CHAPTER 5

THEORETICAL VALIDITY OF SEZs IN CONTEXT OF GUJARAT STATE

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5.1 INTRODUCTION:

Gujarat is the most preferred destination for the establishment of SEZs for the following reasons:

- Gujarat is India’s most industrialized state.
- It is the first state to come up with SEZ act.
- Only state, with flexible labour laws in SEZ.
- Rate of growth of industrial output is 18%.
- It ranks third in number of factories in the country.
- It is a leading state in terms of per capita gross output.
- It is a leading state in terms of per capita value added in industries
- Only 0.5% loss of man-days due to labour unrest in 2005.
- Lowest labour costs.
- Higher economies of scale for capacity.
- Vibrant and expanding supply base.
- Best infrastructure availability
- Highly literate and entrepreneurial population
- Contributes to Indian Economy across all major sectors.
- surplus availability of power-around 9288 MW
- Better urban social and industrial investment.
5.2 HOW FEASIBLE ARE SEZS IN GUJARAT?

Some SEZs are in trouble of a serious nature. Reliance finds it tough to get all the land it needs for its SEZs. The Nandigram SEZ in West Bengal has hit headlines and it has been battered into extinction. POSCO is facing severe problems in getting land for its steel SEZ in Orissa. Their officers have been kidnapped for this reason. In fact there is a widespread criticisms faced by different states on the grounds that rural poverty is on the rise because of the forcible land grabs. West Bengal government is concerned about such a large number of SEZs.

The only state which has witnessed a smooth environment for SEZs is Gujarat, where there are no agitations and no disputes.

There are already 5 operating SEZs twelve more will be ready to start in 2008. The reasons are the following;

When New Delhi announced a National SEZ policy in 2006, Gujarat already had its own SEZ law in 2004. So, Gujarat was well ahead in the competition. Shri R. J. Shah the chief for SEZs feels that intricate legislations and notifications are required to make SEZs functional and Gujarat has done this faster than other states. Detailed rules and regulations have been notified. SEZ development authority has been set up with its head a chief secretary who integrates with all departmental secretaries. This facilitates the faster clearance of the proposals.

Gujarat had certain clauses in its SEZ policy which the original national policy did not have. They are the following;
Every SEZ promoter has to be an industrialist and not a builder so that the project can be essentially an industrial project rather than a real estate in disguise.

The promoter should have his own anchor project in the SEZ. Only then can be a provision of high class infrastructure. There are chances that if a builder is a promoter he might neglect the aspect of infrastructure.

A promoter should buy land voluntarily from farmers and not expect the state acquisition on his behalf. This particular clause made Gujarat Government escape from the heart burns that were caused by Orissa and West Bengal Government.

The successful and a colorful start of SEZ in Gujarat can be attributed to the geographical positioning of the state. It has a long coast line with deep water in the Gulf or Kutch. The gulf has virtually no rainfall. So, ports can be built without many expenses.

In the entire country the Gulf of Kutch is the only coastal area with very sparse rainfall. Farming is tough and hence farmers are willing to sell their land. The state government itself owns vast wastelands, mud flats and marshes along the west. It has been selling these to developers like Gautam Adani at Mundra, without displacing farmers. No other state has focused SEZ development on such waste lands Gujarat has around 20,500 hectares of land approved for SEZs. Out of which 50% are wastelands. Another 15% is owned by the GIDC. So, only 35% of lands, which is relatively less when compared to other state have to be purchased from the farmers and hence developers find it relatively less difficult.

Gujarat has taken lands for SEZ, which are either uncultivable or has single cropping. There are some farmers in Saurashtra who adopt double cropping
by using ground water. But excess pumping in the past has already depleted water source and sea water intrudes into these aquifers leading to environmental disaster. Hence farmers are more than happy to sell their land to the developers of SEZ. This is not the case for West Bengal, which has fertile land, leading to multiple cropping and the farmers do not like to part with their lands.

In certain areas of central Gujarat where land quality is high, farmers are willing to sell their lands as the industrialists are ready to pay lucrative price. The developers in Gujarat do not wait for government to acquire land for them but they acquire by giving good price because they believe that time saved is money saved. One very good example is 110 hectares of land acquired by Zydus Cadila for the pharmaceuticals SEZ by paying around Rs. 10 Lakh. If they had waited for the government to acquire lands for them, it would have taken two years or more.

The history of Gujarat, traces back to various instances of entrepreneurial nature of the people. They sell lands at a high price and with that proceeds, they fund for businesses like trucking. Reliance industries have bought lands voluntarily from farmers in Jamnagar who have become truck operators for these industries. Can we expect the same to happen with the tribal farmers of Orissa? No.

Gujarat has a great heritage of maintaining good records partly because, they are shrewd and clear and partly because it is the land of great barristers and statesmen like Mahatma Gandhi, Sardar Vallabhbhai Patel and Vinoba Bhave. So, land disputes have been very few in Gujarat. In many states land disputes are very high, as land records are missing. In Orissa, people cultivating lands for generations are not listed in land records. In that case
they cannot get any compensation for lands in the even of acquisition of lands for SEZ and hence they agitate against SEZs.

There are many states which have landless laborers. Such laborers do not get compensation and they fear joblessness in the event of land getting acquired by SEZs. In Gujarat landless laborers are very few and they are employed by their promoters. In fact, Mundra Port in Kutch experience shortage of labour and it is forced to import labour from North India.

The experience of Gujarat can be executed by other states also. But alas, other states have different history and geography and hence it cannot be easily executed. If SEZs are well conceived and executed, it can be a boon, rather than a curse. It can enrich the farmers rather than impoverish them.

Therefore the new government’s policy on SEZ has intended to lift the 5,000 hectare land ceiling imposed in April by a group of ministers. This will benefit Kandla port trust, which has 6,000 hectares already and there was the cap which created problems. But now that the cap has been removed and also curbs imposed on land acquisition likely to be removed – the future of SEZs seems to be bright.
4.3 PROGRESS OF SEZs IN GUJARAT JUSTIFYING ITS THEORETICAL VALIDITY:

After attracting maximum investments, Gujarat has now emerged as the No1 SEZ state. With approximately 15,000 hectares of state land going for SEZs, Gujarat tops the national chart in terms of geographical area occupied by SEZs. The Board of Approvals recently Okayed five more Gujarat projects, taking the total number of SEZs to 47. In terms of area under SEZs, Maharashtra comes a close second with around 11,500 hectares, Andhra Pradesh (11,000 hectares), Tamil Nadu (5,000 hectares and Orissa (2,500 hectares).

According to ministry of commerce sources, Maharashtra has the maximum number of SEZs (75) followed by Andhra Pradesh (over 60) and Tamil Nadu (nearly 60). But as far as the total area falling under SEZ is concerned, data available on the commerce ministry website puts Gujarat on the top. Three more proposals are likely to come up before the BoA next month. If all of them are approved, the total tally will touch 50.

The country’s top corporate such as Tata, Reliance, Essar, Adani, Welspun and Satyam, just to name a few, has lined up huge investments in the state. Analysts say Gujarat has good mix of sectors as far as SEZs are concerned. Contrary to the national trend, the state has lesser number of IT SEZs and more projects which are driven by manufacture. Gujarat is likely to draw fresh investments to the tune of Rs 65,000-70,000 crore from special economic zone projects to be pumped in by about 16-17 players.
"Gujarat has the maximum number of SEZs in the country. The new investments will take the state’s tally of SEZ from about 60 currently to about 72-73," said a senior government official familiar with the development.

The players planning to invest in the sector include the Siyaram Poddar group which is aiming to set up tyre and auto ancillary SEZ in Kutch for an estimated investment of Rs 5,000 crore, sources said.

Kalpataru group which is mainly into power transmission manufacturing is aiming to set up a multi-product SEZ near Ahmedabad. The group’s through its subsidiary Energy Link is likely to invest Rs 7,000-8,000 crore in this project, according to government sources.

The state will get its first food and agri SEZ to be set up by Akshaypatra group. The group has identified land near Kadi and aims to invest about Rs 500-700 crore, sources said.

Meanwhile, Entrepreneurship and Management Processes International (EMPI) is planning to set up a novel SEZ in lines of global high technology innovation clusters such as the Silicon Valley in the US, Hsinchu in Taiwan, Tsukuba in Japan and Sofia Antipolis in France. The company, chaired by former vigilance commissioner N Vittal is planning to invest Rs 11,500 crore in the project for which it has identified land near Valsad.

All the players are likely to sign MoUs at the upcoming Vibrant Gujarat Global Investors Summit slated to be held on January 12-13.
An official of Sandesara group confirmed that they have got additional land clearance from the state for expansion of their Sterling SEZ in Jambusar area near Vadodara. The company will pump in an additional Rs 14,000 crore for the 9,000 hectare SEZ, touted to be the largest multi-product SEZ in the country so far. "We will sign a MoU at the Vibrant Summit," a senior official told Business Standard.

Zydus Cadila is also aiming to sign MoU for expansion of its existing pharma SEZ near Ahmedabad. The pharma major is aiming to invest Rs 500-700 crore for the expansion, sources said.

While 12 to 13 players are willing to set up new SEZs, about five players have shown interest for expansion of their current projects.

The special economic zones (SEZs) based in Gujarat have projected exports to the tune of Rs 74,190.24 crore for the fiscal 2009-10. The projected exports from all SEZs in the country for 2007-08 are to the tune of Rs 67,088 crore.

Of the 50-odd SEZs cleared, so far, in Gujarat by the Centre, notifications have been issued for 20. Of these, six are multi-products, two for pharmaceuticals, apparel and IT-ITeS, and engineering products each, and one each focusing on gems and jewellery, high-tech engineering products, power, textile garments, electronics products and chemicals.

The multi-product SEZ, being set up by Reliance Infrastructure Ltd at Jamnagar in a 1,765-hectare area, is projected to export products worth Rs
45,029 crore, while the Kandla SEZ, also a multi-product zone, would export products worth Rs 4,407 crore.

The multi-product SEZ at Surat is expected to export products worth Rs 15,000 crore, according to Mr. Ravi S. Saxena, Development Commissioner, Kandla SEZ, Union Ministry of Commerce and Industry, and in-charge of SEZs in Gujarat.

The Essar-Hazira SEZ is deemed to export products worth Rs 5,100 crore, while the Mundra SEZ would account for Rs 1,855 crore, he told Business Line here. Zydus Cadila’s SEZ on pharmaceuticals near Ahmedabad is expected to export goods worth Rs 447 crore, while Suzlon’s SEZ on hi-tech engineering products near Vadodara would export goods worth Rs 679 crore. Besides, the engineering products SEZ, being set up by E-Complex Pvt. Ltd in Amreli district is expected to make exports worth Rs 1,672 crore, he said. Other SEZs are at various stages of implementation.

The Centre has so far granted formal approval to 404 SEZs in the country, of which 172 have been notified. In Gujarat, most of the SEZs are coming in the core manufacturing sector, while in other States these are mainly in the IT and ITeS-related services. By December 2009, investments to the tune of Rs 2,59,159 crore are expected in these SEZs where 22 lakh new jobs are likely to be created.
5.4 CASE STUDY OF RELIANCE SEZ IN GUJARAT:

Coming out of the shadows after facing a slump in the global petrochemicals market, Reliance Industries’ (RIL) special economic zone (SEZ) in Jamnagar is likely to emerge as one of the largest SEZs in the country.

“Reliance SEZ is expected to export goods worth at least Rs 50,000 crore by March 2010. This will be the largest in terms of exports compared with any other SEZ in the country,” Reliance Jamnagar SEZ Development Commissioner Upendra Vasishth Business Standard.

In 2008-09, exports from all SEZs in India had been pegged at Rs 99,500 crore, of which exports from SEZs in Gujarat stood at Rs 26,000 crore. This financial year, exports from all the SEZs are poised to touch Rs 1,70,000 crore, according to Vasishth. The Rs 25,000-crore Jamnagar Export Refinery Project (JERP) located in the SEZ became functional on December 25, 2008. But it became fully operational only in July this year. Exports from the refinery have already touched Rs 18,000 crore till August 31.

JERP has added nearly 20 per cent to the country’s refinery capacity and has made RIL the largest crude oil refining company in India. The refining capacity of JERP is 29 million tones per annum and its exports are primarily aimed at the US and European markets. The refinery produces about 31 kilo tones a day (ktpd) of diesel, 25 ktpd of petrol, along with sulphur, pet coke, fuel oil and naphtha.
The polypropylene plant in the SEZ also has a capacity of about a million tones per annum and the plant is working full throttle to cater to heavy export orders, according to company sources.

Reliance is also in the process of setting up a C2/C3 cracker unit in JERP to produce downstream products like methyl ethyl glycol (MEG), low-density polyethylene (LDPE) and low-low density polyethylene (LLDP), sources said.

The global economic slowdown had hit RIL’s petrochemical business last year, forcing the company to cut 50 per cent of the production at its polypropylene plant located outside the SEZ in an export-oriented unit (EOU) facility.

The special economic zones (SEZs) from Gujarat alone contributed over 20% of the total exports from SEZs across the country. Gujarat also exceeded its set export target by more than Rs 3,400 crore in the just concluded fiscal year.

“"The total exports from SEZs across India were close to Rs 65,000 crore. Exports from the state stood at Rs 14,542 crore for the financial year 2007-08 against the projected Rs 11,147 crore," said SEZ development commissioner for Gujarat, Ravi Saxena.
5.5 WHAT IS WRONG WITH SEZS IN GUJARAT?

In this, the sixth installment of a series on Tehelka’s attempt to paint Gujarat as ‘just another socio-economically vulnerable state’, we look at the presentation of investment and employment figures.

The jugglery of figures extends even to the most hyped aspect of “Vibrant Gujarat” — investment from corporate. Modi claims that MoUs worth Rs 4,60,000 crore have been signed with private industry and investment worth (Rs 2,00,000 crore) has been received. But these declarations take a long time to materialize. For instance, in a written reply to the consultative committee of the General Administration Department, the chief minister admitted that out of a total of Rs 66,068 crore worth of MoUs signed during 2003 and Rs 1,06,16 crore during 2005, only Rs 25,450 crore worth of investments till January 2007 and only Rs 13,170 crore, respectively, have fructified so far.

Despite these investments, employment has remained stagnant. That is because Gujarat has as many as three lakh small-scale industry units. Many of them are languishing as only a paltry Rs 115.20 crore has been invested in them in the past five years.

There is nothing unusual at all about investments being spread over a number of years. For instance, POSCO’s Rs 52,000 crore investment in Orissa—touted as India’s largest FDI project—is spread over 10 years. As a commitment, a MoU is non-binding, and constitutes only an understanding that a certain amount will be invested. That said, a MoU is better than no MoU, isn’t it?
What about employment being stagnant due to the presence of small scale industry units? Going by the Gujarat state government’s socio-economic review, total employment as of end-2004 at 1.66 million is lower than that for year 1999 (1.73 million). But before you conclude that this is evidence of stagnation, let’s look a little deeper. What has happened during this time is that the number of public sector jobs have fallen from 932,000 to 824,000, while the number of private sector jobs have risen from 795,000 to 836,000. Between the year 2000 to 2005, the number persons registered at employment exchanges has fallen from 855517 to 757234 (educated jobseekers), and from 212234 to 118479 (uneducated jobseekers). Not stellar growth, but not stagnation either. The growth in private sector jobs not only supports Gujarat’s investment story, but the drop in public sector jobs is good news from the public finance perspective.