

**Special Economic Zones (SEZs) and Their Implication on Urban Management and Regional Planning in India\***

**1.0 Background**

Under the new industrial policy announced in 2002 and the export-import policy announced thereafter, SEZs have been sought to be created in several parts of the country for promoting industrial production and export growth. Their strategic view was looking to target foreign investors in combination with domestic suppliers, in order to make major inroads into world markets. SEZ Act, 2005 was passed by Parliament in May 2005 and received Presidential assent on 23<sup>rd</sup> June 2005. A large number SEZs have been given in-principle approvals, in different parts of India. This note discusses urban management and regional impact of SEZs in India.

**2.0 Profile of proposed SEZs**

The Act provides for drastic simplification of procedures and for single window clearance on matters relating to central as well as state governments for generating additional economic activity; promoting exports of goods and services, investment for domestic and foreign sources; creating employment opportunities; and developing infrastructure facilities. Single Window SEZ approval mechanism is provided through a 19 member inter-ministerial SEZ Board of Approval (BoA)\*\*. The Board of Approval is the apex body. The powers & function of BoA is granting of approvals, rejecting or modifying proposals submitted for establishment of Special Economic Zones and provision of infrastructure. Once approved the Central Government notifies the area of the SEZ and units are allowed to be set up in the SEZ. Each SEZ is headed by a Development Commissioner.

The first SEZ creation proposal came from Gujarat State to set up SEZ in Kandla. Subsequently, the proposal came from other states of India.

As many as 439 SEZs have been approved in principle out of which 198 have been notified till 8 March, 2008. The highest approval were accorded to state of Maharashtra followed by Andhra Pradesh and Tamil Nadu. Most of these are located in coastal areas where transportation and other supporting infrastructure facilities are available for export processing.

As can be seen from the details of the 439 SEZs in India, the smaller ones constitutes major proportion of SEZs. 19 SEZs have area more than 1000 hectares and covering more than half of the total area under SEZs. Only 26 SEZs have area between 200 and 500 hectares.

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\* Note prepared by Prof. Chetan Vaidya and Prof. V.K.Dhar of NIUA

\*\*BOA constituted under sub-section (1) of Section 8 of SEZ Act, 2005

**Table 1 : Area-wise SEZs Distribution**

Area (ha)	Number	Total Area (ha)
Up to 49	279	5352.8
50-100	39	3159.9
101-200	74	9021.2
201-500	26	7313.1
501-1000	2	1228.0
1000+	19	28432.6
<b>Total</b>	<b>439</b>	<b>54507.6</b>

Source: SEZ India, NIC

The distribution of SEZs which have area more than 50 hectares shows that out of 160 SEZs nearly 113 or 70 per cent accounts for the SEZs having area less than 200 hectares. More than 85 per cent of SEZs having area of more than 1000 hectares are developed in multi product sector while nearly 63 per cent of total approved SEZs are developed in IT/ITeS sector.

**Table 2 : Medium & Large SEZs Sector wise Distribution\***

S.NO	Formal Approvals	Sector	50-100 ha.	101-200 ha.	201-500 ha.	501-1000 ha.	1000+	Total Nos.
1	20	Multi Product			3		17	20
2	275	IT/Electronic Hardware	21	8	5			34
3	19	Pharma / Chemicals	2	13	3			18
4	18	Textiles/Wool	2	10	3			15
5	14	Multy-services	2	7	4			13
6	16	Engineering	2	8	2			12
7	6	Metal / Stan. Steel/ Alm /Foundary		3	3			6
8	7	Footwear/Leather	1	5				6
9	6	Port-based Multi-Product	1	1	2	1	1	6
10	3	Power/Energy		2			1	3
11	55	Other	8	17	1	1		27
<b>Total</b>	<b>439</b>		<b>39</b>	<b>74</b>	<b>26</b>	<b>2</b>	<b>19</b>	<b>160</b>

Source : - SEZ India,NIC

\* Excludes SEZ with area less than 50 ha.

### 3.0 Issues in Urban Management

In the development and successful operation of an SEZs, the following are the challenges of urban management that assumes critical importance:

a) *SEZ Act vs. 74<sup>th</sup> Constitutional Amendment Act*

SEZs have been demarcated as industrial townships to function as self-governing, autonomous bodies. On being notified as SEZs under clause 34(1) “*an authority shall be constituted for the SEZ...to undertake such measures as it thinks fit for the development, operation, management and maintenance.*” Key implication of prevailing policy environment would be that urban industrial townships of whose populations could run into millions will not have a democratic process of election of local government and private monopolies will be responsible for provision of a wide range of services falling into the third tier of government – such as water supply, solid waste and sanitation. In some cases the developer may have the right to tax the population in order to provide essential services. The Constitutional tenability of private monopolies running local governments (for a sizeable cluster of the urban population) without being elected is thought provoking. All the non-economic laws of the land under the IPC and CrPC would be applicable to SEZs. However, internal security will be the responsibility of the developer.

In fact, the 74<sup>th</sup> Constitution Amendment under article 243(Q) “ provided that a municipality under this clause may not be constituted in such urban area or part thereof as the Governor may, having regard to the size of the area and the municipal services being provided or proposed to be provided by an industrial establishment in that area and such other factor as may deem fit, by public notification specify to be an industrial township.” SEZs management is delegated to the Development Commissioners appointed by the Union Government, and thus the participation of local as well as State Government is marginal.

The urban planning and governance does not find suitable attention under SEZ Act and its representation is only by way of forming Ministry of Urban Development as part of Board of Approvals.

Key challenges in the SEZs programme thus will be decentralisation and delegation of powers to local and State Governments and ensuring their participation in the management of the entities. These are essential actions needed for long term success of SEZs.

b) *Urban Planning and Development*

The SEZs cannot be grasped in the fullness of its implications unless and until it is placed in the wider context of policies for rapid urbanization and upgradation of Indian cities. We thus need to situate the SEZs issue within the perspective of urban development policies. There is a fear that land is being acquired for real estate speculation. In multi-product zones only 50% of the land has been assigned for industrial processing.

The functioning of the SEZs is governed by a three tier administrative set up. The Board of Approval (BoA) is the apex body and is headed by the Secretary, Department of Commerce. The Approval Committee<sup>#</sup> set up at the Zone level deals with approval of units in the SEZs and related issues. Each Zone is headed by a Development Commissioner, who is ex-officio chairperson of the Approval Committee.

Once an SEZ has been approved by the Board of Approval and Central Government has notified the area of the SEZ, units are allowed to be set up in the SEZ. All the proposals for setting up of units in the SEZ are approved at the Zone level by the Approval Committee consisting of Development Commissioner, Customs Authorities and representatives of State Government. The performance of the SEZ units are periodically monitored by the Approval Committee.

It is apparent that the urban aspects of the SEZs have received little consideration. The administration to abide by local laws potentially need to involve the local panchayat or district administration that exercises jurisdiction over the SEZ area. Here, the National Capital Region Planning Board assumes great importance in decisions for setting up of SEZs in the National Capital Region.

#### **4.0 Impact on Regional Development**

The distribution of medium and large SEZs (50 hectares and above) by major districts shows that nearly three-quarters of all approved SEZs are located in four States - Andhra Pradesh, Gujarat, Maharashtra and Tamil Nadu. These states are all relatively well developed States with high industrial capacity. These are also highly urbanized. Obviously, investment is channelized to areas of high levels of industry and investment which further propels these states to showcase their 'success' further.

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<sup>#</sup> Approval Committee constituted under sub section (1) of section 13 of SEZ Act, 2005

**Table 3 : Distribution of Medium & Large Size by Major District**

STATE	DISTRICT	50-100 ha.	101-200 ha.	201-500 ha.	501-1000 ha.	1000+ ha.	TOTAL Nos.
ANDHRA PRADESH							
	Vishakhapatnam	1	1	2		1	5
	Hydrabad	2	2				4
	Rangareddy	4	3	1			8
	Nellore		2	1		2	5
	Other District		6	1		1	8
							<b>30</b>
GUJARAT							
	Bharuch		3			1	4
	Kutch		2	1		1	4
	Ahmedabad		2	1			3
	Others-Distt.	3	5	2	1	5	16
							<b>27</b>
MAHARASTRA							
	Pune	2	1	1			4
	Aurangabad	2	2				4
	Raigarh	1	2	2			5
	Thane	2		1			3
	Navi-Mumbai	1	2				3
	Others Distt.	1	8	2		5	16
							<b>35</b>
TAMIL NADU							
	Sriperumbdur	1	2				3
	Kanchi pruum	1	3				4
	Other Distt.	6	10	1		2	19
							<b>26</b>

Source : SEZ India, NIC

One criticism of SEZs as regional development mechanism, however, arises from their autonomous nature in relation to their rural and urban hinterlands. Typically SEZs are completely separate enclave. The isolation of SEZs from their hinterland, however, has greatly influenced their development influence. The main local benefits they have created is employment. However, many SEZs may not provide enough housing and basic services to the people employed within the enclave, thereby forcing them to stay in surrounding areas. The information collected by a researcher for 110 SEZs shows the generation of direct employment to the tune of 2.14 million employees and indirect employment to the tune of 2.94 million employees (Mukhopadhyay, Partha, 2008). While indirect employment will vary widely across SEZs, nearly 60 per cent of direct employment i.e. 1.25 million employee is proposed to be employed by the IT/ITeS alone exceeding the current employment in that sector. There is bound to be trickle down effect with rapid hinterland development.

Some of these SEZs will cover more than 1000 ha. Social infrastructure like housing, open spaces, markets, entertainment etc. within the zones will be well planned. However, the SEZs will need support service population of 2 to 10 lac each outside the zones. We shall have over 50 to 70 new towns/cities in the next 5-10 years in India.

In this context, it may be mentioned here that Government of India is considering a proposal from real estate developers to set up Special Residential Zones (SRZs) outside the main cities on the lines of SEZs with tax benefits and single window clearance. The SRZs would help the developers build and sell affordable houses to low income groups. SRZs would be spread over at least 500 acres.

To sum up, the SEZs contribute to regional and national economy and will result in generation of employment, demand for large industrial machinery, creation and utilization of transport systems and logistical infrastructure. These are very long-term benefits that the region will receive. As a result of the demand for these activities, additional indirect benefits spill over to other nearby regions as well as far off regions. It is these indirect benefits to the regional economy which might be large and can spill over to several other sectors through multiplier effect on them. Thus, it will initiate the overall economic growth process and improves employment options. However, the attractiveness of the SEZs to the investors also lies in the way the SEZ plans are integrated with local Master Plans/Regional Plans for creating integrated townships.

## **5.0 Issues for Discussion**

About 50 to 70 new cities or satellite cities will come up in and around the medium and large size SEZs and the population of these new cities will range between 5-10 lakhs. These raises two very important issues for urban development authorities in India: (a) urban management; and (b) regional planning.

### *(a) Urban Management*

SEZs management is delegated to the Development Commissioners and the participation of local as well as State Government will be marginal. Key challenges in the SEZs programme thus will be decentralisation and delegation of powers to local and State Governments and ensuring their participation in the management of the entities. These are essential actions needed for long term success of SEZs. A representative of MOUD is only a member of the Board of Approvals. MOUD needs to explore if the composition of Board of Approvals and Approval Committee could be utilized more effectively to ensure participation of local authorities in the SEZ management.

### *b) Need for Regional Planning*

Development of SEZs needs to be integrated with existing Master Plans and Regional Plans. There is need to develop regional/sub regional plan around the SEZ areas. Here, State Town and Country Planning/Urban Development Authority should play a key role. In this context, MOUD could issue a set of guidelines for state governments.

## References

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