No scheme of the Indian government has evoked as much pan-national controversy in recent years as the creation of Special Economic Zones (SEZs) for industry units aimed at exports. This has resulted in the displacement of poor farm families and villagers, brutal land acquisition, and gross human-rights violations by the state at the behest of private capital. No doubt, the SEZs have resulted in immense social and political injustices. But in addition, there is the economic infeasibility of the scheme, which is not discussed as much. The weakness of the economic rationale being offered by the state and big businesses is easy to see. When the economic arguments for the scheme are deconstructed, it becomes very evident that SEZs are nothing more than a manifestation of the state’s genuflection to private monopoly capital.

Addressing the economic rationale (and its obvious weaknesses) is important because this rationale is always used by the powers that be to justify rights violations when the scheme is implemented: it is ok if poor families are brutally displaced because the employment generated will be of a much larger magnitude; some agricultural land must be acquired because the exports industries set up will help in economic growth; exports catering to the international market are important to boost the economy; fiscal breaks and labour deregulation are needed because they will attract investment; investment is needed because there is insufficient capital in the country, which is further needed to expand the industrial base.

And so the list of economic justifications for rights violations goes on. In addition to providing counter-arguments to the SEZ scheme,
another reason for examining its economic invalidity is to change the paradigm of the debate. Thus far, the argument in the mainstream media has tended to revolve around displacement and compensation, with an unspoken sentiment that if adequate compensation was given there would be no problems with SEZs. The crux of the argument has to change to the actual validity of the scheme itself, and that’s where it’s really important to address the economic issues. The scheme is further invalidated when one observes the resistance on the ground to SEZs – resistance which has come in a variety of political hues and streams.

Special Economic Zones (SEZs), Export Processing Zones (EPZs), and the stated rationale for the SEZ scheme

SEZs are special geographical zones carved out with the stated idea of attracting investment, especially foreign investment, in order to increase industrialisation, primarily for exports. There are many kinds of zones that might be carved out if a country wishes to pursue a specific economic activity, such as industrial enclaves in the erstwhile Soviet Union. But what characterises SEZs (particularly in the context of a developing country like India) are a focused attention on investment, especially foreign and private investment, and the promotion of exports. All this is done with the stated purpose of increasing economic growth, which in turn would increase employment.¹

These zones are also known as Export Processing Zones, especially in the Asian context. However in India while EPZs were the predecessors of the present-day SEZs, there are some critical differences between them, which reflect a governmental policy shift in favour of large capital and big businesses. The key point is that whereas the EPZ was just an industrial enclave, the SEZ is an integrated industrial township with a fully developed infrastructure and separate institutions of governance (Aggarwal 2006).² While EPZs were meant to attract investment in tune with other policies, SEZs were created in order to bypass those policies. In addition, in terms of the actual schemes, SEZs offer many more benefits and incentives to investment capital than EPZs do, and are far more deregulated in terms of legislation on labour, taxation, environment, etc. Finally, there is a qualitative difference too, which came about in the liberalisation era, and that is that the EPZs, while being business and investment friendly, were

2. Ibid.
largely driven by the state, whereas the SEZ scheme was and continues to be largely driven by big businesses and monopoly capital, with the state merely becoming an implementing agent.

EPZs/SEZs are not new, but have experienced a rise over the last three decades and a particularly sharp increase from the late 1990s onwards. According to the International Labour Organisation, there was a steady rise from 1975, with 79 EPZs in 25 countries, till 1997, with 845 EPZs in 93 countries, and a sharp increase when in 2002 there were reportedly 3000 EPZs in 116 countries (Gopalakrishnan 2007a).

EPZs have met with varying degrees of success around the world in attracting investment. They have attracted investment – much of it from the USA – in countries like Taiwan, Malaysia, South Korea, and Mexico, but other countries like Kenya have set up EPZs at great cost, which are now mostly lying idle (Gopalakrishnan 2007a; Vaswani 2006; Venugopal 2005). The investments have however been short-term and have typically moved after a few years to the next low-cost destination. This is what happened with the zones in Mexico (maquiladoras), which succeeded in attracting huge investment and providing some employment, albeit highly deregulated, to some people, but soon experienced capital flight with investment shifting to even cheaper and more deregulated places like China.

India too is no stranger to EPZs/SEZs. Indeed, while India has been relatively late in implementing such schemes on a large scale, the first zone in Asia was set up at Kandla in the state of Gujarat in 1965. But the scheme really took off about ten years into the era of economic liberalisation (i.e., post-1991), when the government started looking at SEZs in 2000 as ways to address what it felt was insufficient capital in the country to increase industrial capacity and to put India on an export-led growth path. This was a manifestation of the shift from an import-substitution economic model to an export-promotion one. It was felt that SEZs would be a scheme to address infrastructural deficiencies, procedural and bureaucratic hassles, as well as inbuilt legal protectionist measures raised by monetary, trade, fiscal, taxation, tariff and, probably most important of all, labour policies (Aggarwal 2006). The positive fallout of this scheme as told by the government was the expected employment it would generate for local people, and technology transfer to benefit domestic industry. Furthermore, the perceived success of the schemes in Taiwan, South Korea, Malaysia, China, and elsewhere provided the perfect real-life justification for implementing the SEZ scheme in India.

3. Ibid.
India had a socialist-leaning, fairly regulated economy until 1991, when liberalisation began. While actual implementation varied across states and sectors, laws protecting labour, subsidising farmers, and regulating capital as well as ensuring the national exchequer of its tax base were very much present and enshrined in the system. EPZs in India had generally been insignificant, small, and had not had much impact on the economy until 1990 (Aggarwal 2006; Gopalakrishnan 2007a). India’s first zone in Kandla (Gujarat) (1965) was followed by one in Santa Cruz Mumbai (Maharashtra) in 1973. By the mid- to late 1980s, a few more zones were added in Chennai (Tamil Nadu), Cochin (Kerala), Falta (West Bengal), Noida (Uttar Pradesh), and Vishakapatnam (Andhra Pradesh), with little impact on exports, foreign investment or the national economy. From 1990 to 2000, as the economy started to undergo liberalisation, the government, with persistent lobbying by the big industrial houses, started turning to these EPZs to attract investment that would address the perceived slowdown in manufacturing in the mid- to late 1990s. The idea was to use EPZs as “engines of growth.” Some more investment came in (mainly in the information technology, electronics and gems sectors but not traditional manufacturing), but nothing much changed except an increase in products per worker, in all likelihood due to a little more deregulation of labour. EPZs still had an insignificant effect on Foreign Direct Investment (FDI) or on exports, and hardly played a role in the nation’s economic growth (Aggarwal 2006; Gopalakrishnan 2007a). This was probably because the old EPZs were still under a certain degree of regulation and not completely sequestered from the domestic economy. A few industries did indeed catalyse to some extent in the EPZs, such as the modern jewellery industry, the base for the electronic industry and the beginnings of the Indian IT saga (Aggarwal 2006). But they were still insignificant in comparison to the larger national economy.

While nothing much changed from 1990 to 2000 in terms of the impact of these zones on the national economy, what is important to note here is the clear shift in the attitude of the Indian government. Zones were set up in the 1960s, 1970s, and 1980s, but no significant changes were made to the regulatory measures and policies that protected labour, the tax base, the environment, and so on, even within these zones. However, from the 1990s onwards, there was a clear swerve by the Indian state in favour of big capital, and what did happen was the laying of the foundation on which truly
capital-friendly and big business-friendly policies and schemes could be enacted. To address some of the protectionist measures in the legal and political institutions that were seen to be a barrier to investment, and using the perceived success of Chinese SEZs as a rationale, the government started the new SEZ policy, which provided many more incentives and further deregulation within these zones. So, from 2000 onwards, all the existing EPZs were converted to SEZs and three new SEZs became operational in 2004.

Salient features of the scheme: Act and Rules

The SEZ scheme, legislated through the SEZ Act in 2005 and implemented via Rules enacted in 2006, is one of the starkest manifestations of India’s neoliberal economic policies (Aggarwal 2006; Bhaduri 2007). It is catered towards providing as many incentives and benefits as possible to investment capital. These include tax holidays, exemption from duties and fees, labour and fiscal deregulation, lax environmental regulation, free or subsidised water, electricity and other services, as well as governance powers given to all the principal stakeholders in the SEZ (SEZ Act 2005; SEZ Rules 2006).5 It is important to understand that the salient features of the scheme are framed to satisfy the requirements of the listed principal stakeholders, i.e., the developer, investor, operating production units (factories or other enterprises), out-zone supplier and residents.

Among the biggest incentives are sweeping tax holidays – 15-year tax holidays to production units (100% tax exemption for the first five years, 50% for the next five years, and 50% of prorated export profits for the next five years) and 100% income tax exemption to developers for any 10 years within the first 15 years of operation. Both developers and units are given exemption from customs duties, central excise duties, service tax, securities transaction tax, and central sales tax. Other fiscal incentives include the possibility of 100% FDI, facility to retain 100% foreign exchange receipts, exemptions from import and industrial licenses, provisions to repatriate profits without any dividend-balancing requirement, and the facilities to set up offshore banking units in an international finance centre. In addition goods flowing to and fro between the Domestic Tariff Area (i.e., the area of commerce within the Indian geographical boundaries outside of the SEZs) and

the SEZ are considered exports and imports respectively (SEZ Act 2005; Aggarwal 2006; Gopalakrishnan 2007a).\(^6\)

Possibly an even more important feature of the scheme is the freedom provided to the stakeholders with regard to laws protecting labour. Labour “flexibility” has been one of the first and often most vocal demands that big businesses make upon the state in countries all over the world (Storm and Naastepad 2007). It is next to impossible to completely repeal the many laws protecting labour in India on a national scale, due to the relative strength of unions in India compared to many other capitalist and developing capitalist nations. That was why separate economic zones were needed: to provide the labour deregulation demanded by investment capital. Some of these deregulation measures include further informalisation of the workforce either through contracts or casual labour where payments are made on a daily basis. The other crucial factor in labour deregulation is the efforts taken to prevent unionisation, including deeming SEZs as “public utilities” under the Industrial Disputes Act (1948), which essentially disallows strikes and many other collective bargaining measures taken by workers (SEZ Act 2005; SEZ Rules 2006).

General units are also exempted from Environmental Impact Assessments and are free to follow their own environmental regulation measures. The stakeholders are entitled to free or highly subsidised water and electricity. The SEZ Authority ensures water supply, while the SEZ developer is given permission to obtain power through the establishment of a power project as an independent power producer (Bhatta 2003; SEZ Act 2005; SEZ Rules 2006). Other infrastructure projects such as roads within the zone are also done in a public–private partnership.

The SEZ Act is the supreme legislation, which can be changed only by parliament amendment, while the Rules can be changed through notification by either state or central governments (Gopalakrishnan 2007a).

The central government, any state government or a company can apply for setting up an SEZ or Free Trade and Warehousing Zone. The actors in giving final approval to a proposed SEZ are the respective state government, the Board of Approval at the Centre, and the central government. The Board of Approval consists of bureaucrats – officials from the finance and commerce ministries – as well as one management professor. The Board approves, approves conditionally, or rejects the application. Once an approval is received from the Board,

\(^6\) Ibid.
the Central government gives the final approval to the SEZ and land is notified for acquisition (Gopalakrishnan 2007a; SEZ Rules 2006).

It’s important to note that the only requirement of the stakeholders, especially the developers, in return for the various incentives is a minimum contiguous area and a certain percentage of that earmarked as “processing area,” i.e., for actual production. This ranges from barely 25% of the total land acquired to a maximum of 50%. Some other guidelines are provided at the land notification stage after approval, but are not mandatory requirements for setting up SEZs. These include generating additional economic activity, promoting exports, generating employment, and developing infrastructure (Gopalakrishnan 2007a; SEZ Act 2005; SEZ Rules 2006).

Once the zone is created, the Development Commissioner (DC) is given full administrative authority with enormous powers, including that of a labour commissioner and chief inspector of factories. An SEZ Authority and Approval Committee is constituted with the DC heading both and membership consisting of officers from ministries in finance and commerce, entrepreneurs, and the developer. The primary mandate for the DC and other bodies is to develop the SEZ and promote exports. The Authority can also obtain grants and loans from the centre for a special Authority Fund to carry out its mandate. The Approval Committee provides a “single window clearance” for everything. While previously investors and units had to go to multiple departments in order to get clearances, in the present SEZs everything will be under one banner and clearances will be given easily and without much regulation (Gopalakrishnan 2007a; SEZ Act 2005; SEZ Rules 2006; Rajalakshmi 2006).

Individual units apply for permission with the DC, and have to satisfy requirements such as having a positive net foreign exchange, minimum space for processing area, and stable finances. Other than the minimum processing area the rest of the area is at the discretion of the developer and can be used for real estate. Indeed, the developer has no constraints, not even a requirement of positive net foreign exchange, and incurs no taxes on profits generated. The state is mandated to provide water, electricity, and other services either directly or through easy clearances for setting up supply systems for the same (SEZ Act 2005; SEZ Rules 2006).

A particularly undemocratic feature is that the Act provides protection to the central government, Board of Approval members, Authority members, and the DC against prosecution for “anything done or intended to be done in good faith under the Act.” The Central government is also given the power to modify or repeal any
laws in relation to SEZs except certain labour laws, such as conditions of work, compensation, provident fund, etc. State governments are given powers to provide further benefits and incentives to units and developers as well as vest more power with the DC (SEZ Act 2005).

**SEZs in the different states of India and regional variations**

Many states in India have shown unadulterated enthusiasm in implementing the scheme with varying degrees of intensity. As of the end of 2006, 212 approvals and 152 in-principle approvals were given across 21 states. Quite a few have gone even further than the centre in offering more incentives and benefits to big businesses either through State Amendments of the SEZ scheme or with state officials quite literally pandering to large capital (Sharma and Goswami 2007). It is important to understand here that while this scheme has been brought into formal policy by the Indian government at the behest of large capital, the big businesses still require the crucial implementing power of the central and state governments to provide services and, even more importantly, acquire land, as land in India is a state domain. Without that, it would be next to impossible for the scheme to be implemented in any comprehensive manner.

The SEZs have overwhelmingly arisen in the industrially advanced states in India, including Maharashtra, Tamil Nadu, Karnataka, Andhra Pradesh, Gujarat and Haryana, which account for nearly 80% of all formal approvals (Gopalakrishnan 2007a). Other states implementing the SEZ scheme include West Bengal, Uttar Pradesh, and Orissa. In all the states where SEZs have been implemented, efficient and timely supply of or provisions for water, electricity and other resources have been made a top priority by the state governments. The additional state-specific benefits or initiatives being taken vary in their particularities from state to state, but are present in almost all of them. Even within the industrially advanced states, the SEZs tend to be close to the urban epicentres of these states such as Mumbai, Chennai, Bangalore, Hyderabad, Delhi, etc., and not of much help, if any, in developing the more backward areas.

**Different state amendments and initiatives:**

- Karnataka set up a coastal agenda task force, giving special importance to the establishment of SEZs in coastal Karnataka, and also waived the fees for converting agricultural into non-agricultural land (Bhatta 2003).
Andhra Pradesh completely exempted SEZ units from registration fees and stamp duties (Bhatta 2003).

The Haryana Chief Minister flew to Mumbai specifically to invite a top industrialist to invest in the state, in addition to providing over 10,000 hectares to start an SEZ for the Mukesh Ambani industrial house. Haryana, like many other states, exempted developers and units from “payment of any tax, duty, fees, cess, or any other levies under any existing State law” (Sharma and Goswami 2007; Rajalakshmi 2006).

The Gujarat government sent a special team abroad in order to obtain investments for the state’s SEZs. The state continues to be one of the most enthusiastic to develop SEZs.

The Orissa government sought an amendment to the Scheduled Area Tribal Immovable Property Act in order to facilitate the acquisition of tribal land by outsiders. The same government also acquired land for the Gopalpur SEZ at a very low sum for the Tata industrial conglomerate, apart from pursuing plans to convert the land on which the Korean-owned Pohang Steel Company (POSCO) has its aluminium plant into an SEZ at the request of the company (Sharma and Goswami 2007).

Primarily double-cropped agricultural land has been acquired by state governments for SEZs in Mumbai (Maharashtra), Jhajjar (Haryana), and Mangalore (Karnataka) consisting of 14,000, 10,000, and 2,200 hectares respectively. The Himachal Pradesh government plans to convert 35,000 hectares in Kangra valley into an SEZ. While the SEZs in Mumbai and Jhajjar were acquired primarily for the Mukesh Ambani Reliance industrial conglomerate, the Mangalore SEZ was for the state-owned Oil & Natural Gas Commission (ONGC). The Kangra valley SEZ has multiple investors (Sharma and Goswami 2007).

As can be seen, many of the states have been just as enthusiastic as the large corporations in setting up SEZs, and facilitating additional incentives and benefits as states begin to compete with one another for investment in an intra-national “race to the bottom.” This manifested itself in West Bengal in early 2007, when land was forcibly acquired from rural families in Singur district for the small car plant of the Tata industrial house. While it wasn’t an SEZ, at least not yet, Tata did issue a veiled public threat of withdrawing investment and taking it elsewhere to states like Orissa if setting up the plant in West Bengal proved to be difficult.
Arguments against the stated economic rationale for the scheme

Apart from the social and political impact of the scheme (discussed in detail in the next section), the scheme falls apart in its rationale alone, which, as stated above, is almost a purely economic one of export-led economic growth in tune with the ruling neoliberal economic ideology. SEZs are essentially a more acute version of standard EPZ policies, and a complete abdication to investment capital, favouring business over the state and big capital over other sectors of society such as workers and farmers. Many research papers and articles have refuted the rationale offered by the state and big businesses for the SEZ scheme. In this section, an attempt has been made to take each line of reasoning offered by the policy-makers and provide an argument against it.

Growth in exports will lead to overall economic growth, and SEZs are needed for that. While it is true that growth in exports is an important feature of economic growth within a neoliberal framework and the context of international trade and markets, SEZs have made minuscule contributions to exports. Even a good 4–5 years after the SEZ scheme was started in 2000, they barely accounted for 5% of exports in 2004–2005 with foreign exchange earnings of R18,309 crore (US$4.6 billion) (Aggarwal 2006; Venugopal 2006). Even assuming that this trend will improve over the next few years, SEZs have had unit approvals overwhelmingly in the IT sector (nearly 45%), followed by multi-product (17.1%), pharma/biotech (8.2%) and textiles/apparel/footwear (7.7%) (Gopalakrishnan 2007a). This domination by one industry in a country’s export-promotion zones narrows rather than diversifies exports from the country, making it vulnerable to the whims and fancies of international monopoly capital. An example is Sri Lanka, which had over 50% of its exports in the garment industry, mainly brought in through the Multi-Fibre Agreement (MFA) (Gopalakrishnan 2007a). The country soon experienced capital flight from the sector when the MFA ended, and investment went to even more deregulated places like Mexico and China, crippling the garments industry in the country (Mexico, as noted earlier, soon experienced the same with their maquiladoras). In India too, the capital that is coming in to invest in SEZs is not permanent and may well be drawn away to places with even less regulation and more incentives.

In India household consumption stands at 68% of the GDP, while in China, Europe and Japan it is 38%, 58% and 55% respectively (Goswami 2007), which means that domestic consumption – not exports – is still the key source of strength for India’s industrialisation. The massive domestic market in India is a more stable basis for an
industrialisation programme. Furthermore, since goods flowing between the Domestic Tariff Area and the SEZ are considered exports and imports respectively, units are likely to set up operations in SEZs to avail themselves of the incentives while only exporting to the Domestic Tariff Area, not out of the country. This will be counter-productive to the stated rationale of promoting real exports.

Investment brought in through SEZs will expand the industrial base of the country and thus contribute to economic growth. Prior to the liberalisation era, India had a strong public sector industrial base, which was growing steadily and produced vital capital goods. This was seriously jeopardised once economic liberalisation began. Despite liberalisation, India’s industrial and technological base continues to be largely the result of public sector undertakings. Indeed, all but one of the Indian entries into the Fortune Global 500 list for 2006 were public sector undertakings. It is clear that the SEZ scheme does not cater to public sector investment, which could happen without any of the deregulatory measures. Investment for SEZs has overwhelmingly come from the private sector, which is far more unstable in terms of long-term economic growth prospects than the public sector, and which is, ultimately, based on one mantra: the increase of profits.

More importantly, what is likely to happen is that already existing investment in the country will be shifted to the SEZs to take advantage of the benefits. This will result in no net economic gain but rather net loss, as the tax base will shift out of non-SEZ areas, which will become even poorer as a result (Gopalakrishnan 2007a). This is why the overwhelming majority of investment in SEZs has come, and is coming, from the private sector, at over 80%. All the big industrial houses, including the Tatas and the Ambanis, are doing just that, and it has already been mentioned that POSCO is demanding that the Orissa government convert its industrial unit into an SEZ. Besides, the Act states that an SEZ will be “a designated duty free enclave to be treated as foreign territory for trade operations” (SEZ Act 2005). Thus SEZs, particularly with respect to trade operations and fiscal/labour laws (Bhatta 2003), are quite literally foreign territory, the outputs of which are not going to really benefit Indian industry. An ICFTU study of six Asian countries including India revealed that almost two thirds of the foreign exchange earned through the SEZs was used up by those same Zones for import of raw materials and assembly parts (Venugopal 2006).

Even assuming that some new investment will come in within the private sector, the skewing of this investment in favour of one or two

sectors does not portend towards a strong industrial base. In order to get a strong industrial base, investment has to be in labour-intensive sectors and distributed equitably between manufacturing, services, and agriculture. We are already seeing how services have started to dominate the Indian economy (contributing over 60% of the GDP) with manufacturing not doing as well but starting to improve (increasing to over 20%), while agriculture has been going through a long-running crisis (less than 20% and decreasing output per worker over the years). Any industrialisation programme would need to incorporate these three sectors in a proportionate manner based not on which sector can generate the maximum amount of private profit, but on which ones people depend on for their livelihoods, and the long-term growth prospects of the country’s economy. Many economists point to labour-intensive alternatives like agro-based processing and “town and village enterprises,” which were a great success in China long before that country embarked on export-driven growth (Bidwai 2007). Activists on the ground have equally good suggestions and seem to have the pulse of the nation’s economy better than the policy-makers. Some activists in the movement resisting the SEZ for Mukesh Ambani in Raigad, Maharashtra, have rightfully asked for Special Agricultural Zones instead of Special Economic Zones (Menon 2007).

Deregulation of labour laws is needed in order to increase productivity. It is a fallacy to think that deregulation of labour can somehow be directly correlated to higher productivity. Indeed, in the erstwhile Soviet Union, when workers had very strong safety nets and social security, the nation experienced phenomenal industrial and economic growth rates. Even in a present-day South Asian context, research in 2005 showed that the workforce in Indian SEZs displayed higher productivity in terms of export units per worker than Sri Lankan or Bangladeshi EPZs (Gopalakrishnan 2007a). This despite the fact that Indian SEZs had relatively more protectionist laws for labour than the other two countries. Many studies have shown that protection for workers and ensuring social security ensures higher productivity. An important April 2007 International Labour Organisation (ILO) study presents empirical evidence for a cross-section of 20 Organisation for Economic Cooperation and Development (OECD) countries that “relatively regulated and coordinated labour markets promote long-run labour productivity growth” (Storm and Naastepad 2007). Even a pro-business South African paper examining the importance of labour regulations for small business growth and job creation stated that labour regulation not only benefits society and workers but also
benefits employers through higher productivity. It further states that “Our goal is not to be trapped in a low wage, low productivity cycle of underdevelopment, but to move into an upward spiral of higher wages and productivity” (Horton, Honderich and Modise 2007). The ILO study also found that labour productivity was highest in countries with well-regulated labour relations systems with high wage growth.

The only real reason for deregulating labour is to bolster further the profit margins of the big businesses by giving them an escape route from paying proper wages, ensuring adequate benefits, providing safe work environments and so forth. Unions across India constantly battle the manner in which labour has been steadily suppressed and casualised since the late 1980s and particularly since liberalisation, with many hard-won labour rights at risk. Under the current neoliberal agenda, even courts, where previously workers had a chance of winning, now almost consistently back large capital in their judgments. Thus, SEZs are a stark manifestation of the kind of labour deregulation that the capitalists and neoliberal policy-makers would like to see across the country.

Tax breaks and deregulation of fiscal laws are needed in order to attract investment. This is a classic case of having a blinkered viewpoint on investment, making it out to be a panacea which will cure all intrinsic problems. But again it’s critical to understand that it is not the investment itself that is important, but the positive effects it may have. One of the most important is widening the tax base of the national exchequer, which can then be used for a variety of welfare schemes, social security measures, public sector undertakings, public health systems, scientific research, public education institutions, rations distribution outlets, subsidies for farmers, further industrialisation and a host of other measures of great benefit to society. Narrowing this tax base is counter-productive to obtaining the real benefits of industrialisation.

Despite huge quarterly profits being posted by companies and a host of subsidies provided to private companies, the clamour for a reduction in corporate taxes (still theoretically higher in India than in most other countries) increases every year (Chandrasekhar and Gosh 2007). Thus, it is clear that the huge breaks being given in the SEZ scheme to companies is nothing more than a result of this clamour.

The revenue loss coming from tax breaks for industrial ventures in SEZs amounts to Rs175,000 crore (US$44 billion) by some conservative estimates over the next five years and possibly much more. This can feed the country’s 320 million people for a couple of years or provide employment to at least two members of every rural family for the next five years (Sharma and Goswami 2007). The annual tax
concessions envisaged originally in the SEZ proposals is five times the annual budget for National Rural Employment Guarantee Scheme. To put this number further in perspective, the allocations in the 2007–2008 Budget for the Secondary Education allowance is R3794 crore: for the Rajiv Gandhi National Drinking Water Mission R5850 crore; for the National Rural Health Mission R9947 crore: for the entire North-Eastern Region R14,365 crore: and for women’s development R22,282 crore.\(^8\) Further research suggests that over the next 17 years, even in the impossible scenario that all investment in SEZs is completely new and income tax accruals are taken into account, the net revenue loss will still be 0.16 rupees per rupee invested in single-product SEZs and 1.6 rupees per rupee invested in multi-product SEZs (Gopalakrishnan 2007a). All this is on top of existing losses to export promotion schemes. Indeed, reservations about the SEZ scheme have come from no less than Sonia Gandhi, leader of the ruling coalition, and Finance Minister P. Chidambaram, himself a crusading architect of the neoliberal programme. He said that SEZs would encourage tax-paying businesses to move to tax-free zones, resulting in a huge loss of income for the state (Vaswani 2006),\(^9\) while Sonia Gandhi expressed reservations of the policy with respect to displaced farmers (Aggarwal 2006). Meanwhile, the Reserve Bank of India asked banks to treat SEZ lending as real estate business and not infrastructure, while making the point that the SEZs may lead to a diversion of resources from the less developed areas without creating the necessary linkages that could benefit them (Aggarwal 2006).\(^10\)

There are other hidden losses to the exchequer such as the SEZ Authority Fund, whereby the centre can make available grants and loans for SEZ authorities to implement the scheme (SEZ Act 2005). This can result in further financial resources being sucked into the SEZs through a “backdoor” route other than direct investment, create the impression that the scheme is succeeding even if infrastructure has not been developed and exports have remained minuscule. It provides dangerous leeway for the centre to pump more money from the exchequer into the scheme at the behest of the main stakeholders, further exacerbating the adverse impacts.

*In a competitive world SEZs provide an edge in attracting investment.* The only competitiveness that SEZs offer is in the proverbial “race to the bottom” where the competitive edge essentially translates to who

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\(^10\) Ibid.
can deregulate the most, offer the cheapest and most casualised workforce, provide the most comprehensive tax-breaks and make available sufficient resources, including land, water and electricity, at throwaway prices. This leads to developing countries trying to outdo one another in allowing themselves to be run over roughshod by monopoly capital. In larger countries, provinces within the same country try to compete with one another, as has been shown to be the case in India (Sharma and Goswami 2007). This is not only social and political suicide with expansive rights violations, it is also counter-intuitive to the reasons for investing with the goal of industrialisation.

India is a gargantuan country with a massive domestic market and enough resources for a stable industrial base. It need not allow itself to be subjected to the fleeting nature of monopoly capital. Any industrialisation process aimed at stable and long-term economic growth needs to be tied in strongly to the domestic market and a steady controllable resource base to protect the gains of that industrialisation.

**SEZs will address some of the infrastructural problems in the country.** The SEZs have barely 50% mandated minimum processing area (i.e., actual industrial production), and in the larger SEZs, it is barely 20–30%, which means that the rest of the area is at the discretion of the developer and authority to use as deemed necessary including real estate as per Rule No. 10 of the SEZ Rules (2006). This will result in no real infrastructure development but only real estate growth and speculation. This is the reason real estate dominates the private sector developer investment in SEZs, with a whopping 61% of developer approvals (Gopalakrishnan 2007a). It has already been reported from different areas that the land mafia is using the SEZs to carve up huge chunks of over-priced real estate. With the state all but withdrawing completely from these zones, the only infrastructure created won’t be for the public but for tax-free profit. Even in terms of efficiency, the SEZs have fallen short. In April 2007, of the 63 new SEZs which were given approval since March 2006, none had yet developed infrastructure and started manufacturing (Majumdar 2007).

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11. Based on confidential conversations with activists in Noida (Nov. 2006–April 2007) and Delhi (May–Aug. 2007). The land mafia is essentially a conglomerate of real estate dealers, who band together to create a false real-estate market and keep prices abnormally high, as well as sometimes use thugs/coercion to force agricultural and other landowners to sell their land at throwaway prices for real estate development. The SEZs are easy pickings for these dealers as the state is doing the coercion for them and all they have to do is develop the real estate. In most regions the land mafia often overlap with other lumpenised syndicates like money launderers or goods traffickers.
SEZs are also completely sequestered economic areas with parallel institutions, so even if some infrastructure does indeed develop through the scheme, it is only going to benefit the main stakeholders and hardly spread to the rest of the country. What is likely to then happen is the sprouting of little gated islands of well-developed infrastructure to benefit only the upper class. This is already on display in a place like Noida, the first SEZ in Uttar Pradesh, and on the outskirts of Delhi. Noida has good roads and adequate services primarily catering to Delhi, but sucks up even more resources as more investors pump in money while the rest of Uttar Pradesh languishes. Noida too has witnessed real estate speculation typical of these enclaves with land prices spiralling upwards and a mafia of real estate agents.

SEZs will provide employment to a large number of people. The employment generation motivation has hardly been foremost on the policymakers’ minds with respect to the SEZ scheme. This is evident in the fact that employment generation is merely a guideline in the scheme and not a mandated requirement for approval.

If measured in terms of number of jobs, the policy-makers of the SEZs have made numerous claims that sound dubious simply because of the huge variations and lack of substantiation. The claims have ranged from five lakh [500,000] jobs to 15 lakh in the next four years, to a wild claim of 25 lakh jobs in the Mumbai SEZ alone, which is more than the total number of organised sector jobs created in the entire country in the 15 years of liberalisation. In April 2005, all the SEZs in the country combined were providing employment to a little over one lakh people (Gopalakrishnan 2007a; Venugopal 2006; Rajalakshmi 2006). Even if the spurious claim of 25 lakh jobs in the years to come is taken as true, that amounts to barely 0.5% of India’s workforce, which is negligible. In addition, the sectoral approvals given to the SEZs so far are not labour-intensive, so will not result in many jobs being created. Private companies have always given fantastic, impossible claims of employment to paint a rosy picture for profit-raising investment. In Punjab, when PepsiCo entered in the 1980s, it promised 50,000 jobs; in 1991 the Food Production Ministry acknowledged that it had created only 482 (Sharma and Goswami 2007).

Apart from the number of jobs, any employment-generation claim would have to examine the livelihoods taken away, whether or not alternative livelihoods were being provided in addition to compensation, and whether or not the employment was secure. On all these

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13. See note 11.
counts, the employment-generation claim falls flat. Some estimates show that there will be only one job created for every four taken away. Also, only a handful of skilled workers and staff are likely to benefit from such a scheme. The farm families and workers being displaced are hardly going to be considered for anything other than casual labour, if at all, a precarious and insecure position to be in. And this does not include the many other rural workers, such as artisans, who despite being displaced are not even considered eligible for employment in the SEZs.

Finally, it must be understood that with the majority of approvals and investment coming in the private sector, there is only one thing that concerns the holders of that capital, and that’s the further increase of profits. One of the best ways to do that, as already mentioned, is to chip away at the wage/benefits share meant for workers. For example in Jamshedpur, Tata Steel increased annual production from one to five million tonnes between 1991 and 2005, but nearly halved its workforce from 85,000 to 44,000 (Bhaduri 2007). India’s growth has been capital-intensive, with very minimal employment growth and increases in wages and benefits. Over 8% annual economic growth has resulted in just 1% growth in regular employment (Bhaduri 2007). Studies have shown that the EPZs with all the tax exemptions generated far fewer jobs than expected and there is little to suggest the SEZs will do any differently, given liberal labour laws and the current productivity concerns. 14 In the EPZs from 1998 to 2003, there was a 73% increase in investment which resulted in only a 13.7% increase in jobs (Gopalakrishnan 2007a). In business newspapers, hardly a day passes without reports of some company or the other recording 20, 30, even 40% or higher increase in profits quarterly or annually (Mahalingam and Dua 2003). It is well known that employment has hardly grown at similar rates, while wage rates have further stagnated and remained very low. Thus, to claim that SEZs, which cater primarily to these very businesses, will help in increasing employment, is baseless.

SEZs have succeeded in many other countries in Asia, like China. This is one of the most bandied-about justifications for the SEZ scheme; it couldn’t be further from the truth. The reality is that the SEZs in China have resulted in arable land loss, inequities in development, rampant real estate speculation, labour violence and abuse, increasing crime including smuggling, sex trafficking, child labour, etc., as well as

huge resource and environmental costs (Gopalakrishnan 2007b; Goswami 2007).

Investment in Chinese SEZs came mainly from Hong Kong and Macao. The SEZs were empowered to create their own land regulation, which resulted in the large-scale transfer of rural and arable land to developers, undoing all the gains of the revolution which protected farmers’ land (Gopalakrishnan 2007b). Under a “market socialist” development model, between 1996 and 2005 over 21% of the arable land was diverted to non-agricultural uses such as SEZs, highways, and industries, which resulted in over 20 million farmers losing their livelihood. Soon, local provincial governments declared their own “development zones” for private industries and the whole process went out of control. By 1993 there were 6,000–9,000 development zones with a built-up area of more than all the Chinese cities combined. Much of the construction has stalled due to a false market built up by real estate speculators at the cost of farm families. And this has not happened quietly. There have been daily protests and spontaneous outbursts of anger in these regions. In 2004, the government admitted to 74,000 riots in the countryside (Gopalakrishnan 2007b; Goswami 2007).

There has also been rampant abuse of labour: the occurrence of child labour is very high in the SEZs, with 500,000 child labourers in Shenzhen alone – the shining star of China’s SEZ programme. Companies have defaulted on wages, or pay well below minimum wages. Unions are not allowed, but there were 10,000 wildcat strikes in Shenzhen in 2006 alone (Gopalakrishnan 2007b). Shenzhen’s enormous environmental degradation has earned it the designation of a “global environmental hotspot” by the United Nations Environmental Programme; according to the World Bank, around 300,000 people die every year in the country due to environmental problems. China’s pursuit of rapid growth and resource consumption has resulted in an environmental time bomb, with over 20% of the people living in severely polluted areas and over 70% of the rivers and lakes severely polluted (Goswami 2007).

This development trend has resulted in an inequality index worse than India’s. Just three or four decades back, China had one of the most equitable societies in the world; in 1990, it had a Gini coefficient of around 0.36, increasing by the day to 0.44 in 2000 and nearly 0.5 in 2007 (1 being the worst and 0 being the best), while India has 0.33, and has generally hovered in 0.3–0.34 range since the 1950s (Goswami 2007). Inequality is certainly not something to aspire to, and the

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15. Ibid.
Indian government would be well warned of the enormous political instability that has historically always risen from gross inequality, which is being seen in China now. Rampant land acquisition and transfer of arable land to non-agricultural sectors, high crime with sex-trafficking of women, smuggling and tax fraud, enormous labour abuse, resource crunches and environmental degradation are manifestations of the extremely bleak picture of Chinese SEZs, which is exactly what the SEZs in India are moving towards.

Impact of the scheme

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 impact of the scheme on various sectors of India’s society, including farm families, labour, and local people, as well as the environment they live in. The impact on each are given in brief below.

Agricultural sector and impact on food grains: It was never the stated intent of the scheme to improve the agricultural sector. However, the SEZ scheme does have a very strong adverse impact on this sector, coming at a time when Indian agriculture is going through a major crisis and can hardly sustain such a blow. The agricultural and rural sector employs around 60% of India’s workforce and, despite the steady decline in its share of the GDP, is still the largest economic sector, and plays a huge role in the lives of the majority of the population. Every year a substantial factor in the economy doing well is the monsoons and their effect on agricultural output. India has not yet achieved food security, despite having the arable land mass and food production capacity to do so for a long time. In 2007, India actually had to import wheat. Given the overwhelming importance of agriculture to the Indian people, even a small impact on the sector is likely to have a deleterious effect on a large number of people, not to mention further aggravating an already ominous sectoral crisis.

By some conservative estimates, the reduction in cultivable area due to SEZs will result in a loss of R250–400 crore (US$60–100 million), as well as a drop in food grain production by around 4–5 lakh tonnes (Sharma and Goswami 2007). A significant portion of the land being acquired for SEZs is double or even triple crop land, which is of crucial importance in India’s quest for food security. Ultimately, any industrialisation programme needs to keep in mind the basic necessities of the entire
population as its core objective. It is vitally important to follow a programme of industrialisation which promotes the production of capital goods that will serve to fulfil the population’s basic material needs, including food needs, and provides stable infrastructure that will again benefit the larger population. However, many of the industries in the SEZs are involved in the private production of luxury goods or non-essentials, while so-called infrastructure development has been cornered by real estate companies. It is mind-boggling to see this kind of industrialisation pattern promoted at the cost of agriculture, which is an absolutely crucial sector in providing for everyone’s basic material needs.

**Land acquisition:** While the SEZ scheme has been primarily driven by the demands of the big businesses, it depends on the crucial implementation power of the state. In no other area is this power more necessary than in land acquisition. If industries were to go to farm families directly, they would 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 still occur 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. Instead the path of least resistance is to get the state to use its “eminent domain” clause in the Land Acquisition Act of 1894 to acquire the land in the name of “public usage” and hand it over to the companies at throwaway prices when the SEZs or other private ventures are set up (Bhaduri 2007; E.A.S. Sharma 2007; Shrivastava 2007; Bidwai 2007). In India, 100 million rural people are landless, and another 80 million own less than five acres. Most of the land acquired affects these very people, which makes this trend particularly devastating (E.A.S. Sharma 2007). This has happened with all SEZs or similar schemes set up thus far, the more prominent examples being the Orissa government acquiring land in Kalinganagar to hand over to POSCO, the Maharashtra government acquiring land in Raigad to hand over to Ambani’s Reliance company, and the Haryana government acquiring land in Jhajjar and Gurgaon to hand over to the same firm (Mishra 2007; Menon 2007; Shrivastava 2007; Rajalakshmi 2006).

These land acquisitions are nothing more than the state taking the place of hired goons and the land mafia, doing the bidding of the big businesses. The process is always accompanied by violence and the violation of human rights. Land acquired through a participatory democratic process for genuine public usage and societal good is, of course, an important feature of a state that guarantees certain
minimum welfare measures and social security to all of its citizens. The land being acquired for SEZs is neither acquired through a true democratic process nor is it for the public good. The state in India has the power to acquire land for public usage, as land in India is a state domain considering that, constitutionally at least, the country is still one that is supposed to provide a basic social security net to all of its citizens. The fact that this hallowed power is being used for corporate profit is undemocratic, unconstitutional, and a crime against the people.

**Displacement of families dependent on agriculture and other rural families:** Among the people who are hardest hit by the SEZ scheme are those dependent in one way or another on agriculture. These include small farming households and farm worker families. It is estimated that the land acquisition for the present SEZs will result in the displacement of 1.14 lakh farming households and 82,000 farm worker families. This will seriously worsen the plight of farming households, and even more so of farm workers, who lead a precarious existence as is. The total loss of income is estimated to be Rs145 crore for the farming households and Rs67 crore for the farm worker families (Sharma and Goswami 2007). This has disastrous implications, as many of these families are extremely poor to begin with. There is no guarantee that these families will receive employment, because it is not mandated legally; also, the units that come up as manufacturing and service units are unlikely to hire people whose primary experience is in agriculture, other than for the most insecure and informal unskilled manual labour. Even among those paid some compensation, which are invariably only the landed, the paltry amounts of money hardly make up for loss of a more stable livelihood.

Apart from farming families, another group seriously affected by displacement are non-agricultural rural workers such as artisans who, unlike displaced farming families, are not even considered for compensation. They are among the poorest and most insecure people in India, and displacement without any compensation is devastating: they migrate to urban areas and lead precarious lives in slums.

Any democratic industrialisation programme has to consider the livelihoods of those displaced both in terms of compensation and adequate alternative livelihoods. The key issue here is again industrialisation that focuses on civil participation, especially of potentially displaced people. This has hardly been the case with the SEZ scheme, which has been pushed by the big businesses and neoliberal policy-makers in an extremely undemocratic manner.

**Labour:** As might be expected with labour deregulation, workers in SEZs are subjected to gross violations of their labour rights. This includes
job insecurity, the prohibition of 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 physical barriers that make it very difficult to talk to workers. Some of the most fundamental worker rights enshrined in India’s laws include the right to association, the right to fair and safe work, and the right to bargain collectively for better employment conditions. All of these rights are raptantly 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.

There are many examples of labour abuse in SEZs that provide a picture of what deregulation and “labour flexibility” really amount to. The Cochin SEZ, which according to trade unions has relatively better working conditions than other SEZs, has workers often paid below minimum wages, contract/casual work, 10–12-hour work days with no overtime pay, frugal meals, no proper health practices, and complete suppression of workers’ right to collectively bargain (Venugopal 2006). 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 six or even seven days a week, and getting laid off with no notice for trying to unionise.17 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 the 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 (Venugopal 2006).

Environment: In addition to all of the above effects, the SEZ scheme also seriously affects the environment in and around the area of development. The units in the SEZs suck out the ground water and destroy the surrounding natural environment, in addition to destroying formerly alluvial soil that produced high-yield crops. All this, one might argue, is to be expected in any industrialisation program. However, industrialisation programs are also supposed to follow certain environmental norms in addition to being subject to Environmental Impact

17. See note 11.
Assessments, which theoretically provide ways to mitigate or make up for any degradation. The SEZs have none of these measures, which is extremely dangerous. China is experiencing an environmental crisis because of similar measures implemented on a much larger scale, and in India already one can find manifestations of a future crisis.

Resistance

The SEZs in India have witnessed militant, popular resistance across the country and cutting across many political lines and social strata. Resistance has come from peasant groups, farmers’ associations, trade unions, some political parties, unaffiliated progressive movements, and the radical left. However, the paradigm for the argument, played up by the mainstream media, has remained largely on unjust compensation for the displaced when land was acquired for SEZs and not as much on the actual economic, social, and political infeasibility of the scheme itself. Nevertheless, the widespread protests resulted in the federal government announcing, in February 2007, the suspension of all land acquisition for establishing new SEZs until a new rehabilitation scheme for displaced people was put in place (Bhaduri 2007; Bidwai 2007). This retreat on the part of the government, albeit tactical and temporary, represented a significant victory of sorts for the various movements on the ground and gave particular cheer to those believing in participatory democracy and people’s enfranchisement. It was the result of local resistance movements primarily against the acquisition of land for either SEZs or other projects for private companies. While some resistance movements enjoyed the media spotlight, many didn’t but played an equally significant role in bringing about this temporary moratorium.

In Raigad, Maharashtra, many farmers’ organisations came together to resist the SEZ being developed for Reliance. The movement became active early 2006 and gained the support of parliamentary left parties, trade unions, and other popular movements (Menon 2007). Kalinganagar in Orissa bore witness to a very militant agitation against the acquisition of land by the state for the MNC POSCO. When the struggle was launched in January 2006 it resulted in the martyrdom of 13 tribals in the village of Ambagodia. The movement is believed to be led by tribal villagers and staunchly supported by the radical left movement. The movement has since stood firm on its “no

displacement” stand, refusing to compromise or back down; it hopes to merge with other similar movements (Mishra, 2007). The outskirts of Bangalore in Karnataka saw the beginning of a movement against an SEZ in mid-2007; it was led by the Karnataka Rajya Raitha Sangha (a large peasants’ association) and local radical left groups along with the support of various trade unions. The movement resisting the SEZ in Nandigram, West Bengal, which was put in the national media spotlight, primarily consisted of local villagers and miscellaneous political fronts, including the radical left. Contradictions abounded here, as the largest parliamentary left party, the Communist Party of India (Marxist), supported the resistance against many SEZs across the country but were the ruling party in West Bengal and thus involved in acquiring land for the SEZ in Nandigram (it had to later back down from in the face of continued protests) (Bidwai 2007; Bhattacharya 2007). With the SEZ in Jhajjar, Haryana, the resistance primarily came from local farmers who formed an umbrella committee to lead the struggle along with the support of some political parties (Shrivastava 2007; Rajalakshmi 2006). The All India Trade Union Congress came out vociferously against a plan to set up an SEZ in Pondicherry, saying that the project would displace hundreds of farmers and farm labourers. Various movements resisting the SEZs as well as numerous activists came together in June 2007 for a convention in Delhi which ended with the formation of an All India Committee Against SEZs and Forcible Acquisition of Land. The committee, consisting of experienced social activists and advised by prominent intellectuals supporting the movement, was formed to help develop and co-ordinate anti-SEZ movements throughout the country.

Grassroots resistance has thus been directed not just at the SEZ scheme specifically, but at land acquisition for private investment capital in general (such as POSCO in Kalinganagar, which is not an SEZ). From Haryana to Karnataka, and from Maharashtra to West Bengal, the various movements resisting the neoliberal agenda have taken place across the length and breadth of the country. The movements have certainly not been short of problems, being of a disparate nature and often failing to sustain momentum or link up with larger struggles. But it is this very variety that has exemplified the popular nature of resistance against the SEZ scheme. When trade unions call

19. See note 11.
for state-wide, sector-wide or even nation-wide strikes, it is rare for peasant organisations or farmers’ associations to participate; the radical left has generally refrained from participating intensively in the struggles of more mainstream progressive movements; often, the causes of these different sections of progressive struggle have not overlapped and have even contradicted one another at times. However, what is remarkable in the many different movements resisting the SEZs and other similar schemes is the coming together of these many entities, albeit in an ad-hoc manner. That alone is proof of the popular resistance to the SEZ scheme and its abhorrent manifestations, and that a truly people-friendly and democratic industrialisation alternative should be sought.

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