People Power

SEZs and Stakes for All

The government's announcement of review of the policy on rehabilitation of land-losers in SEZs indicates the complexity and contention involved in land utilization and industrialization in a densely-populated, poor country like India.

Two major criticisms have been leveled about SEZ policy. The first is that the government should change the overall policy and legal environment to promote economic activity, instead of creating islands which are free from regulatory obstacles. This is a valid point in principle. But in a vast and diverse democracy, changing the policy and legal environment for the whole country is easier said than done. Such far-reaching changes, however desirable, are time-consuming, and involve painstaking negotiations and long-term engagement to build a consensus. Therefore, the short-term booster to economic investment through SEZs is a sensible policy tool, provided it presages long-term change of investment climate.

The second criticism in that the incentives offered are excessive and inequitable, and will entail revenue losses. A closer examination shows that SEZ incentives are largely the same as those available to export-oriented units. The one exception is SEZ units can participate in trading activities. It makes sense that these economic incentives should be uniform throughout the country, while other policy and regulatory incentives will, of necessity, be applicable to notified SEZs for the time being. The loss of revenue on tax-incentives is notional, and the argument that the additional investment growth and jobs will more than offset this revenue loss is reasonable.

In addition to these policy issues, there are five operational issues which need to be addressed immediately. First, what kind of land should be acquired for SEZs? The government policy is both fair and reasonable. The government says that mainly waste and barren land and, if necessary, single crop agricultural land alone should be acquired. Location-specific industries (port-based etc) may sometimes require valuable agricultural land. Otherwise, the stated policy should be strictly enforced. The claim that loss of cultivable land will undermine food security is exaggerated. Conversion of 100,000 ha of land, or even more in future, would reduce farm land by less that 0.1 percent. With the decline in share of agriculture in GDP, greater industrialization and shift of occupations are both necessary and inevitable. India cannot continue to be a largely agrarian economy if we harbour ambitions of rapid economic growth and global power status.

Second, should land for SEZs be bought on market principles or acquired by compulsion through state power? The land acquisition law and past precedents do permit the state to acquire land for a company for a 'public purpose', and industrial growth does qualify as public purpose. If needed, the law can be amended to make it more explicit. But as a rule, it is preferable to encourage private purchase through market mechanisms including negotiations and bidding. However, there are occasions which warrant state intervention.

For instance, a recalcitrant owner of one critical but small piece of land can thwart the whole project by demanding abnormal price or refusing to sell; or a location-specific industry needs land which owners are unwilling to sell. In such cases, land acquisition may be the last resort, and even then fair price should be fixed through negotiations rather than depending on registered sale deeds (declared sale prices are often undervalued to avoid stamp duty or conceal black money).

Third, how do we ensure that land losers have stakes in SEZs? Mere 'compensation' at current market prices is insufficient when the asset value would appreciate significantly. Land losers suffer the heart burn of relative deprivation as the values skyrocket, and their neighbours benefit from their sacrifice. One elegant and equitable solution would be to treat part of the land as equity in the project. In addition to the normal compensation, the land owner could have right of owning a part of the developed land in the SEZ. This could be about 10% in industrial projects, and 20% in infrastructure projects. With huge real estate boom, even 10-20% of the land would fetch the owner multiple returns relative to the original compensation. Such equity stakes will make SEZs attractive to the land losers.

Fourth, the displaced persons need to be imparted skills necessary for wealth creation, and absorbed in the projects coming up in SEZ as far as practicable. In 1985-86, a massive project was undertaken to train 8000 youngsters in displaced families of Visakhapatnam Steel Project (Now RINL), and all of them are now productively employed. Until that training, the displaced persons sought employment without skills, and the project officials could not engage that many peons and messengers in a modern steel plant! A national programme of skilling unemployed youth is overdue in any case, and SEZs should be the starting point. Once SEZs provide local employment, much of the resistance will disappear.

Finally, how do we integrate SEZs in the local governments, even as their autonomy is assured? In AP, in 1996, the industrial infrastructure corporation created a viable and successful model. The local entrepreneurs were handed over the management of the industrial estate, and were given the authority to raise service charges ('taxes') from the units/plots in the area. An agreement was concluded between the local government and the industrial estate, transferring 30% of the taxes raised to the municipality. In effect, the industrial township subsidized the municipality while quality of services and local autonomy were protected. Such an innovation would be ideal for SEZs.

There are bound to be some losers in any growth process. But with sensitivity, openness and innovation, we can create stakes in growth for all groups.

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