Special Economic Zones: Land Capability, Compensation and Structure of Units

Abstract of PhD Dissertation

Submitted by

AZKA KAMIL

Department of Geography
Delhi School of Economics
Delhi University
September 2012
Special Economic Zones: Land Capability, Compensation and Structure of Units

ABSTRACT

1 Introduction

SEZ is duty free enclave, and shall be deemed to be a foreign territory for the purpose of trade operations and duties and tariffs. The concept dates back to thirteenth century Spain and in more recent times late 1950s and early 1960s to Ireland and Puerto Rico. SEZs have been established in several countries like People’s Republic of China, Jordan, Poland Brazil, Kazakhstan, Philippines, United Arab Emirates, Iran, Malaysia, Russia etc. In Peru, U.S. and Germany they are referred as Zona Economica, Urban Enterprise Zone and New Bundesländer respectively. Most developing countries of the world have recognised the importance of facilitating international trade for the sustained growth of the economy and increased contribution to the GDP of the nation. The Government of India too, has made several policy changes to achieve this objective. Of the various reform initiated, the SEZ Act, 2005, is one. The commerce ministry notified the SEZ law on February 9, 2006 and the rule came into effect from February 10, 2006.

The basic right to approve SEZ lies with the Commerce Ministry. The Special Economic Zones are special as they have provision for duty free import of capital goods, liberal access to foreign exchange, encouragement to FDI, single window clearance, concessions, flexible labour laws, restriction to sales within country and better infrastructure facilities. There is also a provision of hundred percent FDI for all investments in SEZs except activities under negative lists. But there is no relaxation for pollution control laws and labour laws. SEZs in India can be set up by the private sector, state government or joint sector. There is also a facility to set up offshore banking units in SEZ. Income tax is exempted for a block of 10 years. Foreign Direct Investment for developing township within SEZ with residential, educational, healthcare and recreational facilities is permitted depending on the case. SEZs can set up civil courts but establishment of criminal court is not obligatory.

The three tier structure of SEZ includes; Board of Approval, Zone level Approval Committee and Development Commissioner. Application duly recommended by Government is send to Board of Approval (headed by a Secretary from the Dept. of
Commerce) who may accept or reject the proposal. On acceptance it is forwarded to Development Commissioner (ex-officio chairman of Approval Committee), who guides the entrepreneur, grants export-import code number, changes the name of the company etc. It is then passed to Approval Committee which monitors performance of the SEZ, approves import of goods or services from DTA or outside India and finally Special Economic Zone Authority develops infrastructure as per the requirement of individual unit.

2 Literature Review

In the last few years there have been substantial literatures on the various dimension of SEZ. These have been studied under the following heads; existing and emerging issues. The issues include site selection, extent and the size of SEZ, displacement, capability of land, compensation or land price, rehabilitation, residential property development, and land speculation, the threat of possible relocation of units from other parts of the state to SEZ and consequent loss of public revenue.

The review of the literature available firstly shows that large part of the studies have appeared in the popular journals and are journalistic in character as a result rigorous analysis of issues relating to SEZ are very few. Secondly, from the geographical point of view the choice, location and site for SEZ has not attracted much research attention.

3 Objectives and Hypotheses

In the light of the above observations the objectives of the current study are:

1) To analyse the various categories of land capability of areas earmarked for SEZ.
2) To compare the structure of manufacturing and processing units and study the sites that are preferred for establishing SEZ.
3) To evaluate the socio-economic condition of people alienated from the land which is earmarked for the development of SEZ.
The study seeks to verify the following hypothesis in the process of fulfilling its above objectives:

1) Since the land capability has not been the criteria for the choice of land for SEZ it is posited that SEZ will include land with very low to very high capability.

2) Farmers alienated from their land may be classified into two types: those who use the compensation for the further investment and others who have retained it for their consumption needs.

4 Data Base and Methodology

The secondary sources of data include popular journals, articles, papers, books, Gazetteer of Haryana, Gazetteer of UP, Statistical Abstracts, Census Publication, and Department related Parliamentary Standing Committee (83rd report on the Functioning of SEZs). Visits to the Ministry of Commerce, Development Commissioner of NOIDA, NATMO office was also undertaken.

In Chapter One, flow charts have been put up to describe the three tier structure of SEZ and also the procedure for project approval. In Chapter Two (Categories of Land Capability area earmarked for SEZs and the preferred sites), a land capability map prepared by NATMO was scanned and digitised with five main categories of land capability selected broadly as very good land, good land, moderately good land, poor land and land with severe limitations. These were then overlaid on a district map of India through Arc View GIS. Only those districts were considered which have SEZ. To this map, type and size of area devoted to SEZs were studied and a table was prepared so that a comparison is possible. Also, chapter two deals with the second objective that is to compare the structure of manufacturing and processing units and study the sites that are preferred for establishing SEZ. For representing the results diagrams, maps tables and flow charts have been used. In Chapter Three; Emerging concerns associated with SEZs numerous journals, books, papers, articles, newspapers, reports, online-readings, websites, Google news alert update had been meticulously read and had been categorized under various sub-headings to get an overview of all the problems and the intertwined cause and effect. For Chapter Four; Impact of SEZ development on villagers’ socio-economic set up: a micro-level study
a structured questionnaire was prepared to interview the village headman and the respondents of respective villages that includes Nalgadha and Dallupura (NOIDA, U.P.) and Khandsa and Mohammadpur Jharsa (Gurgaon, Haryana). The choice of village was done keeping in mind that NOIDA already had an experience with EPZ and now SEZ but experience with SEZ is new for Gurgaon. At least hundred respondents have been covered from these four villages through purposive sampling method and care had been taken to include four different types of respondents (i.e, twenty-five from each category). These four types of respondents were first, those whose land had been acquired second, who have sold their land to private developers, three, those who have neither sold their land nor has it been acquired by the government and fourth, who do not own any land i.e. landless labourer. The socio-economic profile of the villages have been described and diagrammatically represented. Also, a Weighted Scale Method has been used to analyse the satisfaction level on compensation of the respective villagers. A five point scale has been used with classes like completely satisfied, satisfied, marginally satisfied, unsatisfied and completely unsatisfied. Ten questions were prepared for the sub-heading satisfaction with compensation amount under the main questionnaire and alternatives marked in descending order from best to worst for the four villages and then their score was calculated to bring out a comparative assessment. Mean Composite Index had been calculated for the infrastructure development and standard of living of the respondents of the study area of the sample villages.

5 Findings

- On analysis of the various categories of land capability areas earmarked for SEZ, the study found that land capability has NOT been an input for setting up of SEZ. SEZs have been established in land with very good capability to land with severe limitation. The area dedicated to land with very high capability is less than the rest of the categories of land capability. Andhra Pradesh, followed by Maharashtra, Gujarat and West Bengal are the states that have dedicated very high capability of land to set up SEZ. The larger area of land capability category of good land is used in the state of Andhra Pradesh, while that of good land and moderately good land is used in Maharashtra. Poor lands are used to a larger extent in Maharashtra. The land
capability area of land with severe limitation is used largely in Andhra Pradesh followed by Maharashtra, Rajasthan and Gujarat. States like Kerala, Haryana and Rajasthan have not used either very good land or good land to set up SEZ. Tamil Nadu, Karnataka, Madhya Pradesh, Chhattisgarh and Uttaranchal have used only a negligible area of very good land for setting up SEZ.

- On studying the state-wise distribution of SEZs under the category of formal approval, In-principle approval and notified approval, the study found that the highest number of notified approvals is in Andhra Pradesh, Maharashtra and Tamil Nadu. In the near future these states will also have highest formal approvals as land has already been demarcated for setting up of SEZs. Further, In-principle approvals are high in Maharashtra, Tamil Nadu, and Haryana. These states need to demarcate land for setting up of SEZ as other formalities have been successfully finalised.

- A sense of regional disparity is conspicuous when one compares the Per Capita Income of the states and the relative number of SEZs in them. Here again, Maharashtra tops the state followed by Haryana, Karnataka, Gujarat and Tamil Nadu. States that have low in Per Capita Income have no SEZs like Bihar, Assam, Arunachal Pradesh to name a few. In Chhattisgarh and Jharkhand the SEZ development has been minimal with only 3 and 2 SEZs respectively.

- There has been a coastal site preference throughout the world for establishing SEZ, India too is no exception. But unlike other countries India does not have a policy of confining SEZ only to coastal areas. Landlocked areas are also preferred only if they have strong business advantages like that in Haryana, Uttar Pradesh, Madhya Pradesh and Rajasthan. Poorly developed linkages between the coast and that of hinterland are the main reason for coastal preference.

- The study found that there is a directional (e-w) bias within the coastal land in the selection of site for SEZ. Western coast which is industrially, commercially, functionally and operationally more developed is preferred than the eastern coast. The total number of SEZ is marginally high, these being 392 for western coast and 349 in eastern coast.
When a region-wise share of formal and informal SEZs were computed, it was found that highest percentage of formal approval are in southern and western region which includes Maharashtra, Gujarat, Karnataka, Tamil Nadu and Andhra Pradesh. These states have been the part of the service boon in the country. They are also industrial and technological hub of the economy simultaneously with a deep and wide manufacturing base. In-principle approvals are high in north and west region, with Haryana (17) topping the list and followed closely by Rajasthan (11).

State-wise distribution of SEZs according to land area reveals that of the various size of land earmarked for setting up of a formal SEZ, the highest number of SEZs have been located in the category of 11 to 100 ha of land area. The type of SEZs includes footwear, electronic hardware, software, food-processing etc. The land area class of 101 to 1000 ha is the second preference used for setting up mostly port based multi-product SEZ.

State-wise distribution of SEZs (In-principle) according to land area classes reveal that only Kerala and Karnataka have land area requirement of 1-10 ha. Of the 15 states that have been sanctioned In-principle approval, 12 require land of 101 -1000 ha. Also, Haryana, Maharashtra, Rajasthan and West Bengal have a demand of land area in the category of 5000 ha and above.

State-wise land area dedicated to formal SEZ shows that large land area is required by Gujarat i.e. 1 million hectares for setting up 49 SEZ, Maharashtra 13,000 hectare for 104 SEZs, Andhra Pradesh 12000 hectare for 99 SEZs.

State-wise land area dedicated to In-principle SEZs shows that Maharashtra has the highest land area requirement of 28000 hectare followed by Haryana (27000 ha) and Rajasthan (9982 ha) respectively. Chandigarh, Delhi, Dadar & Nagar Haveli, Goa, Jharkhand, Nagaland, Pondicherry, Uttarakhand do not have any In-principle approval so they will not require land in immediate future for establishing SEZ.
On comparing relative land area and relative number of SEZ the study found that Maharashtra has a relative rank of two in land area and one in relative number of SEZ i.e. it has the second highest area under SEZ and highest number of SEZs. While Gujarat has highest land area dedicated to SEZ but their number is less than that of Andhra Pradesh, Maharashtra, Tamil Nadu and Haryana.

Sector-wise distribution of SEZ reveals that ITeS (Information Technology enabled Services) followed by others and biotechnology form the highest percentage of formal approvals while others followed by ITeS and multi-product forms the highest percentage of In-principle approvals.

Comparison of the number of IT/ITeS/Biotech with that of manufacturing SEZs in the states reveals that highest numbers of processing units are in states of Maharashtra, Andhra Pradesh, Karnataka, Tamil Nadu and Haryana. Delhi has only processing unit and no manufacturing unit. Highest numbers of manufacturing units are in Maharashtra, Gujarat and Tamil Nadu. Himachal Pradesh, Jharkhand, Nagaland have manufacturing units and no processing units. Pondicherry has neither a processing nor manufacturing units.

Comparison of area devoted to processing and manufacturing units underline that manufacturing unit would require larger area than processing unit. The numbers of processing units are so many that sum total of their area is only marginally lower than that of manufacturing units. Maharashtra is exclusive in having the highest processing as well as manufacturing units.

Number of IT/ITeS/BIOTECH SEZ and area covered when compared point that Maharashtra, Andhra Pradesh, Karnataka, Haryana and Tamil Nadu form the IT hub but the land requirement of Tamil Nadu is highest compared to that of any other state with processing area.

Sector-wise distribution of SEZ in Gurgaon and NOIDA shows that different sector of SEZ have been set up in Gurgaon, ranging from IT (60 per cent), electronic hardware and software (18 per cent), multi-service SEZ (8 per cent), while that in NOIDA only IT or ITeS are established.
Nalgadha and Dallupura villages (NOIDA) and Mohammadpur Jharsa and Khandsa villages (Gurgaon) are the sample villages to understand and compare the socio-economic condition before and after alienation of land, compensation issue and future concerns of the people alienated from their land. Due to acquisition of the land, farmers have lost their sole economic support. Majority of them are not literate leaving them adversely affected with no alternative occupation in hand. Further, the economic condition of landless labourer or share croppers who shared the produce on the basis of *batai* has worsened. They have lost their jobs and are looking for work as guards or peons or other manual work like domestic help etc.

It is unfair to expect poorly skilled (farmers skilled only farming) to transit to other business. Compensation in cash would be inadequate to start a new venture.

Khandsa has highest standard of living and development in the area followed by Mohammadpur Jharsa, Nalgadha and Dallupura based on composite Index of infrastructure development and standard of living of the respondents.

The study found that the compensation has been seen differently by different villagers according to their standard of living, need and future security. Category under which compensation has been invested shows that Nalgadha, Dallupura and Mohammadpur Jharsa have mostly used for purchasing property in the adjoining area while respondents of Khandsa have invested in business like shops. None of villagers have invested in any saving schemes like FD/RD/PPF/TD/Shares/MF etc. The role of the purchaser whether a government acquired or private developer has been only to buy the land without any social obligation towards the people. People have consumed the available compensation amount mostly to reconstruct their home, extend rooms in their house, for marriage arrangements in the family, repayment of debts and also for purchasing household items.