Special Economic Zones

India's Land Scams Hurt Poorest the Most

by Ramtanu Maitra

In 2006, the Manmohan Singh-led United Progressive Alliance (UPA) government gave birth to a new scam to rob the poor, and to make money for the rich and the government: Special Economic Zones (SEZs). At the time, it was touted as a yet another great economic discovery to modernize India and emulate China's rate of growth of GDP.

Two years later, the policy has been recognized as exactly what it is—a free-trade looting operation. Nevertheless, the government untiringly continues to appease those who can generate foreign exchange, thus making India's economic future increasingly dependent on Western consumption and the financial directives of Wall Street and the City of London. And so, on Feb. 25, despite strong opposition from many against the Special Economic Zones, New Delhi granted formal approval to ten more SEZs.

The one thing that stands out in this organized scam, is that both New Delhi (under the advice of the Washington "consensus") and the so-called Communists of India, who have ruled the eastern state of West Bengal for a donkey's age, have identical goals and have been carrying out the policy with no holds barred.

This grand land scam began when the present government, mesmerized by China's foreign exchange growth, began copying in full earnest the "China Model," to make India a money generator—for some. Their objects of emulation were China's huge, city-size special export zones.

India's late Commerce and Industry Minister, Murasoli Maran, was the one who got "inspired" by what he saw in China. Later, his successor, industrialist-politician Kamal Nath, promoted the SEZs as a means to create oodles of foreign and domestic investment, which would bridge the gap between China and India in infrastructure and exports, and create "massive employment opportunities."

When it was pointed out to him that India does not have as much land as China, Kamal Nath agreed: "India will have a very India-specific model, as we do not have large lands available." The model that the government has adopted has given rise to large-scale demonstrations by the farmers in the states of Maharashtra and West Bengal. On at least one occasion, the state government resorted to shooting and killing farmers in order to push ahead with the SEZs.

It is important to note that the SEZs have not impressed all

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Women harvesting rice in India. India's government has ignored the plight of its 900 million rural poor, expropriating productive agricultural land for what it perceives as "high-yield" Special Economic Zones.

of the UPA government's partners. Mrs. Sonia Gandhi, chairman of the Congress Party, has publicly commented about the ill effects of the SEZs on poor farmers. On Sept. 21, 2006, she said, "Prime agricultural land should not normally be diverted to non-agricultural uses," and she called for satisfactory compensation to be paid when land was taken over. Also, the Reserve Bank of India, India's central bank, has told the banks that investments in SEZs must not be considered as investments in infrastructure, but in "real estate."

Bad Economics, Bad Attitude

The government went for the scam for two primary reasons. The first is tied to the government's abysmal policy of generating growth without "wasting" money developing infrastructure in rural India. Basic physical infrastructure in India, such as power, clean water, and fast transportation (not to mention primary education and health care), has remained so dilapidated that investors, foreign and domestic alike, got dispirited and began to move away.

Manmohan Singh and his partners-in-anti-poor-economics believe that investment in infrastructure in rural areas is not "profitable." The reason that the returns are slow, is that the almost 900 million people who reside in India's rural areas are not productive enough to generate the loot that the urban, educated Indians rake in, given the present global context. Therefore, "wasting" money by developing infrastructure in rural areas is "bad economics," according to Manmohan Singh's version of Economic 101.

The other reason that Manmohan Singh and his economist co-thinkers all. went for the scheme, is that they think it makes sense to procure undeveloped land for a song from poor farmers, and hand it over to the industrialists, along with hefty concessions. These industrialists, or IT providers, will get a tax holiday for a few years and, in return, will develop "captive infrastructure," which would be adequate for their industries, and for the productive people who would reside there.

In other words, in New Delhi's book, "good" economics in a land teeming with poor and farming people is to create self-contained enclaves of a few square miles where infrastructure, developed by the industries, could be on the level of developed nations. The author visited one of those places, replete with Pizza Huts and McDonald's in Bangalore, although getting to the industrial park from the city is a nightmare.

Prior to the SEZs, Indian authorities had export processing zones (EPZ). These EPZs came into existence after the 1991 reforms, which were presided over by Manmohan Singh in his earlier incarnation as finance minister, when the reforms did not result in a sustainable growth in manufacturing. In the late 1990s, to give the manufacturing sector the proverbial leg-up, the government reverted to EPZs, promising that they would act as "engines of growth" to propel the manufacturing sector.

But the so-called engines of growth did not do much, and later their failure was blamed on many shortcomings, which the SEZs are now supposed to adequately deal with. The EPZs were small industrial estates. In contrast, the SEZs are industrial townships, which provide supportive infrastructure such as housing, roads, ports, and telecommunications.

The scope of activities undertaken in these SEZs, therefore, is much wider, and their linkages with the domestic economy are stronger. At the same time, there are commonalities between the SEZs and the EPZs. Both have a delineated area and permit duty-free import of capital goods and raw materials. Both aim to attract foreign investment for setting up export-oriented units, by providing developed infrastructure, along with a package of fiscal incentives. However, the objectives of SEZs are much larger than mere promotion of export-processing activities.

By the end of the last century, New Delhi was enthralled with the success of Chinese SEZs, which were making money hand-over-fist, by shipping out every last shred of consumer goods to American buyers. Lured by the prospect of similarly making money, New Delhi replaced the EPZ scheme with the SEZ scheme in 2000. Under the new scheme, all existing zones were converted into SEZs. However, the real direction to the SEZs came five years later, with the enactment of the SEZ Act of 2005.

Lots of Government Giveaways

The 2005 SEZ Act offered industrial firms a highly attractive fiscal incentive package, which ensured:

1. Exemption from custom duties, central excise duties, service taxes, central sales taxes, and securities transaction taxes, to both the developers and the existing units.

2. Tax holidays for 15 years (currently the units enjoy only a 7-year tax holiday). This means a 100% tax exemption for five years; 50% for the next five years; and 50% of the ploughed-back export profits for the next five years.

3. A 100% income tax exemption for ten years, out of a block period of 15 years, for SEZ developers.

The problems with this approach are multifold. The sectoral breakdown of SEZ approvals shows that the largest number of approvals (61%) has been in the IT sector, where non-skilled jobs are few in number. On the other hand, although the Manmohan Singh government had told the Indians that the share of manufacturing SEZs in principle would be 69%, in reality, manufacturing accounts for only one-third of the total approvals. Thus, although the availability of non-skilled jobs was assured to the farmers before their lands were bought up by the government, the number of such jobs generated by these SEZs was many fewer than promised.

Then, there were other structural problems for the SEZs that were overlooked in the emulation of China's program. To begin with, in China the landholder is the government. As a result, the government can hand over its land, agricultural or otherwise, to the export-promotion zones and the land still belongs to the government; the government just changed the activities that were taking place on its land.

In the case of India, the land belongs to the farmers, many of whom are poor. The government yanked away a chunk of their land, paying them a price which, more often than not, was less than prevailing market price. At the same time, the sale put the farmers out of their livelihood.

After procuring the land, the same government turned around and handed over the procured land to a number of large industrialists at a considerable concession. The farmers consider this as a criminal act, and rightly so. To them, and others as well, the SEZs are a blatant land grab, carried out by New Delhi on behalf of big business. It is also understood that without the help of New Delhi, big business could not have organized the purchase of land of that size and at that price.

There is yet another element which makes the government's deals downright suspect. In most cases, the procured size of the land is often much larger than what the industry actually needs. This raises the possibility that the industrial firms involved have something else on their minds. For example, some critics point out that the SEZ Act of 2005 cannot prevent the industrial firms within the enclave from relocating their now tax-paying facilities outside the enclave, to the tax-free

Advertisements for India's Special Economic Zones, which are actually free-trade looting operations. robbing India's poor to make more money for the rich, and the government.

space inside the enclave, to enjoy the tax holidays and other benefits that the SEZs offer.

Since the Reserve Bank of India has advised banks not to define investment in the SEZs as investment in infrastructure, let's look at exactly what kind of infrastructure will be developed in these SEZs. According to the SEZ Act, provisions have been made for 1) the establishment of free-trade and warehousing zones to create world-class, trade-related infrastructure to facilitate import and export of goods aimed at making India a global trading hub; 2) setting up offshore banking units and international financial service centers; 3) public/private participation in infrastructure development; and 4) setting up an "SEZ authority" in each central government SEZ for developing new infrastructure.

Hopelessness—and Violence

As a result of this highway robbery committed by New Delhi and the involved states, all under the cover of industrializing and modernizing India, violence has erupted in many areas where land was grabbed from poor farmers. These land grabs are occurring in an environment where the UPA government is correctly perceived to be blatantly anti-agriculture, anti-farmer, and anti-poor. It is no secret that the Indian agricultural sector, where almost 60% of India's workforce is located, has been ignored for years. The growth rate in this vital sector over the last decade was less than 2% annually, on average. This is in contrast to the 8-9% overall growth of India's GDP.

More than the sheer poverty, there is an increasing sense of hopelessness stalking India's rural land. Thousands of angry poor have become militant, and violent Maoists are operating in a number of states of India.

While New Delhi tends to underplay the growing menace of the Maoists in at least seven states (Bihar, Jharkhand, Madhya Pradesh, Chhattisgarh, Orissa, Andhra Pradesh, and Karnataka), blaming the violence instead on misguided youths, what even the UPA authorities with their eyes closed cannot ignore, is the high level of suicides among Indian famers. In the state of Maharashtra alone, more than 800 farmers committed suicide in 2007.

The land grab is further weakening India's already fragile security. One of the fiercest battles is being fought over a proposed SEZ at Dadri, in western Uttar Pradesh. Here the Reliance Energy Group (REG) plans a gas-based 3,500-megawatt plant. The plant will not be located on wasteland, or marginal land, but on agricultural land considered to be some of the most fertile in India! REG has acquired more than 2,100 acres of this land, and is aggressively pursuing the acquisition of another 400 acres in the surrounding seven villages. Experts point out that 700-800 acres would be sufficient to situate the plant. Meanwhile, the farmers to whom the lands belong were reportedly unaware of the REG "acquisition" until the foundation stone for the plant was unveiled.

When the farmers demonstrated against this surreptitious land grab, the Uttar Pradesh Provincial Armed Constabulary was deployed, and over two days, July 7-8, 2006, clashes occurred between the farmers and armed constabulary, causing injury to many, including women, disabled, and old people.

Is the British East India Company Back?

The state-owned land was allocated to REG on a renewable lease for 99 years, at minimal cost, but the forced acquisition of private land was to be paid for by the company. The state government went about acquiring agricultural land under the Land Acquisition Act of 1894.

This 1894 Act was developed by the British as an amendment to an 1824 Act established by the British East India Company. After the withdrawal of the British, and India's declaration of independence in 1947, this Act was given a second look by the Indian Parliament, but the amendment that followed was nominal.

The Act says that the central government or the state government is free to acquire land for a non-state body, such as a company, as the Communist government in West Bengal did for the Tata Motors factory in Singur. The Act specifies that the government has to give notice to the owners of the land and compensate them according to the "market value" of the property. The owners can challenge the acquisition, but the government can overrule them on the grounds of "public purpose." Once the deal is done, the acquisition itself cannot be questioned. The former landowners can only challenge the compensation decided by the government. In case of urgency, the Act allows the government to acquire the land without waiting to hear any objections to the acquisition.

This imposition willy-nilly of the British-instituted land acquisition act, which was designed for the British to run their colony, is being interpreted as a forced acquisition of land.

In the Raigad district of Maharashtra, the state government has served "acquisition notices" on some 20 villages with 1,200 farmers, to make way for the Mumbai Special Economic Zone, which is to be developed by the Reliance Group. This land is particularly valuable to the farmers because of the promised (but not delivered) irrigation water from the 1980 Hetwane Dam project. Now the state government is forcibly buying the land for a pittance, even though its market value is expected to jump more than 15 times when rezoned.

Because of the callous approach of the state of Maharashtra to its farmers, who are in dire straits, thousands of farmers are demonstrating against the 10,120-hectare SEZ land-acquisition by the state government. Of the total, 5,720 hectares are irrigated by the Hetavane Dam, and "large tracts belong to the saltpans or wetlands, mangrove" essential to "carrying capacity and sustainability of this area." The company plans to use this area for manufacturing, trading, services, processing, logistics, repacking, warehousing, and so on.

In the state of West Bengal, ruled by the Communist Party of India-Marxist (CPI-M), the state government, approved by the Cabinet, has invoked the colonial Land Acquisition Act of 1894 to acquire 43,028 acres of land, mostly agricultural, in different parts of the state. At Singur, near Kolkata, 1,253 acres is planned to be acquired to set up a small car factory for the Tata group. Another 2,000 acres will be procured, also near Kolkata, to set up a private factory for two-wheel vehicles.

In addition, the West Bengal state government has already signed an agreement with a consortium led by the Indonesia-based Salim Group to set up the largest real estate development project in the state, on nearly 40,000 acres of farmland. The Salim-Bengal Project includes a chemical SEZ on 10,000 acres in Nandigram, as a joint venture, and a multi-product SEZ on 12,500 acres, near Kolkata.

But both the Singur and Nandigram land acquisition projects have run into local opposition. On Aug. 22, about 5,000 Singur farmers encircled and trapped the local office of the block development official, and delayed the hearings with claims and objections to the acquisition of land for the Tata Motors factory. The farmers tried to prevent officials from proceeding to the area, and then boycotted the hearings after the officers were able to reach the area under police escort.

Throughout 2007, tensions over control of land in Nandigram led to violent incidents between supporters of the ruling Communist Party of India-Marxist and the farmers. Protesting villagers blockaded the Nandigram area to oppose a government plan to acquire land for industry. Instead of responding appropriately to violations of the law by protesters, the authorities appeared to treat the protest as a challenge to the CPI-M, and used excessive force against the protesters, resulting in at least 30 deaths, injury to hundreds, and eviction of thousands from their homes.

In November 2007, CPI-M supporters and armed thugs forcibly ended the blockade. In retribution for the protest, they attacked villagers who had supported the protest, burned down their homes, threatened further violence if villagers went to the authorities, and humiliated them by compelling them to join CPI-M rallies.

By contrast, the tiny state of Goa by the Arabian Sea has dealt a firm blow to the land grabbers. It is the first state in India to declare that no more SEZs would be set up there. The struggle against SEZs in Goa has been led primarily by the educated middle class and professionals. Begun in early December 2007, the anti-SEZ campaign reached a fever pitch by mid-January 2008. Almost the entire state, including members of the political establishment, villagers, the churches, and the media stood united in their demand for scrapping the SEZs. Finally, the state government was forced to cancel all approved SEZs and recommend de-notification of the not-yet-approved SEZs by the central government.

One Indian analyst said that if one were to sum up the SEZ policy in one sentence, it could perhaps be this: The policy fails on every count, economic, political, and historic; and, most of all, it fails the test of social and political justice, by promoting a policy which hurts the neediest the most.