PROFITS AT ANY COST

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No other economic 'reform' in India has seen such a rapid expansion of militant protests and conflicts as Special Economic Zones (SEZs). Local inhabitants, particularly in Raigad (Maharashtra), Jhajjhar (Haryana) and Nandigram (West Bengal) cutting across caste, class and party affiliation rose up in revolt, with Nandigram seeing the most militant uprising leading to 14 deaths in police firing on 14 March 2007. These come in the wake of growing struggles against land acquisitions for industries, met nonchalantly with deadly state terror, as in Kashipur, Lanjigarh and Kalinganagar in Orissa, Singur in West Bengal or Bastar in Chattisgarh turning central India into a war-torn zone.

The intensification of the expropriation of livelihood resources of the masses since the 1990s with the launch of the New Economic Policy, followed by what is popularly referred to as 'globalisation', which in fact is liberalization, privatization and globalization, facilitated by the troika –the World Bank, International Monetary Fund and World Trade Organization–has seen an outburst of conflict between the state and the people. The rapid accumulation of capital leading to over-accumulation, the emergence of finance capital as the engine of change and control, and the materialization of the marauding global capital for accumulation through dispossession as a distinct outgrowth for control of resources and market are set to change the political discourse of geographies and her peoples.

SEZ that promises to usher in a new era of rapid growth and employment as never before evoke intense debate. The West Bengal government has put all SEZ's on hold. The plans for a large multi-product SEZ in Kalinganagar has been dropped by the Orissa government. Rehabilitation policies are being revised by Punjab and Haryana. Maharashtra government is planning to reduce the size of the planned Maha Mumbai SEZ. The Finance Ministry and the Reserve Bank of India are unhappy with the SEZ policy on grounds that the policy offers excessive exemptions which will lead to revenue loss and spur real estate speculation. The Rural Development Ministry objected to the large-scale acquisition of agricultural land threatening spinning off further food insecurity. The IMF and the Asian Development Bank have criticised the tax exemptions being provided making SEZ 'business-friendly' rather than 'market-friendly', inherently violating market principles and market reform which they ardently promote.

A number of patch work remedies are proposed. Avoidance of acquisition of prime agricultural land, improvement in the compensation package offered in rehabilitation, offer of shares in the companies in the project to the displaced, compensation for agricultural labourers and sharecroppers besides land owners, ceiling on the area of SEZ's and no land acquisition by the state governments but instead the private developer to buy land at the market price directly from the land owners are some proposed remedies. The Parliamentary Committee on Commerce has demanded a freeze on new SEZs pending a fresh look at the policy, ban on use of irrigated crop land, a ceiling on the extent of land for SEZs and that too on lease rather than purchase. The Commerce Ministry meanwhile issued a new notification making SEZ developers responsible for the rehabilitation of displaced persons “as per the policies of the State government”. At the same time the Commerce Ministry has further liberalized exemption to now include contractors in SEZ units to claim exemptions to further promote SEZs while the Finance Ministry on the other hand is trying to tighten tax exemptions.

However, what is noteworthy is that SEZ policy, followed by SEZ Act and Rules, emerged and established without much parliamentary debate over the last eight years across both the National Democratic Alliance and the United Progressive Alliance regimes. The SEZ has, as its predecessor, the Export Processing Zones (EPZs) which are ‘industrial zones with special incentives to attract foreign investment in which imported materials undergo some degree of processing before being exported again’ (The International Labour Organisation, 1998). EPZs are 'enclaves' dedicated to the promotion of export processing, isolated and insulated from the domestic economy with relaxed and liberal state controls in import, infrastructure and, in some cases, labour laws, simplified bureaucratic procedure, and favoured treatment to foreign and often domestic investors. The investors are to process all intermediate imports within the zone and to export without adversely affecting the domestic economy, attract foreign investment into and promote exports from the industrial and manufacturing sector within these initiatives without extending them beyond a specified geographical area, namely a ‘zone’.

EPZs emerged in response to the emergence of finance and global capital as the major economic players, the rapidly accumulating capital that seeks to move out to invest, the growing competition between developing nations to attract foreign direct investment and the thirst of capital to have an unfettered play in the pursuit of profit. Around 1967 Western capitalism was faced with a crisis of stagnation in growth, co-existing with high rates of inflation creating an economic downturn and slump along with the over-accumulation of capital. To snap out of this crisis, capitalism evolved a mechanism where the adjustment process heavily depended on lowering the cost of labour, raw materials and production by migration of capital to the peripheral regions of South Asia in the form of EPZ. This led to the decision of US firms to locate assembly operations in low-cost East Asian locations in the 1960s, particularly South Korea and Taiwan, where the US had particular political and strategic interest besides economic influence. Both these countries established their first EPZs in 1965 around the same time as India. Now an international phenomenon, EPZs increased from 176 across 47 countries in 1986 to over 3,000 across 116 countries by 2002. This does not include the enormous numbers of industrial parks, free zones and other areas which strongly resemble EPZ's but are not officially declared as such. Three countries in particular–Taiwan, South Korea and China–are often cited as major successes in using EPZ's as part of their industrialization strategy.

South Korea under US occupation and Taiwan under the Kuomintang had gone through far-reaching land reforms freeing agricultural surpluses for use in industrialization with the virtual elimination of the feudal landlordism. EPZ formed a part of the larger domestic industrial and economic development of these countries through export-oriented strategy. Moreover the EPZs were not central to this strategy.

Taiwan's first export-processing zone was set-up in 1965 in Chien-Jiang, Kaohsiung City, followed by the opening of more zones managed by Taiwan's Export Processing Zones Administration. Average annual growth in exports was high at about 61 percent from 1967-79 but new investment had largely dried up by the early 1980s with infrastructure becoming redundant, duty-free arrangements improving elsewhere in Taiwan, and investment migrating elsewhere in the Asian region in search of greener pastures in terms of higher returns per dollar of investment and lower wage rates.

South Korea organized special industrial parks and export processing zones focused on the under-developed regions away from the high investment receiving Seoul. The industrial parks for export production and the export-promotion zones were initially expected to spearhead the development of capital-intensive heavy industries such as iron, steel and petrochemicals, but in the 1980s shifted focus to high-technology industries as computers, semiconductors, telecommunications and biotechnologies. But these zones waned in importance that by 1985 the SEZ manufactured good exports amounted to only 2.9 percent of the country's total manufacturing exports.

In the case of China, the situation was different with a socialist command economy, state ownership of land in urban areas and village commune ownership (collectivization) of land in the rural areas, and strong labour security. EPZs for earning much needed foreign exchange earnings commenced in the 1960s and SEZs beginning in 1979 with four SEZs, at Shenzhen, Shantou, Zhuhai, and Xiamen. Hainan Island was opened as the fifth SEZ in 1984 when ‘open door’ economic privileges were also offered to fourteen coastal cities. This opening up was carried out while insulating the economy of the remaining region of the country, as a strategy for regional development and that too of the poorer southern coastal areas. The strategy adopted was liberalization in a gradual manner with SEZ as the vanguard of *market socialism*. Unlike South Korea and Taiwan, SEZ in China was of central political and economic importance. In 1981, China clamped a moratorium on further SEZs. Large scale foreign investment came in from Hong Kong, Macao and Taiwan to tap geographical proximity and economic advantages as wage rates. The 1987 Land Administration Law provided the country's first property rights with provincial governments, municipalities and SEZ's also empowered to create their own land regulations as long as they did not contradict the national legislation.

By the 1990s these export promotion zones became import processing zones with net exports barely 16 percent of gross exports due to the high import component. Property markets emerged by 1991 with administrative allocation of land and rise of a speculative market in land rights. Only less than half the land transferred was actually developed. The ‘Zone fever’ spread with the provincial and local government declaring special zones that the number was estimated from 6000 to 8700 zones covering 15,000 square kilometers, often in violation of national or provincial regulations that more than 1000 such zones were cancelled by the national government. Uncontrolled speculative spin-offs forced the government to impose restrictions on the construction of hotels, restaurants and commercial buildings. Economic and Technical Development Zones (ETDZ) and National Industrial Development Zones for New and Advanced Technology (NIDZNAT), smaller high-technology oriented zones, sprung up close to the cities numbering 54 by 2006. 5 million hectares of arable land were transferred to such zones between 1986 and 1995. By 1997 the government imposed a blanket moratorium on conversion of land-use across the country followed by a law in 1998 restricting conversion of agricultural land. The Hainan Development Bank that invested heavily in such zones closed down bankrupt. Some of the biggest public sector corporations faced financial crises and bankruptcies. The preferential tax treatment offered to investors are being removed and made uniform across the country. In Shenzhen, the biggest of all SEZs, a third of the workers received less than minimum wages and about half the firms owed workers wage arrears. Runaway pollution problems cost the country more than US$200 billion a year, roughly 10 percent of China's gross domestic product and pollution-related deaths is estimated at 750,000 annually.

India set up the first special EPZ in Kandla, Gujarat, as early as in 1965. Santacruz Electronics Export Processing Zone (SEEPZ) followed becoming functional in 1973. Four more zones were set up by the Central government in 1984 at Kochi (Kerala), Chennai (Tamil Nadu), Falta (West Bengal), and Noida (Uttar Pradesh). Another one was set up in Visakhapattanam (Andhra Pradesh). SEEPZ in Mumbai for instance transformed the labour-intensive jewellery industry with its cottage industry status to a highly mechanized modern industry accounting for 55 percent of the Indian jewellery exports in 2002-03. The unit established by Tata Group in partnership with Burroughs, an American company, in 1977 in SEEPZ saw the beginning of India’s export in software and peripherals. Citibank established a 100 percent foreign-owned, export-oriented, offshore software company in SEEPZ in 1985. The first private EPZ started operations in 1998 in Surat, Gujarat. All these eight EPZs, including the one at Surat, have since been converted to the new SEZ scheme.

Foreign Direct Investment (FDI) to the total investment in EPZ was a low at 16.7 percent. The share of EPZ in the country’s export was a mere 5 percent in 2004-05 accounting for 1 percent of employment in the factory sector and 0.32 percent of factory investment. All these indicate that the hype over EPZ has no basis as far as India is concerned.

EPZs were justified as necessary in order to overcome the often repeated shortcomings on account of the multiplicity of controls and clearances; absence of world-class infrastructure, and an unstable fiscal regime and with a view to attract larger foreign investments in India. The Special Economic Zones (SEZs) Policy was announced in April 2000 offering more lucrative incentives/benefits. During the period 1 November 2000 to 9 February 2006 SEZs functioned under the provisions of the Foreign Trade Policy with all existing zones being converted into SEZs. Statutes to formalize the fiscal incentives became operational subsequently.

The Special Economic Zones Act, 2005, passed by Parliament without much parliamentary debate in May, 2005 receiving the Presidential assent on the 23 June, 2005 supported by SEZ Rules, came into effect on 10 February, 2006. The Left parties opposed any relaxation of labour laws and insisted on the removal of two clauses in the Bill pertaining to the Central government's power to modify or withdraw the application of any law to SEZ's, and a clause empowering the State governments to withdraw application of labour laws in SEZ's which were amended by the Commerce Minister through amendments in Parliament. The debate over SEZ Act came up only with people's resistance that emerged subsequently.

The Act provides for drastic simplification of procedures and for single window clearance on matters relating to central as well as state governments for generating additional economic activity; promoting exports of goods and services, investment from domestic and foreign sources; creating employment opportunities; and developing infrastructure facilities. Single Window SEZ approval mechanism is provided through a 19-member inter-ministerial SEZ Board of Approval (BoA). The functioning of the SEZs is governed by a three-tier administrative set up. The Board of Approval is the apex body. Each Zone has an Approval Committee dealing with approval of units in the SEZs and other related issues. Each Zone is headed by a Development Commissioner, who is ex-officio chairperson of the Approval Committee. Once approved the Central Government notifies the area of the SEZ and units are allowed to be set up in the SEZ.

A whole range of incentives and facilities are offered under the Act including duty free import/domestic procurement of goods; 100% Income Tax exemption on export income; exemption from minimum alternate tax, Central Sales Tax, Service Tax and State sales tax and other levies, customs/excise duties, and dividend distribution tax; external commercial borrowing up to US$500 million in a year is permitted without any maturity restriction; provision of standard factories/plots at low rents with extended lease period, and infrastructure and utilities. Most taxes and cesses are not applicable to goods procured from the Domestic Tariff Area. The fifteen year income tax holiday consists of total exemption for the first five years, 50% for the next five years, and 50% on reinvested export profits for the following five years, while Developers get a 10 year 100% tax exemption. Electricity taxes and duties are to be removed for electricity that is to be used within the processing area.

The main difference between an EPZ and SEZ is that the former is just an industrial enclave while the SEZ is an integrated township with fully developed infrastructure. In addition, state governments also enacted their own SEZ laws, primarily to cover state subjects.

366 SEZs were granted formal approvals as on August 2007 covering a land area of 48,968.9724 hectares. Of this, 142 have been notified as on 24 August 2007 for an area of 18,933.83908 hectares. Further in-principle approvals have been granted for an additional 176 for 157,169.0131 hectares. The Ministry of Commerce claims that these zones would attract investment of about Rs 100,000 crores including Foreign Direct Investment (FDI) of US$5-6 billion creating 500,000 jobs by end of 2007. Total investment expected by end 2009 is Rs 300,000 crores creating additional 40 lakh jobs, by December 2009.

The critique of SEZ has largely been around the issue of land acquisition and its fall out in terms of how much land, what kind of land and the compensation package; but SEZ portends much more than these. There is also the anticipation that SEZs will take the country to unprecedented growth levels. Speculations are rife with cynicism alongside that these are misplaced. But what is not being recognized nor debated is that SEZ, more than an ‘economic growth model’, is more of a ‘governance model’ that gives almost full rein to capital, and that too predatory capital.

SEZ's will be notified as ‘industrial townships’ under Article 243Q of the Constitution which exempts them from the provisions of Part IX of the Constitution that provides for elected local governments. Instead, an industrial township authority is constituted with the same powers and duties as a municipal body. There would be no democratic local governance institutions in SEZs. The developer is to construct the zone and also be effectively in control of the local governance in terms of provision of infrastructure and basic services such as education, health, transportation and so on. The Development Commissioner, along with the Developer, effectively replaces local democratic institutions centralizing powers with every arm of the state such as public services, police, judiciary and local governance coming under the control of the Development Commissioner, the Developer and the Central government. This is evident from the three-tier governance system in place.

Unlike India, the so-called ‘success’ stories of Taiwan, South Korea and China have two important features namely, (a) in all these countries the EPZs/SEZs followed a thorough land reforms that effectively eliminated the feudal landlordism which in the case of India remain cursory and (b) EPZs/SEZs formed part of a national economic and development strategy of the countries as a whole whereas India expects the SEZs to be the engine of rapid transformation of the national economy and development. That these ‘successes’ came with its own baggage of acute problems as enumerated earlier is another fact. Together, what it portends is further economic and political crisis besides the social and environmental fallouts.

The incentives dished out to SEZs will create a tilted playing field between SEZ and non-SEZ investors. Given the incentives, SEZs, rather than start new initiatives, would simply attract existing enterprises to relocate themselves from the domestic economy to SEZs to avail of the incentives in order to maximize profits. This would amount to a mere shift in existing investment from the outside to the SEZs rather than new investments. Of the SEZs notified, IT/ITES constituted the bulk of them (66%) with single sector IT SEZ forming the majority. This is followed by Pharma/chemicals (7%) and Textiles/Apparel/Wool (4%). It looks that the relocation process is in effective swing as can be noticed by the exceptional number in the IT sector. The government in November 2006 itself decided to stop further in-principle approval of IT SEZs. The Software Technology Parks Initiative, the main scheme is also scheduled to end by 2009. The majority of SEZ investment is from the private sector. Real estate sector applicants form the majority in the private sector followed by IT companies forming nearly three quarters of non-public sector approvals. IT and multi-product SEZ's, form the bulk of all applications by real estate companies. Real estate development rather than export generation is a factor to reckon with.

Further, with strains emerging, the removal of the imposition of duties on sales of products in the Domestic Tariff Area would result in the entry of SEZ units into production for the domestic market with its damaging effect on the competitiveness of existing production outside SEZs for the domestic market. This portends closures of industries and resultant unemployment outside the SEZs.

With favoured position and pampering along with relaxation of regulatory mechanism, SEZs could become the hub of economic offences. For instance, the 33rd Report of the Parliamentary Standing Committee on Finance found that showcause notices had been issued for more than Rs. 3,400 crores between 2002-2003 and 2004-2005 for fraud in export oriented units (EOU's) and some other export schemes.

The establishment of SEZs, and a large number of them, requires substantial land to be acquired or purchased by developers. About 2 lakh hectares are required for establishing the approved and in-principle approved SEZs. The notorious Land Acquisition Act 1894 has been used to acquire lands in many cases whether the developer is a public sector or private sector, at a price well below market prices not taking the dependants of the land as an affected party in the acquisition normally. Land can be acquired under this Act only for 'public purpose' which are defined in Section 3(f) of the Land Acquisition Act and does not include companies. However, the judiciary has deftly reinterpreted the law to say that once the government has acquired a land, the government can sell, dispose or transfer rights of its land at will to whomsoever it wants to, irrespective of the original intent of acquisition. In effect, land acquisition by the State has made a decisive shift from 'public purpose' to also 'private profit'. But with militant resistance, the developer purchasing land directly from the owner without the mediation of the state is a proposed remedy.

Acquisition of prime agricultural land became a major issue with all its serious implication which is now attempted to be restricted with restriction of acquisition on single crop agricultural land alone beside waste and barren land. Double cropped agricultural land, if necessary, is to be limited to 10 percent of the total land. More over such areas have powerful farming interests and is at the heart of agricultural economies. That the category of waste and barren land most often constitute survival resource base for the most marginalized in vast numbers is ignored. Land acquisitions, or alternatively land purchases, are therefore to increasingly focus on the marginal and tribal areas. Official rehabilitation schemes rarely work satisfactorily, be it by the state or the private sector. However, holding the state responsible is easier than the private purchaser in a democracy. The proposition to take the land on lease is also floated to ostensibly ensure permanent income to the oustees.

The lands are invariably located in close proximity to raw materials, urban centers and transportation facilities. At least 35 percent of the acquired land is to be used as processing area while the rest could be for residential, and recreational facilities. The acquisition bypasses and belittles local self-governance institutions of the panchayats. The SEZs moreover become the nodal points for speculation fuelling large scale real estate activities around the Zones with the emergence of powerful land mafias in connivance with authorities to dispossess people of their lands in the surrounding areas driving land prices up within SEZs and around it. The attraction to SEZs is likely to vanish in due course defeating the main attraction of low cost SEZ. Almost as though recognizing this reality, the Reserve

Bank of India has asked the banks to treat *SEZ lending as real estate business and not infrastructure*.

SEZs will aggravate regional disparities. Over three-quarters of all approved SEZs are located in six States–Andhra Pradesh, Gujarat, Haryana, Karnataka, Maharashtra and Tamil Nadu. Maharashtra and Andhra Pradesh alone account for more than a third of all approvals. These states are all relatively well developed States with high industrial capacity. These are also highly urbanized with the partial exception of Maharashtra. Obviously, investment is channelised to areas of high levels of industry and investment which further propels these states to showcase their 'success' further.

Employment to the tune of 5 lakhs to as much as 40 lakhs is bandied about officially by the Ministry of Commerce. As indicated earlier, relocation of industries from outside to the SEZs to take advantage of the relative advantage would simply mean mostly the translocation or migration of existing labour than generation of new employment.

The working conditions, in the context of the relaxed application of labour laws, could continue the turn-over rate of 30% or 40% seen in the erstwhile EPZs. Labour abuse and violence in EPZs has led to consumer movements in the US for instance, demanding multinationals to respect labour rights. Workers are told that they could not organize trade unions because of the 'zone' status which are declared public utility services, a designation under the Industrial Disputes Act, 1947. Labour inspectors are reportedly issued orders by the Commerce Ministry not to visit the zones without prior permission from the Ministry. There is also the unemployment caused due to land acquisition or change in land use in and outside SEZ. The long term impact such as impact of pollution and change in land use in the surrounding areas could be colossal if one is to go by past experience.

The loss to the government on account of SEZ is incredible. In 2004 –2005, the government already incurred a loss of Rs. 41,000 crores – a staggering 72% of customs revenues and 23% of total indirect tax revenue of any kind. The Finance Ministry estimates that Rs. 1.75 lakh crores will be lost over the next five years.

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