CHAPTER 6
PROBLEMS, CHALLENGES AND ISSUES RELATED TO SEZs

Since Independence, the concept of property in the Indian Constitution has been subject of a protracted struggle between the judiciary and legislative. In July 1991, India adopted a new economic policy of liberalisation, privatisation and globalisation (LPG) to achieve economic growth in every sector of the economy and thereby enhance the rate of growth and make the Indian economy more competitive globally. As part of this policy, several reform measures were adopted development of foreign trade is one such. This requires export-oriented industrial units that produce export quality products. Considering the need to promote exports from the country, enhance foreign investment and Indian manufacturing competitive globally, the Government of India announced the SEZ policy in April 2000.

The present chapter attempts to show the problems, challenges and issues regarding SEZs in India. Several problems have emerged with the set-up of SEZs loss of government revenue, land actualisation, regional disparities, labour problems, environment degradation and not benefited to local areas. Despite the huge rate of approval and establishment of SEZs, and thus their apparent success, the development of SEZs has faced considerable opposition and is being stalled in some cases. This resistance has arisen because of various controversial aspects regarding the establishment of SEZs.

6.1 SEZs and Related Issues in Some International Regions
6.1.1 Employment, Labour and Gender Issues in Korean EPZs

Masan EPZ, established in 1970, was South Korea’s first EPZ, and is the largest in terms of employment, number of firms and amount of foreign trade and FDI. The first FDI venture arrived in the zone in 1971. During the 1970s, more than 90 per cent of the firms were foreign-owned. The proportion remained at 80 per cent throughout the 1980s. The majority of them were small- and medium-scale companies from Japan, for whom the location in South Korea was attractive because of geographical proximity. These foreign companies came to Masan EPZ in search of good quality, cheap labour assuming the existence within the EPZ of strong labour restrictions or even complete suppression of the basic legal rights of labour, as promised by the South Korean government by way of the 1970 Act on the Designation
and Operation of Export Free Zones. The majority of the small and medium Japanese enterprises that came to Masan were in labour-intensive electrical goods and electronics industries that were finding it difficult to survive in Japan because of the high labour costs there. After the steep rise in wages, however, many small foreign-owned companies left the zone from the 1990s onwards. Together with the entry of domestic investors, this trend has led to a shift in the industrial structure of Masan EPZ towards technology and capital-intensive industries. The “IMF crisis” further accelerated the change.¹

6.2 SEZs and Issues within India:

6.2.1 SEZs and Loss of Government Revenue

SEZs avail various concessions/exemptions of central as well as state taxes. Department of Revenue, Government of India is against providing blanket tax sops to all SEZs and for all types of industrial and service units operating in SEZs without some conditions. SEZ units are provided exemption from income tax under Section 10AA of the Income Tax Act, as given in the second Schedule of the SEZ Act, 2005. Section 10AA of the Income Tax Act, as given in the second Schedule of the SEZ Act, 2005, has been amended by the Finance Bill, 2007. Accordingly, tax benefit has been provided only for new units in SEZs: provides that in computing the total income of an entrepreneur, from his unit in an SEZ, the following deduction shall be allowed:

(1) 100 per cent of profits and gains derived from the export made in eligible business for a period of five consecutive assessment years beginnings of the year in which such business commences;
(2) 50 per cent of such profits and gains for further five years assessment years and thereafter; and
(3) An amount not exceeding 50 per cent of the profit debited to the profit and loss account of the previous year in respect of which the deduction is to be allowed and credited to a reserve account to be created and utilised for the purpose of the business in the specified manner, for the next five consecutive assessment years.

A SEZ is specially delineated duty free enclave and shall be deemed to the foreign territory for the purpose of trade operation and duties and tariff. The Government of India has been extended a number of tax concessions for coming under

SEZs in its annual budget. A study by the National Institute of Public Finance and Policy (NIPFP) has revealed that, and expressed doubts over the benefits that have come from this area. A total loss of around ₹ 1,00,00 crores was estimated for 2006-10. The finance minister estimated a total loss tax revenue worth ₹ 1,02,621 crores for the same duration. According to CAG report 2014, there were ₹ 83104.76 (IT ₹ 55158 & indirect tax ₹ 27946.76) between 2006-07 and 2012-13. The withdrawal of exemption from MAT/DDT was considered by business as an important measure affecting the promotion of SEZs in the country. Further, SMF’s in India are performing excellently both in manufacturing and export area has when compared with SEZs. However, this statement of revenue forgone does not include revenue forgone on account of central excise and service tax in relation to SEZs. Further, concession under state status viz., stamp duty, VAT, CST, etc. could not be quantified and absence of any monitoring mechanism. Therefore, these estimates do not give a true picture of the revenue forgone. However, the Ministry of Finance, in a study pegged the loss at ₹ 175487 crore from tax holdings granted to SEZ between times from 2004 to 2010.³ However, they have not been extended with such kind of tax benefits, which are enjoyed by SEZs.

Many wise men think that the SEZs scheme is badly designed, including many at the Ministry of Finance, which said it would cost the state ₹ 1,750 billion in forgone tax revenues by 2011. Visionary industrial plans in democratic India are destined to turn messy and get bogged in political compromises.³

Special provisions have been made to take advantage of the tax concessions in the act under which tax exemptions being offered and little net activity will be applicable only if the unit is not being generated. The Finance Ministry initially put the loss of tax revenue at ₹ 93000 crore and later revised it further upwards to ₹ 102621 crore for the four year period from 2006-07 to 2006-10. Critics of SEZs happy to quote this figure without recognizing that this estimate includes loss from indirect taxes, which are not supposed to be exported under any fiscal regime. But even the estimate of direct tax revenue forgone is placed at ₹ 54000 crore. The total revenue actually forgone on account of direct tax concession to all STPI and SEZ units in the year 2006-07 turned out to be mere ₹ 9938 crore. This puts a huge question mark over the validity

---

³ The Economist Time
of the projections of the revenue foregone because of new SEZs. Furthermore, the revenue loss is not the same as overall welfare loss. A report by ICRIER brings out clearly that overall welfare gains from new SEZs are not only positive but are significantly larger. The report categorically argues that the justification for SEZs derives from both quantifiable and qualitative benefits that they generate. Even if we assume zero net benefits because of export activities infrastructure investment of ₹112468 crore over the next three years will itself contribute significantly at the policy objective of developing infrastructure through PPP.

The Asian Development Outlook of the Asian Development Bank says the Indian government sops for SEZs are unnecessary. SEZ tax inducements are expensive, and come at the time when the government is struggling to provide adequate infrastructure in the wider economy. The report adds that better infrastructure and greater bureaucratic efficiency in SEZs will be sufficient to stimulate investment from potential investors.

However, the revenue loss estimate varies from person to person. There has been no cost-benefit analysis conducted for SEZ projects or assessment of economic losses because of diversion of agricultural land for non-agricultural purposes and resultant impacts on local livelihoods. A rough plan is that 50 per cent of SEZs will be set aside for greenery, sewage and water treatment, real estate development. But this idea is not good news for the finance ministry. It has real apprehensions. With its huge fiscal deficit, India can hardly afford the loss. Under the SEZ Act (Section 26-30) and SEZ rules, Excessive Tax and tariff concession are being given to companies for a consecutive period of 15 years. This would increase the burden of taxation on the common people. Once given the status of SEZs private industries will simply reap the benefits of all the leverage provided by government. As per as CAG report of 2014 the revenue forgone by CBEC and CBDT during the year FY 08 to FY12 is presented in table 61.1. The table clearly indicates that direct taxes and on commodities (customs tax) have continuously arisen from FY 2008 to FY 2012. However, the duty entitlement pass book and duty drawback of custom duty declined during the same period. While,

---


total SEZs custom duty fluctuated over the time as well. It is clearly pointing out that an overall government loss has been increased year by year.

**Table 6.1 Loss of Government Revenue (Amount ₹ in crore)**

<table>
<thead>
<tr>
<th>Scheme</th>
<th>FY08</th>
<th>FY09</th>
<th>FY10</th>
<th>FY11</th>
<th>FY12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SEZ</td>
<td>1803.95</td>
<td>2324.29</td>
<td>3987.06</td>
<td>8630.16</td>
<td>4559.87</td>
</tr>
<tr>
<td>DEPB (SEZ)</td>
<td>29.29</td>
<td>4.52</td>
<td>19.51</td>
<td>20.15</td>
<td>4.52</td>
</tr>
<tr>
<td>DBK (SEZ)</td>
<td>14.84</td>
<td>4.45</td>
<td>12.28</td>
<td>17.85</td>
<td>2.55</td>
</tr>
<tr>
<td>Total SEZ</td>
<td>1848.04</td>
<td>2333.41</td>
<td>4080.85</td>
<td>8668.16</td>
<td>4566.94</td>
</tr>
<tr>
<td>Other Schemes</td>
<td>66331.15</td>
<td>58839.82</td>
<td>48587.54</td>
<td>62360.32</td>
<td>64111.45</td>
</tr>
<tr>
<td>On Commodities</td>
<td>85414</td>
<td>164579</td>
<td>181344</td>
<td>159103</td>
<td>202015</td>
</tr>
<tr>
<td>Direct Taxes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SEZ</td>
<td>3000</td>
<td>3313</td>
<td>5515</td>
<td>6637</td>
<td>12667</td>
</tr>
</tbody>
</table>

*Source: CAG Report (GoI, 2014)*

The Ministry of Commerce has championed SEZs, yet the economic sense of the policy has been challenged by such bodies as the Ministry of Finance, the Reserve Bank of India, the Comptroller and Auditor General of India and the International Monetary Fund (IMF). At the important aspect is the concern that SEZs, for all the scale of the tax exemptions they offer, will not necessarily lead to FDI, export earnings, and general economic activity that would not otherwise have taken place anyway. It has been suggested that the tax exemptions will simply encourage companies to shift production into the new, tax-exempt zones. As early as 2006, therefore, the Ministry of Finance provided an estimate that SEZs could eventually cost the state up to ₹ 700 billion in lost revenue.

The Comptroller and Auditor General investigated the loss of revenue because of SEZ schemes and reported to the Indian parliament on 11th March 2008. The report stated, “SEZ units have been achieving the prescribed net foreign exchange (NFE) earnings mainly through domestic sales, defeating one of the sub-objectives of the scheme, which was to augment exports”. The duty forgone during 2006-07 was estimated to be ₹ 21.46 billion.

---


8 *Ibid*
6.3 SEZs and Land Acquisitions

India’s economic growth is high on the agenda of investors throughout the world. Slogans such as “Shining India,” “Global Power India,” and “China was yesterday, India is today,” as well as countless references to the BRICs (Brazil, Russia, India, and China) in financial news illustrate the manner in which India’s economic development captures the imagination of foreign and domestic investors alike. These slogans reflect a number of contemporary visions, such as creating glittering, “world class” infrastructure and “modern” urban living that rivals that of Dubai or Shanghai; exploiting the market potential of India’s swelling middle class and its material aspirations; and realizing the expectations of India’s future dominance in the world economy.

The issue of land acquisition has been central to the debate on SEZs. However, SEZs were not the first occasions on which land was acquired by India’s central and state governments for building industries. India’s public sector has been acquiring land for expanding capacity for independence. The most important natural resource, upon which all human activity is based since time immemorial is land. Land continues to have enormous economic, social and symbolic relevance. How access to land can be obtained, and how ownership of land can be documented are questions essential to the livelihoods of the large majority of the poor, especially in the rural and tribal areas. Land policy and administration are critical determinants of the transaction costs associated with accessing and transferring land, both for business and residential use. Land continues to be a major source of government revenue and is a key element in implementing a wide range of government programmes. Land policies and institutions will have a far-reaching impact on the country's ability to sustain high rates of growth, on the degree that economic growth benefits the poor. Land acquisition refers to the process by which the government forcibly acquires private property for a public purpose without the consent of the landowner, which is different from a market purchase of land. The land acquisition for SEZ is not voluntary, but forceful in nature.\(^9\)

Immediately following the passage of India’s Special Economic Zones Act, 2005 (SEZA), private sector and government officials responded eagerly. However, by mid-2006, the process of establishing SEZs was being disrupted by grassroots protests.

While many researchers and anti-SEZ activist characterised SEZs, as a neo-colonial form of ‘capital accumulation by dispossession’,\textsuperscript{10} India’s Minister of Commerce and Industry insisted that ‘SEZs have nothing to do with displacement’.\textsuperscript{11}

SEZs, which represent another move away from the license-permit raj, have found favour with India’s corporate sector. State governments have also favoured SEZs as a means of attracting investment, regardless of the ideological complexions of their respective ruling parties. However, the popular reaction to SEZs, especially the process of acquiring land for their establishment, has largely been negative. There are nevertheless significant differences in the discursive farming, social composition and tactics of resistance.\textsuperscript{12}

While the SEZ scheme has been primarily driven by the demands of Big Business, it depends on the crucial implementation power of the state. In no other area is this power more required than in land acquisition. If industries were to go to farm families directly, they would necessarily have to pay either market rates or higher in a very cumbersome process of convincing a large number of landholders to part with their land – or more likely use the land mafia and hired thugs to do the convincing. Although both these processes are still conducted from time to time, companies prefer to avoid the time and energy they take, especially as they can also end up in public relations nightmares.

The Ministry of Commerce and Industry has discussed that the SEZs will be coming only on barren lands and single croplands. However, in practice it has not been so. The policy of SEZ has already acquired the stigma of land grabbing policy.\textsuperscript{13} By far the most important issue of the SEZ scheme is the issue of social justice and rights violations. Whatever the rationale of the scheme (which has in any case been shown to be highly spurious), it simply cannot justify the brutal impacts the scheme has on various sectors of India’s society, including farm families, labour, and local people, as well as the environment they live in.


\textsuperscript{13} “Debate over SEZ is Good, Better would be an Informed Debate” \textit{Express India}, September 28, 2006.
Table 6.2: The Indian Political Landscape: Land and the “Million Mutinies”

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Place and States</th>
<th>Issues and conflicts regarding land with SEZs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Southern India</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Plachimada, Kerala</td>
<td>Struggle against Coca-Cola, holding Coca-Cola accountable for water shortages and pollution in the area. Coca-Cola forced to close plant in March 2004. Led by Coca-Cola Virudha Samara Samiti.</td>
</tr>
<tr>
<td>3.</td>
<td>Mysore Highway, Karnataka</td>
<td>Farmers’ protest against land acquisitions in Bangalore</td>
</tr>
<tr>
<td><strong>Western and Central India</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td></td>
<td>Narmada Bachao Andolan has struggled against displacement for mega infrastructure projects such as dams.</td>
</tr>
<tr>
<td><strong>Eastern India</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>West Bengal</td>
<td>Struggle in Singur and Nandigram against land acquisition.</td>
</tr>
<tr>
<td>10.</td>
<td>Ranchi, Jharkhand</td>
<td>The people’s movement against the construction of the coal-Karo Hydro-Power Project, 80 km outside Ranchi, which has stalled implementation of the project for over 3 decades.</td>
</tr>
<tr>
<td>11.</td>
<td>Manipur</td>
<td>Struggle against the Tipiamukh Multipurpose Hydel Project</td>
</tr>
<tr>
<td><strong>North India</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12.</td>
<td>Near Varanasi in Uttar Pradesh</td>
<td>Anti Coca-Cola struggle in Mehdiganj</td>
</tr>
<tr>
<td>13.</td>
<td>Jhajjar, Haryana</td>
<td>Farmers’ protest against Reliance SEZ</td>
</tr>
<tr>
<td>14.</td>
<td>Barnala, Punjab</td>
<td>Farmers’ protest against land acquisition for Trident SEZ</td>
</tr>
</tbody>
</table>


117
6.4 SEZs vs. Land Conflicts: Regional Scenario

In the following description and the development of local periphery and other impacts of SEZs and being provided:

6.4.1 Controversy Over Land Acquisition for the Falta SEZ

The process of acquiring land for the Falta zone in early 1980s raised considerable controversy and public protest action. This unsettled state of affairs persists almost 30 years later. Thus inhabitants of the three affected reversible villages had relied on agriculture and finishing activities, both of which they had to give up due to the acquisition of land for an industrial project whose benefits would largely bypass them. Each of the evicted families was to receive homestead plots, 5,000-10,000 for constructing a new house, and far below market compensation of ₹ 15,370 per acre. About 80 per cent of the compensation was paid at the time of acquisition; they remained has been left largely unpaid. This has caused much anguish among the affected people. Moreover, because most of those evicted were marginal and small farmers, the overall amount of cash compensation they received was very small. Many people still recall that a promise made at the Falta SEZ inauguration ceremony by the then chief minister—that one job in the SEZ would be provided for each affected family—was never honored.

6.4.2 Issue of HSIDC SEZ in Jhajjar- Delhi- Jaipur Highways

At the domestic level, there are two major legal issues-acquisitions of land and governance within the SEZs. The issues related to selection of land, land acquisition and compensation relate to acquisition of land. The controversy is about the use of agricultural land for the sake of industrialization. In this context, SEZ has severely criticized as it has posed a threat to the ‘food security’. But this issue is no longer valid as the government has decided not to acquire prime agricultural land for SEZs. Only time can tell that how long the government can hold this commitment. The Haryana government acquired 1,500 acres of agricultural land from farmers to kick-start the project of Reliance SEZ in between Gurgaon and Jhajjar on 25,000 acres strength. But the checks given to the farmers reveal that the government bought this fertile agricultural land from farmers for ₹ 20,80,00 which is a pittance, and far below the

---

14 www.hinduonnet.com

prevailing market rate. This land would in open market cost around ₹ 10 crore per acre, and the SEZ got it for undisclosed prices, which are bound to be very low, as the state is also a partner in the SEZ. Therefore, it already has the land worth ₹ 13950 crore for a throwaway price / free. Even if it sold, it has a straight profit of ₹ 8756.9 crore from the deal without even starting any business there. There is a common myth that the livelihood of landless farmers will not be affected, as new industries are coming in the SEZ, which would provide more livelihood options. But the people are dislocated from their own bases from the SEZ from where the access to the SEZ might be difficult. Moreover, the kind of livelihood options created out of the capital-intensive industries of an SEZ will not match the skills of local labourers.\textsuperscript{16}

6.4.3 Land issues in Andhra Pradesh

The most contentious issue associated with implementation of the SEZ policy has been land acquisition. One estimate of the amount of land sought for SEZs in Andhra Pradesh is 12,648 hectares.

6.4.4 Issues of SEZ and Kancheepuram

Kancheepuram, Tamil Nadu, is vital production bases of international industrial groups like Ford, Hyundai and Saint-Gobain. The district of Kancheepuram has many advantages—proximity to the international airport and two seaports of Chennai and Ennor and road connectivity through the East coast road and the upcoming upgrade NH 4 and 45. It has also no dearth of talented, skilled manpower being in metros. Mahindra World City is corporate India’s first Special Economic Zone that has been approved for three sectors—specific SEZs, IT (services & manufacturing) apparel & fashion accessories, and auto Ancillaries. The Mahindra World City is just 30 minutes away from Chennai. International airport has been established on prime agricultural land, which is surrounded by small hills and rivers. The Mahindras have established a ‘real estate’ SEZ by which they will sell out the property acquired from the farmers to other companies for establishing their commercial and industrial units at a price which is 10-20 times more than what they have given to the farmers.\textsuperscript{17}

6.4.5 Issue of POSCO SEZ – Orissa

In the past three years, the Orissa government has signed more than 40 MoUs with companies, both domestic and foreign. Out of the total land, only 20 per cent is

\textsuperscript{16} Tyagi, M (2007), Azadi Bachao, Andolan Publication, Allahabad.

\textsuperscript{17} Ibid.
individually owned and the rest comes under government/community land. Moreover, out of this POSCO has been given licenses or direct lease for mining over a total area of about 2000 hectares. The estimates of those whose agricultural land would be affected are the only ones who are recognised in terms of lost livelihood; these exclude those whose livelihoods would be indirectly affected. These include those engaged in grazing, collection of firewood, forest produce, fishing etc. With the plant coming up the whole ‘pan’ belt would also be ruined. The livelihood of those engaged in the ‘pan’ cultivation, which ranges from the young to the old would also be compelled to give up their livelihood. On the other hand, the company is proposing to build a port at Jatadhari, which also evoked concerns of damage to the coastline and the nesting habitat of the endangered Olive Ridley Turtle giving rise to intense opposition. It would also destroy the complex system of myriad natural creeks, nalas and waterways, to create a vast backwater of Mahanadi and its associates, especially during the rainy season and floods. The POSCO project will occupy large areas of public and private lands. Apart from fears that land for the plant will encroach upon the mangroves there is 10 also a fear that the plant will draw water from a watershed that also feeds the sanctuary. Mangroves act as natural protection against super cyclones and coastal cyclones, and destroying these forests will leave Orissa’s coastline vulnerable. All this has raised the fundamental questions relating the industry induced displacements on one hand and to the government’s commitment to promote the interests of the corporate world.18

6.4.6 Issue of SEZs in West Bengal

The anti-SEZ movement has emerged almost around every SEZ wherever land acquisition process has started. However, we can discuss here only about those movements, which have emerged as flash points of anti-SEZ movement. The anti-SEZ movement in West Bengal is the strongest in the country. The movement of Singur against Tata’s Nano car project was the first major blow against such land acquisition drives for industrial projects displacing a large number of people. The incident forced the Governor of West Bengal Shri Gopalkrishna Gandhi to make a statement on 9th November 2007 related to Nandigram as “no government and society can allow a war zone to exist without immediate and effective action and the manner in which the recapture of Nandigram village is being attempted is totally unlawful and

---

18 Ibid.
 unacceptable”. Then the Nandigram movement against Salim group SEZ, Raigad movement against Reliance’s Maha Mumbai SEZ, the overall anti-SEZ movement in Goa and Kalinganagar’s (Orissa) movement against POSCO SEZ torched the path of all such movements across the country and posed a major challenge against the SEZ rush.

Beginning in 2007, Nandigram, a remote rural area of West Bengal, became a powerful symbol of political resistance to the implementation of India’s SEZ policy, and anti-land acquisition movements more generally. The working population of ‘Nandigram’, the administrative block within East Midnapore district where the SEZ was to be located, is comprised overwhelmingly of agricultural labourers (39.3 per cent), cultivators (21.1 per cent), and marginal workers (11.5 per cent).19 More than two-thirds of the block’s inhabitants are landless and marginal farmers from SC and Muslim communities, which constitute 19.4 per cent and 41 per cent of the population, respectively.20

In West Bengal the Singur and Nandigram movements faced continuous repression and were radicalized. Lastly, these movements were successful in throwing away the SEZs from their area. Tata’s Nano project is now shifted not only from singur, but also from the state. Salim group SEZ is shifted from Nandigram to Nayachar area. This SEZ was proposed to come up in an area of 14000 acres, affecting 40000 people from 29 villages out of which 27 villages were in Nandigram. All social forces from extreme left Maoists to more moderate Trinamool Congress came in a common front to form a Bhumi Uchhed Pratirodh Committee (BUPC), which led the farmers ‘movement in Nandigram. The movement turned violent and there were repeated clashes in 2007 between police and cadres of ruling Communist Party of India (Marxist) on the one hand and supporters of the movement on the other. Lastly, the SEZ was relocated from Nandigram to Nayachar area. There is also a strong people movement, especially the tribal movement against the Jindal Steel SEZ coming up in Jhargram of West Midnapore district. This SEZ is acquiring 5000 acres of land affecting huge tribal population. Out of 5000 acres, the company directly purchases 500 acres from the landowners and the rest 4500 acres are handed over by the government.


Actually, a large portion of the 4500 acres is forest and the rest is from the land bank with the government specially meant for distribution among the landless tribal. The tribal movement against this SEZ is so popular and so strong that many compare it with historical tribal uprisings. It is worth mentioning that the anti-SEZ movement is West Bengal has an overall impact on the polity and society, as if it started a new phase in many regards. There are new movements in literature and culture linked to these people movements. There is an upsurge of new documentary films, new songs, new plays and new poems in Bangla, all around these movements.

6.4.7 SEZ and Land Conflicts in Uttar Pradesh

The land acquisition process in Greater Noida has been very different from other regions of UP, and indeed most other parts of India. Prior to the SEZ Act, land acquisition under the public purpose clause in most states, and even in the areas within the UP, remained strictly under the state government. GNOIDA it is the GNIDA its notification since 1991 started acquiring 100 per cent of land and selling it to private owners. Most of the land is acquired under the prevailing rules of the compulsory land acquisition through the district magistrate, land acquisition (DMLA). Direct purchasing from landowners either by GNIDA or by private companies is very rare. In GNOIDA, the Land Utilization Committee, which is usually constituted at the state level, was until 2008 constituted at the (regional) commissioner level. In 2009, this was further decentralised to the assistant DMLA level. According to GNIDA’s deputy CEO, ‘the GNIDA does not follow any special procedure for land acquisition for SEZs.’ Any project above ` 500 million (or ` 40 million per acre) is classified as a Mega Investment Unit (MIU). A MIU ‘is given land at a reduce rate of 25 per cent, provided they utilise 50 per cent of its land area in the core activity. The most important and unique feature of this process is that fixing land prices and paying compensation takes place through direct negotiation between the GNIDA and the farmers, resulting in an agreement referred to as karaaniyamavali. There were three main features of the karaaniyamavali signed between the two parties in 1997. First, the total compensation was approximately ` 160 per sq yd. this included a basic payment of ` 139 per sq yd, as well as an additional payment of ` 15 per cent of the


22 Ibid
basic compensation to cover costs associated with transitioning to new livelihood. Second, the compensation rates would be revised annually, to take into consideration issues such as changes to the Consumer Price Index. Third, and perhaps most importantly, the karaaniyamavali called for GNIDA to reassign 10 per cent of the total land, once it was developed, back to the farmers who had surrendered it.

Not all of the provisions of karaaniyamavali were honored, however. Documents produced by farmers show that only six per cent of their land had been reassigned, four per cent having been retained by GNIDA, ostensibly to cover the cost of developing it. Initially, the GNIDA also demanded registration fees from farmers who went through the re-acquisition process. When Mayawati became chief minister in 2007, she took administrative action to exempt such land from the registration fee.\(^23\)

Reliance Energy has plans to build the world’s largest gas based power plant of 3500 MW in Dadri, in Ghaziabad. The investment outlay is more than ` 10,000 crore. However, the real investment is the 2500 acres of land in the most fertile region. At the launch of the project on February 22, 2004, the government had announced that the rate given to the farmers for the acquired land would be ` 350 per sq. meter, while the prices in the market around was 13,500 per sq. mt. Further, The government of UP had waived off all the stamp fees and other related costs for buying the land for Reliance, along with the subsidy in which the Reliance would pay only 40 per cent of the costs and government would pay the rest. Land in Dadri (Delhi) was worth ` 13,500 per sq. meter. Whereas, farmers have been received only ` 120 per sq. meter. Further the power project only needs 700 acres, but 2500 acres have been acquired because of high real estate value. Finally, no legal procedure has been followed in acquiring the land.\(^24\)

In India, differences in policymaking and implementation across states governed by similar macroeconomic regimes offer optimal conditions for studying the role of differing interest group configuration on policy choice, choice and political response, and outcomes.\(^25\) For instance, resistance to land acquisition by farmers, political parties and civic society organisations has significantly medicated implementation of the SEZs Act, 2005. Unlike many states have witnessed large-scale

---

\(^21\)Ibid


resistance to land acquisition, UP has experienced relatively less sustained confrontation of systematic resistance to SEZs.

The state of Uttar Pradesh adopted land acquisition policy in September 2002 and amended by subsequent governments. UP was one of the first states to adopt an SEZ policy, and it is distinctive for a number of reasons. UP passed SEZ legislation before more industrialized states such as Gujarat and Maharashtra. Interestingly, a coalition government headed undertook this by the Bahujan Samaj Party (BSP), a party overtly committed to the up-liftmen of Dalits.26 Samajwadi Party (SP) later adopted the state’s SEZ policy, whose base is among the backward-caste cultivating peasantry and which professes to the socialistic party. In the short time it has been in force, UP SEZ policy framework has been revised a number of times by different governments. One major shift was from an original focus on state development zones to an emphasis on private sector entities establishing and operating SEZs.

Another conflict regarding land acquisition happened in Bhatta & Parsoul villages in Greater Noida in May 2011. Farmers were protesting on the land acquisition incident which is a living example of politics, law and order in UP. To silence the agitation, the UPA government promised to introduce a new Land Acquisition Bill or bring amendment in the Act having provisions for better compensation and rehabilitation measures. The problem is that the Mayawati government acquired the land at very low rates, did not properly compensate the farmers and sold it to corporations for development projects like the Yamuna Expressway at very high rates. Corporate houses sold these plots of land at even higher prices. This resulted in the farmers’ agitation all over the region near Noida and Greater Noida.

6.5 Inadequate Compensation and Rehabilitation

Since independence, India has pursued a policy of industrial development and set up large industries or industrial estates and projects like mines, dams, ports and expansion of the road and rail network. Each one of them has displaced people in large numbers. There has also been the experience of setting up export zones and electronic zones. In most of the cases, the displaced people have found little new employment in the subprojects while the educated elite, the 5 per cent of the workforce in the organised

sectors, have benefited substantially. The compensation required under the Land Acquisition Act focuses entirely on the market value of the land asset. It assumes that land is the only thing that is lost and that formal landowners are the only ones to lose. Rehabilitation policy implicitly assumes the existence of homogeneous labour, which can migrate anywhere to get work. That is not true for the agriculturists. For them it is an interdependent life and kinship is crucial. This displacement is very painful since it breaks the family and neighbourhood bonds that are not easy to establish in a new setting. The bonds may be between the labourer and the farmer or the farmer and the carpenter or the blacksmith, and so on. From past experiences of displacement it is clear that the rehabilitation of farmers, as it is done now, does not work. It is not that those displaced did not receive any compensation at all. However, most of them did not know modern institutions and practices. They did not know what to do with the compensation received. Often, money was spent on drinks and conspicuous consumption. Another important point is that the landless who will not receive any compensation and those performing non-farm activities like the potters, herdsmen, carpenters, and so on, who are traditionally integrated into the farm economy, are left without any redress for the severe disruption to their livelihoods that they face. In fact, the ones worst affected will be share-croppers and labourers, petty traders and service providers. These landless people do not even have a legal basis for compensation.

6.6 Denotification of Units

Once the Act came into force in early 2006, the massive rush of getting SEZ approval made Udyog Bhawan the hotspot of future industrial action in the country. Hit by the global economic downturn and protest over land acquisition private developers have slowed down their momentum, whereas some others have even decided to withdraw their commitment on setting up SEZs altogether. Ten big developers, namely DLF IT/ITES at Gandhinagar, Sonapet, Kolkata, Bhubaneshwar, Shiwaji Marg, Essar, Goregaon, Lahari Infra, Mytas Parsunathi, Hazira Ltd, Royal Palms India Ltd. are some of the worthy companies which have got denotification allowing them to withdraw their project.

A developer who is not interested in continuing with the scheme has the option to exit by denotifying with an undertaking to pay the concessions availed. Companies are denotified due to various reasons like

1. Global slowdown—drastic falls in export due to change in global perspective affect major players of SEZ;
2. Direct tax code—proposed new direct tax code threatens to take away exemptions and sops like income tax holiday has created uncertainty among developers;
3. Red tape—lack of clarity in policy has hit new projects; and
4. Policy hurdles—no flexibility to switch from exports to domestic markets has made SEZs available.

According to the CAG Report, published by the Government of India in 2014, developers not interested in continuing with the scheme can exit by denotifying if they undertake to pay back the concessions availed. As paragraph 4.9 of the government report points out, of 230 notified SEZs in Andhra Pradesh, Gujarat, Karnataka, Maharashtra, Odisha and West Bengal, 52 zones were denotified mainly because of infrastructure facilities and growth in domestic market, poor global market, excessive restrictions, end of tax holiday and introduction of MAT. We observed in eight cases in Andhra Pradesh, Gujarat, Odisha and Uttar Pradesh that on denotification the stamp duty exemption of ₹8.56 crore was not recovered. 85 per cent of the respondents felt that introduction of MAT/DDT was one of the main reasons for denotification and exit from the SEZ which is followed by a global recession (42 percent).

**Table 6.3 Denotification & Exit: Reasons CAG**

<table>
<thead>
<tr>
<th>Particular Reasons</th>
<th>Percentages of Decline</th>
</tr>
</thead>
<tbody>
<tr>
<td>Others (Infrastructure Facilities &amp; Growth in domestic market)</td>
<td>8 per cent</td>
</tr>
<tr>
<td>Poor global markets</td>
<td>31 per cent</td>
</tr>
<tr>
<td>Too many restrictions</td>
<td>12 per cent</td>
</tr>
<tr>
<td>End of Tax holiday</td>
<td>20 per cent</td>
</tr>
<tr>
<td>Introduction of MAT</td>
<td>29 per cent</td>
</tr>
</tbody>
</table>

Source: CAG Report (GoI), 2014

As per the CAG report, 2014, the main reasons for the denotification of SEZs in India due to poor global market, followed by introduction of MAT and the end of tax holiday (see table 6.3). After imposition of MAT, only three applications for setting up of new SEZs have been received, whereas seven applications (2011-14) have been received for denotification of existing SEZs. 28 SEZs have been approved but not operationalised after imposition of MAT. 7 SEZs are operationalised but negligible exports. Indian Council for Research on International Economic Relations Survey on
6.7 Labour Problems in SEZs

India is known as very good labour for land. India is a member of the International Labour Organization (ILO) and adheres to 37 ILO conventions that protect workers “rights”. The Industrial Disputes Act of 1947 governs industrial relations. Workers may form or join unions of their choice. The Factories Act, 1948 regulates working conditions. Other laws related to the employment of women and children and prohibit bonded labour. However, in respect of SEZs, all the labour laws existing in the country are given an exemption and hence anarchical condition has been created, even we can say that Article 38(1) of our constitution has been given a go-bye in the SEZs area. This clearly tells us about the extra-ordering privilege extended to SEZs, which are against freedom of fundamental rights of a citizen of India.

Labour laws in the SEZs are other vital issues. Normal labour laws are applicable to SEZs, which are enforced by the respective state governments. State Labour Commissioners have no jurisdiction over factories in SEZs. The power will be transferred to the Development Commissioner and labour will be required to take permission from the development commissioners to enter the SEZ even for inspection of the safety and environmental norms with the factory. Under current SEZ plans, companies would be exempt from the usual labour and environment protection law-causing protesters to rename them “Special Exploitation Zones”. The lack of labour rights and trade union, along with a cheap and flexible labour force becomes an important bargaining factor in the completion for FDI. Many scattered studies covering SEZs, all over India report a pattern—union activity is widely discouraged and absent in the zones, workers are not paid minimum wages, work very long hours to complete stringent targets, are subject to being fired without justification or compensation, denied any maternity benefits and suffer from work related illness.

India’s Contract Labour (Regulation and Abolition) Act, 1970 prohibits employing contract workers in activities which are “permanent and perpetual” in nature. Almost all activities conducted in SEZs are arguably “permanent and perpetual” in nature and yet surveys by the International Labour Organization (ILO) and

---

testimonies by workers themselves suggest that the majority of the workforce in Indian SEZs are contract employees. The workers also do not come under, the preview. These workers also do not come under, the preview of the minimum wage Act 1948.

The SEZs has special laws of their own workers can be hired and fired at will in these areas. As far as the equality of employment, no labour laws will apply to SEZs. Workers will enjoy no rights, including the fundamental rights of association and protest. SEZs will socially and economically retrograde. They will enable employers to run Victorian-style sweet shops where no trade unions will permit. SEZs are target-oriental workplace where virtually all indicators of sustainable human development, including labour standard, labour laws, human rights, health and safety and the environment are ignored.  

As might be expected with labour deregulation, workers in SEZs are subjected to gross violations of their labour rights. This includes job insecurity, prevention from unionisation, extensive casualisation and contractualisation of labour, lack of benefits, unjust wages, and overtime without pay. In addition, all the SEZs are generally characterised by extensive walls and physical barriers that make it very difficult to talk to workers. Some of the most fundamental worker rights that are enshrined in India’s laws include the right to association, the right to fair and safe work, and the right to collectively bargain for better employment conditions. All of these rights are rampantly abused in the SEZs across the country. The main trade unions have all taken strong stands against the SEZ scheme both in their statements and in actions. The movements fighting the SEZs on the ground have always had trade unions and other worker formations either playing a central role or providing solidarity and support.

Though the Special Economic Zones Act, 2005 overrides certain other laws (particularly granting fiscal benefits to firms located in a SEZ), the Act maintains that in relation to labour, standard labour laws are to continue to operate in the SEZs. While there is no change in the laws, under this regime the implementation of labour law is shifted from the control of the Labour Commissioner to the Development Commissioner of the SEZ, a figure who is given substantial power over all aspects of governance of the SEZ. Furthermore, the ability of workers to organise strikes is curtailed by undertaking a general policy measure that labels economic activity within

---

28 Ali (2007), File://H:/SEZ/ “Special Economic Zones in India and the China Model” What is going to happened?
an SEZ as a ‘public utility service’, which under Indian law makes strikes in units labelled as such entirely illegal. All these factors taken together result in the fact that while the ‘speak’ says that labour laws are supposed to be operational in a SEZ, they are almost entirely absent in practice.  

There are many examples of rampant labour abuse in SEZs that provide a picture of what deregulation and “labour flexibility” really amount. Workers at the Cochin SEZ, which, according to trade unions has relatively better working conditions than other SEZs, are often paid below minimum wages, rampant contract/casual work, 10-12 hours work per days with no overtime pay, frugal meals, no proper health practices and complete suppression of workers’ right to collectively bargain. There have been cases across the country of trade unionists or workers being threatened and even physically assaulted for trying to unionise in SEZs.  

The SEZs in Bangalore, Delhi and Noida have had cases of workers getting below minimum wages, working 6 or even 7 days a week, and getting laid off with no notice for trying to unionise. Trade unions nationwide have spoken of the immense difficulty in unionising workers in SEZs as well as the fear that has been instilled in workers by managers in various units. It is neither new nor a uniquely Indian experience. Indeed, labour exploitation is an international phenomenon in SEZs, corroborated by the International Confederation of Free Trade Unions showcasing instances across the world of poverty-level wages, abuse of workers and suppression.

The SEZ Act, 2005 transferred labour related power from the jurisdiction of State Labour commissioners to DCs of the respective zones. The apparent objective of this move is to promote a hassle free business environment, and specifically forestall avoidable labour unrest and consequent loss of production and profits. However, it is observed that contrary to SEZs provisions, across seven conventional zones, four different types of arrangements were noticed in managing labour related issues. Development commissioners, by law, exercise the powers of Labour Commissioner in Kandla, Santa Cruz, Noida and Vizag SEZs, while in Falta SEZ, the State Labour Commissioner is vested with control over labour related issues. The Development

---


31 Ibid

32 Ibid
Commissioner of Chennai SEZ has voluntarily handed over power to the State Labour Commissioner to deal with labour related issues and occasionally oversee the work of the latter. In Cochin SEZs, Development Commissioner has been provided with inspection officers to handle labour issues in the zone; therefore, he assigns the State Labour Commissioner to deal with labour issues.

The above arrangement is not in conformity with the provisions of the SEZs Act and thereby reveals inconsistency in real practice and the actual provision in the SEZs policy. Further, the SEZs Act is not very clear about the source from which the needed labour force can be drawn. It is assumed that labour market in each zone can supply the required number of workers and therefore there is limited scope for government intervention. This, however, in the long run might give scope for middlemen and exploitations of workers. Thus, there is pressing need for government intervention in this area. Government supervision will not only assure supply of required labour to these zones, but also would prevent exploitation of labour, in addition to being a safeguard against interference by middleman/agents in labour supply. As a first step in this direction, government can promote educational institutions in the regions according to the requirements of each zone. Towards this, as explained elsewhere in the paper, an understanding of the Chinese experience, particularly of Shenzhen SEZ, will be quite helpful. Shenzhen SEZ authorities had taken steps not only to supply the required number of labour through various channels, but also had imparted training for unskilled workers through establishing an educational institution in the region with a view to ensure future supply of labour to the SEZs.

The government can learn from China, where initially labour laws were relaxed so that the companies could adopt a hire-and-fire policy. Once the private and foreign players gained confidence in the Chinese workers’ productivity, this was replaced by the contract system. India should take a cue from this and understand that the import-export business is highly dependent on uncertain international market conditions, rejection of consignments etc. hence a flexible labour policy is the need of hour in the SEZs.

6.8 Infrastructure Problems and SEZs

One of the main motive behind the setup of SEZs in the country to settle world-class infrastructure to compete with the developed countries for promoting export and increase NFE in the country. However, the majority of the SEZs developers is private and their main motive is to earn more & more profit rather than to invest in the
infrastructure at all. Special Economic Zones are meant to be export generation zones, but the fact is that the majority of SEZs in India lack of international connectivity. World-class internal and external infrastructure is required for SEZs operations. These are almost all states in India facing the constraints. The development of excellent infrastructure is the first job of each state government.

In the case of Uttar Pradesh, we can see the majority of SEZs are near to capital city of the country due to better infrastructure facilities. Another part of the state is not able to attract foreign investor or even country’s investor due to poor infrastructure facility like roads, power, and water supply. These are the basic facilities for starting any industry. The prime objectives of the private companies are to get more profit. They wanted to gain more and more profit in any way. Due to better infrastructure facilities most of the companies attracted in developed states from where they can easily get all facilities for the companies. Those states, which have poor infrastructures, are not able to attract investors like Bihar, Madhya Pradesh, Jammu & Kashmir, North Eastern states where no SEZs is working.

During the field survey, it has been found by the researcher that there were open drainage system and lack of dumping facilities etc. Problems prevailed in the SEZ areas of Noida. However, infrastructure of buildings and related facilities were better in IT companies than in other companies in the SEZ, which lack proper ventilation and sanitation facilities.

6.9 Real Estate Speculation and Land Loss due to SEZs:

Flaying the SEZ policy, the CAG said large tracts of land acquired for SEZs were denotified but the resultant price appreciation benefited developers. “We noted a trend wherein developers approached the government for allotment/purchase of vast areas of land in the name of SEZ. However, only a fraction of the land so acquired was notified for SEZ and later denotification was also resorted to within a few years to benefit from price appreciation,” the CAG report. In terms of area of land, out of 39,245.56 hectares of land notified in the six states (Andhra Pradesh, Gujarat, Karnataka, Maharashtra and West Bengal), 5,402.22 hectares (14 per cent) of land were denotified and diverted for commercial purposes in several cases, it said. Many tracts of land acquired were not serving the objectives of the SEZ Act, it added. It also said that in four states (Andhra Pradesh, Karnataka, Maharashtra and West Bengal), 11 developers/units had raised ₹ 6,309.53 crore of loans through mortgaging SEZ lands. “Out of which, 3 developers/units had utilised the loan amount (₹ 2,211.48 crore) i.e.,
35 per cent, for the purpose other than the development of SEZ, as there was no economic activity in the SEZs concerned,” it added.\(^3^3\)

There are large loopholes in the SEZ law, which leaves the door wide, open for land being acquired for real estate speculations. The possibility of speculation is much higher in multi-product zones where only 50 per cent of the land has been assigned for industrial purposes. Remainder of land would be used for real estate speculation. RBI has Classified all pending for SEZs as Real estate lending. The majority of SEZ investment is from the private sector followed by IT companies forming nearly three-quarters of private sectors approvals. IT and multi-product SEZs form the bulk of applications by real estate companies. It is being argued and there are apprehensions that the promoters of SEZs will get land cheaply and will make a fortune out of real estate development and indiscriminate speculation. The required minimum processing area is 35 percent (recently the Empowered Group of Ministers has decided to raise this to 50 percent). The rest will be for residential, recreational facilities, which will be used by these developers for real estate/commercial purposes.

The Provisions of the SEZ Act clearly mention that land utilisation would be strictly according to the UDPFI (Urban Development Plan Formulation & Implementation) guidelines issued by the Ministry of Urban Development, Government of India.

6.10 SEZs and Agricultural Land

One of the often cited drawbacks of the SEZs is that, the development of these SEZs results in the reduction of rich cultivable land covering hundreds of hectares. This has an impact on the country’s food production capacity. However, for the large country like ours this opportunity cost of foregone agricultural production could easily be compensated through enhanced industrial output, increased work force employment in the industrial sector, contributing to growing export sector and raising the technological level of the various sectors of the economy. Further, it can be argued that, there will be increased demand for the processing units in the SEZs and elsewhere in the economy. Hence, there will some beneficial impact on the agricultural economy by the growth of SEZs. While allotting land to SEZs fertile and cultivable land should not

\(^{33}\) “SEZ Developers Divert Huge Tracts of Land For Other Purposes” Financial Express, November 28, 2014, New Delhi
be allotted, here it should be remembered that, China’s SEZs are located in coastal areas and using barren land.

SEZs and Land Acquisition are taking place mainly in agricultural lands and the central and state governments are acquiring the land from the farmers. Across India, the total amount of land, which will be acquired, is around 150,000 hectares and this amount of land is capable of producing around 1 million tons of agricultural produce. The various advantages of SEZs and Land Acquisition in India are that it has helped to bring in huge amounts of foreign currency into the country, increased the number of jobs for the people of the country, and has also helped to bring in highly technologically advanced machines in the country. The various disadvantages of SEZs and Land Acquisition in India are that it is estimated that more than 10 lakh people who are dependent upon agricultural lands will be evicted from their lands, it is estimated that the farming families will have to face the loss of around ₹ 212 crores each year in total income, and it will also lead to putting the food security of India at risk. SEZs and Land Acquisition in India has now resulted in dissent, uproar, and opposition from the farmers, for their livelihood has been put at stake. Recently, due to Land Acquisition in Atchutapuram, which is near Visakhapatnam, the farmers have declared war against the setting up of SEZ in their lands. The land compensation money that the state government is giving is very less in comparison to the actual market rate of the land and this has angered the farmers even more. Recently, at Nandigram village, which is in West Bengal, the farmers have also protested against the setting up of SEZ in their lands.34

Some of the important aspects covered in this context are

- Sustainable and inclusive agricultural development in the country;
- Strengthening rural infrastructure to support faster agricultural development;
- Establishing agro-economic zones on the lines of SEZs to boost the Agra-processing industry to reduce agrarian distress;
- Innovations in policies to promote a judicious mix of yield-enhancing and input-responsive technologies;
- Policies for easy credit availability, remunerative prices for agricultural products, supply of drought-resistant and short-duration high yielding varieties;
- Emphasis on individual-farmer insurance policy;

34 Available at http://business.mapsofindia.com/sez/land-acquisition.html#sthash.7JZq0dEm.dpuf
Innovations in food storage;
Future policies to be directed towards a judicious mix of food crops and cash crops for ensuring food security in the country;
Minimum support prices for all the crops to be fixed with a scientific basis;
Need for interventions in rain-fed horticulture, disease diagnostics, seed and planting material, mechanization, labor shortage, climate resilient technologies and strengthening of market linkages; and
New initiatives such as interaction with farmers through video conferencing involving subject matter specialists, community radio station, use of DVDs for disseminating of information on various technologies to be adopted throughout the country, so that it would help bring down the transaction costs in many of the government programs.35

One of the often cited drawbacks of the SEZs is that the development of these SEZs results in the reduction of rich cultivable land covering hundreds of hectares. This has an impact on the country’s food production capacity. However, in a large country like ours, this opportunity cost of forgone agricultural production could easily be compensated through enhanced industrial output, increased man power employment in the industrial sector, contribution to growing export sector and raising the technological level of the various sectors of the economy. Further, it can be argued that there will be increased demand for the processing units in the SEZs and elsewhere in the economy. Hence, there will be some beneficial impact on the agricultural economy by the growth of SEZs. The fertile and cultivable land should not be allotted to SEZs; in China, SEZs are located in coastal areas and on barren land.36

The people protest against SEZs in various parts of the country, including at Nandigram in West Bengal, stagnation in agriculture, import of foodgrains, widespread suicide of farmers—all these are systems of simmering discontent in the agricultural sector. As part of the economic reforms, the system of taking over land by the government for commercial and industrial purposes was introduced in the country. As per the SEZs Act of 2005. Very often, it is fertile land, which has been acquired.

According to Khasanoki, a writer, the government has acquired five million hectares of land for purposes other than agriculture between 1991 and 2003. This is almost half of what was acquired during the last 40 years. It was in the news that the government decided to acquire 10,120 hectares of land near Mumbai (almost one-third area of Mumbai) for the Reliance Company and reduced it to 5000 hectares due to public pressure. Since the SEZ deprives the farmers of their land and livelihood, it is harmful to agriculture. In order to promote export and industrial growth in line with globalisation the SEZ was introduced in many countries.\textsuperscript{37}

A large-scale farmland acquisition will lead to displacement of farmers from agriculture and they will become landless coolie workers and complete marginalisation of the rural landless labourers. They will lose their employment in unorganized sectors as casual labours.\textsuperscript{38} The acquisition of agricultural land for establishing SEZs is among the most serious and grave implications of the SEZ policy of the Government of India. The Committee on State Agrarian Relations and Unfinished Task in Land Reforms highlighted in its 2009 report that the total area of land under SEZs is expected to be over 200,000 hectares and this land is capable of producing around 1 million tons of food grains. It is estimated that farming families will have to face losses of around ₹ 212 crore each year in total income. This will also put India’s food security at risk. How can state governments be allowed to violate their own land-use plans to make way for SEZs, without inviting public interest litigation? How can the state allow the acquisition of prime agricultural land from farmers for industrial purposes? Why does not the state encourage industry to develop the more than 20 per cent (68 million hectares) of the country’s land area that is officially classified as wasteland. These are very critical issues in SEZs and land acquisition.\textsuperscript{39}

6.11 SEZs and Regional Disparities

Most of the SEZs were initially located in comparatively well off states with better infrastructure and associated with port as well in India. The states like Andhra Pradesh, Maharashtra, Telangana, Karnataka, Tamil Nadu and Gujarat all wealthy


states have managed to receive the majority of SEZs. Out of 436 formally approved SEZs, 286 were located in these states. This concentration of SEZs in richer pocket intensifies income gaps and disparities between states in India. Thus, the country’s experience clearly indicates that SEZs intensifies an uneven economic growth within a country and the state has very little power in controlling these investments. Also the state efforts to redirect investments in backward regions have remained largely unsuccessful.

6.12 Lack of Forward and Backward Linkages

The central bank had openly stated that the mushrooming of SEZs would lead to a diversion of resources from domestic tariff areas, besides revenue losses to the government. In its annual report of 2005-06 released in August 2006, the Reserve Bank has said The SEZs are envisaged to act as catalysts for growth. The simplification of the procedures for the development, operation and maintenance of the SEZs and the fiscal incentives are expected to spur investment and promote industrial activity. At the same time, there are concerns that the SEZs could aggravate the uneven pattern of development by pulling out resources from less developed areas. Revenue implications of taxation benefits would also need to be factored. The revenue loss for the government in providing incentives may be justified only if the SEZ units ensure forward and backward linkages with the domestic economy. Traditionally, export processing zones have been characterised by a narrow industry focus with high import intensity in exports. This resulted in many such zones being insulated from the rest of the economy, thereby giving rise to fewer economic spin offs. Backward linkages to the local economy in the form of movement of raw materials, labour and sub-contracting in the domestic tariff area, i.e. out-zone processing, are necessary for susceptibility of such zones.

Countries such as China and South Korea have pursued this strategy of uniting with the interior in developing their SEZs. This has contributed to rapid indigenisation of production, technology absorption and import substitution. Similarly, forward linkages in the form of sales in the domestic tariff area (DTA) have been an important motivation for investors, especially when the domestic market size is large and growing. Investors in the SEZ’s in China view the vast domestic market in China as extremely promising in the long run. This has been an important determinant of their investment decisions. Also, limited sales in DTA provide a safety net to hedge against possible swings in international markets besides providing the opportunity to test
domestic markets. Most countries have well defined policies for sales made from SEZ to DTA. The policies are combination of quantitative restrictions and concession duty structure. Most of the countries allow a certain percentage of the output to be sold in the DTA. In many countries, the DTA sale attracts concession duties.\textsuperscript{40}

6.13 Size and Location

Another contentious issue in the SEZ Act relates to the size and location of these zones. Though multi-product SEZs are required to have a minimum, an area of 1000 hectares that specified for service sector zones is only 100 hectares. In the case of single product zones, such as IT and gems and jewellery, it can be as small as 10 hectares. Despite the Finance Ministry’s opposition, the Commerce Ministry had its way with the Empowered Group of Ministers and managed to retain the minimum area for IT and biotech zones at 10 hectares. "About half of India’s small SEZs may not really take off,” says Morgan Stanley economist Chetan Ahya in Mumbai. “In today’s highly competitive, globalised world, the concept of small-sized special Economic zones are completely outdated.” The major attraction for real estate developers is that most of these SEZs are going to be located near big cities and towns; where land is scarce and the state governments are supposed to offer it at concessional rates. Ideally, new SEZs should be located far from cities and towns to build new towns and should be spread over a minimum 1000 sq. km. Instead of offering all kinds of tax holidays and concessions, the government should provide infrastructure support to such zones by building highways and express ways to connect them to ports, airports and other large towns and cities. This would involve minimum displacement of population and help in developing some underdeveloped regions.\textsuperscript{41}

6.14 Some Social and Economic Issues

SEZ impacts on host societies go well beyond economic efficiency. Zone programs that fail to offer opportunities for quality employment and upward mobility for trained staff, derive their competitive advantage from exploiting low-wage workers, and neglect to ensure environmental sustainability are unlikely to be successful in achieving the possible dynamic benefits, and are likely to be forced into a “race to the bottom.” By contrast, zone programs that recognize the value of skilled workers and


\textsuperscript{41} Ibid...
seek to provide the social infrastructure and working environment in which such workers thrive will be in a position to facilitate upgrading.\footnote{Farole,T. (2011), “Special Economic Zones: What We have Learned?”, The World Bank Report on Poverty Reduction and Economic Management Network}

Industrialization requires land acquisition in different parts of the country by converting agricultural land into industrial plot, especially multi-crops, land and thus creating a stir among the peasants. It deprives the farmers of their basic and traditional source of income which leads to social discontent and brings about lots of socio-legal problems. Rush of setting up SEZs in different parts of the country seems to be disincentive to peasants for agriculture which is already losing sheen.

Losing land to the SEZ project has significantly reduced the farmland in the affected villages and also brought with it severe pressures on employment, livelihoods and food security for the villagers. While some of the land losers have become farmers with smaller land holdings, many have become landless. The conversion of farmland to non-farm uses has also reduced farm labour opportunities for the people who had no non-farm skills. The SEZ has caused fragmentation of land holding in the villages as the land losers have been forced to buy small pieces of land from neighbours. It forced a change in favour of occupational shifts, indebtedness, and migration. The inability of some to adapt has apparently lead to increases in ill health and deaths, including suicides.

Those who lost land have adopted different approaches to ensure food security and survival depending on their assets, family size and community support. Some have purchased small a few acres from other castes in the village if they had some money or were able to raise loans. Several families have one or more members of the family forced to migrate to engage in unskilled jobs in the towns and cities.

**6.15 Inadequate Compensation and Rehabilitation**

Since independence, India has pursued a policy of industrial development and set up large industries or industrial estates and projects like mines, dams, ports, and expansion of the road and rail network. Each one of them has displaced people in large numbers. There has also been the experience of setting up export zones and electronic zones. In most of the cases, the displaced people have found little new employment in these projects while the educated elite, the 5 per cent of the workforce in the organized sectors, have benefited substantially. The experience of Ranchi or Haridwar or the Steel...
Plants at Bokaro and Bhilai, has been that the neighbouring areas have remained largely backward.

SEZs fit into this pattern. The compensation required under the Land Acquisition Act focuses entirely on the market value of the land asset. It assumes that land is the only thing that is lost and that formal landowners are the only ones to lose. Rehabilitation policy implicitly assumes the existence of homogeneous labour, which can migrate anywhere to get work. That is not true for the agriculturists. For them it is an interdependent life and kinship is crucial. This displacement is very painful since it breaks the family and neighbourhood bonds that are not easy to establish in a new setting. The bonds may be between the labourer and the farmer or the farmer and the carpenter or the blacksmith, and so on.

From past experiences of displacement it is clear that the rehabilitation of farmers, as it is done now, does not work. It is not that those displaced did not receive any compensation at all. However, most of them did not know the modern institutions and practices. They did not know what to do with the compensation received. Often, money was blown up in drinks and conspicuous consumption.\(^{43}\)

Another important point is that the landless who will not receive any compensation and those performing non-farm activities like the potters, herdsmen, carpenters, and so on, who are traditionally integrated into the farm economy, are left without any redress for the severe disruption to their livelihoods that they face. In fact, the ones worst affected will be the share-croppers and labourers, the petty traders and service providers. These landless people do not even have a legal basis for compensation.

Another key criticism of the forced land acquisition is that it often discriminates against the most vulnerable sections of society, particularly scheduled castes and tribal peoples. As in the case of Polepally, the small land holdings of these vulnerable groups may be targeted because such people are least likely to be able to resist the process and because many are previous land reform beneficiaries whose land it may be possible (as in Polepally) to acquire for a fixed rate of compensation that may be well below the local market rates for comparable land. Vulnerable groups are also the most likely to

suffer from malpractice in the distribution of compensation or other rehabilitation benefits.

6.16 Issues of Power Generation and Distribution

Another area of concern is the generation and distribution of power of the SEZ developers/units. One opinion is that it should be left to the entrepreneur to decide if he would like to provide power as infrastructure, as defined in the SEZ Act, or set up a unit to sell power as a good. Another view is that power is a good, to be generated and distributed by unit; it cannot be infrastructure. It may be worth considering an appropriate policy to encourage power generation and distribution.  

6.17 Issues of Coordination between the Centre and the States

Many developers complain that they get tax breaks and concessions from the center, but not from the States" Uncertainty in tax laws and poor administration of SEZ laws will only drive away foreign investors too". The state government will have a very important role to play in the establishment of SEZs. Representatives of the state governments, who are member of inter-ministerial committee on private SEZ is consulted while considering the proposal. Before recommending any proposals to the Ministry of Commerce and the Industry the States must satisfy themselves that they are in a position to supply basic inputs like water, electricity etc.

Though the SEZs developers are happy with the basic framework of policies and norms formulated by the Centre, the lack of cooperation from the state governments and some policy-related matters and operational issues have become a matter of concern for them. The SEZ developers have the experience that matter related land acquisition, tax exemptions and lack of single window clearance mechanism is leading to unnecessary delay in execution of various projects. They are also worried over the non-uniformity of SEZ Act and Rules framed by various state governments. When the centre has allowed the State Government the flexibility of fixing the area of developers SEZs, other states have sized the opportunities but Kerala is still reeling under ambiguities. The CPML-led LDE government’s non-approval of 21 proposals in 2007, pending for developing SEZs over the ideological differences, would be set back for industrial development in the state. While, its left front counterpart in WB and other states, including AP and Maharashtra have taken the lead in clearing the SEZs proposals Uttar Pradesh has got thirteen projects so far, but this far too less for a state

with strong potential due to the proximity of the National Capital and availability of land.

6.18 Infrastructure Facilities

Well-developed infrastructure facilities are a major attraction for investors. International experience also shows that government participation in developing zone infrastructure, especially in the initial stages, has played an important role in their success. Quality infrastructure and reliability of services help improve efficiency of operations. Availability of integrated facilities and services such as housing, recreation, educational and health care are added attractions to investors. A larger domain of infrastructure facilities and supporting services make SEZ's more attractive for investors.

The NCR receives power from the integrated grid of UP power systems and the northern regional grid. The current power supply is much less than the demand. Towns and industrial areas of Ghaziabad and Noida have been getting preferential treatment in respect of power supply.

6.19 Challenges for SEZs

Some of the numerous challenges of SEZs are as follows.

- Issues related to the effectiveness of the single window mechanism and coordination departments at the central and state government level.
- The issue of a large number of states not having SEZ Policy/Act to enable provision of the benefits envisaged under the SEZ Act and Rules.
- Issue of maintaining the attractiveness of the SEZs fiscal regime.
- The issue of availability of land for SEZs and the difficulties involved in procuring/acquiring land.
- Issue of constraints leading to the slow pace of development of infrastructure within the SEZs and their operationalisation, as also inadequacies in the timely and adequate provision of external support infrastructure related to connectivity, provision of public utility services etc.
- The increasing unattractiveness of the SEZs incentive package is-à-vi's DTA units receiving benefits under schemes such as focus product scheme, focus market scheme, etc., which are unavailable for SEZs units.