

## **PRIVATIZATION OF LAND AND GOVERNANCE? SPECIAL ECONOMIC ZONE (SEZ) SPEAK**

### **A Background Note by CASUMM**

#### **WHAT ARE SPECIAL ECONOMIC ZONES (SEZS)?**

SEZs are duty free “foreign territories” with respect to trade operations, duties and tariffs. **SEZs, are basically about two things: providing subsidies to private investors and real estate developers, and ensuring cheap labour.** Corporate giveaways include provision of cheap land, utilities like water and electricity, exemptions from a range of taxes, environmental restrictions, and public hearings, and governance by a centrally appointed Development Commissioner who decides industrial disputes and has the authority to treat SEZ units as public utilities and apply the Essential Services Maintenance Act to suppress labour unrest and trade unionism.

#### **150 SEZs sanctioned (as of 31.8.06) spread over 26,800 hectares!**

At present, 150 SEZs have got approval from the government while applications for 225 are pending before the Board of Approvals. 22 SEZs, which have already been notified, would be running in the next six months. Over the next 18 months, 94 SEZs are expected to come up. The zones promoted by state government industrial development corporations accounted for 9,140 hectares.

**What are their stated aims?** Commerce Dept officials state that SEZs will attract investments of about Rs. 1,00,000 crore, and Foreign Direct Investment (FDI) of the order of Rs 25,000 crore by December 2007. In the process they will promote exports, boost infrastructure development and help create 1.5 million jobs.

#### **BLASTING THE MYTHS**

**Myth 1:** There are no guarantees for attracting net investment when revenue loss from subsidies and exemptions are projected at Rs 97,000 crore between 2005 and 2010 (National Institute of Public Finance and Policy study). Chief Economist of IMF, Raghuram Rajan argues that the “perverse economic incentives” given SEZ developers/exporters will bring little additional investment, and definitely a lot less revenue.

**Myth 2:** There is no certainty regarding sustaining such large volumes of investment. The ILO has found that in Mauritius over the past 10 years 35 firms have opened in Export Processing Zones- EPZs (similar to Indian SEZs) each year, but the same number have closed down.

**Myth 3:** While there may be some job creation there is no guarantee of job retention. In the maquiladoras of Mexico, 250,000 jobs were lost between January 2001 and June 2002, some 15 per cent of the maquila workforce. The companies simply closed shop and moved to where wages are even cheaper. The pressure is on countries to compete on wage costs or risk losing vital foreign investment to the lowest bidder.

**Myth 4:** Across the world, SEZs are not known for providing decent quality of work so why should Indian ones be different? Workers in SEZs, largely young women, face low pay, negligible promotion prospects and poor working conditions. The Sri Lankan government spent millions on providing infrastructure for companies in EPZs but they did not build any hostels to house the influx of migrant workers, mainly from rural areas all over the island. Workers were found sleeping on the floor in temporary sheds.

**Myth 5:** If SEZs are about export promotion, why is the state giving significant land subsidies to real estate developers? A huge real estate bubble is arising in SEZs. Export production is just 35% of the total area in single product zones and 25% in multi product zones. A large part of the zones is used for physical and social infrastructure, mainly townships, houses, educational, health

and recreational facilities, whose real estate potential will side-track export promotion aims and benefit elite groups. Residential apartments, for instance use duty-free raw materials. What is required is a focus on maximising employment and exports and not land acquisition.

**Myth 6:** If the aim is export competitiveness through scale economies, liberal norms for land use in the SEZs and the relatively low minimum area requirements are not the right way to go; most proposals are small to medium scale, unlike the Chinese zones.

**Myth 7:** If the aim is export competitiveness and most exports are moved by sea, then approving SEZs in landlocked states is not the right way to go as the costs involved in transport and infrastructure linkages will be significant. Roughly one third of the approvals are for states far away from good ports.

**Myth 8:** SEZs claim to result in world class infrastructure but does this reinforce uneven development? A common argument in favour of SEZs is that improving infrastructure everywhere is impossible, that's why we have SEZs (Industrial Devt Commissioner, GoUP). But the RBI argues that SEZs will promote an uneven pattern of development and that the tax breaks could be justified only if SEZ units established backward and forward linkages with the domestic economy.

**Myth 9:** If SEZs are all about creating world class factories for the global market, then why are they anti-competition? They give an unfair advantage to those who apply first or have the political clout and connections to get their proposals approved and purchase land from state governments at concessional rates.

### WHO LOSES OUT?

- *Farmers and communities who depend on farm land and forests.* These groups undergo large-scale displacement when their agricultural land is given over to SEZ developers.
- *Poor groups:* When the government claims it does not have money for the public distribution system, employment guarantee, public health and education, and when it is dismantling protection measures for farmers, how does it have money to give subsidies to the corporate sector?
- *Women:* In other countries, SEZs are notorious for their exploitation of women workers, who account for as many as 90 per cent of the workforce in some zones.
- *Local taxpayers who bear the subsidy burden given by govt.* This directly hurts the poor as this public money could have been ploughed back into education or health services.
- *Urban local self governments (ULSGs)/Panchayati Raj Institutions (PRIs)* who have to bear the double burden of subsidies given by the state governments and also the revenues lost from civic and other taxes that SEZs are exempted from. Additionally, ULSGs and PRIs have not authority over SEZs.

### WHO SUPPORTS STRUGGLES AGAINST SEZS AND WHY

**Who:** Left political parties, especially CPI (M), and politicians who are against SEZs across party lines (politicians like Karat, Yechury, Chittabrata Majumdar, Mamta Banerjee, Digvijay Singh, Congress MP Kuldeep Bishnoi, Minister of State for Defence and Haryana MP, Rao Inderjit Singh (who says South Haryana has water shortage and water should not be diverted to Reliance SEZ at expense of farmers), Maharashtra State CPI(M) secretary, Ashok Dhawale, and state politburo members Ajit Abhyankar and Krishna Khopkar.

**Where:** States of Maharashtra, West Bengal, Haryana, and Orissa have seen most conflict.

**Why:** SEZs are anti-labour and anti-farmer. SEZs are used for profiteering and real estate business. As such they cause revenue losses, forceable evictions

Congress general secretary Digvijay Singh admitted that SEZ projects have created problems for the agricultural sector. When the problems besetting the agriculture sector are discussed at the Congress Chief Ministers' meet at Nainital on September 23-24, the impact of acquisition of agricultural land for setting up SEZs is likely to crop up.

of land holders and diversion of scarce resources like water to big business.

**Who:** National Association of People’s Movements (NAPM) and other activists and farmers and mass based groups (Rashtra Seva Dal, Lokayat, Virodhi Sangharsha Samiti, an ad hoc committee of the villagers affected by SEZs in Maharashtra)

**Why:** SEZs are not necessary for much touted 'economic growth' and export promotion. Rather, they increase imports and there would be no net gain. More than that, thousands of hectares of land is being given to already rich companies at the cost of forests, farm land and the people who depend on them for a livelihood.

**Who:** Trade Unions (CITU, AITUC, BMS, INTUC, etc.)

**Why:** TUs argue that in SEZs no labour laws are enforced. TU representatives along with Labour Dept representatives are not permitted entry for inspection of implementation of labour laws including social welfare legislation. This is despite this being recorded by the Indian Labour Conference. Unions are not permitted in SEZs. The International Labour Organization (ILO) recommendation that the Development Commissioner in EPZs (and SEZs) should not intervene in industrial disputes has been violated.

**Who:** The finance ministry, the Planning Commission, and Chief Economist of IMF

**Why:** On the grounds that SEZs will result in huge revenue losses of Rs 1,70,000 crore between now and 2009-10 and cause uneven development. Additionally, the solution to deepening fiscal empowerment lies in improving tax revenue and extensive tax exemptions for SEZs go against this.

**Who:** From those who are otherwise defenders of free markets such as a section of India Inc. (Rahul Bajaj, Nasser Munjee, Rajiv Lall), and economists (Swaminathan Ankleswar Aiyar, Chief Economist IMF)

**Why:** They are against the unbridled number of SEZs sprouting in the country and warn of land grab/scams and the inevitable backlash. They also say the numerous “incentives” of land and subsidies cause distortions in the market.

## WHO BENEFITS

- Real estate developers and real estate funds: SEZs are hotspots for realty developers because of total tax exemptions. Most real estate developers haven’t even waited for SEZ project approvals before announcing mega Initial Public Offers (IPOs) considering the investment demands for such huge projects.
- Big business investors (including foreign investors) in infrastructure, construction, retail, entertainment, etc.
- Speculators/rent seekers (business houses, politicians, bureaucrats) who make a killing by manipulating the property market
- Corporate associations (CII) and corporate organizations like India Brand Equity Foundation (IBEF) who wish to project India as an investment hub
- Senior IAS officers: Given the immediate need for smooth land acquisition and master plan approvals before actual construction starts, IAS officers are highly sought after. In some cases, IAS officers are eager to accept CEO and other high-level positions in return for their services.

*“Real estate companies have affiliated real estate funds to support their growth. It’s a natural extension. This fund also invests in projects of other developers,”* says -----.  
 Why are so many property funds making a beeline for India? *“Simply because the returns provided by this market can’t be matched by any other,”* says Punit Beriwal, MD, Vipul Ltd.

*“They are willing to use their experience and network of batchmates for five-year contracts,”* a recruiter said. A leading industrial conglomerate, a real estate developer, a construction and allied services company, and an infrastructure consultant were reputedly already in the process of roping in IAS officers!

### **WHO PROMOTES SEZs AND WHY?**

**Who:** Senior union ministers from the Commerce and Industry Ministry, other Ministers (S. Pawar, Dayanidhi Maran, H. R. Bhardwaj), and senior bureaucrats particularly from industrial development parastatals at the state-level.

**Why:** The Commerce and Industry Ministry has been one of the most vocal proponents of SEZs, stating they will bring in foreign direct investments and create jobs. Denying allegations that large agriculture land holdings were being converted into SEZs, the commerce ministry said the total proposed area for the 225 pending applications for setting up SEZs was about 75,000 hectares—a miniscule 0.000625% of India's total area under cultivation.

**Who:** State CMs (TN, WB, Orissa, AP, Haryana)

**Why:** SEZs are being used by state governments to attract investment into their states in competition against other states. "But we want private investment in West Bengal," said Buddhadeb Bhattacharya, CM of West Bengal. In Karnataka, the government has approached private companies such as Infosys and Mahindra and Mahindra to run SEZs in Bangalore, Hubli and Dharwad, according to Minister for Large and Medium Industries, K. S. Naidu.

**Who:** Businesses and Business associations

**Why:** Because they benefit from the market opportunities and a range of subsidies and exemptions. One of the biggest subsidies is the acquisition of large land holdings at cheap rates.

### **WHY THE SEZ ACT IS DEEPLY PROBLEMATIC AND WHY WE SHOULD BE CONCERNED?**

- **State's misuse of "eminent domain" to propel a real estate scam in favor of big business**
  - Developers make a huge profit on land earmarked for SEZs due to speculation
  - Export production is just 35% of the total area in single product zones and 25% in multi product zones. A large part of the zones is used for physical and social infrastructure, mainly townships, houses, educational, health and recreational facilities, whose real estate potential benefits developers and elite groups at the cost of poor farmers and peasant communities.
  - Misuse through forward trading and the development of a secondary market for SEZs that benefits speculators and not agriculturists: SEZs that were approved are on offer for sale at a premium. With no lock in period, the developer may not sell the land, but is free to sell up to 100% equity of the project company.
- **Undemocratic privatized townships and emergence of new undemocratic, non-accountable forms of governance to support SEZs.** SEZ townships will be maintained/administered by developers/promoters. ULSGs/PRIIs will have no authority over these areas, nor will IAS/IPS officers. These company towns could be similar to princely states. This is a direct violation of decentralization mandated by the 74<sup>th</sup> Constitutional Amendment.
- **Provision of large scale incentives could mean a "race to the bottom"** between different states and countries with each vying to provide more subsidies in order to attract investment.
- **The first 150 proposals were cleared with undue haste** in six months and only three meetings of the Board of Approvals. Did the Board of Approvals spend sufficient time in understanding the costs and rationale of each proposal when assessing approvals? The government needs to review existing provisions of approval for SEZs, especially the provision for only 25 or 35 per cent of the land area stipulated for industrial production, an appropriate ceiling on the maximum land area under one SEZ, and specific policies and procedures for land acquisition.

*A proper cost-benefit analysis of the SEZs, from the point of view of rehabilitation and livelihood security of the displaced people, diversion of agricultural land and its implications for food security, usage of power and water, and assessment of its environmental impact needs to be done, says Chittabrata Majumdar*

- **Acquiring large-scale agricultural land will dent self-sufficiency in food grain production** with serious negative consequences for poor groups in rural areas who are already reeling under an agrarian crisis.
- **Who will monitor?** Under the SEZ Act, developers are given land on lease. What is the guarantee that once a 999 yr lease is signed, the investor will not use the land for some other purpose?
- **There is no proper debate of SEZs in the democratic forums meant for that purpose.** Instead differences between various government depts. (eg North Block and South Block) emerge through the media. There is also no forum by which affected groups can voice their interests. SEZs do not provide for public consultations.
- **There are considerable doubts over states capacity to provide administrative and infrastructure backup** required for SEZs. Will state resources be diverted from social welfare depts. for this?
- As many as 85 of 150 SEZs approved are for IT and ITES. This is despite Kiran Karnik, Chairman NASSCOM, publicly stating that SEZs are not required or useful for the IT sector.

#### **OTHER SEZ MODELS: THE US AND CHINA**

On one hand we have the regulated United States model, which lays down broad criteria that help restrain SEZ numbers, but also allows adequate flexibility. Called free trade zones, the US allows only one in each port of entry, and any additions require applicants to justify the need in terms of the local economy and overall development objectives. Sub-zones are allowed if applicants prove a substantial public benefit. This has helped the US to restrict the numbers to around 250, even while ensuring that new viable zones do come up irrespective of earlier caps.

On the other hand is the much more liberal Chinese model, which increased the number of SEZs from a handful of zones in the 80s to more than 4,000 in recent years, including national, provincial, prefectural and city-level SEZs. This has created severe regulatory problems. The rush towards SEZs was so intense that it even led to rampant growth of illegitimate SEZs, without proper legal authority, subsequently forcing the government to drastically reduce the numbers by half.

#### **NEOLIBERAL POLICIES BEING FOLLOWED EVEN BY THE LEFT FRONT IN WEST BENGAL**

The West Bengal government has signed an agreement with a Salim Group-led consortium for setting up mega infrastructure projects in the state. The Salim group is closely linked with the former dictator of Indonesia, General Suharto. The agreement was signed between the state government, West Bengal Industrial Development Corporation (WBIDC), and the New Kolkata International Development Pvt Ltd - a special purpose vehicle (SPV) promoted by Indonesian Salim group together with the Universal Success group and Unitech. The infrastructure projects include setting up of an industrial estate and SEZ and are expected to use 40,000 acres of land. This has caused disquiet in the Left Front because peasants are angry at the loss of their land and livelihood and are suspicious about the claims of compensation and future employment. There is growing recognition that the CPI (M) is not representing their interests, a trend that was reflected in the results of last spring's state election. According to one analysis, the CPI (M) lost almost 10 percent of its rural vote, whilst increasing its share of middle and upper-class votes by 18 percent. Although state-wide the Left Front increased its seat tally, of note is that it lost several seats in areas of the greater Kolkata region affected by the Salim Group deal.

For more information contact CASUMM at [casumm@gmail.com](mailto:casumm@gmail.com)

August 2006

With the support of Action Aid India