Special Economic Zones and their Implications for Regional Disparity

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Special Economic Zones and their Implications for Regional Disparity

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Backdrop and Focus

Aggressive promotion of Special Economic Zones (SEZ) since early 2006 in India can be understood in its entirety in the context of the neo-liberal policy framework. This policy and its implementation have generated a lot of debate both in the political and academic circles. The specific issue of SEZ in particular brings to focus several dichotomies which are otherwise inherent in the post liberal policy regime but is often obscured behind more direct objectives of macro growth and efficiency. These dichotomies can be articulated in terms of rural vs. urban land-use, economic vs. social welfare, agricultural vs. high end non-agricultural livelihoods, protection of large vs. small firms, balanced vs. 'fenced-in enclave' growth, to name a few.

The rationale for concentrated investment in zones applies not only for SEZ, but also Export processing Zones, Industrial Zones, Information Processing Zones and the like (Palit and Bhattacharjee, 2008). It is felt that infrastructure and facilities of the kind that act as an incentive for private sector investment geared towards export and growth cannot be, at initial stages, provided to all parts of the country. It is expected that these models are unlikely to be iniquitous if they generate spillover benefits for the rest of the economy. If the agglomeration benefits through induced capability strengthening and access to new marketing network enable the non-SEZ firms to develop, and subsequently friendly business conditions of the SEZs can be reproduced outside the zone, the goals of balanced regional development could be served. However, literature reveal that one of the possible effects on competing non-SEZ firms is that of disincentive and fall in growth, due to the disproportionate incentives given to the SEZ units in terms of significant tax rebates and flexible labour laws (Aggarwal, 2006; Mukherjee, 2007). Under these circumstances, not only would the regional disparities grow, but growth of the region as a whole may suffer.

Unlike Export Processing Zones, SEZs have within its framework more than manufacturing prospects by the private sectors. SEZs have been visualised as 'comfortable, sophisticated and much more developed and modern versions of industrial townships that came up in the fifties and sixties' (Palit and Bhattacharjee, 2008, p 56). This is the reason why SEZs interest the real estate developers to provide facilities to a select group of people who can pay for an extremely select set of services. Given the extremely limited share of people who would have the capacity to pay for such costly facilities in India, or in any developing country for that matter, it is unlikely that the SEZ model would have a spread effect over disparate regions and sub-regions across the country.

One of the points of criticism of SEZs is their cost in terms of scarce public resources. The losses accrue to the exchequer due to the tax benefits given to the firms in the SEZs (Aggarwal, 2006; Kabra, 2006); had the firms located outside the SEZs, the taxes they would have paid could have been ploughed into social infrastructure or human resources, which are foregone. Also, in some sense, the cost of setting up SEZs is being borne by the farming community that faces economic or physical displacement or both. Thus the state by foregoing the revenue that could be invested in social infrastructure meant for the masses on the one hand and acquiring the land for the SEZs from farmers on the other, ends up playing both an indirect and direct role in depriving the section of population which is at the lower end of the ladder. Moreover, this is done by transferring resources to a small section of population which is hardly a group that require support through public resources.

One of the benefits of SEZs is by generating employment for unskilled labourers primarily through the construction activities that take place in setting up the SEZs. This and other possible benefits like growth and exports need to be validated after some time when a significant number of zones come in operation. Two issues that are particularly relevant currently in the context of setting up SEZs are to do with the spatial spread of approved SEZs, and their implications for outflow of agricultural land. Specifically, in this piece, we focus on

1. the implications of location concentration of approved SEZs for regional disparity, and
2. the nature of agricultural land that are being replaced by SEZs.

Implications of Location and Concentration of SEZs for Regional Disparity:

The SEZ scheme is considered to be one way of creating infrastructure in pockets that would gradually spread across regions. For this process to work effectively, the SEZ units require to be located in areas of relative deprivation, which could then generate multiplier effects in these regions outside the units. However, it has also been noted that most of the developed states have a disproportionate share of SEZs. The State has been instrumental in approving and also notifying the SEZs in such states which already rank high in the different indicators of development. Industrially developed and high-income states of Maharashtra, Andhra Pradesh, Haryana, Karnataka, Tamil Nadu, Gujarat and West Bengal, account for 75% of the SEZ approvals[i] (Mate, 2007; Palit and Bhattacharjee, 2008).

Urbanization as an indicator for a region captures not only its general level of development, but specifically connectivity, demand potential and access to market network. Urban-bias of SEZ location has already been pointed out in recent studies. To carry this forward, cross classification of the location of the SEZ units and the level of urbanisation of the districts have been attempted. Table 1 and Fig. 1 reveal a significant relationship between level of urbanization and concentration of SEZ units. In other words, as the level of urbanization increases, the share of districts in which SEZ units are approved increases perceptibly. For example, among districts with very low level of urbanization, only 2 percent of the districts have SEZ units. On the other end of the spectrum (i.e. districts having very high level of urbanization) more than 60 percent of the districts have approvals for SEZ units.

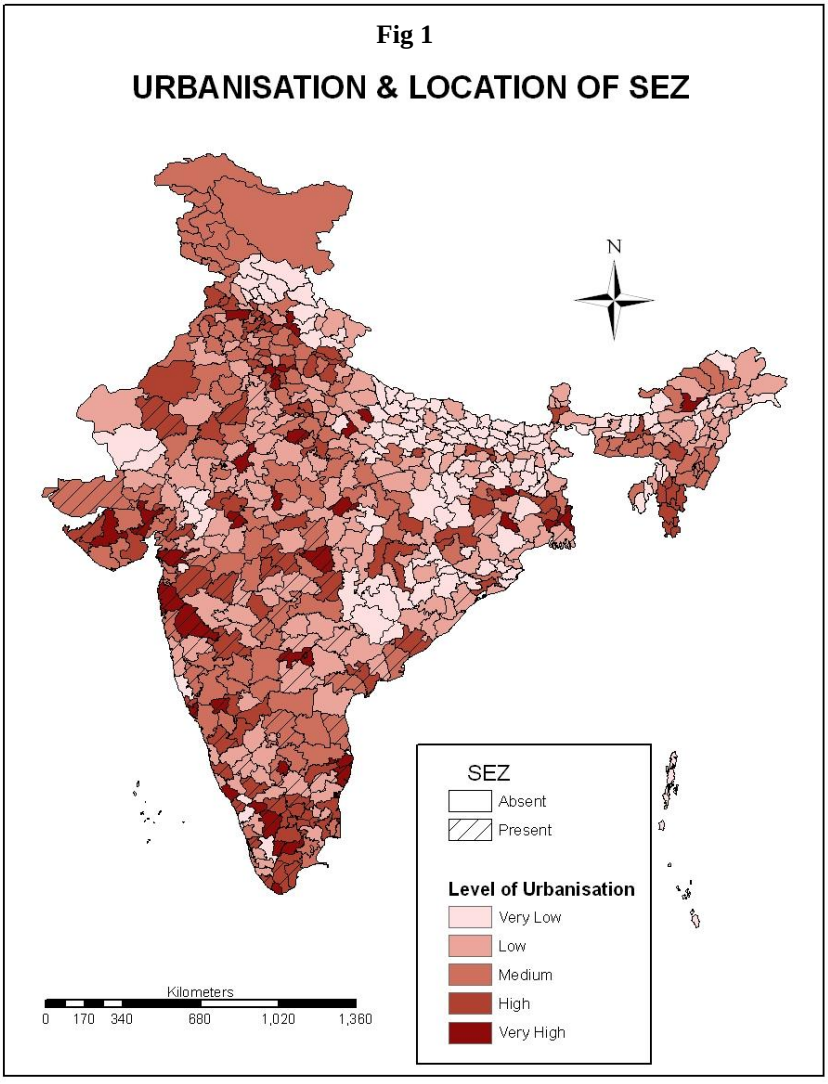
Table 1: Level of urbanisation & Location of SEZs

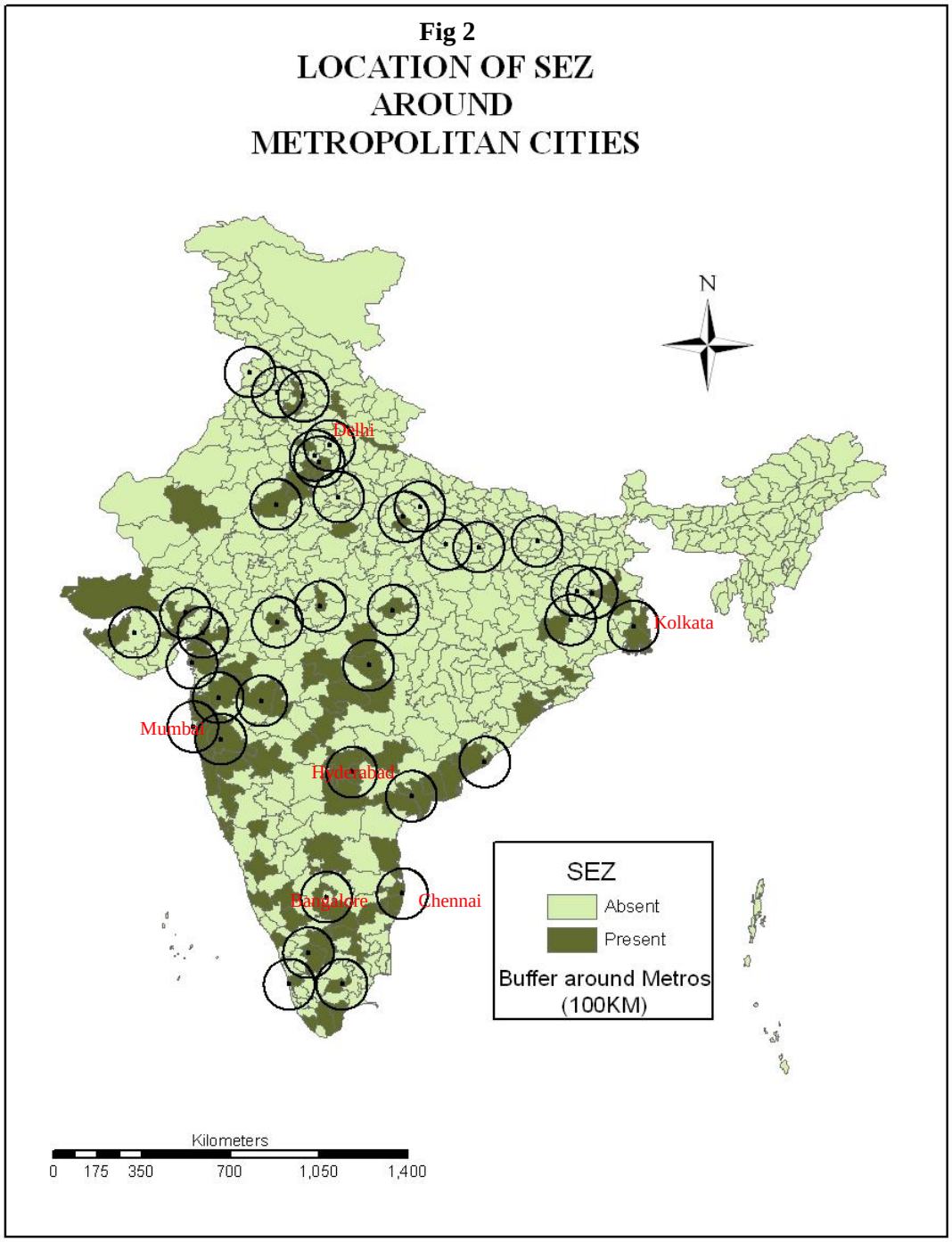
Level of Urbanisation	Unit	SEZ Absent	SEZ Present	Total
V. low 0-10	numbers	131	2	133
	percent	**98.5**	**1.5**	**100**
Low 10-20	numbers	163	15	178
	percent	**91.6**	**8.4**	**100**

Moderate 20-30	numbers	98	15	113
	percent	**86.7**	**13.3**	**100**
High 30-50	numbers	50	32	82
	percent	**61.0**	**39.0**	**100**
Very High Above 50	numbers	17	26	43
	percent	**39.5**	**60.5**	**100**
Total	numbers	459	90	549
	percent	**83.6**	**16.4**	**100**

Source: Calculated from Census of India, 2001 and www.sez.nic.in

Fig 1





The relationship between SEZ location and level of urbanization of districts does not tell us the whole story. A spatial analysis shows that in most of the districts adjacent to large metropolitan centers, SEZ units have been approved (Fig. 2). It may be observed that all of the eight largest metropolitan cities have SEZ units in their peripheries. The largest cities in India are the points of concentration of economic activity and development. The

applications for SEZs in and around these cities and their approvals reveal that many of the zones enjoy the locational advantage of proximity to large cities.

Table 2: Share of SEZ Units in Districts Peripheral to Large Metropolitan Cities

City	**Districts**	**SEZ units in the periphery (percent of SEZs in the respective states)**
Greater Mumbai	Mumbai, Pune, Thane	60
Kolkata	Kolkata, N & S 24 Paraganas	72.7
Delhi (U. P.)	Gautam Budhanagar	75
Delhi (Haryana)	Gurgaon	89.3
Chennai	Chennai, Kancheepuram	66
Bangalore	Bangalore, Bangalore Rural	66.7
Hyderabad	Hydearbad, Rangareddy	60.7

Source: Calculated from www.sez.nic.in

Table 2 indicates that out of the total number of SEZ units approved in the state where a metropolitan city is located, majority of the units are located in proximity to the large city. In Haryana, 89.3% of the SEZs having formal approval are located in Gurgaon (near Delhi) alone. Gautam Budhanagar accounts for 75% of the total SEZ approvals in Uttar Pradesh. The districts around the largest metropolitan cities account for more than 60% of the total SEZ approvals in the respective states.

Share of non-primary workforce to some extent have an overlap with levels of urbanization in a spatial unit. However, since the workforce in a sector indicates the importance of that sector, its share in the non-primary sector can to a large extent be expected to coincide with the infrastructure relevant for the non-primary sector. It can be observed from Table 3 and Fig. 3 that concentration of SEZs increase with incidence of non-primary activity. Districts where share of non-primary workforce is very low (below 20%) do not have any SEZ approvals. As the share of workforce rises, not only is there an increase in the district having SEZ approvals, but also a distinct increase in the share of districts having a concentration of more than 4 SEZs. More explicitly, the share of districts with more than 4 approved SEZ units increases from 1 to 14 percent of the total districts in the categories with non-primary workforce of 20 to 40 percent and above 60 percent respectively.

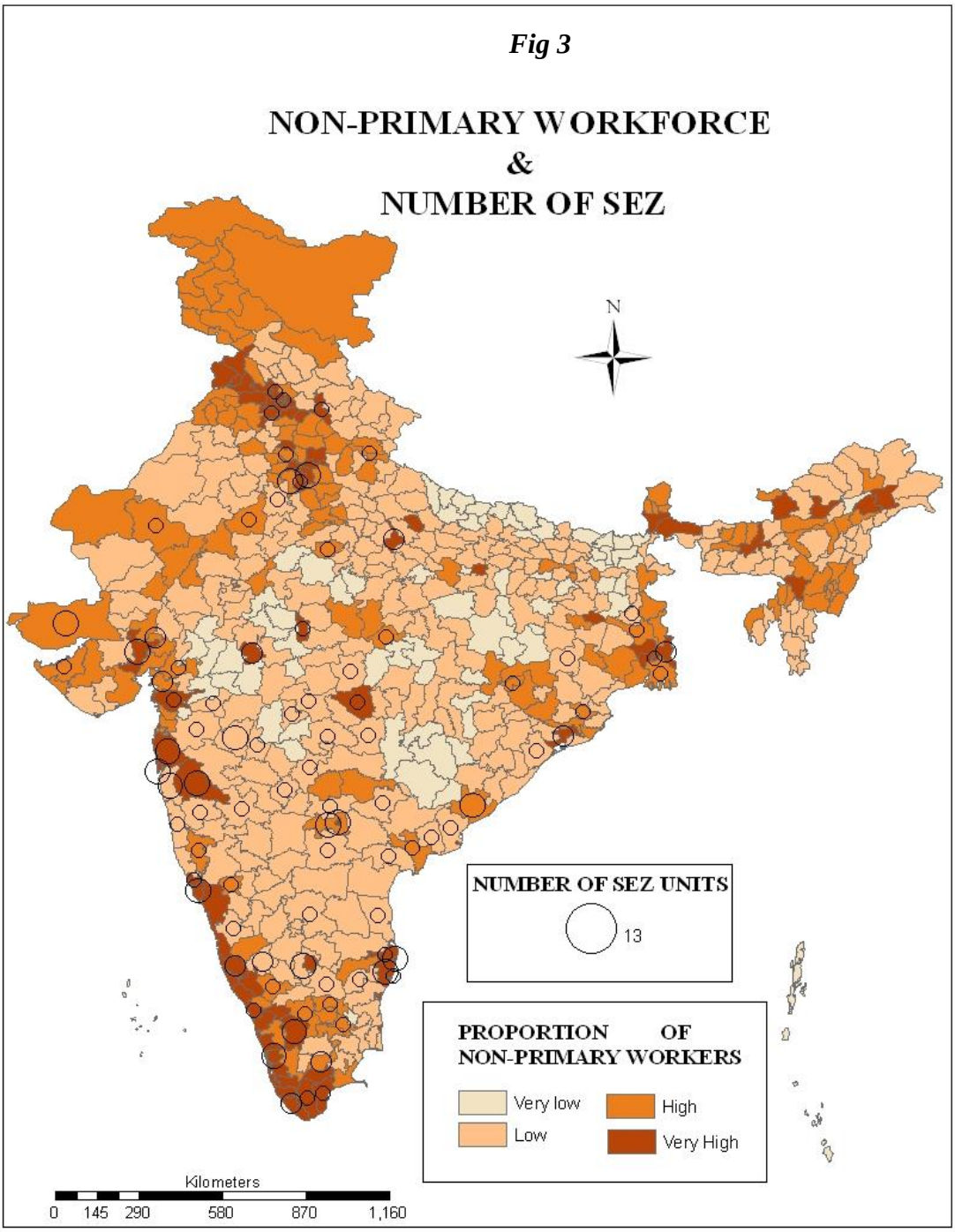
Table 3: Non Primary Workforce and SEZ Concentration

Share of non-primary workers	Districts	1 to 2 units	3-4 units	Above 4 units	Total no. of districts having SEZ approvals
Below 20%	No.	0	0	0	0
	% *	0	0	0	
20-40%	No.	28	1	3	32
	% *	10.2	0.4	1.1	
40-60%	No.	19	3	4	26
	% *	15.2	2.4	3.2	
Above 60%	No.	15	6	11	32
	% *	19.0	7.6	13.9	
Total	No.	62	10	18	90
	%*	11.2	1.8	3.3	

*- percent of total districts in the respective categories

Source: Calculated from Census of India, 2001 and sez.nic.in

Fig 3



What emerges from the spatial analysis of location characteristics of SEZs on one hand and development indicators like level of urbanization, distance of metropolitan cities and share of non-primary workers on the other, is that developers apply for and obtain approvals for locations that have advantages over other locations in terms of infrastructure like connectivity, power, access to marketing network etc.

SEZs and Nature of Agricultural Land Outflow

The policy of land acquisition by the state and handing it over to private developers for the purpose of SEZ has led to growing opposition from several quarters as it entails displacement of farming community from both land and livelihood. Although the total land required by the SEZ units is not very extensive and encroaches upon only about 0.1% of total agricultural stock of land, it does affect the livelihood of a large number of people dependent directly or indirectly on this land. This includes owner cultivators, tenant-farmers (of whom only some are registered), and agricultural labourers. Only the former category is entitled to the full compensation for the land paid by the Government. This compensation, according to respective state governments is close to or as claimed by the Government of West Bengal is marginally higher than that of the 'market price'. The criterion for estimating this 'market price', however, is neither clear nor transparent. Firstly, land markets in rural areas are extremely imperfect, and it is difficult to determine 'a' market price for any give piece of acquired land. Secondly, it is well accepted that land uses determine land prices and land rents. It has been empirically observed that the land prices shoot up in and around the zones even before the actual manufacturing work begins. The compensation that is offered is closer to or in cases somewhat lower than the prices at which the 'agricultural' land would be bought or sold in the rural land market. It has been noticed in a recent survey in West Bengal that the people who give up the land willingly are mostly absentee owners, and in most cases, they have an alternative livelihood base that does not depend on the agricultural land being acquired[ii].

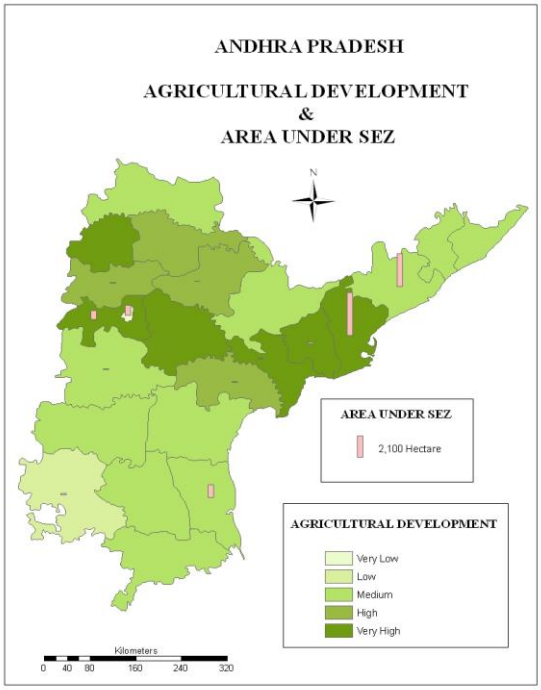
Given the fact that livelihood displacement is inevitable with land dispossession, the details of the quality of land acquired and its previous land use should ideally form one of the important criteria for approvals. Also, if land acquisition is unavoidable, obtaining details of alternative employment potential within the SEZ is of crucial importance. Surprisingly, neither of these data base is sought by the Government from the developer in Form A, on the basis of which approvals are given[iii]. It is only recently that there has been a notification whereby the information about replaced land-use is to be sought. Till date, this has not been implemented.

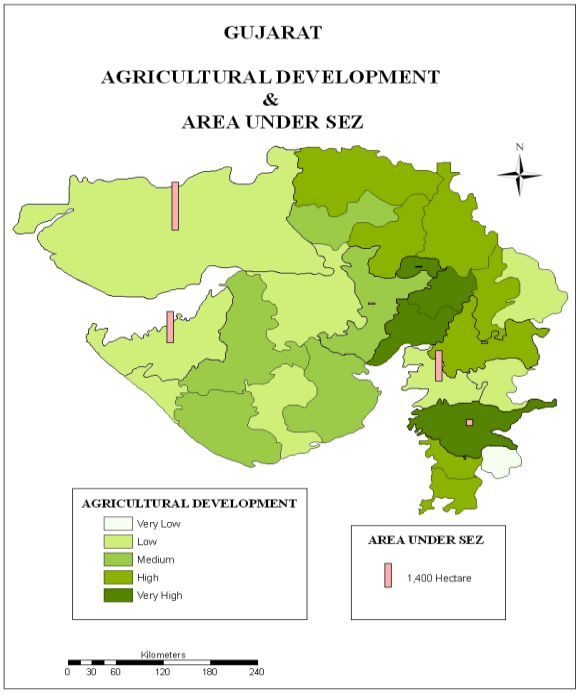
To gain some insight into the nature of land that is being acquired, it is desirable to have access to information about quality of the agricultural land at a micro level. In absence of this, an attempt has been made to look into the level of agricultural development and see its association with area under SEZ in three selected states[iv]. The indicators that has been used to a composite index are land-use efficiency, cropping intensity, fertilizer consumption, irrigation extent and intensity. It can be hypothesized that higher this index, more productive is the land. It would also be acceptable to assume that agricultural infrastructure in the districts with high scores are above average.

Three states, Andhra Pradesh, Gujarat and Haryana, have been selected for our analysis. In Andhra Pradesh, land devoted to SEZ is highest in East Godavari followed by Rangareddy, which have very high index values. Out of the moderately agriculturally developed districts, a high quantum of land has moved out for SEZ purpose in Nellore and Vishakhapatnam. In Gujarat, land has been devoted in large scale from districts where agricultural development is medium to low. So, the nature of land devoted to SEZs in Gujarat does not seen to be a problem. In Haryana, largest area has been devoted for SEZ from Gurgaon which is also agriculturally highly developed. The uneven relationship between agricultural infrastructure or quality of agricultural land with SEZ location could indicate that there is no uniform policy for first stage screening for approval at the state level. It is also possible that the locational advantages sought by approvals may or may not coincide with highly productive agricultural land; in other words, the quality of agricultural land is not a criterion for screening approvals at the state level.

The prime consideration for locating any SEZ unit is evidently the pre-existing stock of infrastructure and economies offered by pre-existing industries in the region. Not much attention has been paid to the displacement and livelihood threats faced by the farming community. That is why most of the SEZs have gone to the developed states with total disregard to the livelihood questions posed before the farmers. The nature of land that is being acquired has been overlooked. Also, a proper inventory of the nature of land being allocated for SEZ and its implication for the displaced population is entirely

missing. Haryana and Andhra Pradesh depict cases where prime agricultural land is being allocated to the SEZ.





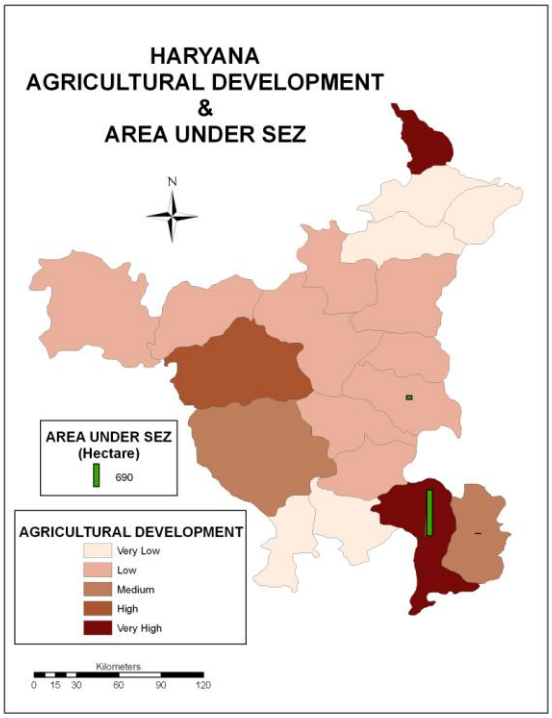


Fig. 5

AGRICULTURAL DEVELOPMENT AND AREA UNDER SEZ

Gurgaon: A Case Study of a District with High SEZ Concentration

The approval of the SEZs around the major metropolitan centres adds to the existing problems of expanding large cities. Most of the cities are located in the developed parts of different states (although few exceptions are there) and are way ahead in terms of their land-use efficiency in comparison to other parts of the country.

Gurgaon represents an ideal case for a detailed analysis as this district has 25 approved SEZs, which is the highest figure for any district in India. Gurgaon is also among the top ten districts which recorded highest share of heavy industry in the pre-reform period and has maintained its high level of performance in the post-reform period as well (Chakravorty, S. 2003).

We have used remote sensing data of the kharif and the rabi season and intersected these two sets of classified images to obtain the cropping pattern of 2006 to basically estimate the wasteland on the one hand and double cropped area on the other for Gurgaon CD block. Land-use classification shows there is still some land in the district which can be developed for the SEZ, without too much of intrusion into farmers' livelihood. Table 4 shows that in 1999-2000, in Gurgaon there was about 9 percent fallow/ uncultivated land which could have been developed (secondary data source). Preliminary rapid rural appraisals reveal that in many places agricultural land has been taken up for the purpose of development, be it for SEZ or for urbanisation.

The remote sensing image classification of Gurgaon CD block reveal that almost 7 percent and 9 percent are fallow land and under scrubs respectively (table 5), which means that in totality about 16 percent land could be developed for SEZs without disturbing livelihoods. The two locations of SEZs that we have been able to identify do not pose any serious problem as they are located in underutilized agricultural land. However, out of the 43 percent of cultivated area, more than 75 percent is double or three crop area. It can be assumed therefore that if the prospective SEZs disturb the agricultural land in Gurgaon CD block, there would be likely displacement of not only cultivators but also of agricultural labourers.

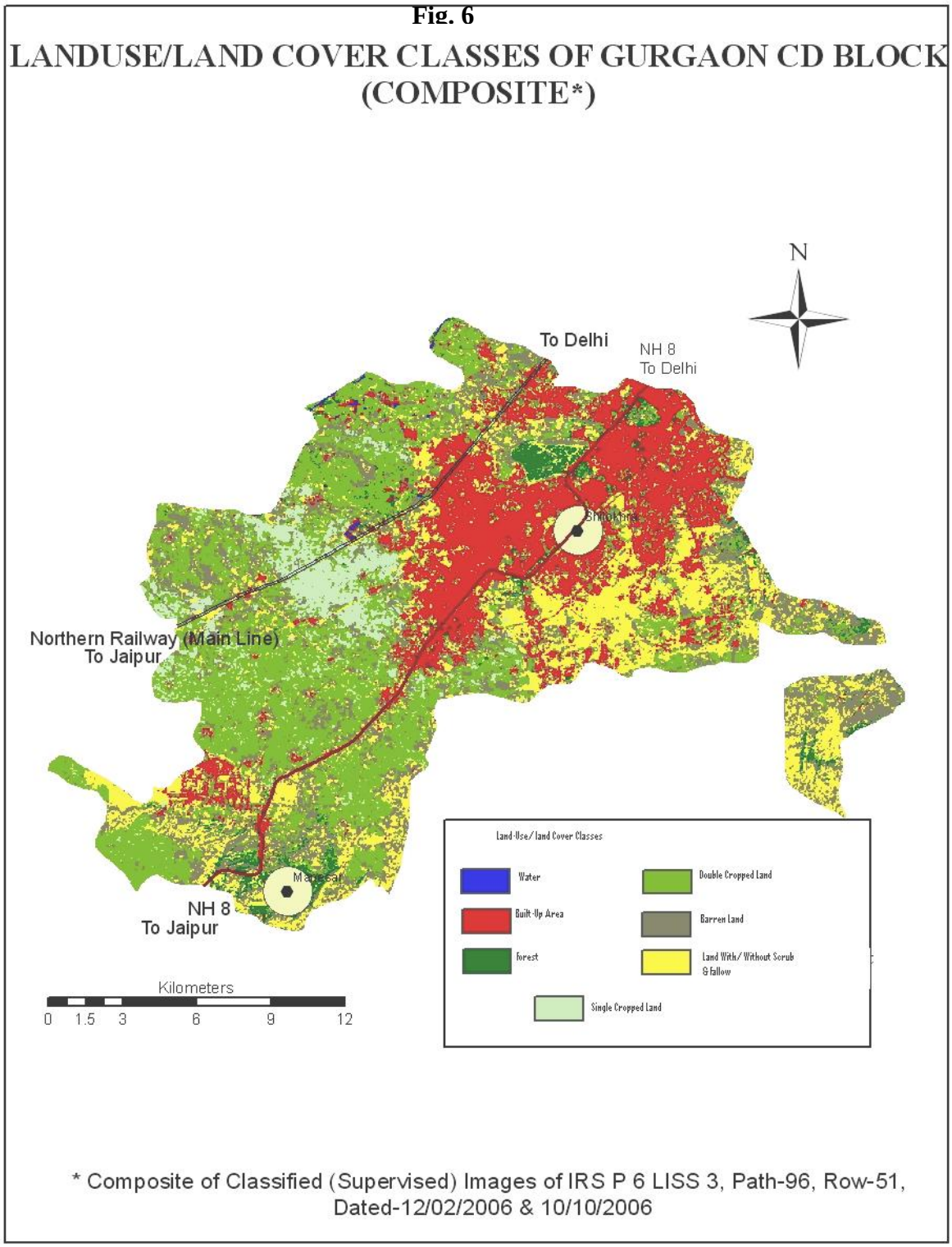
Table 4: Land-utilisation Classes of ***Gurgaon District (2001)***		
Land-uses	Area (in Hect.)	% under Classes
Forests	2939	1.1
Area under non-agricultural uses	44192	16.4
Barren and Unculturable Waste	4961	1.8
Permanent Pastures and Grazing Land	1615	0.6
Fallow (Total)	24178	9.0
Net Sown Area	192100	71.2
Double/ Multi Cropped	102752	38.1

Source: Calculated from various issues, *Agricultural Statistics*, Ministry of Agriculture, GOI.

Table 5 Land-use Classes in **Gurgaon Block**	
Land Class	***% of Area***
Water	1
Built-up Area	32
Forest	4
Double-Cropped Land	30
Barren and Unculturable Waste	4
Land with/ without Scrub	9
Single-Cropped Land	13
Fallow	7
Source: Image classification, 2006 (Plate 1)	
N.B. Figures are approximate	

The spatial pattern of concentration of SEZs which have already been approved / notified therefore requires attention of the Government with respect to the category of land-use that they consume. What needs to be noted in our case study is that the two identifiable SEZs are located very close to NH 8; thus, in this case as in many others, approvals are being given for locations that already have excellent connectivity, a finding that is consistent with finding of the second section (Fig. 6). In this case, for example, it appears that construction of new transportation lines to connect the SEZs cannot be expected as they are already located in areas that enjoy a high degree of connectivity. Given the nature of spatial spread of SEZs that is observable, it does not appear that the spread effect hypothesis has much ground to stand on.

Fig. 6



N.B: The accuracy of the classification is about 89 per cent. Figures estimated are gross figures calculated from the classification statistics.

Plate 1: Land-use Classification of Gurgaon CD Block

Emerging Issues

This piece primarily focuses on the nature of spatial spread of SEZs and its implications for regional development. The rationale of SEZ is strengthened if it is believed that infrastructure that is being made available within these zones can be reproduced outside the zones by increasing interlinkages. Some of this would have materialized had the locations of the zones been such that it induced both public and private investment in infrastructure in the zones surrounding it due to increased demand for such services. This kind of spread effect cannot be expected if the SEZs are located in areas which are already extremely developed in terms of infrastructure services.

The role of the state with respect to setting up of SEZs needs to be highlighted clearly. This role is extremely direct, and ranges from giving exemption to the SEZ units, approving proposals for the zones to acquisition of land from the farmers. Thus the state is much more than a passive 'facilitator' in implementing the policy of promotion of these 'competitive' zones. The basis on which the approvals are given need to incorporate perspectives of development that can be visualized to be more 'inclusive', going by the slogan of the eleventh plan.

Our analysis reveals that the developers apply for areas with locational advantages, which, as private profit making entrepreneurs, they are probably expected to do. However, even in the two stages of screening, first informally by the respective state and subsequently more formally by the centre, it falls under the purview of the state to evaluate these proposals by their merits. The criterion for evaluating 'merit' needs to be much more substantive than looking at the credibility of the developers. As of now information regarding existing land-use, number of farmers whose land needs to be acquired and potential and nature of employment that the SEZ is expected to generate is not even sought, far from incorporating these criteria as a basis for the approvals. The rationale for providing significant tax exemptions to units which use existing infrastructure and which takes benefits of nearness to urban areas where private sector investment could be expected even without incentives is unclear, to say the least.

The future policy direction regarding SEZs needs to be reformulated in a manner that it does not appear as if the state is playing the role of an agent that is transferring resources (farmers and agricultural labourers) from a relatively deprived section to that of a privileged section (developers and owners of large industrial units). The debate and political unrest surrounding SEZs emphasize the urgent need for a complete change in the policy framework.

[i] Palit Amitendu and Subhomoy Bhattacharjee (2008) have cross classified the number of SEZ approvals with per capita income (PCI) state wise. States having PCI above the national average have been considered as relatively richer states. West Bengal and Andhra Pradesh has been classed as middle income states.

[ii] Field work being conducted in Hooghly district of West Bengal by Mr. Animesh Roy, PhD Scholar, Centre for Study of Regional Development, Jawaharlal Nehru University.

[iii] An official in the Ministry of Commerce revealed that the primary basis on which approvals are given is the 'credibility' of the developer.

[iv] These three states have been selected as they account for highest share of area under SEZ.

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