multi-Product SEZ, again amounting to 97 per cent.

7.4 The five States account for three-fourths of the indirect employment generated but in this instance, if one replaces Tamil Nadu by Punjab, the share of the top five States jumps to an amazing 92 per cent. This is because 17 per cent of the total indirect employment, i.e., half a million jobs are generated by one IT/ITES SEZ, Quark City, in Mohali, Punjab. Even so, it is not the top job generator, which is another IT/ITES SEZ, viz. Sanghi in Andhra Pradesh which proposes to create 600,000 jobs. Of the approximately two million indirect jobs to be created by the IT/ITES SEZs, over half, i.e., 1.1 million jobs are in just two SEZs (see Box 2).

8. LOCATION

8.1 Not only are SEZs located mostly in a few States, even within these States they are concentrated in a few districts. The notified SEZs are limited to only 53 districts out of 607 districts and even within these 53, they are highly concentrated. Figure 1 shows how the 154 SEZs and 20,388 hectares occupied by them are distributed across twenty districts and it shows the share of each district in the 2.1 million direct and 2.9 million indirect jobs proposed to be generated by the SEZs. These twenty, mostly urban, districts account for 71 per cent of SEZs by number, 82 per cent by area, 88 per cent by number of direct jobs and 89 per cent of the indirect jobs generated. Even within these twenty districts, the top five districts in each category account for 43 per cent of the number of SEZs, 53 per cent of the area, 57 per cent of the direct jobs and an astonishing 79 per cent of the indirect jobs generated, the last, driven by three distinctive SEZs which account for 1.5 million of the 2.9 million indirect jobs proposed to be generated by the SEZs.

BOX 2: ***The Fundamentals of SEZs***[6]

Almost the entire indirect employment in Punjab comes from one zone, Quark City SEZ, in Mohali, which proposes to create half a million indirect jobs and directly employ 55,000 IT/ITES workers on a 13.75 hectare plot. If we could replicate Quark's *proposed* employment intensity, across the approximately 20,000 hectares of SEZs that have so far been notified, we would have created more than 700 million *proposed* jobs! Another SEZ that would create more than half a million jobs is the Sanghi SEZ in Ranga Reddy district in AP, which proposes to create 600,000 indirect but only 1,000 direct jobs on a 200 hectare SEZ. These cases need to be studied in more detail.

8.2 Not only are the SEZs localised, they are also localised in particular types of districts. Table 3 shows how many SEZs are situated in districts that are above the national average on a variety of parameters. Only 35 and 22 SEZs are in districts with above average numbers of Scheduled Castes and Tribes respectively. In contrast, of the 154 notified SEZs, 124 are in districts with an above average urban population and 131 with an above average number of non-agricultural workers and a staggering 148 in districts with an above average level of literacy.

All the major cities except Kolkata are part of these districts, viz. Delhi (Noida and Gurgaon), Hyderabad, Bangalore, Chennai, etc. even though some of the larger proposed SEZs around Mumbai and Delhi are yet to be notified. In addition, many of the new cities, such as Pune, Vishakapatnam, Coimbatore, Indore, Ahmedabad, Mohali, Nagpur and Surat figure in the list.

---

6 The Quark City SEZ is promoted by Quark Inc., which has a large share of the publishing software market. A quark is a physical particle that is visible only fleetingly. They form one of the two basic constituents of matter and various species of quarks combine in specific ways to form protons and neutrons.

9. FOREIGN DIRECT INVESTMENT

9.1 As for Foreign Direct Investment (FDI), information about proposed FDI is available for very few SEZs: 18 SEZs provide data on FDI in rupees and 15 for FDI in US dollars. These indicate that Rs 16,139 crore (roughly US$ 4 billion) is proposed to be invested, of which 44 per cent is in IT/ITES, another 21 per cent is in Existing Strengths and 8 per cent in Multi-Product SEZ, amounting to 73 per cent. Most of the remaining (26 per cent) is in two engineering products SEZs in Gujarat. Location-wise, 82 per cent of the FDI is in three States, viz. AP (32 per cent), Gujarat (28 per cent) and Tamil Nadu (22 per cent). The US dollar data indicate that another USD 1.92 billion is proposed to be invested, of which 38 per cent is in IT/ITES, another 42 per cent is in Existing Strengths, all of it in one textile SEZ in Andhra Pradesh and 17 per cent in Multi-Product SEZs, amounting to 99 per cent of proposed dollar FDI. Over 93 per cent of this is in AP (55 per cent), Punjab (21 per cent) and Maharashtra (17 per cent). The total FDI is thus USD 6 billion.

9.2 The available information also provides data for current investment by developers, separately by investment in land (Rs 8,447 crore in 97 SEZs) and in items other than land (Rs 10,220 crore in 66 SEZs). The combined total of Rs 18,667 crore is about 19 per cent of the total proposed investment by developers in 119 units. Of the investment in land, 44 per cent is in IT/ITES and 21 per cent in Multi-Product SEZ with power accounting for another 10 per cent. Of the investment in non-land activities, again 44 per cent is in IT/ITES, but 51 per cent is in Multi-Product SEZs, which is almost entirely in two Gujarat SEZs. Existing Strengths attract only 5 per cent and 3 per cent of investment respectively.

9.3 Information about current investment by units is available only for 42 SEZs, with a total of Rs 23,434 crore, i.e. about 14 per cent of the total. Of this, 6 per cent is in IT/ITES, another 3 per cent is in Existing Strengths but most of the rest, i.e., 81 per cent is in one Multi-Product SEZ in Gujarat. So far, this Rs 18,939 crore of investment has resulted in 680 jobs, including 43 indirect jobs. The data on current investments, therefore, if anything, reinforce the trend towards concentration seen in the data on proposals.

10. ANALYSIS OF DATA

10.1 Sectoral Mix

10.1.1 The examination of the data available from the ministry raises many questions. A few broad trends are discernible.

Figure 1 : Shares of Select Districts by Different SEZ Characteristics

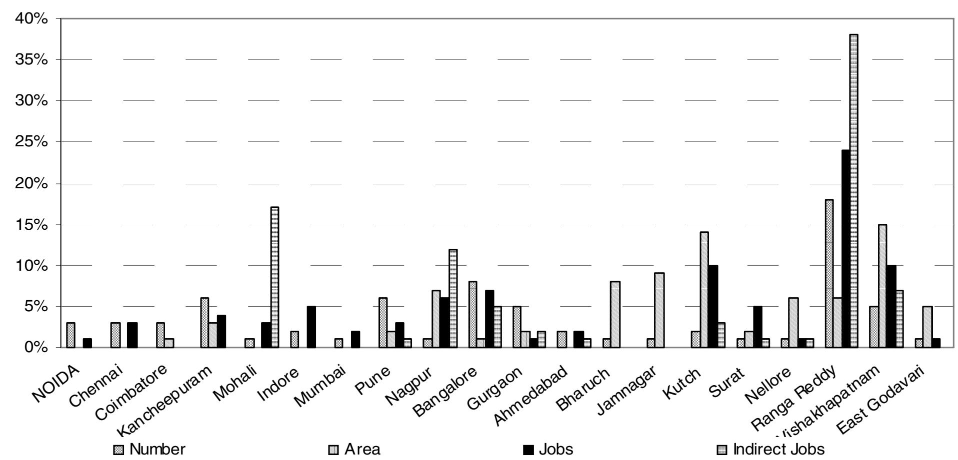
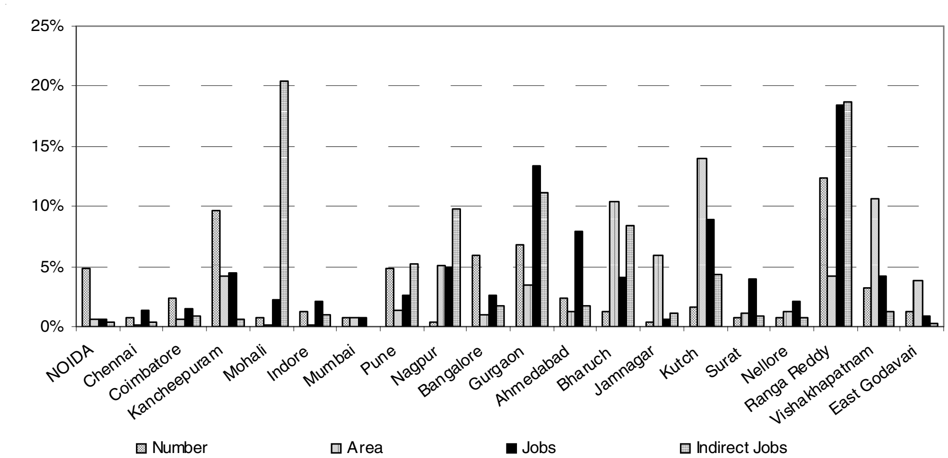


Figure 1(a) : Shares of Select Districts by Different SEZ Characteristics

(As on August 1,2008)



Source: Ministry of Commerce data at http://sezind.a.nic.in

10.1.2 First, the SEZ boom is concentrated heavily in the IT/ITES sector, one that has already boomed. It may not be out of place to characterise the SEZ policy as a continuation of support for the IT/ITES sector through the back door. Nearly 75 per cent to 80 per cent of the proposed employment emanates from the IT/ITES and the traditional exporting sectors namely. i.e., apparel, textiles, gems and jewellery, footwear and pharmaceuticals. The multi-product SEZs, which are to be the harbinger of manufacturing growth contribute but a sixth of the projected employment growth. Nor are the projections of FDI, limited as they are to a few SEZs, very encouraging. It is thus difficult to describe the SEZ policy as one promoting manufacturing employment, even going by the official numbers. If anything, it appears to be reinforcing existing paradigms and providing the IT/ITES sector with an arguably unnecessary tax loophole.

10.2 Regional Spread

10.2.1 Second, regardless of the minister's statement in Parliament that the 'developmental process has to be all-inclusive, not only all-inclusive but must encompass all States,' the forces of economic agglomeration appear to have triumphed over the minister. By all measures, whether by number or area or employment, most of the SEZs are in a small number of districts in select States such as Andhra Pradesh and Gujarat. These districts are more educated as compared to the national average and more industrialised and urbanised. SEZs can therefore be expected to exacerbate regional concentration.

10.2.2 This is not necessarily bad, since there can be significant benefits from such agglomeration. However, the consequences of such concentration and the need to put in place policies to ensure that people from other areas also benefit from SEZs is being ignored, perhaps because of an unwillingness to accept a reality that conflicts with a stated goal. To begin with, there needs to be much more readiness to accept migration on a larger scale to the favoured districts from other areas in the State and the country. For those who think that there is already plenty of migration in India, a comparison with China is a useful cross-check. While about two million people migrate from rural to urban areas in India each year on average, the comparable figure is 14 million in China.

10.3 Credibility of Projections

10.3.1 Third, the credibility of the projections is doubtful. Box 3 provides a Chinese perspective on this issue in terms of the kind of growth that was experienced. In contrast, the case of Quark City and Sanghi SEZ mentioned earlier are striking departures. A number of the other projections could prove equally misplaced. At this point it is useful to ask whether these commitments made by developers of SEZs are binding. Is there any enforcement mechanism? What will happen if the projections are not met? Who will be held responsible?

BOX 3: *How Fast do SEZs Grow?*

An example from China may help to illustrate the time frame of growth in SEZs. The Beijing Economic-Technological Development Area (BDA) was established in 1993 on 46.8 sq. km, i.e., 4680 hectares of land, a size at the upper end of our current limit and is thus a more reasonable comparator as compared to SEZs like Shenzhen, which extend over 350 sq km. This BDA area is designed to contain industrial, business and residential spaces. It is well connected by road, rail, sea and air. Investors benefit from levelled land and access to (*i*) roads, (*ii*) storm water drainage, (*iii*) waste water drainage, (*iv*) tap water, (*v*) natural gas, (*vi*) power, (*vii*) telecommunication, (*viii*) heat, and (*ix*) cable television. Initially, the enterprise income tax rate was 15 per cent, reduced to 10 per cent for enterprises that exported at least 40 per cent of total value of output.[7] By 2004, BDA was home to over 1600 companies from 30 countries employing about a 100,000 persons, with a total investment of USD 8.12 billion, of which USD 3.2 billion was FDI. Of the original 47 sq km, only 23 sq km had been developed.

Compared to this, the ministry projects that the SEZs will create two million direct and three million indirect jobs. This will be a result of investing approximately USD 70 billion in an area of 200 sq km, an investment to employment and an area to employment ratio of about five times that achieved by BDA. Furthermore, this will be achieved in five years compared to 12 years for BDA.

10.3.2 The answers to these questions are, as yet, unknown. The worrying part of these projections is that the Board of Approvals, composed of seventeen officers of the Government of India, one nominee of the State government (which may be a commentary on the participation of State governments), and one professor of IIM, has accepted them. Is this body applying its mind?

---

7 Further, high tech enterprises were exempt from income tax for the first three years with 50 per cent reduction in taxes from the 4th to 6th year and software firms were exempt for the first two years with 50 per cent reduction in taxes from the 3rd to the 5th year. In a recent change in the law in China, these benefits have been rationalised and both Chinese and foreign enterprises now have a common tax rate of 25 per cent.

10.3.3 To answer this question, it is useful to consider a subset of 87 IT/ITES SEZs. Usually, similar projects should have similar characteristics within some range of parameters. For example, the cost of a power plant per mw (for a given type of plant, e.g., coal, gas, hydro, etc.) would lie within some bounds, as also the cost per lane kilometre of highway. Part of the appraisal and project approval process is to ensure that the project costs are within acceptable ranges.

10.3.4 In the case of SEZs, this does not seem to be the case. Table 4 shows the range of variation in a few basic parameters across different SEZ projects of a single type, i.e., IT/ITES projects. The parameters relate to (*a*) investment by developer per hectare, (*b*) direct employment per hectare, (*c*) direct employment per crore of investment, and (*d*) ratio of indirect to direct employees. As can be seen, the distribution is quite wide, varying from less than Rs 5 cr. per hectare to Rs 200 cr. per hectare.

10.3.5 The variation in employment ratios is even more, from less than 100 direct employees per hectare to over 5000 per hectare in direct employment, less than 10 employees per crore of developer investment to more than 2000 and less than one tenth to over 10 (indeed, one SEZ has a ratio of 600!) for the ratio of indirect to direct employees. This kind of variation for a key parameter of interest in a given sector and relatively well understood sector, i.e., IT/ITES, is difficult to explain as variation across business models. Data such as this leads one to suspect non-application of mind at the approval stage.

10.3.6 Not just approval, this apparent mindlessness prevails in monitoring too. Regardless of the statement by the Minister in Parliament that 'we no more talk of exports to earn foreign exchange... We kept the focus on how we would generate employment,' the monitoring formats remain antiquated. Form I, which is supposed to monitor the activities of units in the SEZ, and is issued as part of the SEZ rules, focuses almost entirely on whether the unit is earning 'net foreign exchange' devoting a couple of pages to gathering the relevant details. Employment, on the other hand, merits one line. From Form I, all one can infer is the number of men and women employed, with no information about wages, quality of employment, etc. Are these just more examples of implementation at odds with policy or lackadaisical and mindless administration?

11. THE URBAN DIMENSION

11.1 From their location it is evident that SEZs are very much an urban phenomenon, with the formation of new cities that will be clustered around existing cities. Worse, a number of the SEZs, especially in the IT/ITES sector, are too small to be planned in an integrated manner. For example, of the 27 SEZs in Ranga Reddy district around Hyderabad, 19, all in the IT/ITES sector, are less than 50 hectares. A higher rate of urbanisation is an inevitable consequence and a necessary facilitator of rapid growth but are we prepared for this? What are the arrangements to run the SEZ cities that will emerge if the policy succeeds?

11.2 The existing SEZ Act[8] mentions the word ‘urban’ in two places, once to note that the Ministry of Urban Development may form part of the Board of Approvals, and the other to provide fiscal relief in case a unit moves from an urban area to an SEZ. The word ‘plan’ or ‘planning’ occurs once in the SEZ Act, in the fiscal context mentioned above, but it does occur twice in the rules, to state that the building approval plan will have to be submitted to the Development Commissioner who shall place it before the Approval Committee for consideration and to state that the developer and co-developer should ‘abide by the local laws, rules, regulations or bye-laws in regard to area planning, sewerage disposal, pollution control,’ etc.

11.3 It is apparent that the urban aspects of the SEZs have received little thought and consideration. This is true even in the deliberations of the Parliamentary Standing Committee on Commerce, which did receive some submissions on the urban planning issue from the Ministry of Urban Development. However, the Committee’s recommendation to reduce the overall size of SEZs and increase the processing area indicates an inappropriate comparison between SEZs and industrial estates, rather than industrial townships.

11.4 It appears that the physical planning of the SEZ is at the mercy of the Approval Committee, composed of the Development Commissioner, five Central government officers, two State government officers and the developer as a special invitee. The admonition to abide by local laws potentially involves the local panchayats that exercises jurisdiction over the SEZ area but it is unfortunately unlikely that they will get a role. Moreover, the capacity of the panchayat to engage in discussions with the SEZ developer on issues of area planning is questionable and significant capacity building would be needed in this area. Situations where multiple panchayats exercise jurisdiction over one SEZ can occur, and what will happen in this case is unclear. Indeed, the National Capital Region Planning Board has thus far been ignored in decisions regarding SEZs in the NCR.

[8] The rules mention it only once, in the context of the Board of Approvals.

11.5 So, if the SEZs were to succeed, they could well degenerate into the same kind of urban mess that we see in our cities today, for the same reason – lack of governance. There is almost criminal neglect of urban planning issues in the legislative and administrative framework for SEZs. Indeed, given the kind of location that we have indicated, the urban outgrowth from the existing cities and that from the SEZs can merge to form a large chaotic unplanned morass that will enclose the SEZ.

11.6 In contrast, the Chinese approach, e.g., in BDA, referred to earlier in Box 3, is to bring the zone under municipal management. BDA is one of the thirteen districts of Beijing Municipal Government. A similar zone in Hangzhou, in Zhejiang province, is also under the administration of one of the municipal districts of Hangzhou. The Chinese can do this easily because of two differences: (*i*) the zone land is publicly owned, and (*ii*) the major municipalities have substantive planning capacity, e.g., Shenyang, a city of about four million and the capital of Liaoning province, has a Planning Institute with 300 professionals, including about 60 urban planners.

11.7 Since we have made it harder for ourselves by choosing privately owned SEZs, we will have to evolve alternative governance structures to address this issue. While on the issue, it is useful to clarify that there is no conflict between public ownership of land and private provision of infrastructure services. The implicit cross-subsidy from profits obtained by developing the non-processing area to overall infrastructure can be achieved with the help of a dedicated fund. All the benefits of the SEZ that are currently touted could have been achieved as easily while retaining ownership of land with the public sector. The rationale for choosing this particular development approach to SEZs has never been clearly explained.

12. CONCLUSION

12.1 Based on an examination of data available from the Ministry's own website, while the costs appear very real, the benefits of SEZs appear to be a mirage. If at all, the subsidies in terms of land and tax benefits extended are only helping to support the existing economic structure. More than two-thirds of the proposed employment growth is in IT and IT enabled services and almost 90 per cent of the jobs will be available in twenty districts, which are all above average in terms of urbanisation, industrialisation, and education.

12.2 Moreover, if SEZs were real, they foreshadow a promised land that we are not prepared for and appear unwilling, if not unable to manage.

There has been no thinking of what would need to be done if the SEZs were to actually succeed and grow into cities. Given that many of them are close to existing urban areas, there are major implications for urban planning. Regrettably, this piece of the SEZ puzzle has been missing from inception and even today, there appears to be no recognition of the problem. It may well be that a ministry used to dealing with Export Processing Zones and Export Oriented Units is quite unsuited to the task of regulating Special Economic Zones. However, given the multi-ministerial nature of the Board of Approvals, it appears that these issues are not appreciated by others in the government either.

12.3 The failure is not so much of the SEZ concept as the fact that the existing governance of the process does not inspire confidence due to an inability to define priorities, and regulate and manage the phenomenon called SEZs. The government baldly accepts averments that half a million indirect jobs will be created from a 15 hectare zone. It appears to have no standard, even within sectors, for appraising a proposal and does not even insist on complete information being provided before an SEZ is notified. While monitoring, it ignores employment and sticks to hackneyed metrics like net foreign exchange earned.

12.4 Evidently the government believes it can abdicate governance and outsource the task of development to the private sector. It will soon learn otherwise.

TABLE 1: Data Availability for Notified SEZs

Item	*No. of SEZs reporting data (As on December, 2007)*	*No. of SEZs reporting data (As on 1 August, 2008)*
Proposed Investment by Developer	109	152
Proposed Investment by Units	47	74
Proposed Indirect Employment	82	130
Proposed Direct Employment	110	149
Proposed Rupee FDI	18	36
Proposed Dollar FDI	15	N.A
Cost of Land	82	N.A
Projected Exports 2007-08	63	63
Current Investment in Land	87	130
Current Investment (non-Land)	54	104
Current Investment by Units	23	65
Current Number of Units	49	92
Current Indirect Employment	58	121
Current Direct Employment	57	121
Current Rupee FDI	13	31
Current Dollar FDI	11	N.A

TABLE 2: Sectoral and Geographical Share of SEZs by Different Measures (As on December, 2007)

Sector	Number	Area	Investment (developer)	Investment (units)	Direct jobs	Indirect jobs
Existing Strengths	14%	13%	4%	4%	15%	12%
IT/ITES	64%	14%	45%	9%	61%	68%
Multi product	5%	58%	26%	78%	21%	17%
Others	17%	15%	25%	9%	3%	3%
Share of two States	38%	67%	62%	92%	58%	54%
Share of five States	76%	92%	83%	97%	85%	76%

Note: The two States are Andhra Pradesh and Gujarat, to which Karnataka, Maharashtra and Tamil Nadu are added to make up the five States.

TABLE 2(a): Sectoral and Geographical Share of SEZs by Different Measures (As on August 1, 2008)

Sector	Number	Area	Investment (developer)	Investment (units)	Direct jobs	Indirect jobs
Existing Strengths	11%	12%	4%	3%	19%	9%
IT/ITES	67%	17%	45%	10%	54%	60%
Multi product	5%	55%	27%	78%	24%	27%
Others	17%	17%	23%	10%	3%	4%
Share of two States	31%	59%	49%	74%	55%	43%
Share of five States	71%	89%	74%	88%	76%	66%

Note: The two States are Andhra Pradesh and Gujarat, to which Karnataka, Maharashtra and Tamil Nadu are added to make up the five States.

TABLE 3: Number of SEZ in Districts Above the National Average

	Total SEZs=154 (As on December, 2007)*	**Total SEZs=247** (As on August 1, 2008)*
Urban Population	124	188
Non Agricultural Workers	131	215
Literacy	148	206
Male Labour Force Participation	123	186
SC	35	81
ST	22	40

TABLE 4: Distribution of Parameters Across SEZs in the IT/ITES Sector

Investment/ ha (Cr./Ha)	No.	Employees/ hectare	No.	Employees/Rs. Cr. of Inv.	No.	Indirect/ Direct Employees	No.
Less than 5	12	Less than 100	5	Less than 10	6	Less than 0.10	7
5 - 10	6	100 - 250	8	10 - 20	12	0.10 - 0.25	8
10 - 20	8	250 - 500	10	20 - 30	10	0.25 - 0.50	5
20 - 30	7	500 - 750	9	30 - 40	4	0.50 - 0.75	2
30 - 40	9	750 - 1000	14	40 - 50	10	0.75 - 1.00	7
40 - 50	8	1000 - 1500	7	50 - 100	7	1.00 - 2.50	9
50 - 80	10	1500 - 2000	5	100 - 500	7	2.50 - 5.00	6
80 - 100	2	2000 - 3000	6	500 - 1000	3	5.00 - 10.00	1
100 - 150	1	3000 - 4000	2	1000 - 2000	2	10.00 - 20.00	1
150 - 201	1	4000 - 6000	2	2000 - 4000	1	20.00 - 600.00	2
	64		68		62		48

TABLE 4(a): Distribution of Parameters Across SEZs in the IT/ITES Sector (As on August 1, 2008)

Investment/ ha (Cr./Ha)	No.	Employees/ hectare	No.	Employees/Rs. Cr. of Inv.	No.	Indirect/ Direct Employees	No.
Less than 5	17	Less than 100	23	Less than 10	29	Less than 0.10	11
5 - 10	13	100 - 250	13	10 - 20	14	0.10 - 0.25	10
10 - 20	19	250 - 500	11	20 - 30	9	0.25 - 0.50	8
20 - 30	10	500 - 750	8	30 - 40	7	0.50 - 0.75	7
30 - 40	12	750 - 1000	12	40 - 50	9	0.75 - 1.00	8
40 - 50	9	1000 - 1500	13	50 - 100	13	1.00 - 2.50	17
50 - 80	15	1500 - 2000	4	100 - 500	7	2.50 - 5.00	7
80 - 100	2	2000 - 3000	6	500 - 1000	0	5.00 - 10.00	1
100 - 150	1	3000 - 4000	3	1000 - 2000	1	10.00 - 20.00	4
150 - 201	1	4000 - 6000	1	2000 - 4000	1	20.00 - 600.00	5
	99		94		90		78

CPR OCCASIONAL PAPER SERIES

OCCASIONAL PAPER NO. 18

Location of SEZs and Policy Benefits

What Does the Data Say?

PARTHA MUKHOPADHYAY

and

KANHU CHARAN PRADHAN

CENTRE FOR POLICY RESEARCH

Dharma Marg, Chanakyapuri

New Delhi-110021

March 2009

About the Authors

1. **Partha Mukhopadhyay is Senior Fellow at the Centre for Policy Research**

   E-mail: partha@cprindia.org

2. **Kanhu Charan Pradhan is Research Associate at the Centre for Policy Research**

   E-mail: kcpradhan@cprindia.org

March 2009

The Paper can be downloaded from the CPR website.

e-mail: cprindia@vsnl.com
Website: www.cprindia.org

III

LOCATION OF SEZs AND POLICY BENEFITS: WHAT DOES THE DATA SAY?

Partha Mukhopadhyay and Kanhu Charan Pradhan

1. INTRODUCTION

1.1 This paper undertakes a more in-depth investigation into the location of SEZs, based on data available from the Ministry of Commerce. It builds upon early work in Mukhopadhyay (2008) which noted that not only are SEZs located mostly in a few states, even within these states, they are concentrated in a few districts, most of which had an above average rate of industrialisation. This conjecture is examined in more detail in this paper.

1.2 Two data sources are used for this analysis. The Ministry of Commerce data on SEZs contains information of numbers of SEZs in each category and location of each SEZ, which is used to determine the district of a SEZ. Data from the 2001 Census of India, which covers 593 districts, is used to determine the associated district characteristics[5]. Table 1 provides a description of the data.

2. TYPE AND SIZE OF SEZS

2.1 It is useful to begin with a broad outline of the nature of the SEZs. Table 2 groups the 513 formally approved SEZs data up to August, 1, 2008 into two categories, namely, size and type. The size classification is four-fold, i.e., Tiny (less than 1 sq. km.), Small (1 to 3 sq. km.), Medium (3 to 10 sq. km.) and Large (more than 10 sq. km).[1] The category classification groups various types of SEZs also into four broad categories, which are (a) Existing Strengths, which includes Textiles, Apparel, Pharmaceuticals, Gems and Jewellery and Footwear, i.e., our existing export basket; (b) IT and ITES, (c) Multi-product zones and (d) Others, which includes everything else.

---

1 One hundred hectares is equivalent to a square kilometre.

5 *See* page no. 65.

2.2 As is evident from Table 2, almost all the SEZs are either Tiny (70.4 per cent) or Small (23.6 per cent). Only 6 per cent of SEZs are more than 3 sq. km in size. Most of the Tiny SEZs (85 per cent) are in the IT / ITES sector. Indeed, the IT / ITES sector (63.5 per cent) and the existing sectors (9.5 per cent) comprise almost three fourths of the SEZs, meaning that only 27 per cent of the SEZs belong to potentially new export sectors. Only 19 of the 513 SEZs are conventional SEZs in terms of being relatively "Large" and "Multi-product".

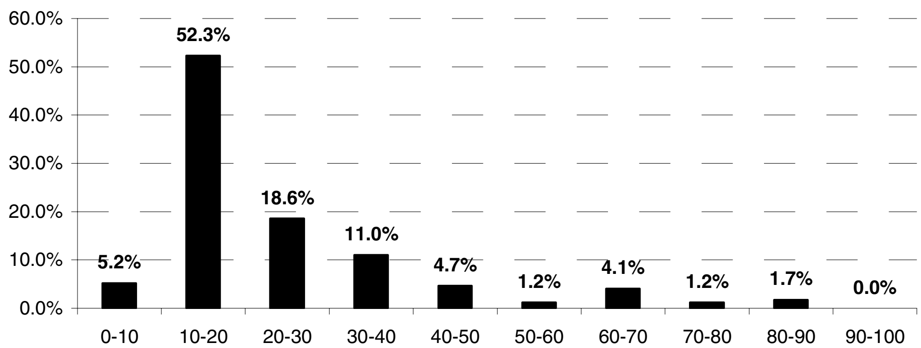
2.3 If anything, this picture is even more exacerbated when one looks only at the notified SEZs as shown in Table 3. A full 94.8 per cent are either Tiny or Small, 78 per cent belong to IT / ITES or sectors that are Existing Strengths and only 10 of 250 SEZs are Large and Multi-product. Even among the Tiny SEZs, as shown in Figure 1, almost all (91.8 per cent) are below 0.5 sq. km. (50 hectares) in size and over half (52.3 per cent) are between 0.1 sq. km and 0.2 sq. km (10 to 20 hectares).

2.4 Because of this smallness of size, the picture is quite different when one looks at the area under different sub-categories of SEZs, rather than their number. Within notified SEZs, even though Tiny IT / ITES form the overwhelming majority of the numbers, the 156 SEZs in that sub-category occupy only 11.4 per cent of the area (33.6 sq. km.) while the 10 Large Multi-product SEZs occupy 52.3 per cent (154.7 sq. km.) of the approximately 295.8 sq. km. of area currently occupied by 250 notified SEZs. The proportions are not much different when one considers the formally approved SEZs. Tiny IT / ITES SEZs constitute 10.6 per cent of the area (64.7 sq. km.) while the 19 Large Multi-product SEZs occupy 49.7 per cent (302 sq. km.) of the approximately 608.2 sq. km. of area currently occupied by 513 formally approved SEZs.

2.5 To summarise, it can be said that most SEZs are Tiny; almost all are either Small or Tiny. Only 13 out of 250 notified SEZs are more than 3 sq. km. Most Tiny SEZs are for IT / ITES activities and most IT / ITES SEZs are Tiny. Even for the categories of "Existing Strengths" and "Others", most notified SEZs are either Small or Tiny, with only 2 SEZs out of 70 notified SEZs in these two categories being more than 3 sq. km. Finally, 49 out of 62 notified Small SEZs are either for "Existing Strengths" and "Others". All the Large SEZs are Multi-product SEZs, as expected.

2.6 Much of the debate on SEZs has thus far focused on land acquisition and the consequent effect on the livelihood of farmers and agricultural labourers. It would appear that much of this issue is concentrated in a limited number (31 formally approved and 13 notified) of Medium and

Figure 1: Size Distribution of Tiny SEZs (below 1 sq. km.)



Area in Hectares (100 ha = 1 sq. km.)

Source: Ministry of Commerce data at http://sezindia.nic.in

Large SEZs[2]. Focusing on these limited numbers of SEZs may help to define the issue more sharply. For the Tiny and IT/ITES SEZs, where land does not appear to be a primary issue, the more important question may be whether they are providing the advertised benefits of SEZs.

2.7 In size, at least, Small and Tiny SEZs are no different from our existing Export Promotion Zones (EPZs) and industrial estates and the Tiny SEZs are much smaller. Since these are dominated by IT/ITES SEZs, it is also pertinent to ask whether IT/ITES continues to need special treatment and perhaps more relevant, for those who agree that such treatment is needed; can the Tiny SEZs (which are all smaller than the Infosys campus in Bangalore) provide it? Similarly, what is holding back conventional (Existing Strengths) and emerging (Others) export sectors? Will Small SEZs be enough to provide them with the facilities they need? Ignoring other controversies, it would appear that the SEZs that are currently mushrooming may fail to meet the test of internal consistency. Even leaving aside other important consequences and associated costs, such as displacement of people who earn their livelihood from the land, or reduction in agricultural output, the question thus arises as to whether one can expect the vast majority of SEZs that are either Small or Tiny to meet the declared core objectives of the SEZ Act, that of accelerating the growth of economic activity and employment.

---

2 Small SEZs (121 formally approved and 62 notified) account for about a quarter of the land use by SEZs.

3. LOCATION

3.1 In this paper we try to answer that question by looking at the location of SEZs. A first answer is given by Table 4, which shows the relationship between the size of SEZs and the urbanisation level of a district, as given in the Census of 2001. Each district is classified into one of four quartiles, i.e. the top 25 per cent (top 148 districts) in terms of urbanisation, the next 25 per cent and so on. Thus, the figures in parentheses in the first column show that of the 70 districts that have notified SEZs, 43 are in the first quartile and 20 are in the second quartile, i.e., 63 districts are above the median levels of urbanisation. The first row shows that 183 of 247 notified SEZs (74 per cent) are in the 43 districts in the uppermost quartile of which 142 are Tiny and 36 are Small. The picture becomes even more skewed when one adjusts for some apparent anomalies in classification and changes since 2001. Specifically, of the 53 SEZs in the 20 districts of the second quartile, 25 SEZs (1 Large, 1 Medium, 4 Small and 19 Tiny SEZs) are in Gurgaon (17) and Raigarh (8). Similarly out of the 10 SEZs in the 6 districts of the third quartile, 3 SEZs (all Tiny) are in South Twenty Four Parganas. All these three districts had lower levels of urbanisation at the district level but they adjoin Delhi, Mumbai and Kolkata respectively. The figures in parentheses in the five columns show the adjusted values when these three districts are considered to be in the first quartile of urbanisation. As one can see, 164 of 172 Tiny SEZs and 211 of 247 notified SEZs of all types are in one of these 46 districts.

3.2 Table 5 looks at the relationship between urbanisation and type of SEZs. The adjusted figures, including Gurgaon, Raigarh and South Twenty Four Parganas are in parentheses, as in Table 4. The preference of IT / ITES SEZs for urban locations is clear, with only 7 out of 166 notified SEZs in districts that are not in the uppermost quartile of urbanisation. While the preference for urban areas is still strong, the other types have a slightly less skewed distribution, with 6 of 13, 10 of 27 and 13 of 41 SEZs located in districts that are not in the uppermost quartile of urbanisation for Multi-product, Existing Strength and Other types respectively.

3.3 Moving a little beyond urbanisation, Table 6 examines location by different characteristics of districts, viz. extent of literacy, the share of Scheduled Tribes and Castes and the share of male workers who are in non-agricultural occupations (MNAG Share). All values for these district characteristics are from the Census of India 2001 and therefore have not been influenced by any effect of SEZs themselves. Here it is important to note that while the share of urban population is an administrative measure since urban areas are defined administratively, the share of males in non-agricultural occupations is an economic measure of existing industrialisation in that district.

3.4 Even within districts that have an urbanisation level above the median, i.e., the first quartile (U1Q) and second quartile (U2Q), and which contain 236 of 247 notified SEZs, one can observe a concentration of SEZs in relatively more industrialised districts, with a higher share of male workers who are in non-agricultural occupations and higher extent of literacy; and a lower concentration in districts with higher shares of Scheduled Caste and Scheduled Tribe populations. While 172 of 183 SEZs in the top quartile of urbanisation are also in the top quartile of industrialisation[3], only 13 SEZs are in districts where the level of industrialisation is below the median. To illustrate this, in the case of the National Capital Region (NCR), which has ten districts[4] in addition to Delhi, 60 of 74 formally approved SEZs (81 per cent) are in the three districts of Gurgaon, Faridabad and Gautam Budh Nagar (NOIDA), i.e., the suburbs of Delhi.

3.5 How strongly will this pattern show up under statistical analysis? To answer this, we conduct an analysis of the *presence of SEZs* in a district, and the *intensity* of SEZs, i.e., the number of SEZs in a district, using the district characteristics in Table 1 mentioned above and state dummies. Furthermore, since it can be argued that there may be selection effects, i.e., some districts may have more SEZs because of certain inherent characteristics or threshold effects, we control for this possibility using the Heckman correction technique.

4. PRESENCE OF SEZs

4.1 The effect of district characteristics on the presence of SEZs is modelled as the probability that a district would have a SEZ, which is consequently estimated using a probit model. The probit model is used when the response is binary in nature, for example whether or not a political party wins an election. Instead of finding out the expected value of the dependent variable as a function of fixed explanatory variable(s), the probit model estimates

---

3 Some of this is to be expected since the correlation between urbanisation and share of male workers in non-agricultural occupations is high.

4 The remaining seven districts are Alwar, Jhajjar, Rewari, Mewat, Sonepat, Panipat, and Ghaziabad.

5 The data is available on request from the authors and can be downloaded from http://www.cprindia.org

the probability of occurrence of an event as a function of given explanatory variable(s), assuming normally distributed errors. The probit model for our analysis is:

Presence of an SEZ in a district	=	*f* (share of male workers in non-agricultural occupations, extent of literacy, share of Scheduled Tribes, share of Scheduled Castes, State dummies)

where,

Presence of an SEZ in a district = 1 if any SEZ is situated in that district
0 otherwise

Except for workers who are in non-agricultural occupations, where only the share of the male working population is used, literacy, Scheduled Tribes and Scheduled Castes are measured as a share of the total district population.

4.2 In a probit model with state dummies, such States where all the districts have SEZs or those where no districts have SEZs, will be excluded from the regression, since they predict perfectly. Thus only those States can be included, for which at least one district has formally approved SEZs, but not all districts have formally approved SEZs (such as in Chandigarh, Dadra and Nagar Haveli and Goa). Using the same criterion, three States (Chhattisgarh, Nagaland and Pondicherry) need to be excluded in regressions where the dependent variable is based on Notified SEZs. Finally, although Punjab and Jharkhand satisfy the above criteria, data for the two districts that have SEZs in these States, viz.: Saraikela-Kharsawan in Jharkhand and Mohali in Punjab, are not available in the Census of India, 2001 as these two districts were formed subsequently. Thus, the States which are included finally in the state dummies are Andhra Pradesh, Delhi, Gujarat, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Rajasthan, Tamil Nadu,

---

[6] In the case of a non-linear model, like probit, the coefficients of the model are not straightforward estimates of marginal effects. Estimated coefficients do not quantify the influence of the explanatory variables on the probability that the dependent variable takes on the value one. A more useful coefficient is the "marginal effect", which measures the change in predicted probability associated with change in an explanatory variable at a point, with the assumption that other variables remain constant.

Uttar Pradesh, Uttarakhand and West Bengal. These States have at least one notified SEZ and also satisfy the condition that not all districts in the State have SEZs.

4.3 Table 7 shows the result of the probit regression as marginal effect of district characteristics, calculated at the mean[6], on the probability that an SEZ would be located in a district. The first three columns provide the results for the presence of formally approved SEZs and the next three for notified SEZs. The first row gives the marginal effect, while the figure in parentheses below gives the standard error of estimation. The last row indicates the Pseudo R^6 of the model. The statistically significant coefficients, at 5 per cent level of significance, are denoted in bold. As indicated in Table 7, the industrialisation variable (measured by the share of male non-agricultural workers) is the only significant variable affecting the presence of a SEZ in a district. Except notified Tiny and IT/ITES SEZs, it is significant for all other four models. It indicates that the probability that a district will have a formally approved SEZ increases by 11.6 percentage points, if industrialisation rises by one standard deviation (19.73 per cent), with all other variables kept at their mean values.

5. INTENSITY OF SEZs

5.1 SEZs are Concentrated In More Industrialised Locations

Since many of the districts have more than one SEZ, we turn from presence to intensity. Is any of the district characteristics related to the number of SEZs in a district? To examine this, we first regress the number of SEZs on district characteristics. As can be seen in Table 8, the only variable to significantly affect the number of SEZs in a district is industrialisation, which positively affects the number of SEZs in a given district, i.e., the more industrialised districts are likely to have more SEZs. However, this can be because of state effects, i.e., because there are relatively more SEZs in relatively more industrialised states. To control for this possibility, we introduce state dummies in the equation. As can be seen in Table 9 this increases the effect of the industrialisation variable, though not in a statistically significant manner. The differences, while not significant, are consistent, and could with some imprecision be interpreted as an indication that the SEZs are concentrated in more industrialised locations within States.

5.2 Industrialisation Effect Stronger for Tiny and IT/ITES SEZs

Moreover, the effect differs across the various types of SEZs. The industrialisation effect is much stronger for Tiny and IT/ITES than non-

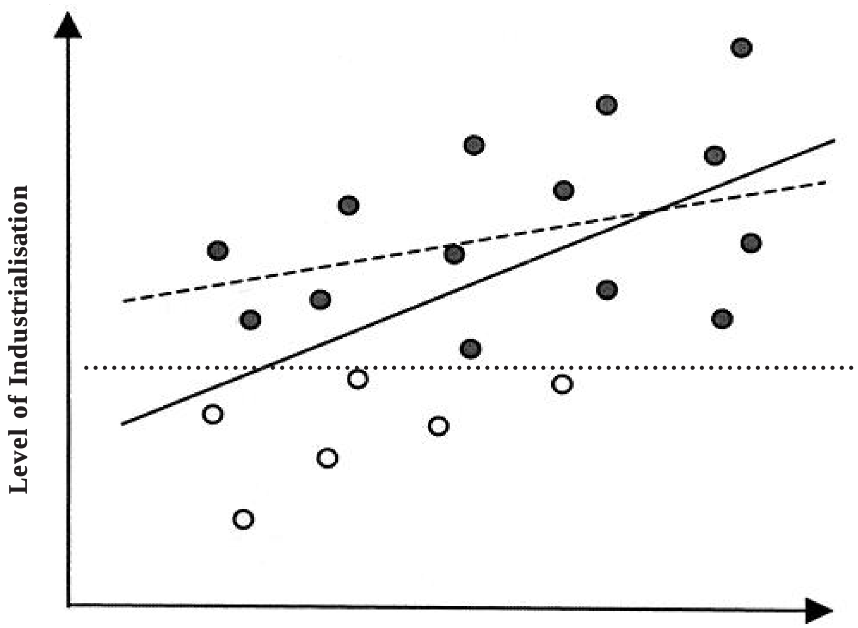
Tiny and non-IT/ITES SEZs. Table 10 shows a statistically significant difference in the coefficients on industrialisation across Tiny and non-Tiny SEZs and IT/ITES and non-IT/TES SEZs. It would thus appear that the location decisions of Tiny and IT/ITES SEZs (where, as we have noted earlier, there is a considerable overlap), which comprise the overwhelming majority of SEZs, are more affected by levels of industrialisation.

5.3 Selection Effects

5.3.1 Are these results affected by selection problems? Selection problems occur in samples that are not representative of the underlying population. For instance, if there are threshold effects in certain variables, e.g., a minimum level of industrialisation, that drives the location of SEZs, then they would be observed only in districts that cross the threshold. In the classic example, wages are observable only in the case of individuals who have chosen to work. The absence of information regarding the wage an individual with given characteristics, but outside the labour force, would earn, had s/he chosen to work, remains indeterminate.

5.3.2 This problem of selection bias is shown in Figure 2, where *industrialisation level of a district* (measured by share of Male non-Agricultural Workers) is illustratively plotted against *the number of SEZs in a district.* The solid line shows the statistical (and true) relationship that we would estimate if we could indeed observe *industrialisation levels* and *the number of SEZs* for all these districts. Now if SEZs are observed only in those districts whose industrialisation exceeds some threshold value given by the dotted line, then districts with relatively high industrialisation will be overrepresented in the observed sample, which are shown as the dark points in Figure 2. This selective sample creates a problem of selection bias. Thus, when we estimate the relation between *industrialisation levels* and *the number of SEZs* given by the dashed line in the figure, we find a relationship weaker (flatter slope) than the true one, thereby underestimating the effect of *industrialisation levels* on *the number of SEZs.*

Figure 2: Effect of Selection



5.3.3 Heckman's correction, first proposed by Heckman (1979), is a technique to address this problem. One way to implement this (known as the two-step method) is to estimate the probability of inclusion in the sample and use the estimated probability as one of the explanatory variables in examining the relationship of industrialisation levels to the number of SEZs. We implement this technique for all SEZs and then by disaggregated types of SEZs, viz. Tiny and non-Tiny SEZs and ITES and non-ITES SEZs, to correct for the bias and detect whether the selection effect exists and whether it varies across different types of SEZs.

The two steps of the model can be viewed as below:

Step 1:

Probability that a SEZ is located in a district	=	*f*(share of urban population,[7] extent of literacy, share of Scheduled Tribes, share of Scheduled Castes)

[7] The share of urban population is used to help identify the selection equation by distinguishing it from the share of male non agricultural worker in the main equation.

Step 2:

Expected number of SEZs in a district	=	f(extent of literacy, share of Scheduled Tribes, share of Scheduled Castes, share of male workers who are in non-agricultural occupations, State dummies, estimated value of the probability that a SEZ is located in a district)

5.3.4 Table 11 reports these results. As can be seen from a comparison with Table 9, the Heckman correction increases the size of the industrialisation effect, as conjectured in Figure 2. Except for Tiny notified SEZs, where it is significant only at 10 per cent level of significance, the industrialisation coefficient is significant at 5 per cent level of significance for all other types of SEZs. The relationship between industrialisation and the number of SEZs is thus robust to correcting for selection effects and indeed, is enhanced by it.

5.4 Megacity Effects

This result is however not robust to the inclusion of geographical proximity of a district to the six megacities of Delhi, Kolkata, Mumbai, Hyderabad, Bangalore and Chennai as an explanatory variable.[8] We take this variable, based on our earlier observation from Table 10 that the industrialisation effect is stronger for Tiny and IT/ITES SEZs, which, as seen in Tables 4 and 5, are located in more urbanised districts. As shown in Table 12, inclusion of the megacity variable reduces the size of the coefficient and the significance of the industrialisation variable, especially for notified SEZs. The lack of a megacity effect on Tiny SEZs is unexpected, but the poorly estimated probit for Tiny SEZs (see Table 7) may provide a partial explanation. Further, Table 13 shows that while proximity to megacities affects the number of formally approved Tiny and IT/ITES SEZs and

---

8 There are thirty eight such districts that adjoin these six megacities. These are the districts in the National Capital Region (NCR), viz.: Panipat, Sonepat, Rohtak, Jhajjar, Rewari, Gurgaon, and Faridabad in Haryana, the nine districts of Delhi; Alwar in Rajasthan; Meerut, Baghpat, Ghaziabad, Gautam Buddha Nagar, and Bulandshahar in Uttar Pradesh; North Twenty Four Parganas, Haora, Kolkata, and South Twenty Four Parganas in West Bengal; Thane, Mumbai (Suburban), Mumbai, and Raigarh in Maharashtra; Hyderabad and Rangareddy in Andhra Pradesh; Bangalore and Bangalore Rural in Karnataka; and Thiruvallur, Kancheepuram, Chennai and Dharmapuri in Tamil Nadu.

notified IT/ITES SEZs, it has a much smaller effect on non-Tiny SEZs and no statistically significant effect on non-IT/ITES SEZs.

6. CONCLUSION

6.1 Are SEZs Meeting their Objectives?

The examination of the district wise data on SEZs indicates that pre-existing industrialisation of a district is a major determinant of the number of SEZs in a district, especially for Tiny SEZs and IT/ITES SEZs. Regional balance objectives of the SEZ policy, if ever there were any, are not being met. Indeed, these Tiny SEZs and IT/ITES SEZs appear to be concentrated even more in the districts that contain or are proximate to the six megacities of Delhi, Kolkata, Mumbai, Hyderabad, Bangalore and Chennai. Along with the concentration of SEZs in the IT/ITES sector and given that more than 70 per cent of all SEZs and 93.4 per cent of all notified IT/ITES SEZs are less than one square kilometre in size this pattern inexorably leads to the following conclusions:

(a) The SEZ policy is not creating a new manufacturing base, since the overwhelming focus is on IT/ITES (67 per cent) and, to a lesser extent, on our existing strengths in exports, viz. Textiles, Apparel. Pharmaceuticals, Gems and Jewellery and Footwear (11 per cent). Thus, it is not building new sectors to absorb our growing labour force.

(b) The SEZ policy is not likely to create new infrastructure beyond buildings, since most of them are less than one sq, km. and are located in and around industrialised areas and especially around existing megacities, leading to the suspicion that they may free-ride on pre-existing infrastructure.

(c) The SEZ policy will exacerbate regional imbalance[9], since they are being disproportionately located in districts that already have high levels of industrialisation

---

[9] In and of itself, this may not be objectionable. No country has a regionally even spread of industrial growth. Usually, migration ensures that even though growth is not regionally even, the benefits from growth are more evenly spread out. However, these linkages need to be established and it is not clear whether the existing pattern of sectoral concentration in SEZs, biased towards IT/ITES, would be able to absorb populations in the less developed areas, e.g., Bihar, many of whom are not ready to make the shift to industry in terms of basic educational preparation, leave alone industry-specific skills.

(d) The SEZ policy is likely to generate costs (in lost fiscal revenue) without corresponding benefits (additional employment). Since the SEZs are being located close to existing industrialised areas, new activity in existing firms, which would have happened in the normal course of events, may now be located in the SEZs, since the distance-induced costs are minimal. In some cases, this may encourage firms to move an existing activity from its current location to a SEZ. This, while not generating additional economic activity over that which would have already occurred, will result in fiscal losses.

(e) The pattern of concentration in urban areas is consistent with the hypothesis that SEZs are driven by motivations of acquiring real estate or, as some have noted, by a logic of "accumulation by dispossession" (see, for example, Banerjee-Guha (2008))

These consequences reinforce the concerns that have already been expressed regarding other negative consequences of SEZs, primarily on land acquisition. They strengthen the suspicion that while the costs of SEZs are quite real, the benefits of SEZs are not substantial.

6.2 Could SEZs Worsen Infrastructure?

6.2.1 This pattern of SEZ location is also noteworthy in the context of the discussion of the link between urbanisation and SEZs in Sivaramakrishnan (2009). The SEZ policy is likely to create substantial demands on our existing megacities. As seen in Figure 1, most of these Tiny SEZs are less than 50 hectares (0.5 sq. km) in size and therefore it is highly unlikely that they will be able to function as self-sufficient entities. Since the Tiny SEZs are not large enough to build their independent infrastructure, these concentrations of Tiny SEZs will then draw upon the physical infrastructure and social resources of these megacities, an eventuality for which there has been no preparation. As pointed out by Sivaramakrishnan (2009), there is no clarity on the urban governance in the larger SEZs, and we have not prepared for the urban demands of the smaller SEZs. We may therefore end up in the worst of situations. Not only may the SEZs end up worsening regional imbalance and not create much new infrastructure, they may also further congest the infrastructure in our existing megacities, thereby affecting their attractiveness as industrial locations.

6.2.2 So, on the counts of diversifying our economic base and employment growth away from services, creating new infrastructure and redressing regional imbalance, the SEZ policy appears to be failing. Given their concentration in existing megacities and small size, the SEZs are also likely not to add new infrastructure but instead draw upon existing infrastructure. At best, the SEZs are an indirect and indefinite continuation of the arguably constructive benefits currently extended to exports especially the IT / ITES sector, which are scheduled to expire in 2009. Surely, this could be done more directly and the costs associated with SEZs avoided.

References

Banerjee-Guha, Swapna (2008) "Space Relations of Capital and Significance of New Economic Enclaves: SEZs in India" *Economic and Political Weekly*, 22 November, 51-59.

Heckman, James.J. (1979) "Sample Selection as a Specification Error" *Econométrica* 47, 153-161.

Mukhopadhyay, Partha (2008) "The Promised Land of SEZs" *Seminar* v. 581 January, 28-35 *http://www.india-seminar.com/2008/581/581_partha_mukhopadhyay.htm*

Sivaramakrishnan, K.C. (2009) "Special Economic Zones: Issues of Urban Growth and Management" Occasional Paper No. 19, Centre for Policy Research, New Delhi.

Table 1: Description of Data

Variable	Mean	Standard Deviation	Mini-mum	Maxi-mum
Share of Urban Population	23.73	19.73	0	100
Extent of Literacy	64.00	12.84	30.2	96.5
Share of Scheduled Castes	14.73	8.66	0	50.1
Share of Scheduled Tribes	16.12	25.88	0	98.1
Share of Male Non Agricultural Workers	42.23	19.73	10	98.4
Formally Approved SEZs (Existing Strengths)	0.081	0.407	0	5
Formally Approved SEZs (IT/ITES)	0.545	3.02	0	38
Formally Approved SEZs (Multi Product)	0.059	0.341	0	4
Formally Approved SEZs (Others)	0.169	0.622	0	7
Total Formally Approved SEZs	0.853	3.712	0	46
Formally Approved SEZs (Large)	0.034	0.230	0	3
Formally Approved SEZs (Medium)	0.019	0.135	0	1
Formally Approved SEZs (Small)	0.204	0.747	0	7
Formally Approved SEZs (Tiny)	0.597	3.164	0	40
Notified SEZs (Existing Strengths)	0.046	0.284	0	4
Notified SEZs (IT/ITES)	0.280	1.835	0	28
Notified SEZs (Multi Product)	0.022	0.178	0	2
Notified SEZs (Others)	0.069	0.302	0	3
Total Notified SEZs	0.417	2.169	0	31
Notified SEZs (Large)	0.017	0.153	0	2
Notified SEZs (Medium)	0.007	0.082	0	1
Notified SEZs (Small)	0.101	0.472	0	6
Notified SEZs (Tiny)	0.292	1.817	0	27

The data for SEZ is as of 1 August 2008. The Census data (first five rows) is from Census 2001.

Table 2: Type and Size of Formally Approved SEZs

Broad Category	Large	Medium	Small	Tiny	Grand Total
Existing Strengths		2	31	16	49
	0.00%	0.39%	6.04%	3.12%	9.55%
IT/ITES			18	308	326
	0.00%	0.00%	3.51%	60.04%	63.55%
Multi Product	19	7	9		35
	3.70%	1.36%	1.75%	0.00%	6.82%
Others	1	2	63	37	103
	0.19%	0.39%	12.28%	7.21%	20.08%
Total	20	11	121	361	513
	3.9%	2.1%	23.6%	70.4%	100.00%

Source: Ministry of Commerce data at http://sezindia.nic.in

Table 3: Type and Size of Notified SEZs

Broad Category	Large	Medium	Small	Tiny	Grand Total
Existing Strengths		1	19	8	28
	0.0%	0.4%	7.6%	3.2%	11.2%
IT/ITES			11	156	167
	0.0%	0.0%	4.4%	62.4%	66.8%
Multi Product	10	1	2		13
	4.0%	0.4%	0.8%	0.0%	5.2%
Others		1	30	11	42
	0.0%	0.4%	12.0%	4.4%	16.8%
Total	10	3	62	175	250
	4.0%	1.2%	24.8%	70.0%	100.0%

Source: Ministry of Commerce data at http://sezindia.nic.in

Table 4: Urbanisation and Size of Notified SEZs

Level of Urbanisation	Large	Medium	Small	Tiny	Total
U1Q (43)	3 (4)	2 (3)	36 (40)	142 (164)	183 (211)
U2Q (20)	7 (6)	1 (0)	20 (16)	25 (6)	53 (28)
U3Q (6)	0	0	5	5 (2)	10 (7)
U4Q (1)			1		1
Total (70)	10	3	62	172	247

Note: Three notified SEZs in two districts Mohali (2) and Saraikela-Kharsawan (1) are not included because they did not exist at the time of the 2001 census.

Source: Ministry of Commerce data at http://sezindia.nic.in and Census of India 2001.

Table 5: Urbanisation and Type of Notified SEZs

Level of Urbanisation	Existing Strengths	IT/ITES Product	Multi	Others	Total
U1Q (43)	15 (17)	137 (159)	4 (7)	27 (28)	183 (211)
U2Q (20)	8 (6)	25 (6)	9 (6)	11 (10)	53 (28)
U3Q (6)	4	4 (1)		2	10 (7)
U4Q (1)				1	1
Total (70)	27	166	13	41	247

Note: Three notified SEZs in two districts Mohali (2) and Saraikela-Kharsawan (1) are not included because they did not exist at the time of the 2001 census.

Source: Ministry of Commerce data at http://sezindia.nic.in and Census of India 2001.

Table 6: Distribution of Notified SEZs by District Characteristics

U1Q	Percent Literate	SC Share	ST Share	MNAG Share	**U2Q**	Percent Literate	SC Share	ST Share	MNAG Share
1Q	113	33	3	172	1Q	12	2	5	30
2Q	59	27	69	11	2Q	14	14	24	17
3Q	11	99	91	0	3Q	27	25	6	6
4Q	0	24	20	0	4Q	0	12	18	0
Total	183	183	183	183	Total	53	53	53	53

Source: Ministry of Commerce data at http://sezindia.nic.in and Census of India 2001.

Table 7: Marginal Effects of District Characteristics on Probability of SEZ Presence

	Formally Approved			Notified		
Share in Population	All SEZs	Tiny SEZs	ITES SEZs	All SEZs	Tiny SEZs	ITES SEZs
Literates	0.00126 (0.00183)	-0.00034 (0.00121)	0.00018 (0.00111)	0.00071 (0.00077)	0.00017 (0.00031)	0.00018 (0.00025)
Scheduled Castes	0.00112 (0.00207)	0.00049 (0.00129)	0.00083 (0.00112)	0.00027 (0.00083)	0.00009 (0.00030)	0.00004 (0.00020)
Scheduled Tribes	-0.00053 (0.00088)	-0.00005 (0.00053)	-0.00027 (0.00053)	-0.00047 (0.00043)	-0.00020 (0.00020)	-0.00018 (0.00016)
Male Non-Agricultural Workers	**0.00588 (0.00110)**	**0.00388 (0.00087)**	**0.00317 (0.00081)**	**0.00159 (0.00066)**	0.00066 (0.00045)	0.00042 (0.00035)
Pseudo R^2	0.3792	0.3636	0.3777	0.3937	0.4266	0.4166

Note: The first row in a cell indicates the value of the coefficient and the figure in the parentheses represents the standard error of the estimation.

Table 8: Relationship between District Characteristics and the Number of SEZs (without state dummies)

	Formally Approved			Notified		
Share of	All SEZs	Tiny SEZs	ITES SEZs	All SEZs	Tiny SEZs	ITES SEZs
Literates	-0.009 (0.015)	-0.011 (0.013)	-0.008 (0.013)	-0.005 (0.009)	-0.006 (0.008)	-0.006 (0.008)
Scheduled Caste Population	-0.020 (0.022)	-0.010 (0.019)	-0.006 (0.018)	-0.007 (0.013)	-0.001 (0.011)	0.001 (0.011)
Scheduled Tribe Population	-0.012 (0.008)	-0.007 (0.006)	-0.007 (0.006)	-0.006 (0.004)	-0.003 (0.004)	-0.003 (0.004)
Male Non-Agricultural Workers	**0.050 (0.010)**	**0.043 (0.009)**	**0.039 (0.009)**	**0.025 (0.006)**	**0.022 (0.005)**	**0.021 (0.005)**
Constant	-0.175 (0.909)	-0.236 (0.778)	-0.373 (0.745)	-0.129 (0.537)	-0.190 (0.451)	-0.201 (0.456)
Adjusted R^2	0.0679	0.0593	0.0553	0.0472	0.0434	0.0382

Table 9: Relationship between District Characteristics and the Number of SEZs (with state dummies)

	Formally Approved			Notified		
Share of	All SEZs	Tiny SEZs	ITES SEZs	All SEZs	Tiny SEZs	ITES SEZs
Literates	-0.026 (0.017)	-0.022 (0.015)	-0.018 (0.014)	-0.012 (0.010)	-0.010 (0.009)	-0.009 (0.009)
Scheduled Caste Population	-0.005 (0.025)	-0.006 (0.022)	-0.004 (0.021)	-0.002 (0.015)	-0.001 (0.013)	-0.001 (0.013)
Scheduled Tribe Population	0.000 (0.008)	0.001 (0.007)	0.000 (0.007)	0.000 (0.005)	0.001 (0.004)	0.000 (0.004)
Male Non-Agricultural Workers	**0.069** **(0.011)**	**0.056** **(0.010)**	**0.051** **(0.010)**	**0.033** **(0.007)**	**0.027** **(0.006)**	**0.026** **(0.006)**
Constant	-1.074 (0.947)	-0.830 (0.823)	-0.925 (0.790)	-0.594 (0.564)	-0.528 (0.479)	-0.510 (0.485)
Adjusted R^2	0.1279	0.0931	0.0839	0.0940	0.0702	0.0637

Note: The first row in a cell indicates the value of the coefficient and the figure in the parentheses represents the standard error of the estimation.

Table 10: Effects of Industrialisation on Number of Different Types of SEZs in a District (with state dummies)

Formally Approved				Notified			
Tiny SEZs	Non-Tiny SEZs	ITES SEZs	Non-ITES SEZs	Tiny SEZs	Non-Tiny SEZs	ITES SEZs	Non-ITES SEZs
0.056	0.013	0.051	0.018	0.027	0.005	0.026	0.007
(0.010)	(0.003)	(0.010)	(0.003)	(0.006)	(0.002)	(0.006)	(0.002)

Table 11: Relationship between District Characteristics and the Number of SEZs (after Heckman Correction)

	Formally Approved			Notified		
Share of	All SEZs	Tiny SEZs	ITES SEZs	All SEZs	Tiny SEZs	ITES SEZs
Literates	-0.116 (0.199)	0.019 (0.255)	-0.013 (0.291)	-0.049 (0.151)	0.107 (0.670)	-0.387 (0.484)
Scheduled Caste Population	0.025 (0.167)	0.021 (0.218)	0.127 (0.235)	0.192 (0.186)	0.257 (0.665)	0.451 (0.369)
Scheduled Tribe Population	-0.025 (0.105)	-0.061 (0.118)	-0.099 (0.150)	-0.032 (0.122)	-0.389 (0.555)	-0.419 (0.500)
Male Non-Agricultural Workers	**0.275 (0.088)**	**0.252 (0.117)**	**0.302 (0.131)**	**0.266 (0.094)**	0.674 (0.410)	**0.546 (0.233)**
Constant	-12.873 (23.755)	-24.957 (30.901)	-30.739 (32.956)	-25.036 (20.762)	-96.582 (89.105)	-36.403 (46.686)
Wald Chi-Square	52.34	29.19	26.92	33.46	12.48	18.57

Note: The first row in a cell indicates the value of the coefficient and the figure in the parentheses represents the standard error of the estimation.

Table 12: Relationship between District Characteristics and the Number of SEZs (after Heckman Correction, with Megacity dummy)

	Formally Approved			Notified		
Share of	All SEZs	Tiny SEZs	ITES SEZs	All SEZs	Tiny SEZs	ITES SEZs
Literates	-0.106 (0.184)	-0.002 (0.238)	-0.029 (0.271)	-0.078 (0.133)	-0.055 (0.436)	-0.330 (0.335)
Scheduled Caste Population	-0.012 (0.154)	-0.001 (0.202)	0.112 (0.219)	0.199 (0.158)	0.255 (0.411)	0.350 (0.259)
Scheduled Tribe Population	-0.032 (0.097)	-0.058 (0.110)	-0.099 (0.140)	-0.016 (0.108)	-0.277 (0.357)	-0.325 (0.349)
Male Non-Agricultural Workers	0.160 (0.086)	0.151 (0.114)	0.212 (0.125)	0.129 (0.091)	0.436 (0.319)	0.341 (0.177)
Proximity to Megacity	**8.958** **(2.096)**	**8.453** **(2.539)**	**8.089** **(2.522)**	**7.838** **(1.918)**	4.871 (4.121)	**6.663** **(2.284)**
Constant	-3.698 (22.110)	-14.383 (28.983)	-21.718 (30.856)	-7.490 (18.997)	-51.981 (66.472)	-16.594 (33.019)
Wald Chi-Square	75.08	42.64	38.96	54.91	20.36	39.79

Table 13: Effects of Megacity Proximity on Number of Different Types of SEZs in a District (after Heckman Correction)

Formally Approved				Notified			
Tiny SEZs	Non-Tiny SEZs	ITES SEZs	Non-ITES SEZs	Tiny SEZs	Non-Tiny SEZs	ITES SEZs	Non-ITES SEZs
8.453	1.228	**8.089**	0.756	4.871	**1.902**	**6.663**	0.721
(2.539)	(1.285)	**(2.522)**	(0.868)	(4.121)	**(0.605)**	**(2.284)**	(0.562)

Note: The first row in a cell indicates the value of the coefficient and the figure in the parentheses represents the standard error of the estimation.

CPR OCCASIONAL PAPER SERIES

OCCASIONAL PAPER NO. 19

Special Economic Zones Issues of Urban Growth and Management

K.C. SIVARAMAKRISHNAN

CENTRE FOR POLICY RESEARCH
Dharma Marg, Chanakyapuri
New Delhi-110021

March 2009

About the Author

K.C. Sivaramakrishnan is Professor and Chairman of the Governing Board of the Centre for Policy Research

E-mail: sivarama@cprindia.org

March 2009

The Paper can be downloaded from the CPR website.

e-mail: cprindia@vsnl.com
Website: www.cprindia.org

IV

SPECIAL ECONOMIC ZONES ISSUES OF URBAN GROWTH AND MANAGEMENT

K C Sivaramakrishnan

1. INTRODUCTION

1.1. Whatever may be the claim about SEZ triggering growth in greenfield new areas, the fact is that most of them are located in and around existing towns. Out of a sample of 154 zones approved and notified, as many as 127 are found to be in the vicinity of large towns or cities. Out of these, as many as 23 zones are in the Greater Hyderabad area, 10 in Bangalore, 10 in Pune, seven in Gurgaon and six in Noida. In other words, the Special Economic Zones are preferring to graft themselves onto existing urban centres in the economic, if not the socio physical sense. Some further information about the district wise concentration of the Special Economic Zones is provided in Partha Mukhopadhyay's paper. As pointed out, for instance, Ranga Reddy district adjoining Hyderabad is a highly preferred location. Evidence till now suggests that SEZs prefer the external economies of existing urban areas rather than being the starting points of growth in new areas.

1.2. There has been much debate about the extent of the land area taken up by the SEZs. A survey of 195 SEZs approved and notified indicates the total amount of land taken up by them as a whole is 25,843 hectares which of course is only a small fraction of the total land space in the country. However, figures aggregated at the national scale may not be very useful. The real issue is whether on an average the SEZ takes up more land than what is necessary. For this a break-up of the land taken, as well as the type of SEZ will be helpful. Out of the 25,843 hectares more than half is intended for just 12 of the zones which are characterised as 'Multi Product'. The largest number of the SEZs is in the information technology category numbering 124 but the land taken by them is just about 3500 hectares. SEZs in the other categories like pharmaceuticals, apparel, electronics, jewellery, leather etc., number 59 and account for about 7400 hectares. It is the Multi Product SEZs which are taking up the bulk of the land area.

1.3. If the SEZs are categorised according to the area taken, out of 195 as many as 134 may be regarded as Tiny where the land taken up is less than 100 hectares, another 49 SEZs can be classified as 'Small' covering between 100 and 300 hectares and in the next category, the 'Medium' size SEZs are using 300 to 1000 hectares. What has generated much controversy are the nine SEZs whose land needs are between 1000 and 3000 hectares. As Menon points out the Group of Ministers has put a cap of 5000 hectares per SEZ but this is yet to be acted upon. It is reported the Government has reiterated this figure as the cap.

1.4. Another important factor is that in terms of land area taken, three States mainly Andhra Pradesh, Gujarat and Maharashtra account for the principal share. Out of the total land of about 26,000 hectares comprising 195 SEZs, the share of Andhra Pradesh for its 53 zones is 7356 hectares. In Gujarat 16 zones have taken up 8361 hectares and in Maharashtra 24 zones account for 4093.

2. THE EMPLOYMENT PROSPECTS AND IMPLICATIONS FOR URBANISATION

2.1. The issues of employment both direct and indirect have been analysed by Menon as well as in Partha Mukhopadhyay's paper. It is therefore not necessary to elaborate on these here. Menon emphasises that the notable feature of an SEZ is that it addresses the requirements of the principal stakeholders including developer, operator, entrepreneurs, external suppliers and residents. It is assumed (and this is a big assumption) that a fair proportion of those directly employed will be living within the SEZ, but several others and those indirectly employed will be located beyond the SEZ limits, either proximate or at a distance. It is this aspect which is relevant for urban planning purposes.

2.2. It has been stated that out of the projected total employment from the SEZs of about 54 lakh persons, direct employment will be about 22 lakhs and indirect about 32 lakhs. The question is where these employees will reside. Since most of the SEZs are located near existing urban centres, it can be presumed the bulk of the employees will live within the existing centres and commute to the SEZs. This in turn has significant issues of mobility and transport. Are these issues being addressed? The experience of firms like INFOSYS in Bangalore transporting its employees from different parts of Bangalore to its work facilities in a fleet of buses and the time and costs involved in this, are well known.

3. THE ENCLAVE APPROACH

3.1. Irrespective of the area of the SEZ or the so-called 'processing activities' taking place there, no settlement can last as an enclave in isolation. Factories and office buildings can be gated with controlled access and exit but communities cannot be treated in the same manner. Experience across the world and more significantly the considerable experience within the country confirms this. India has built more than 100 new towns in green field situations since Independence ranging from large scale steel plants and townships like Durgapur, Bokaro and Rourkela. While expansion of existing towns as in Ranchi, Jamshedpur, Bangalore or Pune became economically successful, greenfield towns like Nangal or Sindri or Barauni have remained small. When the basic manufacturing activity as in a steel plant stabilises the ancillary or related activities and the number of people employed directly and indirectly increases: the population engaged in supporting services grows. Even in these cases wherever towns were planned and built as isolated company towns, very soon their boundaries were overrun and hopes of keeping these brand new towns isolated or insulated from the ill effects of the surrounding areas, vanished. Whether it is Durg-Bhilai, the industrial areas in Greater Mumbai or in Bangalore almost all the new towns built in India have become old and brown at the edges, run down and indistinct from the rest of urban India.

3.2. Menon has rightly emphasised the shortcomings of the older Indian industrial models which also entailed the parallel creation of industrial township- slums, overstretched infrastructure and the total breakdown of law and order. A serious flaw in the old industrial model was the concept of the company township. It will not make any difference whether the town was owned by a public sector company or a private one. The very concept of a company town was a manifestation of patronage, based on the premise that the manufacturing activity of the company was the only principal activity and everything else whether trade and commerce, education, recreation, health care or the type of housing one lived in, would all be derived from this principal activity and determined by the principal employer. In the 1960s, Parliament's Committee on Public Undertakings itself extolled the principle of social responsibility of an employer and urged that 'womb-to-tomb' care be provided to the employees. This attitude has a long history. It happened in the early days of Jamshedpur when the Tatas invited Sydney and Beatrice Webb to advise on social and community facilities in Jamshedpur. This was romanticism at its best but at its worst the company township idea also meant the removal of a major stakeholder i.e. the resident from any responsibility for paying or participating in the running of the town where he lived. The financial aspects of new towns have been studied a few times in the past and presented in a 1978 study carried out in the Indian Institute of Management, Calcutta.

3.3. It may be mentioned here that Jamshedpur has been the most well known example in the country of a town built and run by a private company. In 1924 about 1600 acres of land were acquired by the Bihar Government for the Tata Company to set up a steel plant factory and the township. A Notified Area Committee under the Bihar Municipal Act, 1922 was also constituted. Upon abolition of the Zamindari system, the Bihar Government leased out the land excluding some agricultural pockets. Some major changes have taken place during the past four or five decades. One is that the Tata Iron & Steel Company is no longer the only industry or employer in the town. There are others like Telco, Tata Robins Frazer, Tinplate Company and various other industries including those which came up in nearby areas like Adityapur Industrial Estate, Jug Salai etc. Secondly the Jamshedpur Company town comprising 56 sq.kms is now only a part of the Jamshedpur urban agglomeration which as defined in the census covers an area of about 150 sq.kms and includes other jurisdictions like Adityapur, Jug Salai, Mango and adjoining census towns as well as numerous panchayats.

3.4. Initially the management of the town was handled by the Town Administrator who was a TISCO employee. Later on, the task was entrusted to a separate company set up by the Tata group called JUSCO with which it has a contractual arrangement for the provision and maintenance of services. These services are accessible only to the company town. For the remaining areas other Notified Area Committees have been set up. From time to time recommendations were made by committees and individual experts including those invited by the Tata Management itself to study the situation of urban governance in the area. All agreed on one point that the Jamshedpur urban area should become a municipal body and the Tata Management should divest itself of this responsibility. These recommendations were made not merely because of the inconsistency in a manufacturing industry assuming a municipal role. There were administrative as well as financial reasons entailing subsidies and deficits as well as the managerial responsibilities involved. Furthermore the Jamshedpur town itself catered only to a limited number of TISCO employees, in particular, its managerial and senior staff. A sizeable portion of the work force is living outside the company town. Nevertheless the TISCO Management did not agree and wanted Jamshedpur to continue as a company town.

3.5. Similar arrangements existed or continue to exist in Bhilai, Rourkela, Durgapur, Burnpur or Ranchi. Usually the management of the steel plant or other industry appoints one of its officers as Town Administrator with a complement of technical and other supporting staff. Where Notified Area Authorities or Committees have been set up by the State governments covering such industrial and township areas, they are regarded as 'holdings' within the meaning of municipal laws and usually pay a holding tax as a form of property tax. For instance, in Durgapur and Asansol, municipal corporations exist. Entities like the Durgapur Steel Plant, Durgapur Steel Township, IISCO Burnpur Township etc. are a part of the corporation area and pay a holding tax. These townships however continue to take care of services like water supply, sanitation etc. for their own needs. Since a *quid pro quo* is involved, no payments like water rates or conservancy rates are paid to the corporation.

3.6. It will be seen from the above that the arrangements for administration of the new industrial complexes vary. In Rourkela, there is the Rourkela Steel Plant and its township which is now called the Rourkela Industrial Township with a population of about 2.13 lakhs as per the 2001 Census. There is a Rourkela Municipality as well, including the adjoining Kulunga Industrial Estate with a population of about 2.59 lakhs. Both form part of the Rourkela Urban Agglomeration. The Rourkela Industrial Township is administered by a committee comprising the State government, the steel plant officials and a few others. In Bhilai which is a part of the Durg-Bhilai Nagar urban agglomeration with nearly one million population, there is a Bhilai Nagar Municipal Corporation with a population of about 6 lakhs and the Durg Municipal Corporation with a population of about 2.3 lakhs. Both these corporations are administered under the provisions of the Chhattisgarh Municipal Laws. In the Bokaro Steel city urban agglomeration, the steel city with a population of nearly 4 lakhs does not have a separate municipality.

3.7. It is thus evident that arrangements for municipal governance incorporating industrial areas has been an unresolved issue. In spite of this, the present thinking about the SEZs goes back to the very same concept of a privately built and run company township. This is sought to be done by taking dubious recourse to the so-called 'industrial townships' mentioned in the Proviso to Article 243Q of the Constitution, which is a part of the 74th Amendment to the Constitution. The main part of this Article deals with the delineation of urban areas and the constitution of corporations, municipalities and nagar panchayats broadly described as municipalities. It is important to note, when the relevant Bill for the amendment was moved in Parliament in September 1991, there was no Proviso to the Article. The basic objective of the 73rd and the 74th Amendments, which are companion pieces, was to set up panchayats and municipalities all over the country. The only exceptions were the military cantonments which number only 63 in the country and which fall within the Union List. The Bill also provided that the Amendments would be applicable to 'scheduled areas' and tribal areas referred to in Article 244 only when determined by Parliament. The Bills were then referred to a Joint Parliament Committee which extensively studied them and recommended to Parliament in July 1992 that the Bills be passed with several modifications and additions. There was still no reference at all to an industrial township or a proviso for that purpose in Article 243Q. It is only after receiving the Report of the Parliament Committee that the government appears to have thought of this and introduced the Proviso when the Bill was taken up clause by clause for consideration.

3.8. When the 74th Constitutional Amendment was being considered, the Tata Management, anticipating problems in the future, might have suggested to the Government of India that a special dispensation should be made in regard to Jamshedpur. The Proviso to Article 243Q however goes beyond such a dispensation for only Jamshedpur and amounts to a virtual escape route from the other provisions of the Constitutional Amendment. Furthermore, the term 'industrial township' itself is not adequately defined.

4. ARE SEZs BEYOND THE PALE OF THE CONSTITUTION?

4.1. Whatever the motivations, apart from TISCO, the Commerce Ministry in the Government of India also appears to have taken note of the Proviso and recommended to the various State governments that SEZ areas may be considered as industrial townships and excluded from the purview of municipal laws on the subject. Several State governments, either in their own wisdom or as persuaded by the SEZ developers, have passed special laws or issued policy notifications in this respect. In as many as 15 States such acts and policy notifications empower the State governments to keep the SEZ totally out of the local self-government ambit. In most cases the jurisdiction of the municipalities or panchayats is sought to be excluded by making the Development Commissioner of the SEZ concerned or a small nominated committee ranging from three to 12 members as a substitute for a local authority. The Gujarat SEZ Act, 2004, for example, provides for a committee of three persons with the developer or his nominee as Chairman, the Development Commissioner of the zone or his nominee and a nominee of the State government as a Management Committee and vests in them powers to plan, develop, dispose of and regulate land use. The Committee is also empowered to discharge most of the functions under the 12th Schedule of the Constitution. In Andhra Pradesh, Haryana, Karnataka, Kerala, Maharashtra, Madhya Pradesh, Orissa, Punjab, Rajasthan and West Bengal, the State governments can declare SEZs as industrial townships and specifically stipulate that a panchayat or a municipality will have no jurisdiction in those areas.

4.2. These blanket provisions are not sensitive to the size of the SEZ. Some glaring anomalies are mentioned below.

- In West Bengal, for instance, a single sector No.V of the existing Bidhan Nagar Municipality covering less than 50 hectares has been constituted as a separate industrial township under the Management of a committee of nine persons chaired by the Secretary to the Chief Minister and other officials and representatives of industries. Physically there is nothing to set aside this ward from the rest of the Bidhan Nagar Municipality. The Committee itself has entered into a contractual arrangement with JUSCO, the same company which has been handling the provision and maintenance of services like water supply, sewerage and street lighting in Jamshedpur for this small area as well.

- In Surat there is another industrial township for jewellery industry of no more than 73 hectares which is very much a part of the Surat Urban Agglomeration. Here again the jurisdiction of the Corporation has been taken out. If the basis for such exclusion is that Special Economic Zones should have a higher level of infrastructure which is beyond the means and competence of municipal bodies this does not justify taking the SEZ out of the Surat Corporation. After all the Surat experience in successfully fighting its way out of the plague epidemic and reestablishing itself as a city run with reasonable efficiency has been internationally acknowledged. There are 11 other SEZs in Gujarat which are similarly excluded from municipal purview.

4.3. Apart from these anomalies, there are a number of legal issues which need to be addressed regarding the extent and applicability of the Proviso to Article 243 Q to the SEZs such as the following:

(1) The Proviso to Article 243Q appears to relate mainly to situations where an industrial establishment *per se* is already providing

municipal services. Can this be extended to entirely new areas where no industry has come up at all?

(2) Can the term 'industrial establishment' apply to any parastatal organisation like a development authority or an industrial development corporation which may only be acting as promoter of an industrial area?

(3) Can the term also apply to any private real estate company which is setting up a SEZ only as a land developer for eventual disposal to industry, housing projects, commercial establishments etc.?

(4) Where a municipality has been in existence for long in the area, can any part of that municipal area be taken out and carved into a separate industrial establishment? What are the criteria and what is the application of mind required to exclude the jurisdiction of an existing municipality from a part of its area as has been done in Gujarat or West Bengal?

(5) Can the rights of representation available to citizens of the panchayats and municipalities elsewhere in the country be denied to residents of industrial townships? Even though the right to vote is only a statutory right, will this not amount to a patent discrimination offending Article 14 of the Constitution?

(6) Is the Proviso to Article 243Q, inconsistent with the basic structure of Parts IX and IXA of the Constitution whose principal objective is to establish democratically elected panchayats and municipalities as institutions of self-government?

(7) Furthermore, can the provision of municipal services by an existing or proposed industrial township be the only consideration for setting up an industrial township? What about the other responsibilities of the panchayats and municipalities in regard to socio economic planning and the numerous development, regulatory and fiscal tasks entailed in the 11th and 12th Schedules of the Constitution?

5. THE DIFFERING VIEWS OF GOVERNMENT DEPARTMENTS

5.1. Since the inception of the SEZ programme various views have been expressed for and against by different parts of the government. Government also set up a Group of Ministers which has been meeting from time to time though the focus has been on the size of the SEZs and land acquisition. The different departments of government have also been examining various aspects from time to time and formulating their views. The Department related Parliamentary Standing Committee on Commerce itself provided an opportunity for these views to be presented. It is seen that as many as nine ministries of the Government of India, seven State governments, four political parties, two trade unions, eight developers and one NGO made their submissions before the Parliament Committee, in addition to some individuals. These are all contained in the 83rd Report of the Committee which is a published document of Parliament. The following extracts of the written and oral submissions before the Committee from the different Central Ministries / Departments and individuals are of interest as an indication of the differing views.

5.1.1 Department of Commerce

"The Commerce Secretary deposed before the Committee and submitted that the main objectives of the SEZs have been achieved. There are four primary objectives for which the Special Economic Zones have been / are being set up. The main objective of the Special Economic Zones, especially after enactment of the Act were (i) creation of additional economic activities, (ii) promotion of exports, (iii) creation of additional infrastructure, and (iv) creation of employment."

(from para 2.3)

"With regard to the number of employment generated in SEZs and applicability of the labour laws therein, it was informed that 1016 units were in operation in the SEZs (in 7 Government SEZs and 12 private SEZs notified prior to the SEZ Act) providing direct employment to over 1.79 lakh persons (about 40 per cent of whom were women). After the SEZ Act and the SEZ Rules came into effect, 51 SEZs had been notified. The current direct employment in the notified SEZs was of the order of 12,386. Another 5,00,000 direct jobs were expected to be created by December 2007. As per experience, indirect employment is 2-3 times the direct employment. The Labour Laws are applicable to SEZs." (from para 2.35)

"The Ministry of Finance had estimated a loss of taxes to the tune of Rs.90,000 crore. Considering the average tax rate to be about 30 per cent means that there is an income of Rs.3,00,000 crore. Since the Ministry of Finance takes 20 per cent as export profit, this income means an export turnover of Rs.15 lakh crore. Forty per cent of the turnover is normally paid by way of wages and salaries. As per rough estimates, about 25-30 per cent of the amount paid as wages and salaries comes to government in terms of indirect taxes, by way of consumption. This means there will be an indirect tax revenue generation of about Rs.1,50,000 crore, while the losses are being projected as Rs.90,000 crore. So, in the opinion of the Ministry of Commerce, if the economic activity takes place as planned, there would not be a loss but actually there would be a gain.” (from para 2.36).

5.1.2 Department of Industrial Policy and Promotion

“The Department had not conducted any study on the subject so far because the SEZ policy had come into existence only recently. As a result it might not be a subject ready for evaluation.” (from para 2.37).

“With regard to necessity of having large number of SEZs some giant sized and some small sized, not only in coastal areas but all over the country, the witness stated that government drew inspiration from China, Chinese SEZ is more like an investment region, which runs into several hundred sq.kms, so that both the external as well as the internal infrastructure of that place remains viable.” (from para 2.43).

5.1.3 Ministry of Agriculture

“The Ministry submitted that the National Agricultural Policy of 2000 categorically states that measures will be taken to contain biotic pressure on land, and to control indiscriminate diversion of agricultural lands for non-agricultural purposes.” (from para 2.43).

“The Regional Plan 2021 for the National Capital Region emphasises that good agricultural land in the region should be protected and conserved. Development should not be permitted in the natural conservation zones, planted green areas, agriculture areas, ground water recharging areas and water bodies. Existing cultivated land be conserved for agriculture use.” (from para 2.46).

“The Ministry does not have the details of the land that has been allotted to the approved SEZs and the Ministry is not represented on the Board of Approvals.” (from para 2.58).

5.1.4 Ministry of Rural Development

“Regarding the land use in the SEZs, Ministry’s interaction with the Department of Commerce and the type of land which can be used for an SEZ and its location, the witness replied that to the best of his knowledge, no formal consultation had taken place between the two ministries. As far as possible, the practice of setting up SEZs on agricultural land should be dissuaded. The Ministry’s views are limited to particularly those places where there is displacement of people and acquisition of land.” (from para 2.60).

5.1.5 Ministry of Home Affairs

About the creation of a new SEZ, the Ministry of Home Affairs was needed to be consulted, “to ensure that the creation of SEZ does not belong to a sensitive industry /sector and does not fall in a sensitive area, where presence and easy access of foreigners may have adverse implications from the national security point of view.” (from para 2.70).

5.1.6 Ministry of Urban Development

The Ministry of Urban Development made extensive submissions before the Committee. Because these submissions directly pertain to the issue of SEZ becoming a nodal point for urbanisation, they are reproduced in full as Annexure I to this paper. It is worth noting that in para 2.82, the Ministry has stated that it had already started working on formulating guidelines for the administration of civic amenities in the SEZs. The guidelines subsequently prepared and considered in the 87th Report of the Parliamentary Standing Committee of October 2008 are discussed in para 10 of the paper as a postscript. The Ministry’s submissions also emphasise the need for appropriate governance arrangement for the SEZ, the role of municipal bodies, requirements and adherence to the Master Plan etc.

5.1.7 Ministry of Labour

The Ministry of Labour and Employment emphasised that all the labour laws of the country should be applicable to the SEZs as well. However, the labour conciliation machinery should be separate. The role of the Development Commissioner, SEZ should not include the role of Labour Commissioner.

5.1.8 The Ministry of Finance, Department of Revenue

The substance of this Department’s submissions is contained in para 2.108 as below:

“The Secretary, Department of Revenue, Ministry of Finance and Representatives of RBI informed that regarding the view point of the Department of Revenue on accrual from SEZs, whether there will be greater loss of revenue due to various exemptions/incentives to SEZS; whether the Department had calculated the estimated loss of revenues on the basis of formally approved SEZs, the witness replied that the extent of loss that might take place due to any exemption activity, particularly, Special Economic Zones, would depend on a variety of factors. It would depend on the number of Special Economic Zones sanctioned, the size of the Economic Zones, the area used for processing and non-processing activities, the number of production units, the extent of infrastructure development, the total production and total exports. It could vary from SEZ to SEZ, depending upon the scale of operations. It could vary from area to area. The precise estimation, therefore, is not possible." (from para 2.108).

5.2 It will be seen from the above statements that so far as government departments are concerned, there has been no lack of thinking or examination of the different aspects of the SEZ initiatives. Nevertheless the careful formulation of each department's view is matched by an equally careful avoidance to seek convergence or congruence. On the contrary, the Commerce Ministry in its zeal to pursue development of SEZ and the various State governments in their enthusiasm for implementing the same have proceeded in much the same manner as before, especially in regard to the arrangements for administration of the SEZs and their linkages to adjoining areas and the region. Are these actions merely the result of a simplistic pursuit of efficiency treating participative processes as *prima facie* against that goal? It is also appropriate to recount some of the written submissions by some political parties before the Parliament Committee cited in its 83rd Report on SEZs)

6. VIEWS OF SOME POLITICAL PARTIES

6.1. The Committee also considered written submissions and oral evidence from political parties and trade unions. A few are summarised below:

6.1.1 CPI

"The land use within SEZ Area should also be regulated. There was a need to regulate real estate development within the SEZs."

"The SEZ Rules should contain a Land Use Plan for the giant SEZs. The issue of housing facilities for workers in the giant SEZs should be concretely addressed. Wherever residential complexes would be permitted within the SEZs, they should be built not only for the management and the white-collared employees, but also for the workers."

6.1.2 CPI (M)

"There can be no justification for acquisition of land by the State Governments in order to build SEZs, unless it is in keeping with a land-use policy and planning laws. Land acquisition by the State Governments should be in consonance with their optimal land use plans, based on principles of equity, sustainability, food security and balanced economic development. Any land acquisition by the State must also be for public good. The land use, after acquisition must be equitable and plan for all sections of society. State Governments should also be encouraged to frame / update their Land-use policy."

"What is required in order to prevent such land grab is to uphold the principle of Regional Planning. Regional or spatial planning looks at optimal land use taking a region as a whole and not just towns or cities. Within this, it plans out settlements, industrial spaces, transportation hubs and networks, agriculture etc., taking into account regional specificities and equitable development of the region. The key issue is land use and how its use can meet the overall goal of development. Any land acquisition by the state must also be for "public good": it cannot be that the state uses its powers to acquire land from farmers and then auctions it for speculative real estate purposes. The land use after acquisition must therefore be equitable and plan for all sections of society. The Master Plans for cities, the Delhi Master Plan for instance, has these provisions even though the provisions for the poor have not been implemented. It has to be ensured that SEZ proposals are in keeping with such State level plans and land-use policy. State governments should also be encouraged to frame / update their land-use policy."

6.1.3 BJP

"The Union Government, in collaboration with State Governments, should evolve a New Township Development Policy, with suitable rules. Stronger incentives (fiscal and non-fiscal) should be provided for new townships located away from the existing metros and big cities. There should be adequate provision of housing, affordable means of mass transport, and access to basic social infrastructure amenities for people in the low-income category".

"The need for a policy of New Township Development is supported by another important factor. In the Indian conditions unlike in China (which has only 6 mega size SEZs), the variable size of SEZs makes it almost impossible to design the SEZs as self-contained entities in terms of the use of residential units, commercial space and attendant social infrastructure amenities, such as hospitals and educational institutions. Besides, problems associated with the commercial visibility and administrative ease of doing so, any such attempt would render SEZs vulnerable to the criticism that the Government is allowing establishment of "foreign zones" within the country. In other words, there should be flexibility in the use of new townships for the benefit of the people and businesses working both within the processing zones of SEZs and outside."

6.1.4 All India Kisan Sabha

"The proliferation of SEZ proposals within a period of few months, has given rise to concerns related to large-scale acquisition of fertile farmlands, massive displacement, enormous loss of tax revenue and gross misuse for real estate purposes. Appropriate changes have to be brought in the SEZ Act and the SEZ Rules."

7. TOWARDS A COMPREHENSIVE VIEW

7.1 A major reason for the continued ambivalence about how to address the urbanisation implications of SEZ development and why ad hoc decisions, through laws or executive actions, continue to be made is that the Ministries in the Government of India are not engaged in careful and continued consideration of the issues, either among themselves or with the State governments. The Commerce, Industrial Development and Finance Ministries are focusing their attention mainly on the manufacturing, employment and fiscal aspects. The Rural Development Ministry is concerned mainly about acquisition of agricultural land and rehabilitation of displaced persons. The Ministry of Urban Development whose main responsibility is to deal with the urbanisation implications of SEZ appears to be aware of this as seen in its evidence before the Parliament Committee. The guidelines regarding the administration of civic amenities which were slated to be under preparation are still to be issued. By and large the matter has been left to be handled by the Commerce Department though the implications are beyond its reach and mandate.

7.2 The Department related Parliamentary Standing Committee has made some effort to take a comprehensive view. In its 83rd Report on the functioning of Special Economic Zones presented to Parliament in August 2007 specifically states "every part of the country has to be a constituent of a panchayat or a municipality for the purposes of local administration. Likewise each SEZ should get the cover of a representative local self-government. The Government should make the status of the SEZ clear from the angle of local administration and incorporate it suitably in the SEZ Act / Rules."

"The SEZ should have a Master Plan for management of the civic amenities, which would determine the areas for the residential space, the commercial area, the green area, roads and pathways etc. for an integrated development of an SEZ. The guidelines in that regard should include all the building structures and the services to be provided in SEZs, conforming to the planning and other requirements, as prescribed in the National Building Code."

"When a township comes into existence, the related facilities need to be provided. Presently, there are no guidelines as to who would provide the civic amenities in the immediate vicinity of a SEZ, whether it would be with the Central Government, State Governments, the SEZ administration, or the Developer of the SEZ. It is also not clear whether civic amenities to be provided would be uniform throughout the country or vary from SEZ to SEZ. The significance of urban planning and civic amenities increases manifold when the SEZ is coming up in or close to a mega city. There is also the aspect of future expansion of a SEZ, which is linked to its potential and performance. The Indian planners of SEZs must take note of the fact that one of the earliest Chinese SEZs at Shenzhen used to be a small village and it grew into a city of 10 millions within a short span of 20 years. The Government should, therefore, enunciate a clear policy with regard to governance issues emerging as a result of setting up of SEZs in relation to areas surrounding SEZs."

7.3 The 6^{th} Report of the Second Administrative Reforms Commission under the title "Local Governance" submitted in October 2007 has the following to say:

"The Special Economic Zones Act, 2005 came into effect on 10 February, 2006. Since the announcement of the new SEZ policy, India has seen a rush of developers wanting to set up Special Economic Zones in different parts of the country. There are many policy and rehabilitation issues relating to SEZs that are being addressed by the Union and State Governments. But one issue of governance that needs to be resolved is the link between SEZs and the local governments. Clearly, no islands can exist within the country outside the jurisdiction of constitutionally elected governments. Therefore, a SEZ must be in conformity with the laws and rules relating to local governments. Integration of SEZs in the local governments, even as their functional autonomy is assured, is a key challenge."

"The Commission is of the view that local bodies should have full jurisdiction with regard to enforcement of local civic laws in the SEZs. A degree of autonomy for the SEZs to enable them to provide infrastructure and civic services in their areas would be desirable. Taxes raised by the local bodies from the SEZ area can be shared with the SEZ Management in lieu of civic amenities provided by them. By such an arrangement, the autonomy of SEZ is protected, the local government's authority is preserved without a drain on the revenues, and resources are mobilised to supplement local government revenues for building additional infrastructure required."

"Private townships and gated communities should be placed under the jurisdiction of the concerned local body and subject to its rules, laws and byelaws."

8. THE ENCLAVES TRAP AND DISTORTIONS TO THE PLANNING REGIME

8.1 As emphasised before, the Indian experience highlights the folly of seeking to keep the new towns as isolated enclaves. If the SEZs are looked upon as generators of employment and growth then planning of the SEZ within the region of its location becomes crucial. Yet there is scarcely any evidence to show that in the planning of these zones there has been the conscious application of mind required. On the contrary, those agencies which are mandated as per existing laws and the Constitution have been virtually kept out of planning the connectivity and linkages between the SEZ and the surrounding areas. For instance, in the National Capital Region there are as many as 18 zones in Gurgaon District ranging from 10 to 168 hectares. This excludes Jhajjar, a Multi Product SEZ covering about 5000 hectares. Most of these zones are almost entirely within the limits of the National Capital Region. The NCR has a specially devised, statutorily mandated, interstate NCR Planning Board, but this Board has not been consulted in the location or planning of these zones. In many cases the nature and volume of activities envisaged for these SEZs run counter to the plans prepared and approved by the NCR Planning Board. It may also be noted, the policy for acquisition of land for private development of Special Economic Zones, Technology Cities, Industrial Parks, Industrial Model Townships etc. notified by the Haryana Government in May 2006 speaks of more than five or six zones in the NCR region.

8.2 Similarly in Maharashtra there are at least 13 or 14 Special Economic Zones in the vicinity of the Greater Mumbai Metropolitan Planning area. Yet no reference has been made to the Mumbai Metropolitan Region Development Authority. Likewise in West Bengal, Singur though not a Special Economic Zone is envisaged as a major automobile producing unit with its ancillaries located within the Kolkata Metropolitan district. The project has not figured at all in the agenda of the Kolkata Metropolitan Planning Committee which is a metropolitan level planning committee set up under Article 243ZE of the Constitution. In the case of Hyderabad though the limits of the Greater Hyderabad Region have been recently enlarged incorporating 11 small municipalities previously existing, neither the Greater Municipal Corporation nor the Hyderabad Urban Development Authority has planning jurisdiction over the whole region. The various Special Economic Zones and Industrial Townships set up in the Region have either been made into separate development authorities or industrial townships such as Cyberabad, Shamshabad etc. These examples clearly show that the State governments are not prepared to bring the planning of the SEZs within the domain of statutory planning bodies, specifically entrusted under law with the responsibility. The so-called 'single window' clearance approach has been used to bypass or flout statutory requirements.

8.3 Yet another distortion has been made by conferring on the private companies seeking to develop Multi Product or other Special Economic Zones, the powers of land use planning and regulation. It has already been mentioned that enabling provisions for this purpose are included in some of the State SEZ Laws. Maharashtra is the latest to add to this growing list of deliberate distortions in the planning regime by designating private development companies as planning authorities under the provisions of the Maharashtra Region and Town Planning Act. In other words the private SEZ developers will be on par with the MMRDA in exercising the regulatory planning powers, though these developers are private companies and in essence real estate developers. These actions deliberately ignore the patent conflict of interest between a land use planner and a regulator on the one hand and a real estate developer on the other. This is precisely the kind of conflict and grievance voiced against the Delhi Development Authority for decades by several experts and citizens.

9. THE FUTURE

9.1 As of now the present controversies about Special Economic Zones are dominated by issues of land acquisition and displacement of cultivators and others dependent on land for their livelihood. The protests in Singur, parts of Maharashtra and elsewhere show that families affected by land acquisition can mobilise themselves with some political support and modify the extent of the area acquired or the terms of compensation.

9.2 One important issue of jurisprudence is the validity or otherwise of the use of eminent domain for acquisition of land for SEZs. The High Courts, e.g. in the decision by Chief Justice S S Nijjar and Justice P C Ghosh of the Calcutta High Court in the Singur case, and now even the Supreme Court seems to reinforce the validity of acquiring land for "economic development" and the application of the eminent domain principle for that purpose. Justices C.K. Thakker and D.K. Jain of the Supreme Court in their judgement dated 5 September, 2008 dismissed a complaint against the Andhra Pradesh Government for acquiring land for Andhra Pradesh Infrastructure Investment Corporation saying that the Government as a "sovereign power can acquire land for public purpose", which could include "industrial and other infrastructural developmental needs for the common good of the citizens." The Court further ruled that any project which brings foreign exchange and creates employment is for a "public purpose". It also cites the Kelo et al. vs. City of New London et al. case of the United States Supreme Court (545 U.S. No. 04-108 (2005) as support for its decision. In this instance, the city of New London, Connecticut compulsorily acquired privately owned real estate to use as part of an overall urban renewal plan, which involved transferring the property to another private party. In a majority (5-4) decision, the Court held that such an action to be permissible "public use". Dissenting from the majority view in this case, Justice Sandra Day O'Connor quoted Justice Samuel Chase's judgment in Calder v. Bull, 3 Dall. 386, 388 (1798):

An act of the Legislature (for I cannot call it a law) contrary to the great first principles of the social compact, cannot be considered a rightful exercise of legislative authority…A few instances will suffice to explain what I mean…[A] law that takes property from A. and gives it to B: It is against all reason and justice, for a people to entrust a Legislature with such powers; and, therefore, it cannot be presumed that they have done it.

9.3 The law and economics of land acquisition was extensively discussed in a National Conference organised by the Indian Institute of Advanced Study and the Indian Institute of Social Sciences at a conference held in Shimla in September 2008. The need for a more rigorous examination of the eminent domain rationale for SEZ land acquisition was stressed. The proceedings await publication.

9.4 A more indepth approach to compensation packages may be needed to ameliorate consequences flowing from acquisition of land. It is important to ensure the following:

(a) *Financial security for the family whose livelihood is being affected.* A first and basic level of compensation should allow the affected person to retain his current living standard for the foreseeable future. In India, implementing even this is a challenge, especially for those households that do not own land, but whose livelihood depends on agriculture Labourers and sharecroppers, ordinarily receive no compensation. In Singur, sharecroppers were offered compensation but they were to receive only 25 per cent of the compensation to the landlord, while their sharecropping contract (post land reforms in West Bengal) usually offered them 75 per cent of the produce, thus creating a natural loss of income. Here, a severe problem is our lack of information on farm labourers and sharecroppers, given that even our land records are flawed.

(b) *Fairness, i.e., enabling them to share in the gains*. This would compensate for the psychological cost as well as the option value of the land, were the existing owner to retain it. One idea that has gained currency is to give affected persons a stake in the proposed project. This is not always sensible, since it ignores the possibility that the project may fail. There is little logic in making a deprived section of the population absorb the cost of failure, especially when they had little choice in initiating the project. Ideally, they should share in the gains, while their losses should be limited. One way to achieve this would be to transfer the payback from successful projects into a community fund that would go towards improving common physical and social infrastructure, like electricity, water, road connectivity, schools and hospitals. In case the project fails, the government would assure that it would finance these services instead.

(c) *Facility to take advantage of the changes in economic structure, benefit from the transformation of the economy from agriculture to industry / services*. This is about ensuring that the affected persons are given full opportunity and resources to participate in the changing economy. As noted above, the failure of our education system means that most of them are ill-equipped for non-agricultural activity. One cannot expect a 50-year-old farmer to re-skill himself as an industrial worker, but the next generation can do so, and maybe they want to.

The challenge is to ensure premium educational, health and physical infrastructure in the affected area so that the next generation can aspire to be and work as engineers and managers in the SEZ and not as unskilled workers. This is not a romantic utopia. Even within our existing institutional system, our little-touted Navodaya Vidyalayas, coupled with an extensive scholarship and training programme, can make this happen.

9.5 Depending on the stakes and the prospects of financial gain, industrial entrepreneurs and SEZ developers will manage to settle land acquisition disputes to a significant extent. But the problems which will persist and seriously compromise the long term viability of the SEZs and their implications for urban growth and management will hinge on two factors. One is the planning of the surrounding areas and the other is the arrangements for the administration of the SEZ including the raising of the resources for maintenance of the SEZ and related infrastructure.

9.6 As regards the first point, in spite of the clear lessons of the hundred odd new towns which India has built since Independence and the significant theoretical knowledge and professional planning skills available in the country, the evidence so far indicates that the kind of spatial planning being prepared for the SEZs is very much of the middle and high income enclave type. There may be a sprinkling of low income housing tenements to satisfy some government regulation or the other, but these will be no different from the various tiny, badly designed, badly built tenements we have seen in the past. Importantly the infrastructure linkages between the SEZs and surrounding areas for water supply, drainage, roads, transport, solid waste management etc will remain fractured. Menon's comment about industrial townships hemmed by slums will continue to be valid.

9.7 In regard to finances, the SEZ enclaves or the gated communities may be able to raise the money needed for their own upkeep but not for the upkeep of the infrastructure needed for the surrounding areas which will inevitably become urban. These areas may well continue as they are, or be brought under the purview of municipalities. But these municipalities will not have any access to the income generated within the SEZ. Indeed it seems that one of the purposes for excluding the SEZ from the municipal purview is to enable the entrepreneurs and its allottees to avoid paying any municipal taxes. This will then be a bonus added to the basket of tax concessions available to them already under the SEZ regime. In the result, the SEZ enclaves and their surroundings will be subject in the long run to the same paradox of rich incomes and rich urban enclaves with poor municipalities.

9.8 In regard to governance itself sooner or later SEZ developers and industrial managements will find as their predecessors did that there is no escape from some form of participatory governance. The employer-employee relationship may endure up to a point and may perhaps be stretched by attractive pay packets. But it will not be able to push aside the problems of daily urban life. Even the brightest auto plant or IT Manager may not be able to take on water supply and sanitation as part of his daily executive mandate.

The SEZs as Partha Mukhopadhyay rightly points out will thus remain as enclaves, bright for a while but become brown and grey soon thereafter.

10. POSTSCRIPT

10.1 The 83rd Report on the SEZ of the Department Related Parliamentary Standing Committee on Commerce has been extensively discussed in this paper. On 24 October 2008, the Committee presented to the Parliament its 87th Report on the action taken by the government on the recommendations of the earlier report. As may be recalled, some of the recommendations related to local administration in the SEZ area, master plan for the integrated development of SEZ, evolving a policy for development of new towns etc. It has also been mentioned that the Ministry of Urban Development during its submission before the Committee had referred to some guidelines it was preparing for the administration of civic amenities. The Commerce Ministry in its action taken note of 15 October 2007 has mentioned that the guidelines since prepared by the Ministry of Urban Development were discussed in September 2007 in a meeting with six State governments where a number of SEZs have been approved and the SEZ developers.

10.2 A careful reading of the guidelines prepared by the MoUD (which are given as Annexure 6 of the 87th report and appended as Annexure-II of this report) indicate that both the perception of urban implications of SEZ and an understanding of the planning issues are far more fragmented and far less cohesive than what was feared. Though the Ministry's submissions before the Parliament Committee identified several issues of importance, the guidelines do not indicate that these issues have been adequately addressed. For instance, in regard to the selection criteria, the guidelines say that the SEZ shall be located outside an urban agglomeration of million plus cities but 'form part of a city region'. The guidelines also seek connectivity for the SEZ by an eight lane expressway with the mother city. Elaborating on a development plan for SEZ, the guidelines further advise that the SEZ should have clear functional linkages with the mother city and other centres in the urban region. Seeking such close linkages but at the same time advising SEZ to be located outside an urban agglomeration, is a contradiction. The guidelines also fail to mention who will prepare the plan for the city region and ensure the integration of the SEZ within the urban region.

10.3 As for development controls, the guidelines suggest that the regulations adopted in the mother city may be extended in the SEZ with provisions for incentive zoning. When it comes to governance, the guidelines, while admitting that the SEZ needs to comply with the provisions of the 74th Constitution Amendment Act, suggest that for SEZs coming outside the municipal limits, this may be done by declaring the designated nodal agency as a local body.

10.4 Referring to the meeting held in September 2007 when these guidelines were discussed with the SEZ developers and selected states, the Commerce Ministry has mentioned that a small group would be set up to study different models of governance structures for these industrial townships and give recommendations which will then be circulated to all the State governments for possible adoption. The Commerce Ministry has further stated a study of governance structure for the Jamshedpur Industrial Township has since been conducted and all the efforts are being taken to delineate a suitable model for SEZs. The Commerce Ministry has also observed at the same time that every SEZ is a part of a local body unless the State government concerned gives it an independent status in terms of the provisions of Article 243Q.

10.5 The implications of applying the Proviso to Article 243Q have already been discussed in this paper. It is most unfortunate that after 60 years of Independence, significant national and international experience in regard to the non-participative nature and the unfeasibility of company townships and the constitutional prescription for democratically elected institutions of self government, the government itself is propagating the Jamshedpur Zamindari company model.

Annexure-I

PARLIAMENT OF INDIA
RAJYA SABHA

DEPARTMENT - RELATED PARLIAMENTARY STANDING COMMITTEE ON COMMERCE

EXTRACTS FROM

EIGHTY THIRD REPORT

ON

THE FUNCTIONING OF SPECIAL ECONOMIC ZONES

(PRESENTED TO THE RAJYA SABHA ON THE 20TH AUGUST 2007)

(LAID ON THE TABLE OF THE LOK SABHA ON THE 20TH AUGUST 2007)

RAJYA SABHA SECRETARIAT
AUGUST, 2007/SRAVANA, 1929 (SAKA)

WRITTEN AND ORAL SUBMISSIONS: CENTRAL MINISTRIES/ DEPARTMENTS

Ministry of Urban Development

2.76. The Secretary, Ministry of Urban Development informed that with regard to role of the Ministry of Urban Development in the establishment of SEZs, particularly when they are established in highly developed places like Mumbai and Kolkata, or any other town which is fully developed, the witness replied that urban development and municipality are State subjects. The 74th Constitution Amendment stipulates that there will be Nagar Panchayats at the lowest level, Municipal Councils and Municipal Corporations, and wherever there are industrial townships, State Government, as may deem proper, can declare such places as industrial townships. However, there are certain criteria which the area needs to fulfill. Once they fulfill them, and it is to the subjective satisfaction of the State Government, they recommend it to the Governor of the State to declare that area as Nagar Panchayat or a Municipality, or a Municipal Corporation, as the case may be. There has to be an elected body for giving assistance to the municipalities under the Jawaharlal Nehru Renewal Mission.

2.77. There are two roles of the Ministry. One is as a Member of the Board of Approval, which is certainly different from the Ministry's standpoint towards an SEZ, because when an SEZ comes up within the purview of a municipality, the Ministry comes into picture. The responsibility starts first with the municipal body itself; then the State Government plays its role, and the Centre's advocacy role of granting assistance comes into play. There is a direct involvement of the Ministry to ensure that all the amenities within an SEZ area, coming up in a municipality, are provided.

2.78. With regard to providing some mechanism to see that poor workers are provided with, at least, basic amenities, they have a mechanism to oversee it. On the issue of effect of pressure on amenities on SEZs set up near Urban areas, he replied that they have launched the largest urban initiative in the country, particularly keeping in view the appalling standards of urban infrastructure in cities like Mumbai and Bangalore. There is a higher amount of help coming from the Centre, to take care of infrastructure in these cities. As to the management of areas having more than one rural body, one part of an area falling under one village and the other part in another village, he replied that Village Panchayats would manage it.

2.79. With regard to participation of workers, there is already a development authority model which is available and it can be applicable to the SEZs also. Whether the Ministry would provide a model Act for management of the civic amenities, he replied that there is a master plan approach paper and Development Authorities Act. SEZs should also have a master plan on what should be the residential space, what should be the road percentage, what should be the commercial area, the green area, etc.

2.80. Whether the remaining 70% can be used for the real estate purpose in the SEZs, he replied that it can be in a proportion, in a manner where environmental concerns also are taken into account, and guidelines would be issued shortly.

2.81. Whether the Ministry of Urban Development had pointed out some specific inputs at the beginning to be considered in the planning of SEZs, provision of civic amenities and facilities, and nature of administration therein, the witness stated that the Ministry was consulted when the legislation was being considered and it had provided its inputs at that stage. Its specific inputs to the Ministry of Commerce at that stage related to provision of various amenities in the areas where SEZs would come up. The guidelines should include all building structures and services to be provided in the SEZ. It should conform to the planning and other requirements, as prescribed in the National Building Code, to justify an integrated development of an SEZ. A provision for construction of houses for the skilled and semi-skilled workers should be made within the SEZ area, so that haphazard and unorganised development, including development of slums, is prevented. The Ministry had also advised that lands, which are not suitable for agriculture, may be acquired for SEZ purposes.

2.82. With regard to administration of civic amenities in the SEZs, entrusting the responsibility of administration of these amenities to the Central Government / State Governments / administration of SEZ / builder or promoter of the SEZ, and whether it would vary from SEZ to SEZ or be uniform throughout the country, the witness stated that they had already started working on formulating guidelines for the SEZ areas. There is already a provision for infrastructure in the Act. But the governance structure as such and what form it should take, in the light of the provisions, needs to be addressed clearly. The Ministry of Urban Development had started drawing up these guidelines. The Ministry will have a dialogue, in consultation with the Commerce Ministry. These guidelines will be circulated to the States and discussed with the States' representatives in the month of May.

2.83. Regarding proximity of SEZs to the mega towns and their effect on the development of these mega towns, their relationship with the administrative structure of the mega town, the witness stated that if an SEZ is located within a municipal limit, they are governed by the municipal regulations and requirements. If it is just located outside, or quite close to the municipal or the city corporation limits, this is a new kind of township, which is coming up, and it gives an entirely new dimension. The Ministry of Urban Development was of the view that when a township comes into existence, the related facilities should also be there. The guidelines, which the Ministry is going to formulate, should address all these issues, such as structure for governance, impact of upcoming SEZs on the existing city or town, civic amenities, etc.

2.84. To the query that in case an SEZ is developed within the municipal limits or municipal corporation limits or mega town limits, whether those laws will be applicable, *mutatis mutandis*, to the SEZs, or there will be change because there is a new administrative structure, the witness stated that the municipal regulations would definitely apply to that area as well.

2.85. Regarding protecting the interests of the common people or the employees residing therein, in the event of some clash of interests between the existing municipal corporations or municipalities and administration in the SEZ area, they are drawing up guidelines to address these issues.

2.86. With regard to absence of uniformity in governing arrangements for the SEZs, the State legislations have provided for a certain scheme of things and the Central legislation on SEZs has provided for a new or a different scheme of things. So, there are two regimes in existence. As far as the State legislation is concerned, whenever the legislation turns up for consideration, normally this type of overlapping would be addressed. The Ministry of Urban Development would emphasise on the urban governance arrangement, as envisaged in the Constitution or in the legislative scheme of things, even if there are other authorities, created through State legislations.

2.87. Regarding town planning in the SEZs, mechanism to ensure actual implementation of the provisions of the Act by the developers or the promoters, and linkage between the State and Central Government, he stated that currently a State Government basically approves the proposal and sends it to the Ministry of Commerce for clearance. When the State Government approves a proposal, they seek clearance from all the agencies of the State Government. However, as of now, there is no linkage between State and Central Governments, because in most of the States, they have their own town-planning departments. But, over a period of time, the Ministry of Urban Development will evolve a mechanism to ensure that guidelines in the Act are actually followed. Further, there would be a Master Plan for the entire area, and any scheme within the Master Plan would be subservient to that Master Plan. If any approval has to be given, that will have to be in line with the Master Plan.

2.88. On the issue of the size of the SEZs and the total land required for a SEZ, the Ministry has not laid down any such norms. It has not looked into specifically as to what the size for each type of unit should be, as it varies from unit to unit.

2.89. Responding to a suggestion that before an SEZ development plan is sent to Government, either the State Government or the Central Government forward the same for critical examination by the Ministry, the Ministry of Urban Development agreed to the suggestion and was of the view that it could have various implications if the SEZ is in a mega city or close to a mega city. Various aspects such as its implications, town-planning requirements, etc. need to be addressed.

2.90. Drawing a parallel to the incidents wherein a portion of land marked for residential purposes, being used for commercial purposes, in a situation wherein a particular area to be used as processing area is used as non-processing area, or an entertainment area, the witness stated that if the SEZ is within a Master Plan area, as most of the area would have a Master Plan, the authority itself will have to make a beginning by bringing about the change in land use. If the SEZ area is shown as agricultural also, the first step for that authority would be to bring about that change, so that it can be utilised for other purposes.

2.91. If the basic planning of SEZ is changed after five years, who will permit that change and on what conditions, and if it is violative of the Master Plan, what would the penalties, if it is done without permission, such special area should have a sub-Master Plan, and if the same has not been provided in the Act, rules should have a provision for that. The approving authority should specifically lay down that such type of requirement has to be met.

2.92. With regard to Ministry of Urban Development getting help of the industries of the SEZs in development of its surrounding areas, if it is an urban area, the Ministry of Urban Development comes in and if it is in rural area, the Panchayati Raj or the Ministry of Rural Development comes in. When an area is getting urbanised, there is a provision in the municipal legislation to declare it as a local body. If it is a village area, there is a provision to declare it as a local body. So, it is for the State Governments to take steps in this regard. A good number of States have declared an area as a development area or a special economic area, deriving powers from the legislations. The Central legislation on SEZ is one of its kind. But, prior to this, they were doing it under the State legislations. If the State Government, on one hand, provides for such new areas to be set up, on the other hand it should also provide such areas to be upgraded, to have an urban local body. But in some States, such areas continue for quite sometime, without an urban local body coming into existence. The Jawaharlal Nehru Mission has started taking note of these concerns.

Annexure-II

PARLIAMENT OF INDIA
RAJYA SABHA

DEPARTMENT-RELATED PARLIAMENTARY STANDING COMMITTEE ON COMMERCE

EXTRACTS FROM

EIGHTY SEVENTH REPORT

ON

ACTION TAKEN BY GOVERNMENT ON THE RECOMMENDATIONS/ OBSERVATIONS OF THE COMMITTEE CONTAINED IN ITS 83RD REPORT ON THE FUNCTIONING OF SPECIAL ECONOMIC ZONES (SEZs)

(PRESENTED TO THE RAJYA SABHA ON THE 24TH OCTOBER, 2008

(LAID ON THE TABLE OF THE LOK SABHA ON THE 24TH OCTOBER, 2008

RAJYA SABHA SECRETARIAT
NEW DELHI

OCTOBER, 2008/ KARTIKA 1930 (SAKA)

CONTENTS

DEPARTMENT RELATED PARLIAMENTARY STANDING COMMITTEE ON COMMERCE

(Constituted on 5th August, 2007)

1. Dr. Murli Manohar Joshi — *Chairman*

RAJYA SABHA

2. Shri Thennala G. Balakrishna Pillai
3. Shri Jai Parkash Aggarwal
4. Dr. K. Keshava Rao
5. Shri Arun Jaitley
6. Shri Banwari Lal Kanchhal
7. Shri Mohammed Amin
8. &Shri Rajkumar Dhoot
9. @Shri Dinesh Trivedi
10. $$Shri Robert Kharshiing
11. Shri Parimal Nathwani

LOK SABHA

12. Shri Omar Abdullah
13. Shri C.K. Chandrappan
14. Shri D.V. Sadananda Gowda
15. Shri Radhey Shyam Kori
16. Shri N.N. Krishnadas
17. Shri Manjunath Kunnur
18. Shri Jivabhai A. Patel
19. Shri Virchandra Paswan
20. Shri Shishupal N. Patle
21. Shri E. Ponnuswamy
22. Shri Gingee N. Ramachandran
23. Shri Kashiram Rana
24. Shri Haribhau Rathod
25. Shri Sippiparai Ravichandran
26. Shri S.P.Y. Reddy
27. Shri Nikhilananda Sar
28. Shri Bharatsinh Madhavsinh Solanki
29. Shri Sarvananda Sonowal
30. Shri Braja Kishore Tripathy
31. Shri Balashowry Vallabhaneni
32. #Shri T.K. Hamza
33. ##Shri Amitava Nandi

SECRETARIAT

Shri Ravi Kant Chopra, JS & FA
Shri Surinder Kumar Watts, Director
Shri M.K. Khan, Deputy Director
Smt. Indira Chaturvedi Vaidya, Committee Officer

Nominated w.e.f 12th December, 2007
&Shri Rajkumar Dhoot retired w.e.f. 2nd April, 2008
@Shri Dinesh Trivedi retired w.e.f. 2nd April, 2008
$$ Shri Robert Kharshiing retired w.e.f. 12th April, 2008
Nominated w.e.f. 24th June, 08 in place of Shri T.K. Hamza

INTRODUCTION

I, the Chairman, of the Department Related Parliamentary Standing Committee on Commerce, having been authorised by the Committee, present this Eighty-seven Report on the Action Taken Report by the Government on the recommendations / observations contained in the Eighty-third Report of the Committee on the Functioning of Special Economic Zones (SEZs).

2. The Eighty-third Report of the Standing Committee on Commerce was presented to / laid in Rajya Sabha / Lok Sabha on 20th August, 2007.

3. Action Taken Note on the recommendations / observations of the Committee contained in its Eighty-third Report was received from the Department Commerce, Ministry of Commerce and Industry on 18th October, 2007.

4. The Committee considered and adopted this Report in its sitting held on 30th July, 2008.

NEW DELHI
July30, 2008

Dr. Murli Manohar Joshi
Chairman
Department Related Parliamentary
Standing Committee on Commerce

Annexure 6

GUIDELINES FOR DEVELOPMENT OF SPECIAL ECONOMIC ZONES (SEZs)

1. BACKGROUND

Special Economic Zones (SEZs) are defined as a group of industrial units operating in a well-defined special area where certain economic activities are carried out by a set of policy, which is not applicable to other areas unless decided under the same set of policy measures.

The SEZ Scheme was introduced in the EXIM Policy, 2000 with a view to providing an internationally competitive and relatively free environment for export of goods and rendering services. These zones are conceived as designated duty free enclaves treated as separate zones for trade operations, duties and tariffs.

In 2005, Government of India introduced legislation in Parliament of SEZs covering all aspects of their establishment, operation and fiscal regime. The objectives were to impart stability to the SEZ policy, instill confidence in prospective investors and give a boost to economic activity and generation of employment. The SEZ Act 2005 was passed by Parliament in May, 2005 and received President assent on 23rd June, 2005.

The SEZ Act, 2005 broadly gives a framework for establishing the SEZ. However, physical parameters especially from urban and regional planning point of view, their locational criteria, regional linkages etc. need to be spelt out so that the SEZ does not become an island of prosperity and economic concentration in a few places. Realizing the importance of the impact of SEZs, it is imperative to formulate guidelines for the development of SEZs.

2. OBJECTIVES OF SEZs

- To promote and expand industrial units with export potential and employment generation.
- To encourage decentralization of economic activities from large cities.
- To promote specialized pattern of industrial development.
- To develop state-of-art infrastructure and services.
- To develop fast means of transport and communication.
- To develop SEZs as generator of economic momentum so as to have wide regional impact in the hinterland.

3. SCOPES AND COVERAGE

- SEZs may be developed as per the industrial policy of the respective State Governments.
- The SEZs may be developed for an ultimate population of 2-3 lakh.

4. SELECTION CRITERIA

(i) SEZs shall be located outside an urban agglomeration / municipal limit of a million plus city, and form part of the City Region.

(ii) Sufficient land and water resources for a population threshold of 2-3 lakhs need to be available.

(iii) Possibility of developing accessibility / connectivity of SEZs in relation to the mother city with 8-lane expressway needs to be a pre-requisite along with proximity to Railway network / Airport.

(iv) Site shall be away from flood prone zone and other natural disaster prone areas.

(v) It shall cause minimum dislocation of existing rural settlements.

(vi) There shall not be any adverse impact on the natural environment and therefore, areas selected may be barren or grassland. Cultivate land may be taken up but should be considered only if adequate other land is not available. However, large scale conversion of fertile agriculture land into urban use needs to avoided.

(vii) Site shall have potential for development as a self-contained entity alongwith environment sustainability.

(viii) Equity for the poor in terms of provision of housing for service personnel needs to be ensured.

(ix) As far as possible SEZs shall be self contained with respect to basic facilities and requirements.

5. DEVELOPMENT PLAN FOR SEZ

Development Plan shall be prepared for the SEZ by an agency designated for this purpose. The planning of the SEZ shall be on the concept of continuity, compactness and self – containment. Each part of the SEZ while being self-sufficient in itself should form an integral part of the town as a whole having clear functional linkages with the mother city and other urban centers in the region. The planning of SEZs may adopt different kind of development i.e. low-rise and low-density development / high rise medium density or high-rise and high-density urban form depending on the availability of land and requirement of the units operating.

The planning of the SEZs shall address environmental sustainability issues, green buildings and disaster mitigation aspects. In this regard, the SEZs may evolve norms and space standards flexible enough to meet the socio-economic, physical and environment needs. Incremental approach in providing for infrastructure / facilities and services needs to be adopted so as to have rational and judicious use of scarce resources both in form of land and fiscal resources.

The Development Plan for SEZ with a perspective of 20-25 years, shall be broken up into short-term Action Plans of five years each. Both these plans need to be adequately backed by investment plans / programmes for infrastructure to be implemented in a phased manner so that the cost of development may match the availability of funds from various sources such as Central / State Governments, institutional agencies, public-private partnerships and internal revenue through taxes, user charges etc. The Development Plan should also provide a frame-work for programming of infrastructure investment in the SEZ.

The Development Plan shall include the following:-

a. Site analysis and assessment of physical and natural resources.

b. Broad spatial plan showing land use pattern, road and other infrastructure network.

c. Activity nodes for location of industrial, commercial, trade and commerce and other employment generating activities serving as nucleus for development around which other activities are likely to come up.

d. Sectoral infrastructure plan including fast track and efficient linkages / provision of transportation with the mother city and other urban centers of the region.

e. Phasing and prioritisation of the Plan both temporal and spatial.

f. Investment Plan as per the phasing of development.

g. Resources mobilization plan including identification of all the agencies involved in development, their investment proposals and priorities and plans for private sector participation.

h. An institutional / legal frame-work for assigning responsibilities, co-ordination between government agencies, private sector, NGO's, CBO's and community development groups.

6. REQUIREMENT OF LAND

The area requirement for the development of SEZs differ as per type of industries. According to SEZ Act, 2005, the area for multi-product SEZs shall have a contiguous area of 1000 hectares or more. Further, in case a SEZ is proposed to be set up in North-eastern States and hill States like J&K, Sikkim, Himachal Pradesh, Uttaranchal and other States like Goa and Union Territories, the area shall be 200 hectares or more.

The area requirements as per various activities are as under:-

Information Technology and Enabled Services	-	100 ha
Free Trade Ware Housing	-	40 ha.
Biotechnology, Gem and Jewelry	-	10 ha.

7. LAND ACQUISITION

Least productive land shall be utilized by acquisition / through negotiation. Incentives like provision of developed plots to land owners and, engagement of dependents of landowners in jobs in SEZ is required to be taken into account. The agency taking up the development of SEZ may take over the total land required for the project before starting development.

8. DEVELOPMENT CONTROL

Development Control includes coverage, floor area ratio (FAR), height, parking norms, setbacks, open spaces, number of units in various uses like Dwelling Units, shops, industrial units etc. Development regulations adopted in mother city may be extended here with provision for incentive zoning.

9. LAND USE REGULATIONS

Land use regulations are required to be framed for implementation and enforcement of proposals under each land use category, contained in the Development Plan. Various uses and activities that are permissible, permissible on application to the competent Authority and prohibited are listed in the regulation, which may be finalized by respective State Governments through State Town & Country Planning Departments.

SEZ comprises processing area and non-processing areas. The land use regulations have to keep in view the requirements of both these areas according to the activities envisaged. The purpose of the land use regulations is to promote quality of life of the people by organizing appropriate development of land in accordance with the development policies and land use proposals of Development Plan of SEZ. Therefore, the land use / sub use distribution is required to be shown in the Development Plan of SEZ as processing area and non-processing areas. The uses / activities under different land uses are suggested as follows.

Processing Area

The Processing area may be used for the following activities:-

- Industries / manufacturing;
- Retail Trade and commerce;
- Godowns and warehousing;
- Port and port related activities;
- Airport and related uses, rail, road and inland waterway and spaces for parking etc;
- Public utilities and any other essential services;
- Incidental and other activities for safety and security; and
- Governmental use / activities to manage the proper functioning of such processing areas.

Non-Processing Areas

Areas other than processing area of SEZ are to be planned for various uses and activities, mainly as an industrial town / township including residential, commercial, recreational and activities related to social infrastructure like education, health care, and socio-cultural facilities.

10. PHYSICAL INFRASTUCTURE

a) Water Supply

The standard of provision, distribution and storage are the three important aspects for the planning of water supply. Standards have to take care of the socio-economic profile of the proposed SEZ. It would be appropriate to plan for a potable water supply of 180-235 litres per capita per day, which should meet both residential and non-residential demand of water in the city. It water for consumption is drawn in bulk from an existing water supply system, the storage reservoir may suitably be sited.

b) Storm Water Network

The drainage system shall be designed based on the soil conditions i.e. water absorption capacity of the soil, area of open spaces and other non-residential uses. The storm water drainage system shall be designed for 1.2 cm to 2.5 cm of rainfall per hour.

c) Sewerage

The sewerage system shall be selected based on the following factors

Ground Water conditions: If the ground water is located very deep or the water is not potable, the possibility for community level septic tanks may be taken into consideration.

Economic Viability: The economic viability of the sewerage system shall be assessed with respect to the extension of trunk services and the proposed development in the surrounding pockets of the selected site.

Water Availability: The areas provided with full flushing system for disposal shall be ensured with a minimum water supply of 135 Ipcd. At the time of project formulation, if it is found difficult to ensure the desired standards of water supply for the provision of sewerage system, innovative approaches with lower water consumption such as two-pit system may be adopted. For the two-pit system technical assistance may be provided for the proper and efficient construction.

The sewerage treatment plant facilities may be provided for the SEZ as a whole. The prevailing wind direction should also be considered while orienting the development in the pockets adjoining sewerage treatment plant. For pockets adjoining sewerage treatment plants, thick clusters of trees should be planted to act as buffer.

d) Solid Waste Management

(i) Properly designed enclosures at suitable places in the SEZ shall be provided for depositing segregated solid waste.
(ii) Appropriate landfill sites away from the SEZ shall be earmarked.

e) Public Conveniences

Adequate provision for Public conveniences shall be made in all public parks, open spaces, commercial complexes where there would be congregation of people. They should be well designed by incorporating appropriate technology and camouflaged and at the same time be easily accessible.

f) Power Supply

It would be appropriate that the SEZs shall be self-dependent on power supply and the SEZs should be able to provide 24 hours uninterrupted quality power supply. A minimum of 500 MW of power supply has to be ensured. The power supply should be based on multiple supply lines and not liable to single line point failures. It would be desirable to plan for captive power plants. Overhead lines need to be minimized. Besides, all buildings should have built in provisions for Solar energy use and maximum use of solar energy may be made through Solar energy powered systems for heating and lighting purposes for industrial, institutional buildings and public buildings / places.

g) Telecommunications

It shall be ensured that the provision is made for state-of-the art high speed data communication (HSDC) links through international gateways at specified locations, International Private leased Circuits from 64 kbps to 2 Mbps, TCP / IP networks with full access to Internet, International video conferencing services and start up space for incubation infrastructure.

11. SOCIAL INFRASTRUCTURE

The overall quantum of social infrastructure to be provided in the SEZ of 2-3 lakh population may be divided into two level of facilities.

(i) SEZ Level Facilities: meant to serve the overall population requiring them to be located centrally in one or more than one location.

(ii) Local Level Facilities: meant to serve smaller pockets.

Functionally all social infrastructure facilities to be provided in the SEZs at the above said cited level may be classified under the following categories.

Educational Facilities,

Health Facilities,

Commercial Facilities,

Community Centres,

Recreational Facilities,

Socio-Cultural and Entertainment Facilities,

a) Educational Facilities

This includes school facilities from nursery level to senior secondary/college level. These may be provided as per the following table:

Sl. No.	Educational Facility	Population Threshold	Area requirement
1.	Primary School	One per 3500 popn.	2000 sq. m
2.	Sr. Secondary School	One per 25000 popn	6000 sq.m
3.	College	One per 50000 popn.	As per UGC Norms
4.	Technical College	One per 50000 popn.	As per AICTE Norms

b) Health Facilities

The provision of health facilities is generally in terms of number of beds per 1000 population. A norm of 3 beds per 1000 population for SEZs of 2-3 lakh population is required. The health facilities may be provided as per the following table:

Sl. No.	Educational Facility	Population Threshold	Area requirement
1.	Family Welfare Centre	One per 5000 popn.	1000-1600 sq.m
2.	Maternity Home	One per 15000 popn	2000-4000 sq.m
3.	Nursing Home/Polyclinic	One per 25000 popn.	2000-4000 sq.m
4.	Hospital	One per 50000 popn.	20000-40000 sq.m

c) Commercial Facilities

Commercial facilities to be provided in the SEZ shall include retail shopping and warehousing facilities. They may be provided as per the table given below:

Sl. No.	Educational Facility	Population Threshold	Area requirement
1.	Convenience Shopping Centre	One per 5000 popn.	1000 sq. m
2.	Local Shopping	One per 10000 popn	3000 sq.mt
3.	Multiplexes/Shopping Malls	One per 50000 popn.	10000 sq.m

Facilities like Banks, ATM's, and Cyber Café may be accommodated in the above commercial facilities.

d) Recreational Facilities:

The recreational facilities in the form of tot-lots, parks and play grounds shall be provided right from the neighbourhood level. They also act as a buffer and provide vital green lung space to the city. They may be provided as per the following table:

Sl. No.	Educational Facility	Population Threshold	Area requirement
1.	Tot-lots	One per 1000 popn.	200 sq. m
2.	Parks	One per 25000 popn	8000 sq.m
3.	Play grounds	One per 25000 popn.	8000 sq.m
4.	Sector Parks	One per 25000 popn.	8000 sq.m
5.	SEZ Park	One per 100000 popn.	1 hectare

e) Community Facilities

These shall be provided at neighbourhood level for performing day-to-day cultural programme.

Sl. No.	Educational Facility	Population Threshold	Area requirement
1.	Community Centre	One per 5000 popn.	2000 sq. m
2.	Recreation Club	One per 25000 popn	2000 sq.m
3.	Sport Centre	One per 25000 popn.	10000-15000 sq.m

f) Communication Facilities

Sl. No.	Educational Facility	Population Threshold	Area requirement
1.	Post Office	One per 50000 popn.	2500 sq. m
2.	Telegraph Office / Fax Centre	One per 50000 popn	2500 sq.m
3.	Telephone Exchange	1 per 200000 popn.	5000 sq.m
4.		one per 50000 popn.	As per AICTE Norms

g) Security/Fire

Sl. No.	Educational Facility	Population Threshold	Area requirement
1.	Police Post	One per 50000 popn.	1000 sq. m
2.	Police Station	One per 200000 popn	5000 sq.m
3.	Fire Station	One per 100000 popn.	1.0 hectare
4.	Disaster Management Centre	One per 200000 popn.	1.0 hectare

h) Transportation Facilities

The following standards for road may be adopted

Sl. No.	Road Type	Right of Way
1.	Major Roads	60-90 m
2.	Local Roads	30-45 m
3.	Access Roads	15-25 m
4.	Minor Streets	10-12 m

12. LAND USE DISTRIBUTION

The SEZs would primarily be modern state-of-the-art township having work-class infrastructure, high quality living, working and entertainment provisions, which are particularly suited to the flexible uses and space demands of modern technology and knowledge based activities. “World class infrastructure” would consist of twenty-four hour water supply, uninterrupted power supply, efficient and pollution-free transport and modern solid waste management, sewerage treatment and communication systems.

As per respective State Government Policy, SEZs may be self-contained entities in terms of living, working and entertainment. However, keeping in view the objectives and special requirements of SEZs, it may not be desirable to prescribe a rigid frame-work of planning norms and standards. Moreover, variations in the planning norms may occur from state to state according to the dominant functional character of the proposed SEZs. Therefore, the SEZs should provide for a judicious mix of land uses / activities in such a way that it is not dependant on the Mother City. The norms and standards for distribution of land use may be as under:

Sl. No.	Land use Category	Percentage of Developable Area
1.	Residential	20
2.	Commercial	4
3.	Industrial	40
4.	Public and Semi-Public	6
5.	Recreational	18
6.	Transport and Communication	12
	Total	100

The above land use distribution is indicative, which may vary as per the size of SEZ.

Density: 200-300 Persons per hectare for a population of 2-3 lakh for an area of 1000 Hectares.

Building Bye-Laws: These may be as applicable in the respective Mother City.

13. GOVERNANCE STRUCTURE

The SEZ Act, 2005 is in force under which SEZs are being set up. However, there is a need to device a governance structure as envisaged under State Municipal Acts. The SEZs need to comply with the provisions of 74th Constitution Amendment Act, particularly for those SEZs, which come up outside municipal limits by declaring the designated nodal agency as a local body.