



TRUSTED  
SOURCES

# Fresh start for SEZs

Trusted Sources > India > Infrastructure

19 Apr 2007

## Overview

India has announced that it will re-launch serious development of Special Economic Zones to stimulate growth after a temporary halt to the programme earlier in the year. But policy may yet change again, and the SEZs are now looking less and less like the Chinese model they were meant to emulate.

Companies have been scrambling to take advantage of the benefits. But there has been strong political and social opposition to the policy, with concerns ranging from tax evasion and revenue loss to compulsory land acquisition and rehabilitation of farmers. This reflects broader problems with policy initiatives to liberalise and modernise India's economy.

**Shumita Sharma Deveshwar**, Director of India Research, +44 203 006 3102

## Context

The April policy review should help SEZs finally take off, but controversy remains.

## Public Judgements

A new lease of life for SEZs

- > **Times of India**, Editorial
- > **Confederation of Indian Industry**, Lobby group

But policy hurts SEZ growth.

- > **Nikhil Gandhi**, Chairman, Sea King Infrastructure Ltd.
- > **Vivek Mehra**, Executive Director at PriceWaterhouseCoopers  
And is vulnerable to change.
- > **Anand Jain**, Head of SEZ Group at Reliance
- > **Kamal Nath**, Commerce Minister

## Wrap

Controversy does not help reform and frightens farmers, but reflects broader Indian process.

## Context

---

After a lull earlier in the year, the SEZ policy was revised at the beginning of April in the hope that the development of the zones will finally begin in earnest. But the zones are looking less and less like the Chinese model they were meant to emulate. For instance, planners have stipulated that the area of a SEZ can not exceed 5,000 hectares, or a little over 19 square miles. In comparison, China's Binhai New Area is spread over 880 square miles of land and 1,150 square miles of territorial waters.

Policymakers want to develop SEZs their "own way". Instead of going for big Chinese-style zones, the idea is for hundreds of developers to set up individual areas where they will be able to side-step administrative bottlenecks, import raw materials and capital goods at zero duty and benefit from simpler banking norms.

Companies have been scrambling to take advantage of the fiscal and other incentives. Reliance and DLF have announced multi-billion dollar plans. At the start of April, 63 zones were functioning under the SEZ Act 2005, with another 171 awaiting the final go-ahead. Several hundred more are pending. A developer involved in gems and jewellery, biotechnology or information technology can apply for an SEZ status for an area as small as 0.4 square miles. So far, most developers for the bigger, multi-product SEZs have applied for between four to ten square miles.

But even these projects have run into all sorts of trouble. Most recently, farmers protested against land acquisition for such a zone in West Bengal, leading to violent clashes in March and the death of 14 villagers after police opened fire. The state government was forced to scrap the planned 16 square-mile Nandigram industrial hub, 90 miles south of Kolkata. There have been demonstrations across the country. Not all the protesters own the land on which the zones are being built; but they depend on farming it for their livelihood.

Commerce Minister Kamal Nath, one of the biggest proponents of SEZs, said in early April that a group of ministers has decided to limit their size to 5,000 hectares. Land will have to be bought directly by developers without government intervention. To avoid SEZs being used as real estate investments and to drive export growth, developers will have to use half the area for manufacturing.

These decisions revise earlier changes agreed after heated discussions. For instance, the 2005 Act on SEZs said 25 per cent of the land for multi-product SEZs should be used for processing; this was then raised to 35 per cent in 2006 - and to 50 per cent now. Last year, after the Congress President, Sonia Gandhi, said farmland should not be used for non-agricultural purposes, the Commerce Ministry asked state governments to ensure that prime agricultural land is not handed over to SEZ developers. Protests in January by farmers in Nandigram prompted the government to stop any new approvals for SEZs until the resumption this month.

Despite the repeated policy reviews, widespread criticism of the SEZ idea persists even though the Commerce Ministry estimates that investment in them will reach at least \$13 billion in the next two years, creating 1.5 million additional jobs. Most commentators believe size constraints will result in the development of sub-scale SEZs, defeating the aim of using them to improve infrastructure.

State governments have been acquiring land for industrial use for several years. In states such as Tamil Nadu, there have been few disputes as most large SEZs have been built on land previously acquired by local governments for industrial purposes. The average farm size in India is a mere 1.6 hectares, according to the Food and Agriculture Organization. Without government assistance, private developers will have a tough time putting together a critical mass from these fragmented holdings. Other issues, such as access to water, have not even been addressed.

## Public Judgements

---

### A new lease of life for SEZs

**Times of India**, editorial. The new rules seek to address problems of land acquisition, use and rehabilitation, while remaining firm on tax incentives. A combination of firmness and flexibility will help take the process forward.

**Confederation of Indian Industry**. The announcement of the new policy is a "welcome step" towards ending the ambiguity about the future of SEZs.

### But new policy hurts SEZ development

**Nikhil Gandhi**, Chairman of Sea King Infrastructure Ltd., an SEZ developer, to Business Standard newspaper. If India wants more investments, then more land has to be made available. Prolonged debate and frequent policy changes leading to delays is making SEZs costlier.

**Vivek Mehra**, Executive Director, PricewaterhouseCoopers in Business Standard. The government has been acquiring land for industrial development for decades but has been barred from acquiring land for SEZs. He hopes this discrimination will end.

### And is vulnerable to change

**Anand Jain**, head of the SEZ Group at Reliance on NDTV news channel. The new rules are not final as policy is still evolving. They are an instant reaction to the Nandigram incident. Reliance plans to build two of the biggest SEZs of more than 5,000 hectares.

**Kamal Nath**, Commerce Minister quoted by the Press Trust of India. The government will review the ceiling in certain conditions if there is no controversy.

## Wrap

---

While policy changes have put developers on the back foot, there is some sense of relief that the SEZs can now proceed. However, a degree of uncertainty persists over the policy, and recent statements indicate it has still not taken final shape.

Such controversies over efforts to industrialise do little to build consensus for further reform. Rather they give ammunition to the leftist and the anti-industrial lobby to oppose liberalisation. They also increase fear of modernisation among farmers, potentially fuelling political instability. Frequent policy changes deter investment as businesses get conflicting signals.

The approach to the SEZ policy is typical of Indian policymaking, and is also probably the price that has to be paid for such a large democracy.

## Contact us

If you would like to discuss any of the points made in this note, or ask further questions, please feel free to contact the authors:

**Shumita Sharma Deveshwar**, Director of India Research  
ssd@trustedsources.co.uk  
+44 203 006 3102