

Sustainable Operation of Special Economic Zones in India:
A Comparative Study of Maharashtra and Goa

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Thesis submitted to the faculty of the Virginia Polytechnic Institute and State University
in partial fulfillment of the requirements for the degree of

Master of Arts
In
Political Science

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October 4, 2013
Blacksburg, Virginia

Keywords: INDIAN SPECIAL ECONOMIC ZONES, FOREIGN DIRECT
INVESTMENT, DE-NOTIFICATION, SUSTAINABILITY

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ABSTRACT

In 2005, the Government of India (GoI) introduced the Special Economic Zone (SEZ) Act, which changed the way India attracted foreign investors who wanted to utilize the country's natural and human capital. Considerable scholarly literature has examined why investment has been located in particular areas of India and described the factors that contribute to *initiating* economic growth. Yet the observation inspiring this research was that some states have *operational* SEZs, while other states with approved SEZ plans see investors retreat from their commitments. Why do some states have operational SEZs and other states do not?

Focusing on the states of Maharashtra and Goa, this study explored information about the de-notification of zones in *both* states, leading to an examination of whether the factors that contributed to de-notification in Maharashtra were similar to those keeping Goa from having operational SEZs. I hypothesized that land acquisition practices, lack of physical infrastructure, and poor social infrastructure were key factors contributing to Maharashtra's de-notification *and* to Goa's struggle to create operational zones. The findings suggest that in order for SEZs to remain operational, comprehensive legislation must be put in place that addresses land rights, job training, and general education. Such a change would allow the residents in each state to participate more in the SEZ development scheme while mitigating India's endemic poverty.

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ABBREVIATIONS

AC	Approval Committee
ACB	Anti-Corruption Bureau
ASSOCHAM	Associated Chambers of Commerce and Industry of India
BoA	Board of Approval
DC	Development Commissioner
EIA	Environment Impact Assessment
FDI	Foreign Direct Investment
FIPB	Foreign Investment Promotion Board
GDP	Gross Domestic Product
GIDC	Goa Industries Development Corporation
GoI	Government of India
HDI	Human Development Index
IMF	International Monetary Fund
MEDC	Maharashtra Economic Development Council
MPCB	Maharashtra Pollution Control Board
MoEF	Ministry of Environment and Forests
NEIIP	North East Industrial and Investment Policy
NFE	Net Foreign Exchange
PPP	Public Private Partnership
SEEPZ	Santacruz Electronics and Export Processing Zone
SEZ(s)	Special Economic Zone(s)

DEFINITIONS

CRORE	Equates to 10 million
HECTARE	10,000 square meters; equates to approx. 2.47 acres
LAKH	Equates to 100 thousand

Chapter One: Introduction

At a time when the global economy is experiencing difficulties with its inter-connected financial markets, India is one of the most important cases of a nation-state's attempt to curb a downward recessionary spiral. In 2005, the Government of India (GoI) initiated a national economic plan that began the largest liberalization scheme that the country had undertaken since independence. The Eleventh Five-Year Plan between 2007 and 2012 dominated all economic policy, as it aimed to create a trading environment allowing foreign investors to more easily produce and export goods and services while mitigating India's endemic poverty.¹

Soon in American newspapers one could read how India's economy was growing at a faster and stronger pace:

India is now growing faster than most other economies in the world, and is close to rivaling China, whose emergence as a manufacturing center has left India racing to catch up. Now, with the government working to ease regulatory burdens for business and to upgrade the country's patchy infrastructure, Indian factories are roaring ahead. Manufacturing output was 11.3 higher in the second quarter of 2006 than in the same period in 2005, exceeding even the performance of India's services sector, including its booming software and call-center businesses (Giridharadas, "India Economy Grows," p. 1).

However, beginning in late 2011 and into 2012, articles spoke of India's economy not reaching projected growth rates. Aside from India's economic "reforms" not making headway, the reports appeared less optimistic about India's general economic outlook:

India is often viewed as a rising global powerhouse and, not too long ago, Indian officials were predicting growth rates of 9 percent or higher. The Obama administration, eager to tap into such a booming market and envisioning India as a regional counterweight to China, trumpeted the United States-India partnership. Some analysts even saw the global

¹ See "Falling Economic Tide in India Is Exposing Chronic Troubles" at: http://www.nytimes.com/2013/09/05/business/global/indias-falling-economic-tide-exposes-its-chronic-troubles.html?pagewanted=all&_r=0 (Bradsher, 2013).

downturn as an opportunity for India, making it more attractive for foreign investors wary of putting money into declining advanced industrial countries. India is desperate for investment in mining, roads, ports, urban housing and other areas, but Indian businesses and foreign investors are starting to shy away....The trend accelerated in recent months after the Finance Ministry, trying to stem a rising budget deficit, proposed a raft of new taxes on foreign institutions doing business in India (Bajaj and Yardley, "India's Economy Slows," p. 1).

The central concern of this thesis is to explore the effects of one specific economic reform: special economic zones (SEZs). An SEZ is “a geographical region that has economic laws different from a country’s generally applicable economic laws....Globally, establishment of SEZs [has] revolved around achieving” similar objectives spurring economic growth (*MEDC*, 2008, p.8). The GoI conceived of and employed SEZs, which create economic relationships between state governments and private foreign investors. The public private partnerships (PPP)² that have emerged demonstrate increasing reliance on private, foreign entities to create, supplement, and extend vital physical and human capital resources to alleviate poverty.³

The SEZs followed an extraordinary shift in economic policy that began in 1991: India moved from a strictly national controlled economy to one that is more open and market-oriented. This shift was marked most notably by:

The constraints to rapid growth...were the low rate savings, poor productivity in the agricultural sector, and the very limited industrial development in the economy [...].The choice then was essentially between the government or private industrialists as the implementers [...].As the public sector lacked the resources for investment...greater reliance had to be placed on the private sector (Frankel, 2006, pp. 94, 95, 96).

² “Public Private Partnership (PPP) means...the role of the public sector gets redefined as one facilitator and enabler, while the private partner plays the role of financier, builder [and] operator of the service or facility” (*Business Knowledge Resource*, 2011, p. 8).

³ See a summary of SEZ policy intentions at: <http://www.sezindia.nic.in/about-introduction.asp> (2009).

Paired with the decision to allow more private investment and control of production in India, a noticeable transformation at the nation-state level began to take shape: “[...] one of the fundamental reasons for increasing regional divergence is that state capitalism, which in the pre-reform period followed a logic that was not entirely driven by efficiency,” was replaced by the profit maximizing goals of the private sector in India (Chakravorty, 2003, p.366). Thus, the ongoing relationship that the GoI formed with the private sector, with the intention of encouraging economic growth in all Indian states, only amplified the differences that have characterized India since the 1960’s (Frankel, 2006, p.93). The SEZs that have become operational are far and few between, as the evidence in Chapter Two illustrates.⁴

This thesis sought not only to describe the uneven location of operational SEZs, but also to explore the factors contributing to the difficulties with SEZ *sustainability*, specifically in the states of Maharashtra and Goa. The first goal emerged during preliminary research about the location of operational SEZs in the states of India; Chapter Two includes a map that shows where operational SEZs were located in 2010-2011. The second goal surfaced unexpectedly when I came across a term that the SEZ Act never mentioned: *de-notification* (i.e., halting construction of a zone or ending production within a zone).

Despite the relative newness of SEZ implementation in India, the question of SEZ sustainability remains worth investigating. De-notification poses an obstacle for the GoI because many have contended that SEZs are the key to solving India’s economic growth

⁴ Although this study focuses strictly on Indian SEZs, the journal article "Export Processing Zones and Special Economic Zones: Generators of Economic Development: The Asian Experience" summarizes the key differences among SEZs in China, Latin America, Africa, the Mediterranean, and India: <http://www.jstor.org/discover/10.2307/490524?uid=3739936&uid=2&uid=4&uid=3739256&sid=21102774330923> (Chu and Wong, 1984).

problems⁵; yet leading researchers have suggested more focus on nationally-centered, short-term policy changes to stabilize the economy.⁶

Significance

India has marketed itself as a prime location for foreign direct investment (FDI), which is vital to SEZ creation and implementation. The *International Journal of Commerce & Management* noted in 2000:

The positive factors which should encourage [investors] are the enormous market...expanding population, availability of skilled, technical manpower at relatively less financial burden, and the progressive culture of the populace to embrace people of different religions, countries, etc. Foreign companies, instead of waiting for things to improve and then contemplating investments, should become partners in the improvement of the economy [...]. In fact, all state governments want investors to invest in the infrastructure sector [...]. The investments should be all-encompassing with adequate distribution to business, social, economic, and religion development (Chandra, Pathak, and Venugopal, pp. 28, 29).

Still, the country's economic, social, and cultural differences have received considerable attention because as India promotes growth, FDI continues to come at a great social cost (Pradhan, 2008; Chaudhuri and Yabuuchi, 2010). Observers consistently find that liberalization policies in the form of SEZs have created few regions of wealth in India, but not necessarily generated sustainable results for the majority of India (Roy, 2005; *The Economist*, 2005; Keim and Wilson, 2006; *EIU ViewsWire*, 2008; Ghate, 2008; Mehra, 2011).

From the time the SEZ Act was passed in 2005, most have paid attention to the applications for SEZs in India; considerably less focus has concerned the actual results of

⁵ See *SEZs in India: Major Leap Forward*. This document was developed by the Maharashtra Economic Development Council (MEDC). It describes how the GoI envisioned using SEZs to attract triggers of economic growth, including contributing to states' GDPs, generating employment, creating infrastructure, producing a "cascading effect" on economic activity, and facilitating urbanization and better standards of living (2008, p.18).

⁶ See "Why India's Economy is Stumbling" at: <http://www.nytimes.com/2013/08/31/opinion/why-indias-economy-is-stumbling.html> (Subramanian, 2013).

these zones. I argue that more attention needs to be paid to state-level economic policy as it relates to implementing and sustaining SEZs, thus continuing the emphasis to curtail the level of poverty in India. Drawing lessons from analyses of the actual SEZ experiences of two states, Maharashtra and Goa, may help policy makers decide whether creating SEZs in all states is necessary, possible, or even beneficial.

This study also is relevant to the relationship between political party dominance and governance when it comes to economic policy decision making: “analysts often claimed that the Congress lost in the 1995 elections and the BJP in the 2004 elections because of reforms” (Frankel, 2006, p.93). India’s economic affairs remained at the center of public debate and continued to shape political party tactics:

Despite an abundance of reforms since the early 1990’s, the legacy of India’s centrally planned post-independence economy continues to cast a shadow in the form of an unwieldy bureaucracy that is both a direct drain on the public purse and an inefficient allocator of resources [...]. For all its undoubted benefits, India’s rambunctious democracy is not conducive to fiscal restraint. As the Bharatiya Janata Party (BJP) found to its cost in the 2004 general election.... Political parties must also woo hundreds of millions of poor (and politically active) rural voters (*EIU ViewsWire*, 2008, p. 1)

The symbiotic relationship between the GoI and economic policy, particularly when referring to liberalizing efforts from the private sector, highlights how money, campaigns for modernization, and elections are linked to the SEZ scheme.

The study also is relevant to those concerned with human security. It follows the influence of scholars such as K.C. Roy who redefined poverty in India:

Although the level of poverty...has declined below 36 percent in recent years, it is well known that such a measure does not provide a clear picture of the nature and dimension of poverty [...]. In recent years the notion of poverty has been broadened to include vulnerability and exposure to risk, voicelessness, and powerlessness (Roy, 2005, p. 966).

This study captures the essence of this broad definition of poverty by integrating into the analysis first-hand accounts from individuals interviewed in credible forums such as the BBC and the Associated Chambers of Commerce and Industry of India. I suggest that in order to reduce poverty, the GoI must make SEZs more readily accessible to more Indians (not just the wealthy and highly educated) in order to stabilize the economy's growth. Based on its findings, this thesis examines ways that the GoI can accomplish this through SEZ policy changes that revolve around land rights, job training, and general education opportunities.

Organization

The next five chapters explore these concerns. Chapter Two reviews India's economic liberalization history with a thorough literature review. Chapter Three describes how the research design was developed through two phases of questioning, leading to Maharashtra and Goa being selected as the states for comparative analysis. Chapter Four examines the factors contributing to Maharashtra's pattern of de-notification, while Chapter Five turns to the factors contributing to the absence of operational zones in Goa. Finally, Chapter Six compares and discusses the results and suggests future research.

Chapter Two: History

It is important to first summarize the events that led to India's decision to use SEZs as vehicles for economic growth. Large deficits and major structural changes in India's economic policy, all deriving from the central government, were the context in which SEZs were adopted and implemented. The Indian experience with SEZs is more than simply mimicking an idea from East Asia; it involves interconnected relationships that at times contain corruption, bribery, protest, and violence.

Liberalization of Economic Policy

In 1991, economic advisers from organizations such as the International Monetary Fund and World Bank recognized that the difficulties that India's economy had been experiencing for years resulted from the central government's own finance problems (McDonald, 1991, p.34). A number of economic pressures from within and outside of India's borders created a serious problem for the GoI in managing its balance-of-payments: "The banking sector [was] still grappling with the consequences of the rural loan waiver...[it] ruined what level of loan compliance exist in the rural areas" (McDonald, 1991, p.35). Aside from the public-sector borrowing too much and Indians not paying back their loans due to heightened "prices and interest rates" (1991, p.34), another major obstacle for India's economy was its weak tax base:

Only about 3 million individuals, in a population of 844 million, declare income for taxation. But to spread the tax base, restore the budgets of power...and strengthen bank balance sheets, local and central governments will have to extend their sway....As the constitution gives the states the power to tax agricultural incomes, this is a question New Delhi has easily dodged. It could, however, be made part of a broader programme to improve state finances, which in many cases are in an even more parlous condition than those at the centre (McDonald, 1991, p.35).

This crisis “proved a catalyst for change” and the central government began taking steps away from its inward focused economic framework toward reducing restrictions on capital inflows and regulations on domestic industry (Keim and Wilson, 2006, p. 30). No longer was it the primary goal of the central government to meet targets set by nationalized banks, but rather it began to end its severe control over foreign investment in order to get the economy growing. The excessive regulation that India enforced in the late 1980’s resulted in little inflow of capital investment and no investment outflow; the economy was more or less stagnant. With the 1991 reforms came a domino economic effect of change in almost every policy that dealt with poverty reduction, trade, employment, education, infrastructure, taxes, and agriculture (see, e.g., Frankel, 2006; Roy, 2005).

K.C. Roy (2005) emphasizes that reforming the tax system in 1991 was a major step forward in stimulating the Indian economy in ways that attracted foreign trade and investment. Yet, measurable economic growth was not very significant:

The strategy had aimed at moving towards a simpler system of taxation with modest rates, few exemptions and a wider tax base....As a result since 1990-1991, the share of direct taxes in the gross tax revenue jumped from 19.1 to 35.9 percent in 1997-1998....But despite the reform of the tax system, the governments tax collection effort was better in 1966-1967....Growth in national income has also been accompanied by...the supply of infrastructure and social services. One has however to remember that increase in the supply of services or facilities does not automatically ensure the improvement in the quality of such services....Higher economic growth enabled the country to continuously improve the supply of services for building up social overhead capital necessary for accelerating the pace of economic growth. However, it appears that least emphasis has been placed on and, therefore least improvement was recorded in the expansion of primary education which is now recognized as one of the most important prerequisites to achieving higher economic growth and development (pp. 960, 962).

Rather, the government channeled most of its funds into the industrial sector.⁷ In order to reduce poverty: “a dynamic redistribution of assets in favor of the poor, e.g. improved agricultural land or small shops; greater education to improve literacy skills and access to the modern economy” must be initiated to more equitably distribute the gains from the 1991 policy (Roy, 2005, p. 965).

Focusing on how the 1991 liberalization shift impacted the agricultural sector, Frankel (2004) observes that India’s economic policies of the 1990’s were entrenched in the post-independence ideas that sought to tackle poverty, especially that of the rural poor:

Since most of the poor were in the rural areas and employed in agriculture, any program to tackle poverty had to tackle the rural situation...But, the distribution of political power, especially within the Congress party, was a major handicap to achieving this goal (p.94).

With cyclical balance of power crises and international pressure “in the nature of conditions attached to IMF loan[s]” to India, it is not clear which party supported the 1991 reforms. However, the recognition by the GoI that “India was falling behind China” led new policies and industrial licensing systems to pass easily (Frankel, 2004, pp. 97, 99). India fell behind China’s export performance in industry, and the 1991 policy targeted agricultural workers and how land was to be utilized differently so as to favor industry:

A major effect of the success of the...revolution was that the question of land reforms almost dropped out of the debate on development policy. The debate centered more and more around the question of an appropriate trade policy and within it on the issue of effectiveness of import control policies (Frankel, 2004, p.96).

⁷ In 1997, 44.2 percent of the population lived below U.S. \$1.00 a day according to the World Bank, 2001 (Roy, 2005).

Frankel (2004) and Roy (2005) stress that since 1991 the redistributive objective of the national government to alleviate poverty was marred by the agricultural sector losing public investment. Despite some evidence that exports of labor intensive goods and services increased, the entire economy was slow to develop effective responses for all sectors (Frankel, 2004, p. 97). Meanwhile, industries gained financial assistance from the Industrial Development Bank of India and the Industrial Credit and Investment Corporation of India; these two institutions worked with the central government to use funds to distribute roughly U.S. \$593.34 billion to new industries with the supposition that more industry would generate higher productivity and economic growth (Roy, 2005, p. 964).

Frankel (2004) and Roy (2005) introduce an important policy tension between industry and agriculture that weaves throughout India's economic decisions. Although the international press focused on the growing opportunities for the few enclaves of well-educated Indians who had the skills necessary to work in the "high-tech sector," in the early 2000's "80 percent of India's population [lived] on less than U.S. \$2.00 a day, and one-fifth [lacked] a primary education" (Keim and Wilson, 2006, p.35). Such divergences continued as modern developments made headlines time and time again. Yet even as India's economic policy created stronger ties to the world and improved domestic economic performance, the country faced challenges in areas without the same amounts of investment:

The poor state of India's infrastructure also hampers efforts to alleviate poverty...nearly 40 percent of Indian villages have no access to all-weather roads....Less than half the population has access to electricity...and lack of access to water hinders business and the general public alike. India's sizeable state and federal deficits through FY [fiscal

year] 2004 amount to over nine percent of GDP (Keim and Wilson, 2006, p.35).

India's attempts to increase investment also has been influenced by the connection between the performance of the agricultural sector and the monsoon seasons, which still dictate the health of the economy. No matter how modernized and industrial India tried to become, "the summer monsoon can still make or break India's economic forecasts. Agriculture accounts for less than a quarter of GDP, but more than 70 percent of Indians live in the countryside," (*The Economist*, "Asia: Why fix it?; India's Economy." August 2005, p.49).

In the early 2000's, budget deficits, averaging close to 5% of the GDP, overshadowed the benefits of privatization, and "the true figure is much higher if state government deficits and off-budget spending are included." According to the *EIU Views Wire*:

Quite simply, India's perennial fiscal problems mean that the government does not have enough money....Deficits require the government to borrow heavily from the banking system. This keeps interest rates high and ensures that debt-servicing, rather than productive spending, eats up a disproportionate share of the budget. The passage of the Fiscal Responsibility and Budget Management (FRBM) Act in 2003...which took effect in 2004, [was] intended to place a statutory limit on the government borrowing and to improve fiscal transparency....The problem is that the act's provisions are essentially aspirational. The government can exceed its fiscal targets with parliamentary approval or in "exceptional" circumstances (2008, p. 1).

The policy tension over how to regulate investment funds and in what ways to utilize them eventually materialized into conflict between poverty-stricken Indians and the GoI. Even though the GoI aimed to reduce the deficit and increase employment across India, it could not sufficiently address the factors contributing to ending poverty. Issues of social

services, access to basic necessities, primary education, and land ownership continually occupied the bottom of the policy reform list.

Overall, the GoI sought to respond to India's macro-economic shortcomings by investing more in industry, lessening regulation, and opening its trade to more foreign interaction. This endeavor was strained by a massive deficit (foreign borrowings and IMF loans from 1991) and social unrest over poor employment and lagging access to basic necessities. To ease the tension between industrial strength and the availability and quality of services, the GoI began to focus its attention on publicizing India's capacity to be the "prime" investment destination for foreign direct investment (FDI): "Indian labor is now being used within India by foreign companies for business, administrative, clerical, and information technology (IT) support" (Keim and Wilson, 2006, p. 33). By the early to mid-2000's, it became apparent that India had labor and natural resources advantages that growing foreign businesses were searching for. FDI became more prevalent throughout the country, but as some scholars suggest, the increasing FDI was concentrated in particular localities.

According to Rudra Prakash Pradhan (2008), FDI:

...represents the movement of capital in and out of the country with the intention of buying physical assets to start a business....Foreign Direct Investment is a dire need for a country...because of its multifaceted features in the economy....FDI affects economic growth by generating increasing returns in production via externalities, i.e. by productivity spillovers and export spillovers....In this process, FDI contributes to higher economic growth by incorporating new inputs and techniques [into production]. But it is important to note that the growth consequences of FDI depends upon what types of sectors receive [the investment] (pp. 8, 9).

Pradhan's description highlights that FDI 1) is used to combine new techniques in the production process, and 2) benefits the sectors in which the investment is received. For

India during the early and mid-2000's FDI focused on manufacturing, development, and particularly information technology because the GoI believed that increased production would boost India's GDP and thus free up currency that could contribute to poverty reduction. However, the combination of FDI concentration in industrial development and the location of most of the FDI made the journey toward alleviating poverty more variable.

This discussion of India's liberal economic policies and use of FDI suggests that the central government attempted to lessen poverty through economic reform, but the results have helped to introduce GDP-boosting industrial growth in some areas, but not in others. As the center's role in the economy became more aligned with directing the few remaining state resources toward lagging regions (through, for example, the NEIP of 1997), the GoI allowed more private capital in the form of FDI to enter the economy. However, FDI flowed only into areas that were economically efficient and effective for production.

GoI officials expected that "given the government's willingness to open [sectors] to foreign entrepreneurs," all of India eventually would benefit from FDI spillovers in the form of physical and social infrastructure (Chandra, Pathak, and Venugopal, 2000, p.24).

Yet the government could not closely guide the effects of the increased investment. As Chandra, Pathak, and Venugopal noted in the *International Journal of Commerce & Management*:

Irrespective of their political ideology, senior politicians of every hue and shade have now conceded that the economic reform process is irreversible. Political uncertainty notwithstanding, the bureaucracy, which plays a very strong role in policy making as well as implementation, is playing the pivotal role in distancing the economy from politics. The general consensus amongst most of the political parties over liberalization and the

opening up of the economy is a clear indication of the shape of things to follow (2000, p. 23).

As far as “distancing the economy from politics,” scholars agree that the GoI created a policy to activate economic growth and allowed FDI to steer the liberalization process in the form of independent projects throughout India.⁸ As the next section shows, however, once SEZs became distinct from small FDI endeavors, the political implications of SEZ sustainability brought economics and politics back together.

Passage of the 2005 SEZ Act

The primary reason that national economic policy needed further liberalization was because the GoI recognized that the country was in dire need of “investment in infrastructure” (Chandra, Pathak, and Venugopal, 2000, p. 25). The All India Management Association, “the national apex body of management professionals in India,” argued that foreign investment in the “holy sectors like energy, power, road[s], [and] rail” needed to be welcomed through “a single window clearance for projects in the infrastructure sector [to make] investments easy” (Chandra, Pathak, and Venugopal, 2000, pp. 20, 23, 24). With growing social disparities and FDI investments contributing less than one percent to the world’s exports after a decade and a half, “the then Union Commerce and Industry Minister...undertook a trip to China...Included in his itinerary was a visit to SEZs, which led the announcement of SEZs in India through the annual Export-Import (EXIM) Policy of March 2000” (MEDC, 2008, p. 11). Initially, the call

⁸ See Shishir Chandra, Pramod Pathak, and R. Venugopal (2000) in *International Journal of Commerce & Management* (pp. 20-31); Sanjoy Chakravorty (2003) in *Journal of International Development* (pp. 365-383); Chetan Ghate (2008) in *Journal of Economic Policy Reform* (pp. 1-9); Rudra Prakash Pradhan (2008) in *South Asian Journal of Management* (pp. 8-23). The overall implications of these studies are that private capital investment is most successful in generating GDP growth if the locations where FDI is invested exhibit similar political and socio-economic conditions such as existing infrastructure, labor availability, political incentives, coastal or metropolitan location, and high expenditures on such things as public health, sanitation, energy, transportation, and communication.

for infrastructure development was met with a wide range of interested developers from all over the world, which led the GoI to seek more FDI which created the basic political framework to welcome the development of SEZs:

The Government has made its intentions clear by offering a guaranteed rate of return on foreign equity. Potential investors can take heart from the fact that several global players have already committed huge investments to India and are more than enthused... Opportunities far outweigh the threats. There is an opening in almost every sector, not just manufacturing, services, or power. It is to attract and encourage overseas investments that India has not only opened up its infrastructure sectors but also extended their scope, granting infrastructure status to oil exploration, industrial parks, and telecommunications. These sectors are eligible for tax-holidays too... Thus, though the Government has changed, the thinking has not (Chandra, Pathak, and Venugopal, 2000, p. 25).

The largest expansion of FDI was underway, and the GoI envisioned that the foreign investors were the key to expanding India's liberalization movement: "The engine (potential) is ready, the wheels (Government measures and liberalization) are provided, and a skillful driver is needed. To lubricate the engine of growth of infrastructure and accelerate the tempo of development, massive investments are imperative" (Chandra, Pathak, and Venugopal, 2000, p. 27). The growth of FDI was the preliminary step towards eliminating India's infrastructure shortage, but it was only the first phase. For the FDI to effectively intensify economic growth directly, greater emphasis was needed to be placed on "outward oriented trade policies" (Pradhan, 2008, p. 19). For the infrastructural and economic growth to be sustainable, the GoI and the Foreign Investment Promotion Board (FIPB) believed national economic policy needed to include "strengthening regional economic integration...boosting flexible labor laws... [and providing] favorable regulatory and tax treatment of foreign firms" (Pradhan, 2008, p. 19). Therefore, the 2005 SEZ Act encompassed the goals of increased FDI as well as

expanded the trade policy requirements to spur more investment. The Act went into effect in February 2006 and “serve[d] as policy means for facilitating trade and financial liberalization, enhancing resource utilization, and promoting economic growth and structural changes” (Chaudhuri and Yabuuchi, 2010, p. 779). Once the legislation passed, “SEZs [comprised] the...discourse so far as India’s export policy...and [represented] the future of industrial development strategy” (Chaudhuri and Yabuuchi, 2010, p. 779).

Special Economic Zones

According to *SEZs in India: Major Leap Forward* (2008), published by the Maharashtra Economic Development Council, SEZs were adopted in order to create radical local economic reform:

India leapfrogged from agriculture to services. However with over 65 percent of India’s population living in rural areas, majority of whom surviving on subsistence farming, the alternate employment possibilities are a must. This can only be in the manufacturing sector since the majority of the rural population would not fit into the services sector....SEZs clearly provide an answer where the private sector have been incentivized to expand large amounts to develop world-class industrial and social infrastructure which was typically done by the Government....With SEZs acting as the engines of growth, the underlying policy objective of the Central Government was to increase India’s economic growth and activity through increased foreign investment. For achieving this objective, the Government encouraged and enabled the establishment of SEZs by the State governments themselves, or in the private or joint sector in association with the State governments (MEDC, pp. 3, 11, 12).

Like FDI investment in the 1990’s and early 2000’s, SEZs first were introduced and established in areas of India that could adapt to economic reform due to previous investment.⁹ The Special Economic Zone Act of 2005 furthered the use of FDI by

⁹ These zones included Kandla, SEEPZ, Kochi (Cochin), Falta, Chennai (Madras), Visakapatnam (Vizag), and NOIDA located in Gujarat, Maharashtra, Uttar Pradesh, Tamil Nadu, Kerala, West Bengal, and Andhra Pradesh (MEDC, 2008, p. 24).

creating SEZs that expanded the industrial sector and created manufacturing jobs. This goal was, and continues to be, employed by:

...removing restrictive export-import regulations...the process of trade liberalization in India remains aligned to the norms of multilateral trading agreements....Tariff changes and Quantitative Restrictions (QR) reforms in accordance with [World Trade Organization] WTO commitments have been made.... [to] simplify and decentralize the procedures associated with the administration of foreign trade....[and to] provide special incentives to certain categories of Indian exports (*MEDC*, 2008, p. 12).

The SEZ Act that tried to foster a stronger economic environment for India created “pockets” of attractive infrastructure and tax incentives. Most importantly, the policy sought to “motivate and involve State governments in export-promotion efforts” by supporting state-level acts that allowed more FDI into states (*MEDC*, 2008, p. 12).

The GoI predicted that this plan would contribute to state GDPs, generate employment, create self-contained infrastructure, produce “consequential benefits- cascading effect on economic activity,” gain national and international recognition, and improve states overall standards of living (*MEDC*, 2008, p. 18). The GoI emphasized the need to create more employment for young, working-age Indians.

Given the country’s poor infrastructure, sorry state of public finances and huge unemployment, getting private investment in infrastructure and attracting huge amounts of foreign direct investment (FDI) especially into labor intensive manufacturing sectors is the prime objectives of the policy makers. India’s median age is just under 25 years....Two-thirds of these 500 million are supported by the agricultural sector....These people have rising aspirations and must find jobs in manufacturing and service sectors. If substantial job creation does not take place, it would have serious, if not disastrous, social and economic implications for the country (*MEDC*, 2008, p. 19, 20).

Well into the mid-2000s, the GoI recognized that the country still struggled to create an atmosphere that was conducive to SEZs, except in those areas that already were successful pockets of FDI and economic growth. The aim was to continually welcome

large sums of FDI in exchange for tax incentives, with the expectation that “so much additional economic activity” would be generated that it would address economic disparities:

...the development of large, multi-product SEZs will require a lot of time. We have the example of China where several big SEZ projects were approved in the 1980’s....These SEZs became fully operational only towards the end of the 1990’s because of the size....A lot is being said about revenue loss to the government due to the tax holidays given to the SEZ developer and units....Only if the SEZs are a success, does the government stand to lose revenue. But then again, success of SEZs...would be many times the revenue loss. The main challenge to SEZs...in India lies in all arms of the government...to provide the necessary connectivity infrastructure linking the SEZs to markets, to sources of materials and to points of exit i.e. ports and airports (*MEDC*, 2008, pp. 21-22).

One way the GoI justified its FDI vision was by illuminating how the IT sector successfully created some operational SEZs that did not take long to construct.

The pertinent question is, can we afford to wait that long? An IT SEZ, for example, does not need large land area....IT companies are using SEZ units for EPOs (Engineering Process Outsourcing). The world class technical training that these IT companies will be required to impart to its employees would ignite [a] knowledge revolution resulting into exponential progression of our economy....An IT SEZ could be developed and made operational within...six months from the date of notification (*MEDC*, 2008, p. 21).

The GoI argued that such zones would have a cascading effect: the SEZ, with its “world class” infrastructure and employment, eventually would “ignite” an economic “revolution” of improved competitiveness. However, the GoI did acknowledge that IT jobs are limited to those Indians who have the education, training, and locational advantage to work in the area. An SEZ must follow certain guidelines for hiring individuals outside of the zone, more or less creating a screening process to allow more efficient and skilled laborers to participate. The example of the IT sector then uncovers a

limitation that is inconsistent with GoI claims about SEZs: employment opportunities were not as equitable as the GoI depicted them as being.

Two additional features of the 2005 SEZ Act are multiple tax exemptions and land allotment procedures. First, the Act offers extensive tax benefits to developers, which the GoI considers imperative:

- 100% exemption from income-tax on profits derived from development of the SEZ; this exemption is available for 10 consecutive years from the year the SEZ is notified.
- Developer is exempted from DDT (dividend distribution tax) indefinitely.
- Developer is exempted from MAT (minimum alternate tax) indefinitely.
- No customs or excise duties for authorized operations.
- No service tax, central sales tax on input goods, or local taxes (including VAT/sales tax, electricity duty, entry-tax).
- Exemption from stamp duty under state duty legislation (*MEDC*, 2008, pp. 42-43).

These exemptions apply as well to units in the SEZ as long as they achieve positive net foreign exchange (NFE) within five years of establishment.¹⁰ The important point here is that SEZs do not pay taxes to the states until years after they become operational.¹¹

Critical for this study is that SEZs follow completely separate economic laws than the rest of the country.

Secondly, in order to grant developers the land they need for an SEZ, the GoI has used the Land Acquisition Act of 1894 to take land for “certain public purpose[s] or for any company” (*Business Knowledge Resource*, 2011, p. 3). Land acquisition means that

¹⁰ NFE is calculated by the Unit Approval Committee (UAC); the value of exports subtracted from the total value of imported inputs must be positive in order to keep units functioning (*MEDC*, 2008, p. 50).

¹¹ This has been at the center of multiple debates among scholars who contend that the potential tax revenue from SEZs is too great to exempt. See, e.g., “Formation of special economic zone, liberalized FDI policy and agricultural productivity” by Sarbajit Chaudhuri and Shigemi Yabuuchi in *International Review of Economics and Finance*, Vol. 19 (2010): “If the formation of an SEZ is accompanied by suitable taxes on factors located in the SEZ, the government can earn more tax revenues that may make the setting up of an SEZ desirable even when foreign investment has a welfare-worsening effect (p. 780).

the GoI and state governments can make specific laws that allow the definition of “public purpose” projects to include large scale acquisition of land “for building an adequate stock of...low-income housing, road widening, development of parks and other amenities” (*Business Knowledge Resource*, 2011, p. 2, 4). The 1894 Act suggested that minimum amounts of land, especially arable land, should be acquired for any given project to ensure that the “resettlement and rehabilitation” of the people displaced be minor; yet, as with SEZs and taxes, scholars and Indian citizens have disagreed about whether land acquisition is a justifiable cost for economic growth.¹²

SEZ Approval Process

The Board of Approval (BoA) is the central body at the national level that grants or rejects proposals for the establishment of SEZs. It also serves as an “overseer” of operations as the SEZ moves through various stages: formal or in-principle approval, notification, and operationalization. The only difference between “formal” and “in-principle” approvals is that a formal approval is granted “if the developer does have right (freehold/lease/developmental rights) over the land”; in the latter the developer must gain permission from the state government to seize the land before gaining formal approval status (*MEDC*, 2008, p.36).

The Approval Committee (AC) is a group of elected officials within each SEZ that accepts or rejects proposals for the establishment of units of a SEZ. The developer is the individual or entity that “has been given permission by the Central Government to develop the SEZ,” and at times co-developers have the same responsibilities as the

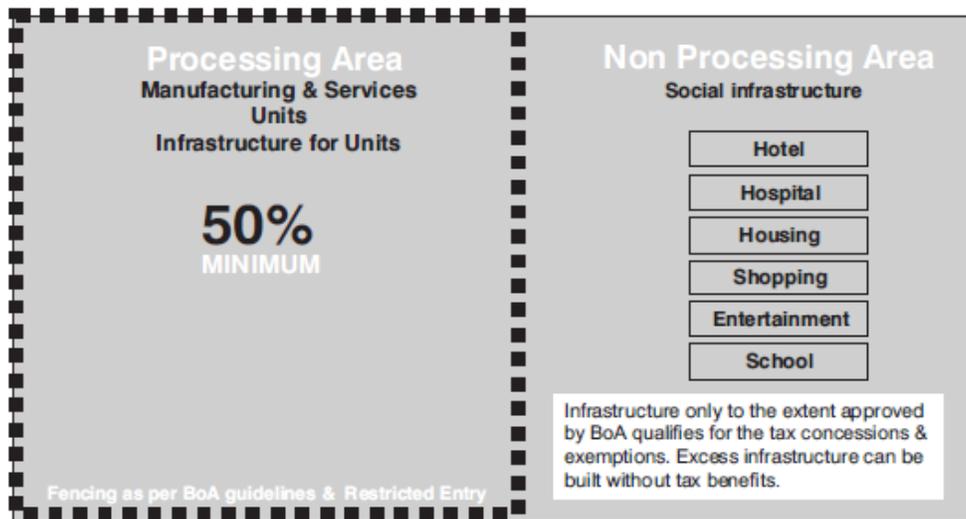
¹² The issue of land acquisition will be discussed further in detail as it relates to Maharashtra’s and Goa’s experience with SEZs. As I was collecting data for this study, the Land Acquisition Act of 2011 was passed and made available online; I was able to include the most up to date information. The 1894 Act is still relevant because it was this legislation that justified the land acquisitions for all of the SEZs approved, notified, and made operational until 2011.

developer within very large SEZs (*MEDC, 2008, p. 33*). The developers, with the development commissioner (DC) who is “an officer of the GoI,” determine the “processing” and “non-processing” components of the SEZ, and direct its “authorized operations” and “tradable services” (*MEDC, 2008, p. 33*). Authorized operations include activities such as building roads, schools, hospitals, sewage and electrical systems, and other physical infrastructure that support the SEZ.¹³

Figure 2.1 is a simplified illustration of an SEZ: the processing area is delineated from the non-processing area, demarcated by the DC; the SEZ must follow minimum land area requirements in order to be approved. For example, a multi-product SEZ must cover at least 1,000 hectares (approximately 2,470 acres) with maximum coverage not exceeding 5,000 hectares (approximately 12,350 acres) (*MEDC, 2008, p. 39*). Figures 2.1, 2.2, and 2.3 show the various approval processes of SEZs and units within SEZs.

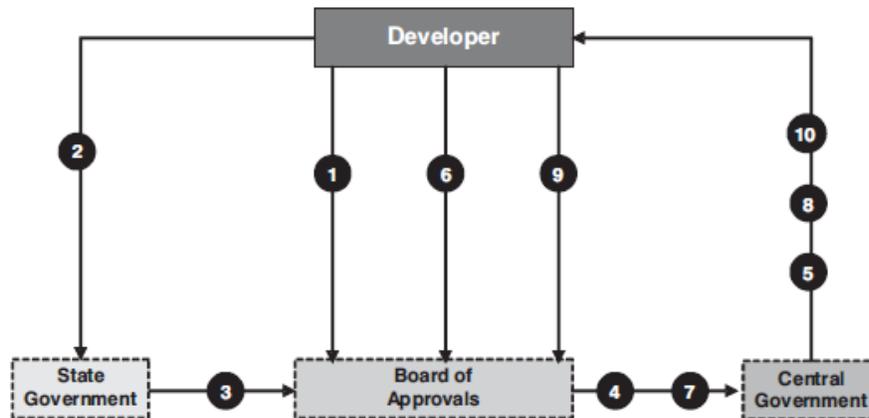
¹³ For a complete list of “authorized operations” see *SEZs in India: Major Leap Forward* (2008), organized by the Maharashtra Economic Development Council (MEDC) p. 44-45.

Figure 2.1 “Bird’s Eye View of SEZ”



Source: SEZs in India: Major Leap Forward, Maharashtra Economic Development Council (2008, p. 30).¹⁴

Figure 2.2 “Option 1: In-principle approval” of SEZ

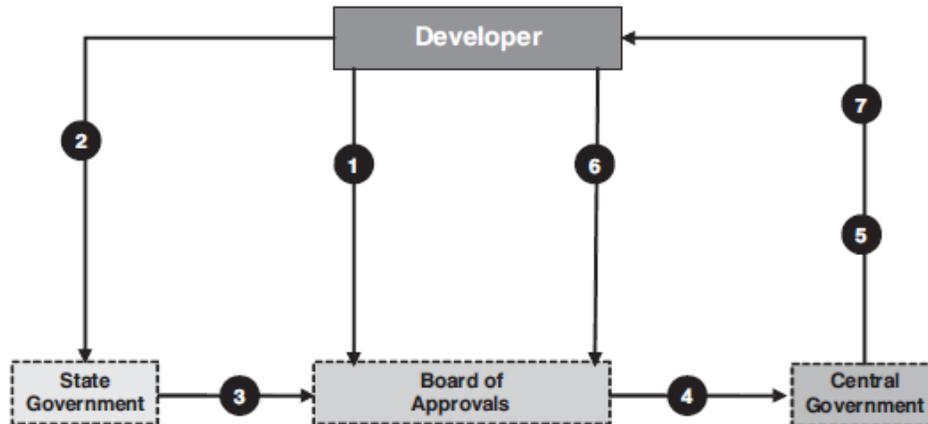


Source: SEZs in India: Major Leap Forward, Maharashtra Economic Development Council (2008, p. 36).¹⁵

¹⁴ Maharashtra Economic Development Council (MEDC): http://www.pwc.in/en_IN/in/publications/assets/SEZinIndia.pdf

¹⁵ Maharashtra Economic Development Council (MEDC): http://www.pwc.in/en_IN/in/publications/assets/SEZinIndia.pdf

Figure 2.3 “Option 2: Formal approval” of SEZ



Source: SEZs in India: Major Leap Forward, Maharashtra Economic Development Council (2008, p. 38).¹⁶

The figures highlight how the SEZ approval process involves a web of interactions among the developers, state governments, the GoI, the BoA, and the DC. Figures 2.2 and 2.3 show the routes of communication on proposals, recommendations, meetings, and verifications among the entities that grant formal approval. Once formally approved, the SEZ is formally notified, meaning that the land granted by the BoA is open for developers to begin construction in the SEZ.

De-Notification

The GoI argued that operational SEZs benefit many Indians,¹⁷ and states without them can use existing zones as models. The national and state governments have identified a range of sectors that may apply FDI through public-private partnerships (PPPs), which include the approval, notification, and eventual operationalization of SEZs

¹⁶ Maharashtra Economic Development Council (MEDC): http://www.pwc.in/en_IN/in/publications/assets/SEZinIndia.pdf

¹⁷ According to "SEZs in India" at <http://www.sezindia.nic.in> (2009), the successes of operating SEZs in states such as Gujarat, Maharashtra, Uttar Pradesh, Tamil Nadu, Kerala, West Bengal, and Andhra Pradesh highlight the ongoing benefits of SEZs. What is not immediately obvious is that these are the states that the GoI primed for SEZs prior to 2005. These states were able to adapt to SEZ implementation more efficiently because, historically, they have better physical and human capital at their disposal, as well as political support from key government officials who oversee such projects.

(MEDC, 2008, p. 27). Projects completed in SEZs exemplify the PPP presence in India as the second generation of economic reforms continues to progress.

The [public sector] provides stable governance, financial support as well as assurance against social, environmental and political risks. The [private sector] brings along operational efficiencies, innovative technologies, managerial effectiveness and access to additional finances.... This program involves long-term detailed contracts between the Government and the private players.... Such public-private partnership encourages better risk sharing, accountability, cost recovery and management of infrastructure (*Business Knowledge Resource*, 2011, pp. 7, 8).

In this policy framework of economic risk sharing between public and private entities, SEZs are “specifically defined duty free enclaves and are considered to be foreign territory for the purposes of trade operations.... The zones serve as policy means for facilitating trade and financial liberalization” (Chaudhuri and Yabuuchi, 2010, p. 779). Some have praised SEZs for their economic growth properties. Yet that is not universally the case:

The Indian government... informed the lower house [of parliament]... that 18 special economic zones have been scrapped on the [basis] of developers being impacted by the global economic slowdown.... Scindia [Minister of State for Commerce and Industry] said that global economic slowdown have been cited as the “main reason for the request for de-notification.” If a SEZ is de-notified, the developers have to return all the fiscal benefits (if they have availed any) before they could exit their projects (*BBC Monitoring South Asia*, “India scraps,” 2010, p. 1).

De-notification occurs when a developer of an SEZ withdraws from its contract to continue building and/or employing in part of an SEZ or of the entire SEZ. Previous studies have focused on the socio-economic and political factors contributing to the establishment of SEZs at various stages of operationalization; my study examines the factors contributing to *de-notification*.

Due to the occurrence of de-notification, it is worthwhile to track the developmental status of SEZs to explore whether the SEZ Act is accomplishing its goals. It appeared best to track the status of SEZs, state by state, using parameters from previous studies to assist in case selection.

Chapter Three: Research Design

This chapter describes how the original question “Why are there operational SEZs in some states and not in others?” transformed into questioning how de-notification impacts the SEZ scheme. Based on my initial review of relevant literature, I learned that analyzing the factors contributing to de-notification could give critical insight into what economic policies in other states’ economic policies might do to maximize SEZ returns. The main barrier for a state trying to establish SEZs is to have existing operational zones be de-notified; the only way the tangible and intangible benefits of SEZs can contribute to a state’s GDP, infrastructure formation, and modernization is for the SEZ to be operational. Moreover, once it is operational, the zone needs to be sustainable. A comparison between a state experiencing de-notification and a state struggling to construct any operational zones highlights the insufficiencies inherent in the SEZ Act of 2005. It also reveals the resulting GoI miscalculation that individual states would receive enough capital support to form economic environments that were attractive for operational SEZs.

Phases of Questioning

The questions that frame this study emerged in two stages. First, why did operational SEZs appear in some states in India and not in others? This question was partially explored in Chapter Two, which suggests that factors may influence the location of investment throughout India. Active, successful investment takes the form of *operational* SEZs because these zones produce goods and services that contribute to India’s gross domestic product (GDP). Accordingly, in order to understand if the SEZs are effective in achieving these goals, one must look at the operational zones. Locating

operational SEZs involved using documents found on the official website of Indian SEZs,¹⁸ re-organizing document information into a more manageable list according to location, and plotting these locations on a map of India (see below).

The second question emerged *after* I began initial research on India's economic experiences with SEZs; for the first time I noticed the rarely mentioned, and never analyzed, term, *and de-notification*. Rather clearly, soon after states began to adopt SEZ policy, SEZs were threatened by investors discontinuing their support for projects; this could include zones that were in the approval, operational, or contracting stages of SEZ development. I then focused on another pertinent question: Are the contributing factors for Maharashtra's de-notifications the same as those keeping Goa from forming operational zones?

Drawing on *factors* (e.g., socio-economic and political indicators) from the scholarly literature, I hypothesized that the de-notification factors would be the same as those influencing the lack of operational zones. I also expected that these common contributing factors would include the following: (1) land acquisition, (2) lack of physical infrastructure, and (3) lack of social infrastructure. This expectation was driven by the financial instability and resentment that people of Maharashtra and Goa describe when referring to how SEZs have been slow to provide any sort of benefit from their perspective, even though statistics coming from the center point to a story of growth and raised employment. Even so, the findings presented indicate little support for the hypothesis.

¹⁸ See http://www.sezindia.nic.in/writereaddata/updates/Exports_31.3.11.pdf (2011) for a complete listing of operational SEZs in 2010-2011.

Case Selection

In choosing cases, I was aided by work in location theory. Sanjoy Chakravorty (2003) employed the theory in a fashion similar to my discussion of FDI in India.

Private capital [investment] seeks profit maximizing or efficient locations, which are the already leading industrial regions that provide the necessary infrastructure...On the other hand, the location decisions of state capital are not as oriented towards the leading industrial regions because these decisions must also consider equity and security issues (Chakravorty, 2003, p. 366).

Initial signs of this variation in the location of FDI investments emerged in the North East Industrial Policy of 1997, eventually the North East Industrial and Investment Promotion Policy of 2007 (NEIIP). The NEIIP states that the “Government reserves the right to modify any part of the Policy in [the] public interest”; the policy follows restrictive guidelines for the type of investment, and thus industry, that can form in the northeastern region of India (NEIIP, 2007, p. 5). In 2007 the GoI exempted the northeastern¹⁹ states from the SEZ Act due to environmental and cultural constraints that did not allow the region to adapt to the modern, highly industrialized practices of SEZs. Along the same lines, my exploration suggests other states are not well suited for SEZ implementation and sustainability. The GoI recognized that the northeastern region contained “important impediments” in “the availability of trained human resources” and power generation; private FDI consequently was (and continues to be) more controlled in the northeast than in the rest of the country (NEIIP, 2007, pp. 2, 3, 4). In this case, the GoI used state

¹⁹ The North East Industrial and Investment Promotion Policy (2007) recognizes the shortcomings of physical and human capital in this region and provides incentives for specific investment endeavors: “A number of tax concessions...are already available to the IT sector. However, one of the important impediments to the development...is the non-availability of trained human resources in the North Eastern Region” (NEIIP, 2007).

capital investments to begin improvement for the “poor and the geographically peripheral” (Chakravorty, 2003, p. 366).

Chakravorty also presents factors that influence the location of private capital and shows how the results are similar to the variation of the early 1990’s. He concluded that new private investment (FDI) followed investment from the 1990’s:

The two most important determinants of success or failure for private investment, that is, whether or not a district receives any new private sector investment, are the existence of any investment in the pre-reform era...and the existence of new private investment in the neighboring districts in the post-reform era....Private sector investment location decisions are indeed guided by efficiency-related factors to a far greater extent than are location decisions by the central government (pp. 377, 380).

Application of location theory provides additional evidence that socio-economic and political factors influenced the initial and continued distribution of private investment, but it does not explain why private investment ended as it has in some SEZs. In order to identify the factors contributing to de-notification and examine whether the same factors prevented the creation of operational SEZs I used a variety of secondary and primary sources in my selection of focal states.

Nonetheless, Chakravorty’s study was helpful in alerting me to data collection limitations that I needed to consider. For example, he did not

...include investments in Jammu and Kashmir or any of the far Northeastern States (Arunachal Pradesh, Manipur, Meghalay, Mizoram, Nagaland, or Tripura) [because] these investments [are]...entirely by the central and state governments, and has to be considered of dubious reliability (given the political instability in several of these states)...First, it is not clear that the CMIE data are equally good for all these states (that is, there appears to be better coverage of some states and not of others); Second, state government investments focus on two areas- irrigation and power...[these] clearly do not belong in a compilation of industrial investments...[and] joint sector data, which belongs in neither of our

exclusive categories have also been omitted from the analysis (2003, pp. 370, 373).

This description led me to eliminate several states from possible comparison (including the ones in Chakravorty's study) as well as Assam, Sikkim, and Himachal Pradesh due to "political instability." I also did not include the Union Territories since SEZ policy applies only to states, and I eliminated the reconfigured Bihar, Jharkhand, Chhattisgarh, and Uttarakhand due to their recent statehood.²⁰ Another way Chakravorty's study differed from mine was he sought to identify factors contributing to where private investment was targeted, whereas I sought to identify the factors contributing to breakdowns in private investment in SEZs. For instance, he did not consider "joint sector" data as part of his definition of private investment. However, since SEZs include exclusively private *and* PPP (joint sector) investments, I needed to consider factors (e.g., physical infrastructure development) that resulted in the collaboration of the GoI and the private sector.

In order to study the hypothesized relationships, I first labeled where operational zones were located in 2010-2011, which at the time of this research was the most precise information. The specific document that enabled me to create the map was found on the official SEZ website, "Exports from SEZs in 2010-2011 register a growth of 43.11% over 2009-2010." However, the information was disorganized and difficult to understand. As a result, I spent considerable time interpreting the location details of each operational SEZ. I used Google Maps to verify each location by typing the various details given about the SEZ (village, city, region, and state) into the Google Map search bar and

²⁰ In 2000, Jharkhand broke off from Bihar, Chhattisgarh from Madhya Pradesh, and Uttarakhand from Uttar Pradesh, thus making historically relevant literature about SEZs in these states too sparse. Even though Bihar's statehood is not recent, because Jharkhand was carved out of it in 2000, Bihar was not included too.

observed the findings, as well as doing general Google searches to see if any official website existed for each SEZ location. I used a map found on www.mapsofindia.com, updated on February 8, 2010, as a template for my personalized map and altered the image for my purposes using Adobe Photoshop CS5.²¹ The map's purpose was not to provide a "fail proof" depiction of where each operational zone was located; however, I am confident that the verification process I followed provided the most accurate view of where operational zones are located. Once the SEZs were plotted (and I delineated which states had operational zones and which did not), I applied various controls to limit my selection of states.

As already discussed, I did not consider states used in Chakravorty's (2003) study or those that recently had become states. The following states remained: Punjab, Haryana, Uttar Pradesh, West Bengal, Orissa, Andhra Pradesh, Tamil Nadu, Kerala, Karnataka, Goa, Maharashtra, Madhya Pradesh, Gujarat, and Rajasthan. I then considered which states had operational SEZs *and* de-notifications. I sought to select the state that had the most de-notifications, permitting me to look for the presence of a range of possible influences. Using the official website for SEZs (www.sez.in) and looking under "Board of Approval" and "BoA Minutes," I compiled all of the de-notification information between 2010 and 2011 in the 38th through 45th meetings and found that Maharashtra developers requested the most de-notifications. This meant that the developer wanted to withdrawal its formal approval or notification status, close notified areas within the SEZ, or halt development altogether (i.e. return acquired hectares of land). Table 3.1 summarizes the de-notifications in 2010-2011.

²¹ The site indicated that the image could be reproduced if the original source was acknowledged and not used for profit

Table 3.1 De-Notifications in 2010-2011

<i>Number of Granted De-Notifications</i>	
State	Number of De-Notifications
Maharashtra	14
Andhra Pradesh	9
Tamil Nadu	6
Karnataka	5
Gujarat	3
West Bengal	3
Haryana	2
Madhya Pradesh	1
Orissa	1
Kerala	1

Source: “Board of Approval Minutes” of the 38th-45th meetings for SEZs held from Feb 2010 - March 2011 (2010-2011), <http://www.sezindia.nic.in/index.asp>

Once Maharashtra was selected, choosing a state without operational SEZs was straightforward: only Goa remained. Maharashtra and Goa are useful comparisons since they are similar socioeconomically, and they share locations on the west-central coast of India.²² The following chapters report the states’ experiences with SEZs.

Data Sources and Analysis

This study compares factors that evidently contributed to SEZ de-notifications in Maharashtra’s with those that appeared to influence the absence of operational SEZs in Goa. It explores whether and how these factors were relevant to SEZ sustainability. The study relies on diverse materials, including existing scholarship, national and state- level socio-economic indicators and policy analyses, and news articles. Existing work includes scholarship on India’s economic liberalization and the adoption and political implications of SEZs; socio-economic statistics tapping factors contributing to de-notification or non-operationalization; and government documents detailing the economic and political

²² See footnote 7.

issues that arose as states implemented SEZs. The data gathered for the period 1991-2012 include the beginning of SEZs in India, initial SEZ performance, and societal reaction.²³ Since SEZs evolved in the states in a variety of ways, it was important to highlight specific years in which major shifts in economic policy took place: 1991, 2005, and 2011.²⁴

The historical data come mostly from scholarly journals, which I identified using search engines such as Proquest and ABI/ Inform Global, and news sources including online newspapers and government documents from official national and state websites. The official Special Economic Zone website²⁵ provides links to meetings, acts, and policies with specific information relating to SEZ development in each Indian state (including Board of Approval Meeting minutes, documents listing all zones in various forms of approval, as well as the Land Acquisition, Rehabilitation and Resettlement law). Socio-economic data come from many sources including the Indian Statistical Institute, International Monetary Fund, national and state level economic surveys published on the Ministry of Finance website, and studies that used such factors for similar research.²⁶ The news sources documenting SEZ implementation and reactions as they occurred include online national newspapers (*Times of India*, *India Times*, *The Indian Express*, *The Financial Express*), GoI website publications (*The Associated Chambers of Commerce and Industry of India*, *Union Budget & Economic Survey from Ministry of Finance*),

²³ Even though the socio-economic statistical and news data are for the year 2010-2011, I needed to use some publications (Economic Surveys) referring to the next economic year, 2011-2012. This ensured that the publications contained the most accurate and updated data for my comparison of factors influencing de-notification and the absence of operational SEZs.

²⁴ The biggest shift to greater economic liberalization in India took place in 1991; the SEZ Act passed in 2005, and the new Land Acquisition, Rehabilitation and Resettlement Bill (officially repealing the Land Acquisition Act of 1894) passed in 2011.

²⁵ <http://www.sezindia.nic.in>

²⁶ See K.C. Roy's article in *International Journal of Social Economics*, Vol. 32, Iss. 11, 2005, pp. 951-967.

newsmagazines and e-journals (*Business Today, The Economist, The OECD Observer, Far Eastern Economic Review, EIU Views Wire, International Journal of Commerce and Management, International Review of Economics and Finance, National Association for Business Economics, South Asian Journal of Management*), and news websites (*BBC News, The Guardian*).²⁷

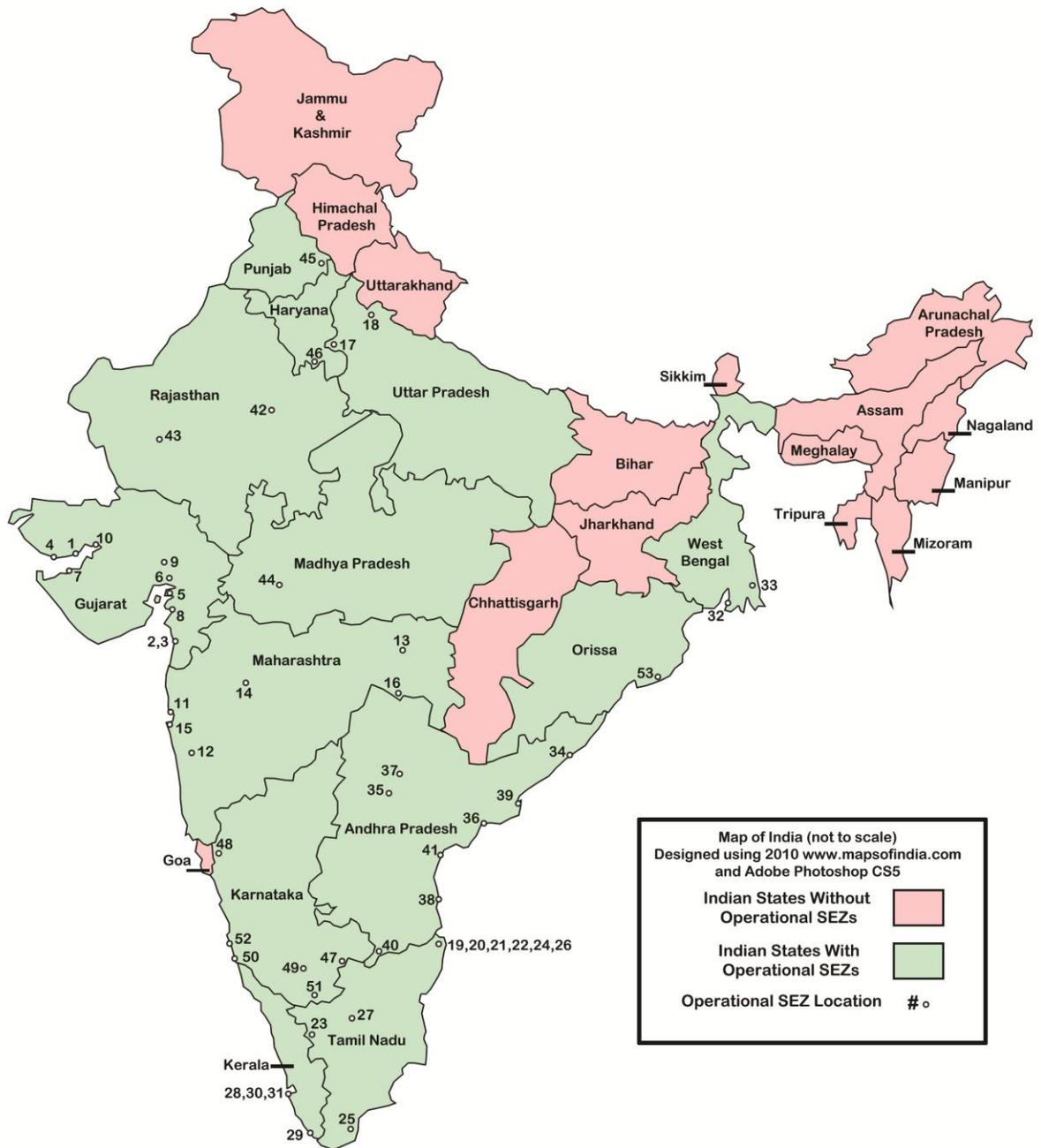
Limitations

Because material on many of the observable trends at the state level was published in the early to mid-2000s, a limitation of this study was the *assortment, depth, and comprehensiveness* of information on each state's SEZ experience.²⁸ For example, one study noted: "The [Annual Survey of Industries] data are under-inclusive by definition...and covers [sic] only the formal sector of India's industrial economy. The [Centre for Monitoring the Indian Economy] data may be under-inclusive and biased as a result of the method of data collection...and because CMIE is Mumbai based" (Chakravorty, 2003, p.369). Keim and Wilson (2006, p. 31) mention that data discrepancies are due to "diverging accounting methodologies for recording [data];" therefore "the possibility of some downward revision" is to be expected in statistical analysis of exports.

²⁷ When I started the study, I initially planned to conduct fieldwork; however, due to monetary and time constraints the travel was replaced with secondary scholarly reading and analysis.

²⁸ According to an article from *Business Today* on February 20, 2011, the current boundaries of the Indian states are up for debate because of the tension with China and Pakistan (in particular, the boundaries of Jammu, Kashmir, and Arunachal Pradesh are under contention). The map used in this study was used with permission (see footnote 12) and is the most accurate depiction of the states to my knowledge. Also, see http://www.economist.com/blogs/dailychart/2011/05/indian_pakistani_and_chinese_border_disputes (May 2011) for more information regarding these border issues; however they do not have any impact on this study because these states were not selected.

Figure 3.4 Locations of Operational SEZs, 2010-2011



Source: Original image from www.mapsofindia.com (2010). Altered image designed by author.

Table 3.2 Map Key for Figure 3.4

#	Location	Names of Operational SEZs
1	Kandla, Gujarat	Kandla Special Economic Zone
2	Surat, Gujarat	Surat Special Economic Zone Surat Apparel Park
3	Hazira, Gujarat	Essar Hazira Special Economic Zone Ltd.
4	Mundra, Gujarat	Mundra Port & Special Economic Zone
5	Vadodara, Gujarat	Suzlon Infrastructure Ltd. Larsen & Toubro Ltd.
6	Ahmedabad, Gujarat	Gujarat Industrial Development Corp. Zydus Infrastructure Private Ltd.
7	Jamnagar, Gujarat	Reliance Jamnagar Infrastructure Ltd.
8	Dahej, Gujarat	Dahej Special Economic Zone Ltd.
9	Gandhinagar, Gujarat	Aqualine Properties Private Ltd.
10	Bhachau, Gujarat	Euro Multivision Private Ltd.
11	Mumbai, Maharashtra	SEEPZ Special Economic Zone Hiranandani Business Park
12	Pune, Maharashtra	Infosys Technologies Ltd. Serum Bio-Pharmaceuticals Park EON Kharadi WIPRO Ltd. DLF Akruiti Dynasty Developers Private Ltd. The Manjari Stud Farm Private Ltd. Maharashtra Industrial Development Corp Ltd. Syntel International Private Ltd. Magarpatta Township & Construction Corp Ltd.
13	Nagpur, Maharashtra	Maharashtra Airport Development Corp
14	Aurangabad, Maharashtra	MIDC

15	Thane, Maharashtra	Serene Properties Private Ltd.
16	Chandrapur, Maharashtra	Wardha Power Company Private Ltd.
17	Noida, Uttar Pradesh	Noida Special Economic Zone HCL Technologies Moser Baer Special Economic Zone WIPRO Ltd. Seaview Developers
18	Moradabad, Uttar Pradesh	Moradabad Special Economic Zone
19	Chennai, Tamil Nadu	New Chennai Township Private Ltd. MEPZ Special Economic Zone TATA Consultancy Services Ltd. Hexaware Technologies Ltd. Shriram Properties & Infrastructure Private Ltd. DLF Infocity Developers Ltd.
20	Mahindra City, Tamil Nadu	Mahindra City Special Economic Zone (IT) Mahindra City Special Economic Zone (Auto) Mahindra City Special Economic Zone (Textiles)
21	Sriperumbudur, Tamil Nadu	Nokia Special Economic Zone Flextronics Technologies Private Ltd. SIPCOT
22	Kancheepuram, Tamil Nadu	ETL Infrastructure Arun Excello Infrastructure ETA Technopark Electronics Corp of Tamil Nadu Syntel International
23	Coimbatore, Tamil Nadu	Coimbatore HiTech Infrastructure Suzlon Construction & Infrastructure Span Venture
24	Cheyyar, Tamil Nadu	Cheyyar Special Economic Zone
25	Tirunelveli, Tamil Nadu	SIPCOT AMRL International Tech City
26	Oragadam, Tamil Nadu	SIPCOT

27	Perundurai, Tamil Nadu	SIPCOT
28	Cochin, Kerala	Cochin Special Economic Zone Cochin Info Park Special Economic Zone
29	Trivandrum, Kerala	Electronic Technology Park I Electronic Technology Park II KINFRA Film & Video Park
30	Vallapadam, Kerala	Cochin Port Trust
31	Puthuvypeen, Kerala	Cochin Port Trust
32	Falta, West Bengal	Falta Special Economic Zone
33	Kolkatta, West Bengal	Salt Lake Electronic City Manikanchan Special Economic Zone Unitech Hi-tech Structures Ltd. M.L. Dalmiya & Co Ltd.
34	Visakhapatnam, Andhra Pradesh	Visakhapatnam Special Economic Zone APIIC I Ltd. APIICC II Ltd. APIICC III Ltd. Brandix India Apparel City Private Ltd. Ramky Pharmaceutical City Private Ltd. Divi's Laboratories Ltd.
35	Hyderabad, Andhra Pradesh	APIIC I Ltd. APIIC II Ltd. CMC Ltd. DivyaSree NSL Infrastructure Private Ltd. DLF Commercial Developers Ltd. Hyderabad Gems Special Economic Zone Ltd. Fab City SPV Private Ltd. L&T Phoenix Infoparks Private Ltd. Lanco Hills Technology Park Private Ltd. Maytas Hill County Special Economic Zone Private Ltd. Serene Properties Private Ltd. Sundew Properties Private Ltd. WIPRO Ltd. Navayuga Legal Estates Private Ltd.

		Topnotch Infrastructure Ltd. Infosys Technology Ltd. GMR Hyderabad International Airport Ltd. Vivo Bio Tech Ltd.
36	Kesarapalli, Andhra Pradesh	APIIC Ltd.
37	Gopannapally, Andhra Pradesh	WIPRO Ltd.
38	Nellore, Andhra Pradesh	Apache Special Economic Zone Development Private Ltd. APIIC Ltd.
39	Kakinda, Andhra Pradesh	Parry Infrastructure Company Private Ltd.
40	Chittoor, Andhra Pradesh	Sri City Private Ltd.
41	Prakasham, Andhra Pradesh	APIIC Ltd.
42	Jaipur, Rajasthan	Jaipur Special Economic Zone Mahindra World City
43	Jodhpur, Rajasthan	Jodhpur Special Economic Zone
44	Pithampur, Madhya Pradesh	Indore Special Economic Zone
45	Chandigarh, Punjab	Rajiv Gandhi Tech Park
46	Gurgaon, Haryana	DLF Cyber City DLF Ltd. Gurgaon Infospace
47	Bangalore, Karnataka	Manyata Embassy Business Park Tanglin Development Global Village WIPRO Ltd. WIPRO Ltd. (SR) Vrindavan Tech Villages Special Economic Zone Cessna Garden Developers Private Ltd. Bicon Ltd. Shyamaraju & Company

		HCL Technologies Information Technology Park Ltd. Primal Projects Private Ltd. Bagmane Construction Private Ltd. Gopalan Enterprises Private Ltd. Adarsh Prime Projects Private Ltd.
48	Belgaum, Karnataka	Quest Special Economic Zone Development Private Ltd.
49	Hasan, Karnataka	KIADB Textile KIADB Food Processing
50	Mangalore, Karnataka	Infosys Technologies Special Economic Zone Mangalore
51	Mysore, Karnataka	Infosys Technologies Special Economic Zone Mysore
52	Udupi Taluk, Karnataka	Suzlon Infrastructure Ltd.
53	Bhubaneswar, Orissa	Orissa Industries Development Corp. IT Special Economic Zone

Source: Information in table extracted from “Exports from SEZs in 2010-2011 register a growth of 43.11% over 2009-2010,” retrieved from the official website of SEZs (http://sezindia.nic.in/writereaddata/updates/Exports_31.3.11.pdf). The organization and formatting of its contents were designed by the author.

Chapter Four: Maharashtra

This chapter concentrates on Maharashtra's history and recent use of SEZs.

Maharashtra was one of the first states to enact an SEZ policy before the GoI passed the formal Act of 2005.²⁹ It is an important case: not only does it have operational SEZs, but it also had the most de-notifications of any other state in 2010-2011. This latter distinction implies that de-notification is not simply a pattern that affects states without investment advantages; rather de-notification is a risk for all states with SEZs. The chapter examines the socio-economic and political factors that appeared to contribute to de-notification in Maharashtra.

De-Notified Special Economic Zones

Maharashtra is the second largest state in India in both population and geographical area (*Overview of the State*, 2011, p. 1). Its demographics and geography match the efficiency standards that attract FDI and SEZs: "industrial and services sectors both together contribute to about 87 percent of the State's domestic product" (*Economic Survey of Maharashtra 2011-2012*, p. 1). Other socio-economic highlights in Maharashtra include:

- Maharashtra is the most industrialized state... It has become a leading automobile production hub and a major IT growth center. It boasts the largest number of special export promotion zones (SEZs).
- The literacy rate of the State is 82.9 percent as against 74 percent at national level as per census 2011.
- All weather roads connect about 97.8 percent [of] villages. It has [the] best surface transport facilities and connectivity with sea ports and airports; [this] has resulted into [a] good transport

²⁹ See Shishir Chandra, Pramod Pathak, and R. Venugopal, "Destination India: What foreign investors must know" (2000) and Tarun Dhingra, Tripti Singh, and Ambalika Sinha, "Location Strategy for Competitiveness of special economic zones: A generic framework for India" (2009). Maharashtra is mentioned multiple times as a leader in power generation and transmission (Chandra et al., p.24) and "among all the SEZs established in India, the most successful SEZs are of Mumbai" (Dhingra et al., p.274).

system. It has [the] highest installed capacity and generation of electricity in the country (*Economic Survey of Maharashtra 2011-2012*, p. 1).³⁰

These are the sorts of factors that a state must have to attract more FDI and support operational SEZs. Maharashtra's experience with SEZ policy has been longer than most states in India, and the GoI considers it a guiding example for the development of SEZs throughout the country.

In 2001, the Draft SEZ Act of Maharashtra was introduced and formally ratified in 2003 (*MEDC*, 2008, p. 54). This legislation provides a regulatory framework that supplements the central act, offers fiscal incentives for FDI, and includes "a mechanism for resolving state level matters concerned with labor and pollution authority" (*MEDC*, 2008, p. 54). The first SEZ in Maharashtra was converted from an export processing zone called the Santacruz Electronics and Export Processing Zone (SEEPZ). According to the "State Government's Policy regarding setting up of Special Economic Zones in Maharashtra" the policy applied:

... to the proposed SEZs at New Mumbai (Dronagiri), Aurangabad, Nagpur, Sinnar (District Nasik), Kagal (District Kolhapur), Guhagar (District Ratnagiri) and at any other SEZ in Maharashtra, subject to the framework for SEZs determined by Government of India from time to time (Government of Maharashtra, 2001, p. 1).

Other specifics concern environmental clearance procedures, water and power supply, state tax and duty exemptions, as well as provisions granting SEZs the title of "Industrial Townships." Most interesting about Maharashtra's township concept is that "the State Government will take appropriate steps...to enable the SEZs to function as self-

³⁰ The Economic Survey used is titled with the year "2011-2012"; however, the statistics and other information featured in this survey are the most accurate for the year 2010-2011. The Economic Survey "2010-2011" contains only "quick," "preliminary," or "advanced" *estimates*, whereas the 2011-2012 version contains more finalized/accurate findings.

governing, autonomous municipal bodies,” meaning that not only do SEZs have economic exemptions but they also receive the powers of “law and order”³¹ (Dhumal, 2001, p. 2).

Considering these features together, it is reasonable to say that Maharashtra contains relatively strong (compared to the rest of India) socio-economic and political factors that might contribute to establishing operational SEZs. When looking more closely at the data in Maharashtra’s economic survey, however, issues of intra-state variation become more apparent. For example, Maharashtra has the “best surface transport facilities and connectivity” of all states in India; yet most of the roads are concentrated in SEZ areas. According to the *Economic Survey of Maharashtra 2011-2012*, the Public Works Department reported that in 2010-2011 the following districts had the most road construction and maintenance: Mumbai, Thane, Pune, Aurangabad, Nagpur, Chandrapur, and Nagpur.³² These districts are all in close proximity to, if not supporting, an SEZ in Maharashtra. Only certain areas of Maharashtra evidently are receiving the infrastructural benefits of FDI and SEZ. The GoI has experimented with numerous liberalizing tactics to eventually eliminate poverty and increase employment.

Yet Maharashtra shows that even states with operational SEZs in pockets of affluence are not immune to de-notification. One sign of trouble for SEZ sustainability in the state came with 14 de-notification requests from developers between February 2010

³¹ In Maharashtra’s “State Government’s Policy” for setting up SEZs, “the state government shall make appropriate and exclusive arrangements within the SEZs for the maintenance of law and order” (Dhumal, 2001, p.2). The policy does not define “law and order,” but a 2010 *Indian Express* news article suggests that the township authorities would “enjoy all the powers of local bodies including basic functions such as registrations of births, deaths and marriages....All powers of local bodies would be transferred to the Township Authority...[and] the authority would be in charge of rendering all services like ensuring access to public transportation, public hospitals, maternity homes and vaccinations, markets, schools” (*Draft law gives Maharashtra*, 2010, p. 2). In summary, what were once local governmental responsibilities are transferred to SEZ industrial corporations, not elected officials. See: <http://www.cidco.maharashtra.gov.in/>

³² See *Economic Survey of Maharashtra 2011-2012*, Annexure 9.3 (p. 162)

and March 2011; this was the most de-notifications of any other state in India during the same time period. The details concerning these de-notifications are sparse; however, they came after developers acquired hundreds of hectares of land, residents were displaced, and new infrastructure was anticipated. For example, two de-notifications in Maharashtra were approved in the 42nd meeting of the Board of Approval held on September 16, 2010 and the 43rd meeting on November 18, 2010: “Request of M/s. Base Realty Private Limited for de-notification of the notified sector specific SEZ for IT/ITES at Village Hinjewadi, Taluka Mulshi, Pune, Maharashtra” (p. 8), and “Request of M/s. Ajanta Projects (India) Ltd. for de-notification of the sector specific SEZ for Pharmaceutical at Plot No. C-21, Five Star Industrial Area, Shendra, Aurangabad, Maharashtra, notified over an area of 100 hectares” (p. 5).

In order to understand the full implications of de-notification, it is important to remember that in these examples land had been formally acquired and individuals displaced. Those living in the notified areas received acquirement notices, and infrastructural development of the SEZ was underway. Thus, the de-notification process presents at the least a major inconvenience for the people living in the area. The state gives the impression that SEZs will create jobs and strengthen infrastructure, but de-notification lessens the likelihood that this will take place.

Analysis

Very little research has explored the factors contributing to de-notification. As Maharashtra demonstrates, it can occur in and impact FDI even in affluent states. Aside from the clear examples from BoA meetings, other indicators suggest that the industrial environment in Maharashtra was not as stable as publicized. According to the *Economic*

Survey of Maharashtra 2011-2012, out of the total population of 112,373,000 only 1,656,600 were employed in various industries during 2010-2011 (Annexure 10.12, p. 219). In 2010 in the state, 2,712,500 days of labor were lost during industrial disputes; this is a sharp increase compared to the 1,085,200 days in 2006 (Annexure 10.15, p. 222).

News articles published during this time make it clear that concerns about land acquisition, corruption, and the physical environment helped produce both the industrial slowdown and de-notification. Articles written by Indian national news reporters and other credible sources (*BBC news, The Guardian, The Hindu, and Times of India*) mentioned these three inter-connected factors most often as contributing to the difficulty SEZs had in preventing de-notification

Land Acquisition

At the forefront of the de-notification discussion in Maharashtra is the issue of land acquisition. As mentioned earlier, in order for an SEZ to be formally approved, notified, and become operational, developers must obtain sole ownership of the designated land for SEZ development. According to the GoI, land acquisition is justified when use of the land is for “public purposes,” including those activities within and around a SEZ. Even though the GoI has defined “public purpose” as activities involving the industrial and general development of society, the people of Maharashtra generally contend that land acquisition is taking place at a rate that is not reasonable for them to maintain their livelihoods.

For example, in April 2007, the Maharashtra state government had turned down a GoI proposal to “scale down” the size of the zone due to impending uprisings from local residents (*Can't reduce Maha*, 2007, p. 1). The developers from Reliance Industries

were constructing a 10,000 hectare multi-product SEZ; the SEZ Act 2005 stated that the minimum land area requirement for such a zone is 1,000 hectares but there is no maximum limit (*Can't reduce Maha*, 2007, p. 1). The GoI warned Maharashtra that protests in West Bengal led it to suggest a decrease in hectares, from 10,000 (approximately 24,710 acres) to 5,000 (approximately 12,355 acres), but “the state government...stuck to its stand of allowing 10,000 hectares to Maha Mumbai SEZ” (*Can't reduce Maha*, 2007, p. 1).

However, this was not the last time that residents and local activists criticized the Maha Mumbai SEZ for its land acquisition procedures.

In 2008, “over 90% of farmers in...Maharashtra...rejected a proposed Special Economic Zone (SEZ) [because] the villages stand to lose a total of 5,700 acres of land” (*Indian special zone, BBC*, p. 1). The zone, the Maha Mumbai SEZ, was set to cover more than 45 villages, and farmers worried that “the financial compensation they have been offered for the land ...is much less than the current market rate” (*Indian special zone, BBC*, p. 1). A survey was conducted on behalf of “the state government,” although it is unclear whether the results alone influenced the de-notification of the zone. “[W]hen the vote was first announced there were reports that the state government would halt the process of land acquisition if the majority of voters rejected the SEZ”; however “it was later clarified that the process was only an opinion-gathering exercise” (*Indian special zone, BBC*, p. 1). Nonetheless, the survey was one of many instances when land acquisition issues delayed an SEZ, and eventually contributed to its de-notification.

What became the tipping point for the Maha Mumbai Zone were grievances over the acquirement of “arable land” for industrial and infrastructural purposes. The SEZ,

facing difficulties completing the notification process, eventually was de-notified due to resistance over acquisition of fertile land:

Hailing the Maharashtra government decision to do away with the Maha Mumbai Special Economic Zone in Raigad and allowing farmers to utilize their land the way they wished, Janata Dal (United) president Sharad Yadav said here on Sunday, that it was high time other SEZs floated in fertile areas were also scrapped. ‘There is a conspiracy to dispossess farmers of their highly productive lands and turn them over to business people in the garb of SEZs,’ Yadav said. Large tracts of farm lands along national highways from Delhi, according to him, had been grabbed in the name of dysfunctional SEZs. He demanded their restoration to farmers....He warned of a food crisis if the country failed to check fertile land being put to non-agricultural use (*No SEZ on fertile land*, 2011, p. 1).

Once known as the state hailed for its SEZ capability, Maharashtra soon was under scrutiny from both local residents and government officials.

Arvind Kumar, Maharashtra’s IT secretary, cautioned in 2007 that SEZs were nothing but “a land grab scheme through the backdoor...SEZs are nothing but tools for the elite to grab more property and should cease to exist” (*Maharashtra No 1*, 2007, p. 1).

Kumar’s biggest concern was that SEZs that followed the land acquisition laws were “aggravating regional imbalances” by setting acquisition standards that far surpassed, for example, the individual limit of land ownership: “How have we arrived at a formula that enables [foreign companies] to own more than 100,000 hectares?” (*Maharashtra No 1*, 2007, p. 1)

The GoI does not have all of the control when it comes to SEZ development; the state governments have the opportunity to decide in what manner the central SEZ Act 2005 will take effect in different regions. Yet, these examples show that the intricate, cyclical balancing among developers, state government, and GoI can be altered in favor of special interests, such as those of land use in Maharashtra.

Another proposed SEZ that faced protest over land acquisition was located in the village of Madban, where the Nuclear Suppliers Group began acquiring land for a “10,000 megawatt nuclear power plant” (*Indian farmers battle, BBC, 2010, p. 1*). The villagers “are not just opposed to the nuclear plant in their backyard but also to nine other power projects in the region which are in various stages of being commissioned” (*Indian farmers battle, BBC, 2010, p. 1*). The power plant’s director, C.B. Jain, completed the land acquisition but “local people refuse to believe that land officially acquired...has suddenly ceased to be theirs” (*Indian farmers battle, BBC, 2010, p. 2*). Protests at the various nuclear plant sites aimed at stalling the advancement of the SEZ, and these protests over land ownership have lasted for years.

In addition, according to an article published in *Guardian Weekly* (2010), land acquisition delays caused multiple problems for the advancement of SEZs:

Despite months of negotiations, the Nuclear Power Corporation of India has still not succeeded in purchasing about 1,000 hectares at Jaitapur in Maharashtra to build a power plant station with two Areva reactors. According to a report by the federal government in 2009, about two-thirds of all infrastructure projects are delayed due to problems acquiring land. The delays can last 10 years, costing more than \$100bn, according to a study published...by the Associate Chambers of Commerce and Industry of India (*India: land ownership, pp. 1-2*).

When asked about land acquisition, state Chief Minister Vilasrao Deshmukh told *The Indian Express* in 2010, “SEZs are part of Central government policy. They have framed it after considering everything including the process for land acquisition. In Maharashtra, we are following it. On the issue of land acquisition, we have given directions that it should be done in a proper way” (*1st time in history, p. 1*). Also in 2010, “The Mukesh Ambani-promoted Navi Mumbai SEZ had sought additional time...for its three IT zones in Maharashtra. The company [had] been facing problems in land acquisition,” but the

article did not specify exactly what those problems were (*Six new SEZ*, p. 1).

Possibilities include that the acquisition involved fertile land or the amounts of compensation granted to those displaced.

Once land is acquired under the SEZ legislation, there are procedures for compensating families and individuals displaced during the acquirement process.

However, developers and those displaced frequently disagreed over the amounts of compensation.³³ In 2010, a SEZ located in Khed, Maharashtra faced such compensation inquiries:

Even as district collector Chandrakant Dalvi and revenue officials are set to begin talks for the phase-II of land acquisition for the Bharat Forge multi-product SEZ at Khed, indications are that the compensation will turn out to be costlier than phase-I. There will be a public hearing at the end of the month. Villagers are demanding compensation higher than phase-I of the acquisition...The SEZ, a 76:24 joint venture between Bharat Forge and the Maharashtra Industrial Development Corporation (MIDC), spans over 7,192 hectares across 17 villages in Pune district (*Khed SEZ*, p. 1).

The question then became not whether the land acquisition act is being followed in a “proper” manner, but whether the act needs to be changed. Indeed, land acquisition, rehabilitation, and resettlement legislation was under revision in 2011.³⁴

³³ Compensation may be monetary and/or land-for-land reimbursement. See http://business.gov.in/land/organizational_setup.php for more details regarding the land acquisition, resettlement, and rehabilitation policies under Land Acquisition Act of 1894. The resettlement and rehabilitation portion of the Act was replaced in 2003, and then amended in 2007 to address more specific grievances from tribal communities, scheduled areas, and high risk populations. The 2007 legislation states that “benefits under the policy are available to all affected persons and families whose land, property or livelihood is adversely affected by land acquisition.”

³⁴ As the data collection was coming to a close, the text of the Land Acquisition, Rehabilitation and Resettlement Bill, 2011 (currently under revision by India’s parliament) was made available at: <http://rural.nic.in/sites/downloads/general/LS%20Version%20of%20LARR%20%20Bill.pdf>. The legislation does not immediately influence land acquisition as a contributing factor to de-notification as examined here because the referenced zones on the map and in the analysis refer to the year 2010-2011, not 2011-2012. Available data that are relevant to the ramifications of the legislation for SEZs are limited; some commentators, however, have made predictions (see *New Industrial policy provides an option on land locked in SEZs*, *India Express*, 2013, p. 1; <http://www.indianexpress.com/news/-new-industrial-policy-provides-an-option-on-land-locked-in-sezs-/1068932/>).

Corruption

A second factor contributing to de-notification is the political corruption that has been reported throughout Maharashtra. It is important to note that this contributing factor is more pertinent to the slowed operationalization of SEZs rather than to their ultimate de-notification. Nonetheless, the following examples of corruption and how they slowed or stopped SEZs from becoming operational are important to consider. Local news and activist organizations in Maharashtra argue that the continuous pattern of corrupt land sales have led to rampant distrust in government officials and SEZ authorities who lead these projects. Thus they are losing support from the populace to sustain SEZs, while gaining popularity from a few high ranking investors. In particular, numerous scholars and members of grass roots organizations have criticized Maharashtra “townships,” claiming that land has been acquired for SEZ projects with insufficient oversight.

A brief summary of the “Designated Areas Act, 2010” is necessary to frame how corruption is a contributing factor.

The draft of the Maharashtra Special Economic Zones and Designated Areas Act, 2010, proposes that SEZs be made independent entities outside of the scope of local bodies like the municipal corporation or council...Once the legislation goes through, SEZ developers will enjoy all the powers of local bodies including basic functions such as registration of births, deaths and marriages. The Center okayed the Bill in April this year...Using an enabling clause in the Constitution, the state government proposed that SEZs be declared industrial townships...All powers of local bodies would be transferred to the Township Authority in which the chairman and two members will be nominated by the developer...The authority would be in charge of rendering all services like ensuring access to public transportation, public hospitals, maternity homes and vaccinations, markets, schools, public monuments, naming of streets, maintenance of open spaces, police stations, checking spread of dangerous diseases and disposal of dead (*Draft law gives Maharashtra, 2010, pp. 1-2*).

When an SEZ is labeled a township, “developers [are] allowed [to] approve their own land use and building plans...and would give the Township Authority all roles of governance” (*Draft law gives Maharashtra*, 2010, p. 2). One such township is Lavasa Hill City, located in the Mumbai-Pune corridor of Maharashtra.³⁵ Lavasa Township continues to be at the center of a debate over the role of deputy chief minister of Maharashtra Ajit Pawar, about whom it is charged “that he and his family acquired land illegally” and that “authorities had sold the land cheaply to the builders, in which Mr. Pawar’s daughter and son-in-law held shares” (*India minister, BBC*, October 19, 2012, p. 1). The report goes on to say that Pawar’s uncle, farm minister Sharad Pawar, and the other family members had breached land acquisition norms without the public’s knowledge:

Former police officer turned lawyer-activist YP Singh alleged in Mumbai on Thursday that the former deputy chief minister of Maharashtra...had “misused” his powers to give away 348 acres...of land “at throw-away” prices to the company which built the hill city in 2002....Mr. Singh said it “defied imagination how prime land could be awarded on a one-on-one basis through an internal reference, without any public auction, in flagrant disregard of Supreme Court norms.” The allegations against Mr. Pawar came a day after anti-corruption campaigners...alleged that the chief of India’s main opposition [BJP party]...was involved in a massive corruption scandal (*India minister, BBC*, October 19, 2012, p. 1).

According to the Lavasa Hill City website, construction is still underway and grand-openings for new sections of the SEZ are “on target.”³⁶ Still, tension over the legality of

³⁵ See http://www.lavasa.com/high/master_plan.aspx for pictures and further information about this SEZ Township. Since the thesis focuses on the corruption allegations surrounding this SEZ, details about the SEZ itself have not been included.

³⁶ See <http://www.lavasa.com/high/milestones.aspx> for a complete listing of the operational units, and projected operational units, of the Lavasa SEZ Township. This list does not provide detailed information about each of the units in terms of the quality of operationalization (e.g., employment, exports) contributing to the SEZ however, it illustrates that the state remains dedicated to investing in the SEZ despite the recent allegations.

Lavasa has stalled its completion, costing the state more money and time for the overall investment to produce profits that can contribute to the state's GDP.

Another instance of major corruption involving Lavasa Hill City took place in 2011 when “The Maharashtra Pollution Control Board (MPCB)... filed a criminal complaint against nine directors and six other officials of the Lavasa Corporation in a Pune court for violating environmental laws” (*Criminal complaint, The Hindu*, November 5, 2011, p. 1). The State government was responding to local complaints about the chief promoters of the project and planning officers who, “at the time the offence was committed, were directly in charge of, and responsible to, the company for the conduct of its business” (*Criminal complaint, The Hindu*, November 5, 2011, p. 1). Following the complaint, the Central Bureau of Investigation added that “various rules were bent to grant permission for the multi-[product] hill city,” and that the Special Planning Authority (designated for the Township) was diverting water “meant for Pune city... for luxury through the Warsagaon reservoir” (*CBI probe, The Hindu*, December 5, 2011, p. 1).

I discuss other environmental concerns below, but these examples provide evidence that corruption allegations slowed the progress of operationalization in the Lavasa SEZ Township. It suggests as well that the balance between public and private support for the SEZ evidently skewed toward the investors.

These allegations cast doubt on the measurable contributions of the SEZ for the local population. For example, tribal populations that have been displaced question whether their land was fairly acquired once Lavasa Hill City was deemed a township. According to an article in *The Hindu* on January 15, 2008:

The tribals, Bhandya Bhau Walhekar and his brother Babu, had approached the [High Court] seeking quashing of the June 2008 notification of Maharashtra Urban Development Department which gives Lavasa Corp powers to acquire land and act as special planning authority. The petition argued that such powers cannot be delegated to a private company. “The petitioners are not concerned with or individually affected by the notification. The petition has been filed at the instance of other purportedly public interest litigants and social workers who have been agitating against Lavasa project,” claimed the affidavit filed by Sunil Khadka, Assistant Vice—President, Lavasa. The Walhekars moved the [High Court] after the Sub—Divisional Officer issued a notice as to why action for dispossession of their ten—hectare land should not be initiated. The petition said after receiving the notice, they learnt their land had been transferred to Lavasa Corp, and based on the 2008 notification, the company was trying to take possession. It wanted the court to restrain Lavasa from dispossessing them, contending that land is their only source of income (*Lavasa corp takes objection*, p. 1).

The Lavasa Corporation contended that the two individuals filing the complaint “have no locus to file the petition since they are not owners of land in the area where the project is coming up.” However, as the previous discussion of land acquisition highlighted, it is common that vague policies without appropriate compensation criteria have been used routinely to justify the application of land acquisition regulations.

Since SEZ townships are allowed to control the land acquiring clearances, petitioners lose much of the ability to defend themselves and their property. This is not to suggest that all of the complaints from petitioners are treated unfairly; however, the accumulation of allegations about corruption in land acquisition does not attract more FDI in Maharashtra.³⁷ Furthermore, the slow progression of operationalization and de-

³⁷ Further reading about the investors for the Lavasa Hill City revealed that the same U.S. global design firm, HOK, is also designing the Khed SEZ Township in the district of Pune. It would be worthwhile to explore the degree in which HOK is aware of the land acquisition and corruption allegations that have slowed the process of operationalization, and whether this knowledge influences their willingness to fund the development of SEZs. This question is beyond the scope of this thesis; however it contributes to the discussion of SEZ sustainability because it targets the tension India’s political economy faces between economic growth and social stability as SEZs become more developed. See <http://www.hok.com/design/region/india/khed-special-economic-zone-/> and <http://www.hok.com/design/region/india/lavasa-hill-station-master-plan/>

notification not only have a negative impact on the state economy; they also produce questions about whether the push toward modern development is worth the social costs in land rights, legality and, as the next sub-section illustrates, survival of the natural environment.

Environment

The discussion of environmental factors contributing to the de-notification of SEZs in Maharashtra is two-fold. First, many argue that the “ancestral beauty” of the state’s horticulture is too precious to allow such large SEZs to become operational. Second, from others’ perspective, the safety of Maharashtra’s populace is being compromised as SEZ developers and government officials plan more nuclear-power zones in “fragile” ecosystems throughout the state. Again, the physical environment is closely intertwined with the previous factors of land acquisition and corruption; however, distinct examples confirm that environmental problems have influenced slowing of SEZs becoming operational and their de-notification. Matters relating to land laws are primarily dealt with at the state level; however SEZs present a fragmented relationship between national and state policies. Opinions related to land use are guided by state level policies which are at times in contention with the national scheme. Maharashtra is the best example of this because debates over the state’s environment policies have slowed projects to a standstill, and some projects do not have a projected resuming date.

In the village of Madban, Jaitapur, for instance, plans for a private-public partnership (PPP) between the GoI and Areva, a French nuclear company, caused major concern for those living along the coastline. The *BBC* reported in 2010 that:

The French nuclear company...is set to install six nuclear reactors...in this part of the coastline...Campaigner Mr. Gavhankar...argues that the

government would do well to look at other alternatives to produce electricity. “We are not against progress.... You can make solar energy from sunlight, wind energy from air and the water in this long coast of the Arabian sea produces enough waves to generate thousands of megawatts of power.” Adwait Pednekar, a security expert in the energy sector, is opposing the nuclear plant because of the dangers he says that it poses. “First is the impact on the environment and the long term impact because of radioactivity on human beings and biodiversity, including sea life.... The entire area taken by the government is quite productive in terms of horticulture and all that will be lost” (*Indian farmers battle, BBC, March 16, 2010, pp. 1-2*).

Other environmental groups such as Greenpeace supported the petitioners, “arguing that the area is environmentally and ecologically sensitive.” Yet, the nuclear power plant’s director, C.B. Jain, did not seem worried, stating: “We are very much excited that we are going to implement this particular plan of the government of India very soon” (*Indian farmers battle, BBC, March 16, 2010, p. 1*). In 2011, though, another *BBC* report noted that the numbers of petitions against this nuclear SEZ had grown, and that the zone faced harsh criticism:

Praveen Gavhankar, a farmer and fruit transporter, said he and thousands of villagers in western Maharashtra, had become totally frustrated over the government’s determination to allow the construction of six large reactors at Jaitapur, in an active earthquake zone.... There is sharp disagreement between the authorities and independent experts about how severe the earthquake risk is for Jaitapur.... The Nuclear Power Corporation of India, which runs the country’s civil reactors, has claimed the Jaitapur site lies in earthquake Zone 3. The risk scale runs from 1 to 5 – with Zone 5 denoting severe risk. But the BBC had been told by a leading expert on the geology of Maharashtra that the planned nuclear site falls into an area of higher risk – Zone 4 (*Fears rise in India, BBC, O’Halloran, April 27, 2011, p. 2*).

Retired university professor Dr. M.K. Prabhu also voiced concern over the location of the SEZ: “As far as geology is concerned it is not a stable area” (*Fears rise in India, BBC, O’Halloran, April 27, 2011, p. 1*). Because of these concerns and their amplification

following the Fukushima crisis in Japan in 2011, construction of the zone was placed on hold for further environmental review.

In spring 2013, the Jaitapur nuclear zone remains under an environmental hold as government officials debate the soundness of the zone in its planned location. As with other development projects, there are at least two sides to the debate. For example, “One local leader... says that the two older units, dating from 1969, and supplied by the American engineering giant, General Electric, have already run for 16 years longer than their designed lives” (*Fears rise in India, BBC, O’Halloran, April 27, 2011, p. 1*).

Former nuclear safety regulator Dr. A. Gopalkrishnan “revealed that he had been told in 1995 by American nuclear authorities that India would be well advised to close the reactors” (*Fears rise in India, BBC, O’Halloran, April 27, 2011, p. 1*). Yet, the current chairman of India’s Atomic Energy Regulatory Board (2011), S.S. Bajaj, “says that safety upgrades were made to the reactors about 10 years ago, to lower the risks in case of a total loss of power or ‘station blackout....Now after this Fukushima accident we are reviewing the safety of all our plants’” (*Fears rise in India, BBC, O’Halloran, April 27, 2011, p. 1*). This back and forth between officials and the local populace did not go unnoticed by local news groups. Again, the SEZ and possible economic growth have stalled.

Even though the national initiative to create more SEZs continues, increased numbers of GoI and state politicians as well as local leaders have successfully halted SEZ development, thus delaying and even de-notifying SEZ projects. Advocates of SEZs, for example, have criticized an environmental advocate in the GoI for creating expensive delays. The decisions of India’s environment ministry leader, Jairam Ramesh, have

“pitted him against big business and his ministerial colleagues” (*Raman, Jairam in mining war, The Times of India*, June 7, 2010, p. 1):

In several instances he (Jairam Ramesh) has blocked major industrial development on environmental grounds, angering those who say such projects [SEZs] would boost India’s economy....But over the past year, Mr. Ramesh will probably be remembered for saying “no” more often than he has said “yes.” And in recent weeks, Mr. Ramesh’s ministry stopped the construction of a luxury housing complex on a hill station close to the western city of Mumbai (Bombay), saying it had not secured requisite environmental clearances. Environmentalist Vandana Shiva says Mr. Ramesh is the first environment minister who is “doing what he is expected to do... [and] he realizes that a political balance has to be struck between unchecked liberalization and demands of the local people.”...Some of the decisions by his ministry have become embroiled in controversy – especially those projects which have been cleared by the state governments, raising questions about whether federal laws can override state laws (*Raman, Jairam in mining war, The Times of India*, June 7, 2010, p. 2).

Returning to the Lavasa Hill City example, environmental concerns stopped the progress of the SEZ in 2010-2011. The Bombay High Court (which has state jurisdiction for Maharashtra) ruled in 2010 that construction and work within the zone had to come to a complete stop because of “serious violations of the EIA [Environment Impact Assessment] notification that can’t be ignored” (*MoEF again asks, The Times of India*, December 15, 2010, p. 1). The developers had an opportunity to gather more information supporting the project. The critical issue, however, was Lavasa’s compliance with environmental clearance regulations:

The MoEF [Ministry of Environment and Forests] acknowledged that the Maharashtra government issued environmental clearance in March, 2004, and the Pune collector approved a layout plan in August, 2006, but Lavasa had not been able [to] show compliance with the EIA notification. There had been a “deterioration of the environmental status of the area” and the construction activity would “seriously damage the water quality and availability in the reservoir,” the MoEF said (*MoEF again asks, The Times of India*, December 15, 2010, p. 1).

A large part of the Lavasa SEZ project that worried environmentalists was that it was “affecting drinking water source[s] to downstream areas including Pune, stone crushing was ‘polluting the entire valley, particularly the air quality, noise and vibrations’” (*MoEF asks again, The Times of India*, December 15, 2010, p. 1). The development’s erosion of “biodiversity” was expected to “change the storm water drainage system leading to flooding”; thus Lavasa had to discontinue all SEZ activity until these environmental complications were resolved (*MoEF again asks, The Times of India*, December 15, 2010, p. 1).

Within the time frame of this study, the most current information regarding the operational status of Lavasa City described the zone still experiencing a work delay in 2011:

Environment minister Jairam Ramesh and promoters of Lavasa city project have begun negotiations....Chairman and managing director of Hindustan Construction Corporation, promoter of Lavasa city project, and other officials met Ramesh at the latter’s office....The ministry has halted work at the site...for alleged violation of environmental norms. It had said that it would consider resumption of work if the promoters complied with conditions set by the ministry (*Lavasa promoters, The Times of India*, January 25, 2011, p. 1).

Observers noted that Ramesh has no intention of lessening his oversight.

It was not until late 2011 that the Ministry of Environment and Forests (MoEF) granted Lavasa clearance for construction to continue but problems have arisen. In the latest hearing examined, Lavasa Corporation, the MoEF, and petitioners considered whether the new debate should be transferred to the National Green Tribunal or heard by the High Court. The discussions revolved around the claim that, even with the MoEF’s latest clearance, “the MoEF had given the nod to the first phase of Lavasa despite it

fulfilling only two of the five pre-conditions” (*MoEF clearance, The Hindu*, December 13, 2011, p. 1).

Conclusion

The disputes circling around the necessary environmental clearances did not, at the time of this research, appear to suggest the ultimate de-notification of the Lavasa Hill City SEZ. However, as the evidence presented here indicates, the interconnected policy decisions about land acquisition, corruption, and environmental standards slowed the operationalization process, costing money and staffing resources, as well as leading to de-notifications in some instances. The economic atmosphere that these three factors fostered was too unstable for SEZ plans to operate most effectively in Maharashtra. This in turn suggests that policy alterations might provide a more stable economic environment for investment.

A discussion of such changes appears in Chapter Six. First, however, attention turns to explore how these same factors contributed to the lack of operational SEZs in Goa.

Chapter Five: Goa

Initially, Goa seemed as though it would soon adopt SEZs and thus would be a useful comparison to Maharashtra. First, Goa is surrounded by states that have policies associated with SEZ development and operational SEZs; according to previous work a factor related to establishing FDI is the “agglomeration” of investment in nearby areas, making Goa a prime setting. Secondly, Goa is located on the coast of India, with easily accessible ports. Third, the state has been a tourist destination for individuals from all over the world, and this source of income has allowed it to reach a level on the Human Development Index that surpasses Maharashtra’s.³⁸

Even with these favorable pre-conditions, however, Goa does not and likely *will not* have operational SEZs. In-depth exploration of news periodicals from 2007 through 2012 shows that because of strong objections to SEZs in Goa, the term “de-notification” was integrated into the GoI Act/Rules for SEZs.³⁹ The factors analyzed here not only slowed the adoption and implementation of SEZs, but ultimately stopped SEZ development altogether. This chapter examines the socio-economic and political factors that appeared to contribute to not allowing SEZs in Goa. Chapter Six compares these dynamics to those in Maharashtra.

Absence of Operational Special Economic Zones

Even though Goa is the smallest state in India, it contains vast amounts of natural resources that have the potential to contribute to economic growth. In particular, the mining industry has brought considerable amounts of investment and exports to China;

³⁸ According to the *Economic Survey of Maharashtra 2011-2012*, Goa ranked third as of 2011 with a HDI of 0.617 (p. 226), and Maharashtra ranked fifth (see footnote 7).

³⁹ See “Govt considering de-notification rules for SEZs,” *The Times of India*, June 9, 2009 and “Goa Cabinet withdraws SEZ policy,” *Business Standard*, July 24, 2009.

but the associated environmental degradation has slowed this source of income considerably.⁴⁰ Although having one of the highest literacy rates in the country (87.40% in 2011), Goa still lags in basic infrastructure such as sewerage and water supply (*Economic Survey of Goa 2012-2013*, p. 3). SEZ initiatives that began taking shape as early as 2007 sought to address the state deficit. Yet, as described below, the 2006 Goa SEZ Policy soon was replaced by another approach to control business and trade ventures.

Analysis

Many relevant socio-economic indicators for Goa have not been updated. In the *Maharashtra Economic Survey 2011-2012*, for example, information on access to drinking water, employment, and levels of poverty in Goa had not been updated since, on average, 2009⁴¹; indicators such as these were not available in the *Goa Economic Survey 2012-2013*. Despite these gaps, the evidence examined below suggests that the same factors contributing to de-notification in Maharashtra also were associated with the Goan government's decision not to allow SEZs in the state.

Land Acquisition

Even though Goa has a small land area (4,000 square kilometers or 988,422 acres), the GoI and the Goa state government still planned to establish SEZs to gain the

⁴⁰ See "Environment" below.

⁴¹ Compare the annexures of the *Maharashtra Economic Survey 2011-2012*, pp. 243-248, to those in the *Goa Economic Survey 2012-2013*, pp. 106-152. The annexures highlight important socio-economic indicators (some of which could have framed the discussion of SEZ development more precisely) throughout Goa in a confusing manner; some indicators are clearer in the former document than the latter. The inconsistencies in data gathering on the part of the states is most likely due to the recent, and not yet fully enforced, "Right to Information Act 2005." GoI evidently is stricter than China's government when it comes to releasing possibly "damaging" information about the nation, so some of these gaps in indicators may have been purposeful. See (http://www.economist.com/blogs/dailychart/2011/05/indian_pakistani_and_chinese_border_disputes).

same economic growth benefits that other states hoped to achieve. In 2007 the governments jointly announced their formal approval of 15 SEZs in the 2006 Goa Policy:

Of the proposed SEZs, 7 are IT/ITES, 3 related to bio-tech, one each from [pharmaceuticals], research and food parks, and 2 for gems and jewelry. 98 lakh square meters of land has already been allotted by the state government for SEZs, while the procedure for allotting an additional 1.27 crore square meters is in process (*SEZs in Goa*, 2007, p. 1).

In early 2008, however, attention turned to the debate between the national and state governments over land acquisition. At first the focus was not that land acquisition per se was causing SEZ delays, but rather the two governments⁴² disagreed over the size and consequences of land acquisition.

The [United Progressive Alliance] will lose credibility if it is not able to keep its commitment to industry on maintaining policy stability....Of the 15 proposed SEZs three have already been notified by the Center after the state government earlier recommended them. The other 12 SEZs too have been recommended by the state government but remain to be notified. However, the land has been formally allotted in the case of all the SEZs. In the case of SEZs already notified construction is under way and investments worth Rs [rupee] 500 crore are in the pipeline. Equipment has already been imported at zero duty by one of the SEZs being set up by a well-known pharmaceutical company....Legally, the state government just cannot cancel SEZs which have already been notified and where work has started....However, since land use is a state subject, the Goa government will try to cancel the SEZs which have not been notified (*SEZ who?*, *Indian Express*, January 3, 2008, p. 1).

At the time, GoI officials believed that SEZs were the driving force behind economic development, and that the GoI would look “weak” if it backed down from its SEZ policy (*SEZ who?*, *Indian Express*, January 3, 2008, p. 1). In December 2008, the Goa government again approached the GoI about canceling all 15 of the SEZs, including three that were notified. But the GoI contended that the zones could not be challenged because they were legally “approved under the SEZ Act of 2005” (*SEZ issue*, *Indian Express*,

⁴² Both governments at the time were led by the Congress Party, which is a member within the United Progressive Alliance.

June 5, 2008, p. 1). In 2009, however, the Goa government stopped the development of SEZs.

Three years after it enacted SEZ policy, the Goa cabinet withdrew it contending that the policy would “have put a strain on state’s resources” (*Goa Cabinet, Business Standard*, June 15, 2009, p. 1). Of greatest concern, Chief Minister Digamber Kamat told the GoI assembly: “Goa being a small state, making huge land [plots] available for SEZ would adversely affect the future development plan of the state” (*Goa Cabinet, Business Standard*, June 15, 2009, p. 1). Due to the vast extent of land needed for SEZ construction, the Chief Minister predicted that the “zones would trigger [a] large migration of people” into Goa seeking work in the zones, but the state did not have the space to respond to the increase in population (*Goa Cabinet, Business Standard*, June 15, 2009, p. 1).

SEZ promoters in Goa did not back down without a fight. With the support of the Goa Industries Development Corporation (GIDC), all had land allotted to them in 2006 when SEZs were first considered (*Centre dares Goa, Economic Times*, January 3, 2008, p. 1). Yet, the Goa government decided to end all SEZ plans in the state because of strong resistance from the general population:

The Goa government had decided to scrap all SEZs in the state following widespread political protests initiated by the BJP and subsequently endorsed by the Congress, NCP and the Catholic Church. There have been protests against individual SEZs in a number of states including West Bengal, Maharashtra and Haryana. However, Goa is the first state where the entire policy is being challenged (*Centre dares Goa, Economic Times*, January 3, 2008, p. 1).

Rather than instituting statewide SEZ usage, the Goa Industrial Development Corporation (GIDC) offered tax concessions and other incentives for small and medium-sized

investment endeavors throughout the state.⁴³ Because the 2005 SEZ Act required land acquisition minimums for certain SEZs, Goa was not able to meet such demands due to its small size.

Yet, concerns remain even with GIDC initiatives that mimic many SEZ protocols. This is illustrated best by reports of numerous corruption scandals that flooded the press as land was being transitioned from SEZ projects to smaller investment undertakings.

Corruption

At the time the Goa government grappled with the GoI over the decision to end all SEZ projects, the GIDC was accused of aiding illegal land acquisition:

SVM, an umbrella of anti-SEZ organizations, has filed a public interest litigation (PIL) against the Goa State Industrial Development Corporation for making allegedly fraudulent deals with real estate majors. This is being heard before the high court along with other cases challenging the state government's move to scrap approved economic zones (*HC defers, Economic Times*, October 14, 2008, p. 1).

It was not until 2012 that the Anti-Corruption Bureau (ACB) of Goa was called in (“but no official nor any politician was named in the complaint”) to investigate “the illegal allotment of 30 lakh square meters of land to Special Economic Zone (SEZ) stakeholders by Goa Industrial Development Corporation...in 2006” (*GIDC illegalities, Goacom*, October 19, 2012, p. 1). An anonymous GIDC member evidently called the ACB's attention to the case, even though the illegal allotment had been approved years earlier:

An ACB source said scrutiny of documents itself took a lot of time as they had to go through many files...and would now begin interrogation of people who are allegedly responsible for illegal allotment...GIDC was headed by Quepem MLA Chandrakant Babu Kavlekar when huge tracts of

⁴³ See <http://www.goaidc.com/coreinformation.html> for more information about Goa's industrial estates. It was beyond the scope of this research to delve into these estates, but according to information on the website, they have taken on many of the same qualities, incentives, and investment (PPP) ideas of the SEZ Act 2005. The primary difference between the estates and SEZs is the size of land plots utilized for investment.

industrial land was illegally allotted to seven SEZ promoters who approached [the] state government with plans to set up SEZs in Keri, Sancoale and Verna industrial estate. The decision to allot land to SEZ promoters was made at an April 19, 2006 meeting even as members were not given clear notice of seven days. Moreover, agenda for the meeting was circulated among board members only on April 18, 2006 (*GIDC illegalities, Goacom*, October 19, 2012, p. 1).

Due to this investigation, the GIDC, “which received much flak for alleged illegal allotment of plots to some of its employees and members of the board,” was forced to pass stricter regulations (*GIDC puts transfer, Times of India*, December 5, 2012, p. 1). Specifically, the transfer of plots among investors and others required a stronger policy framework:

“As there were no regulations in place, it left a lot of scope for favoritism,” said Hashmi [GIDC’s managing director]. Currently, GIDC is grappling with the problem of how to take back plots in possession of some employees. Two months ago, 11 GIDC employees were slapped with notices asking them either to surrender the plots gained by them illegally or face action. The ultimatum issued has not helped GIDC in getting the plots back as just three allottees have so far offered to surrender the plots (*GIDC puts transfer, Times of India*, December 5, 2012, p. 1).

In 2012, the GIDC continued to deal with allottees who maintained that their plots were being “sub-let, creating a third party interest,” making their surrender more difficult to justify. Meanwhile, other corruption scandals concerning how acquired land was used appeared throughout Goa (*GIDC puts transfer, Times of India*, December 5, 2012, p. 1).

Aside from the alleged distribution of acquired land in “real estate” ventures, the main accusations of corruption accusations involve the mining industry in Goa.

Reflecting the “resource curse, as many economists describe the dichotomy of the poorest living on the richest lands,” tribal people in Goa are concerned that their native lands and sources of livelihood are being swept up in a continuing cycle of illegal mining (*Why*

mining, BBC News, August 11, 2011, p. 1). What is most striking in these cases is that, although the SEZ Act of 2005 instituted a resettlement and rehabilitation plan, GIDC mining projects do not contain such programs.

Over the last two decades, India has opened up mining to private companies without strong and independent regulation....No wonder that for many in India, mining has come to epitomize the ugly underbelly of economic liberalization....The government itself concedes mining will continue to contribute to social dissatisfaction and unrest. India cannot afford to stop mining if its economy has to grow. But it needs stronger regulation and a fair deal to the communities that live on lands rich in minerals (*Why mining, BBC News, August 11, 2011, p. 1*).

Goa is a prime exporter of iron ore, and it has been under scrutiny for illegal mining practices. According to the *BBC News*, “nearly half the iron ore exported from...Goa is illegally mined,” but Goa politicians “deny wrongdoing” (*India: Report alleges, October 6, 2011, p. 1*). The leader of the state opposition party who also was the chairman of the state’s public accounts committee, Manohar Parrikar, compiled the data on which the news report was based (*India: Report alleges, BBC News, October 6, 2011, p. 1*). Such claims underscored the financial asymmetry between investors and local residents in SEZ projects:

The report is believed to claim that the illegal export of illicitly mined ore has caused huge losses to the state exchequer, with some estimates saying this scandal could have cost about \$712 million. The report is also believed to hint at the involvement of politicians, bureaucrats and mining lobbies....Correspondents say it is now up to the speaker to decide whether to table to report in the assembly or not. “Of the 54 million [tons] of iron ore exported this year, 30 million...is legal, and the rest- more than 20 million...is illegal” (*India: Report alleges, BBC News, October 6, 2011, p. 1*).

The inquiry revealed that the actual cost of the illegal mining was much higher than anticipated:

... illegal mining had cost more than \$6 billion... in five years... Correspondents say Goa's \$4.5 billion... a year iron-ore industry has been mired in controversies for some time. In his report last week, Justice Shah blamed the state and central governments for the scandal in addition to private miners. They had plundered the natural resources and facilitated an "unrestricted, unchecked and unregulated export of iron ore to China," [Shah] said (*Goa iron mines, BBC News, 2012, p. 1*).

Even though "India is the third-largest exporter of iron ore in the world," the allegations of illegal mining seriously hampered Goa's economic growth (*Goa iron mines, BBC News, September 11, 2012, p. 1*).

Although the GIDC had given licenses to 90 mine projects, all were closed following the report. Yet the mines were closed for reasons beyond corruption; environmental problems also appeared.

Environment

News sources mentioned environmental concerns only intermittently. However, the stories covering the Goa environment appeared to be consistent with the need for conservation rather than greater industrial development. According to the *Maharashtra Economic Survey 2011-2012*, forest covered 59.9% of Goa (p. 242). This statistic mirrors the conservation priorities that some Goan residents support:

On the crest of a north Goan hill is a view few tourists see – only an hour's drive from its world-famous beaches. Far into the distance, its forested hills are scarred by giant mining pits, some hundreds of meters deep. An army of machines claw at the sides, digging out iron ore to feed Goa's mining boom (*India's controversial iron, BBC News, November 14, 2011, p. 1*).

Closely aligned with the corruption allegations, questions about the environmental degradation of Goa's geographical beauty mounted as the mining boom contributed to fast profits. The mineral reserves in Goa were being tapped at a rate that led some environmentalists to question whether and how the state government regulated mining:

...when Beijing won the 2008 Olympics, China's surging demand for steel was too good an opportunity for Goa's iron or industry to miss. But with bumper profits from China have come charges of rampant over-mining, environmental devastation and widespread corruption... Activists claim dust and other pollution from mining operations is causing breathing difficulties in local children (*India's controversial iron, BBC News*, November 14, 2011, p. 1).

Another concern was the "fate of Goa's dwindling tiger population" (*India's controversial iron, BBC News*, November 14, 2011, p. 2).

Campaigners say the mining lobby has been resisting efforts to give the tigers better protection, because of rich iron ore seams near their reserves. Several mines 'would have to close,' an industry-insider admits, if a proposed [6 miles] buffer zone around the Mhadei tiger reserve is enforced. Goa's \$4.5 [billion] a year iron-ore industry is now in crisis mode, attempting a rapid image brush-up (*India's controversial iron, BBC News*, November 14, 2011, p. 3).

With the further destruction of Goa's environment, "public relations advisers [were] flown in from Mumbai, flourishing figures of how many jobs mining generates in Goa...and how much cash it puts into state coffers" (*India's controversial iron, BBC News*, November 14, 2011, p. 3). Despite the publicity given to the mines' job and cash-flow benefits, the Goa government ultimately halted all mining activities. It made "no sense to be selling so much of [Goa's] mineral wealth abroad, making China a superpower, at the cost of the destruction of Goa" (*India's controversial iron, BBC News*, November, 14, 2011, p. 3).

Conclusion

It is difficult to say irrefutably which of the contributing factors had the strongest sway in Goa's decision not to have SEZs in the state. It is clear, however, that the three factors (concerns over land acquisition, corruption, and the environment) combined to

undermine support for SEZ policy. The concluding chapter continues examination of these factors.

Chapter Six: Conclusion

After briefly summarizing the study's findings, this chapter examines the implications of the factors that contributed to de-notification in Maharashtra and to the lack of SEZs in Goa. The discussion highlights the tension between the economic growth and the social costs that previous chapters explored and how such consequences may influence the future of India's liberalizing policies. In doing so, it addresses several questions. Are SEZs desirable for all the states of India? Can supplemental land policy changes aid SEZ development? Is it time for India to reconsider its use of SEZs as a policy for all states?

Land acquisition problems, corruption, and environmental difficulties all were associated with Maharashtra's de-notifications and Goa's lack of operational SEZs. Although differing in time and circumstance, it is clear that both states experienced difficulties while trying to implement the 2005 SEZ Act. Most importantly, the analysis demonstrates that even though the GoI instituted SEZs for all states, the state governments along with many residents had differing desires for how economic growth was to be achieved. Although it is too soon to predict the ultimate fate of SEZs in India, this analysis points to some of the major obstacles that have slowed economic growth in Maharashtra and Goa.

At the outset, it is important to re-visit the limitations of this study. Information was limited both by what was available and by my inability to travel to India. Although the sources used are credible, working with mostly news articles and reports complicated synthesizing similar stories mentioning the same factors, especially when most reports were rather short.

With confounding reports about how the development and operationalization of SEZs have helped and harmed the Indian economy, the comparison of Maharashtra's and Goa's experiences raises still more questions. Evidence from both states indicates that land acquisition processes, corruption, and environmental clearances slowed the pace of SEZ development. Perhaps the most striking finding was that Goa did not lag behind in adopting SEZs; rather, it had already begun to search for and implement alternatives. Future research might examine whether Maharashtra, in the areas where strong resistance to SEZ development has emerged (such as along the coast), has considering adopting similar policies that support economic incentives for small and medium-sized industries rather than larger SEZs. This assumes, of course, that land acquisition was the primary reason why Indians living in Maharashtra and Goa resisted SEZs, but further study could explore this expectation.

The process of land acquisition was without a doubt the strongest factor in Maharashtra and Goa that limited the development and operationalization of SEZs. Goa lacked the acreage suitable for SEZs, while Maharashtra's experience reflected ongoing problems between farmers and project developers. Delhi *BBC News* correspondent Soutik Biswas summarized this crippling reality on September 14, 2011 in an article reporting on India's amended Land Acquisition legislation that was under revision in August 2013 in parliament:

In recent years, farmers have clashed with the police while resisting efforts by the government to take over their land for factories and housing, challenged the setting up of vast special economic zones, and even [closed] a car factory being built on farmland acquired by the government. Scenting votes, politicians have rushed in to commiserate with irate farmers protesting at the takeover of their land (*Land bill: A new deal for farmers?* p. 1).

Even though India's agricultural productivity has decreased steadily over the years, "more than 70% of Indians continue to live off the [farmland]. They have primordial and cultural links with land; land gives them dignity and security. All this makes land an explosive issue, both socially and politically" (Biswas, 2011, p. 1). In both Maharashtra and Goa, individuals living in rural areas worried about how SEZ land acquirement would negatively impact their livelihoods. According to Biswas, however, the amended Land Acquisition bill has the potential to bring about substantial changes in how land is acquired and rural dwellers compensated:

It proposes a fairer deal for land owners by giving them better compensation, expands the rights of those displaced and limits acquisitions to so-called "public purposes." Two examples of how the radical new law would work: it proposes to pay farmers up to six times more than the market rate for land; and contains a key stipulation requiring the consent of 80% of land owners for their land to be sold for industry (Biswas, 2011, p. 1).

These concerns are the same ones that plagued the land acquisition policy from the onset of development projects in India. Biswas estimated that "40 million people in India have been displaced by land takeovers for developmental projects....an alarming 75% of them are still awaiting rehabilitation" (2011, p. 1). The proposed legislation also would provide more specific compensation to disadvantaged groups such as tribal people, forest dwellers and non-land owning farm workers.

These sweeping changes are an improvement over the 1894 Act. However, the states will continue to experience tensions over land acquisition. For the economy to grow there need to be more industries, and industries will necessitate more land:

Industry groups are already saying they need government help in acquisition and rehabilitation, clearer definition of public purpose, [and] greater clarity of what constitutes industrialization where benefits accrue to people....Economist Pranab Bardhan says the entire process of land

transfer, including compensation and resettlement, should be handed over to an independent...regulatory board to ensure that it is free from political influence....Would the new law end up creating more road blocks and bureaucracy so it ends up stifling industry further? As India's leading land expert, Debabrata Bandopadhyay, says: "Let it get implemented and see how it works" (Biswas, 2011, p. 2).

Some argue that this "trial and error" pattern of land acquisition protocols is a necessary step for India to modernize. Yet, as Maharashtra and Goa illustrate, changes in the required acreage for SEZs may make the issue of land acquisition less contentious. It would take further research into the experiences of other states to understand the full extent to which land acquisition produced positive economic growth in comparison to negative social repercussions.

Local leaders and opposition politicians instigated the protests in Maharashtra and Goa that uncovered the illegal usage of land. Rather than plots being used for SEZ infrastructure, they were sold among bureaucrats and their families. I found evidence of allegations against those participating in the scandals, but the repetitive pattern of reports suggests a larger problem among elected officials who say economic development is imperative but at the same time make questionable deals with private foreign investors.

What India doesn't have is a bipartisan, mature political consensus on the direction that the economy must take. How can a small group of politicians in the parliament stymie major reforms? Has India's politics and economy become hostage to petty interests, helped abundantly by a government which is seen as effete and weak (*Is the India growth story*, *BBC News*, June 1, 2011, p. 2).

From what can be inferred from the data collected in the Maharashtra and Goa cases, interests favoring sector specific industries have led to public backlash against SEZs. In Maharashtra, one project, a city initiative that was a joint venture between the state government and a private U.S. architectural company, has been stalled for years due

to allegations about the distribution of allotted land among related politicians. In this case, residents had been told that the land was acquired for “processing” and “non-processing” areas for the SEZ. In reality the plots were being sold secretly as real estate to politicians. It is too soon to tell what will come of these allegations and whether the officials involved will step down. Yet, it is clear that simply taking the land under acquirement laws is not the only issue causing SEZ strife: residents also question the actual usage of the land.

What does not help in spurring further SEZ development and sustainability, as the Goa mining projects illustrate, is the dwindling level of voter trust in elected officials. As local citizens are dislocated and their land undergoes dramatic environmental changes, few who are displaced believe that their future is being improved.

Most of them [i.e. the displaced] don't trust commercial developers and government intermediaries. Many feel industrialization will not bring them any benefits: they fear their children may not get jobs or be qualified enough for them in the factories that are built. Since their banking habits are rudimentary, they are not empowered enough to prudently invest money that may come from selling off their land (Biswas, 2011, p. 1).

One possibility that could set the state governments on a smoother developmental path is if the economic growth, construction, and employment opportunities of SEZs were supplemented with stronger social services that would boost inhabitants' ability to participate in the process. Even when SEZs are established, local residents often do not qualify for the available jobs.

Responses to an Associated Chambers of Commerce and Industry of India (ASSOCHAM) survey support developers' demand for more training of local Indians to fill voids in the workforce:

The ASSOCHAM...survey also highlights glaring deficiencies in terms of recruitment of skilled [labor]. Seventy percent of corporates have felt that low labor is available at extremely competitive conditions in India, availability of skilled labor will remain a problem until systems are evolved by state-owned investments for imparting skills to a vast section of [the] labor pool (*Delay Projects' Execution, ASSOCHAM BIZCON, 2010, p. 1*).

The lack of improvement in educational programs throughout the country has created the worst dead-end of all: absence of skilled workforces will end the possibilities for SEZs to remain operational. As another ASSOCHAM study reported: “About 90 percent of the current jobs...are skill-based and require vocational and management training, but only 6 percent of the population receive any form of vocational training” (*Service sector in India, ASSOCHAM, 2010, p. 1*). If the GoI, working with state governments, can create an SEZ plan that relaxes land acquisition requirements, creates less corruption, provides more environmental oversight, and reinforces sector-specific education and training, SEZs may have better chances to generate sustainable economic growth for India.

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