

# Socio-economic Impact of Establishing Special Economic Zone In Dakshina Kannada District, Mangalore - Diagnostic Evaluation And Outcomes

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## ABSTRACT

*Economic development is a continuous and hardened effort of increasing the standard of living with the maximum welfare of the people in the country. This calls for radical changes in the process of economic development in the context of liberalization, privatization and globalization in any country. Some of the developing countries of the world thought of establishing the Special Economic Zones as an engine of growth to accelerate their economic development.*

*The SEZs in India are not only expected to bring a large flow of foreign direct investment but also domestic investment which will help in generating additional economic activity in the form of employment opportunities, infrastructure development and enhancing productive capacity as well as capabilities. It has been argued that since the development of infrastructure requires huge capital investment and as the implementation of structural reforms is a time-consuming process, the establishment of SEZs would be the only realistic strategy governing the process of industrialization.*

*The study tries to examine and evaluate the commitment and conviction of SEZs to live up to the expectations of all its stakeholders, the problems faced by the families relocated from the project area, and views and perceptions of the citizens of Dakshina Kannada District regarding the establishment of special economic zone near Mangalore city.*

**Keywords:** SEZ, Tax heavens, Engine of growth, Global market, Foreign investment

## OVERVIEW OF THE INDUSTRY

Economic development is a continuous and hardened effort of increasing the standard of living with the maximum welfare of the people in the country. This calls for radical changes in the process of economic development in the context of liberalization, privatization and globalization in any country. Some of the developing countries of the world thought of establishing the Special Economic Zones as an engine of growth to accelerate their economic development.

A geographical region encompassing more liberal economic laws than a country's typical economic laws can be referred to as a Special Economic Zone.

An SEZ can be defined as "a specifically delineated duty-free enclave and shall be deemed to be foreign territory for the purposes of trade operations and duties and tariffs". SEZs are an acknowledgement of the potential of export-led development strategy in accelerating economic growth (Deepak Shah, 2009). A policy of setting up of SEZ was introduced in India on April 1, 2000 with a view to provide a more competitive free trade environment for exports. During the period from November 1, 2000 to February 9, 2006, the SEZs in India operated under the provisions of the Foreign Trade Policy. In fact, India was the first Asian country to recognize the importance and effectiveness of Export Processing Zone (EPZ) and the first EPZ came into being in 1965 in Kandla, Gujarat. But since then, not much has

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been done to strengthen EPZs in India. In 2000, therefore, the govt. replaced the earlier regime of EPZs by a new scheme of SEZs, which encompassed a number of potential benefits that were missing in the earlier scheme. In May 2005, the SEZ Act was passed by the Parliament and SEZ rules came into force from February 10, 2006 which not only simplified procedures, but also extended single window clearance for matters relating to central as well as state governments. The SEZ Rules provide for a different minimum land requirement for the different classes of SEZs.

The promotion of SEZs is expected to tackle a wide range of structural bottlenecks created by monetary, fiscal, taxation, trade, tariffs and labour policies apart from overcoming complex procedures and infrastructure deficiencies (Aggarwal, Aradhna, 2004). It has been argued that since the development of infrastructure requires huge capital investment and as the implementation of structural reforms is a time-consuming process, the establishment of SEZs would be the only realistic strategy governing the process of industrialization.

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## CONCEPTUAL FRAMEWORK

The category SEZ covers a broad range of more specific zones including Free Trade Zones, (FTZ) Export Processing Zones (EPZ) Free Zones (FZ) Industrial Estates (EI) Free Ports, Urban Enterprise Zones (UEZ) and others. Usually, the goal of this structure is to increase foreign direct investment by foreign investors typically in international business or multinational corporation companies based in SEZs which are eligible for tax and other incentives. Hence, SEZs are also called tax heavens.

Special Economic Zones are the geographical areas which enjoy special facilities as compared with non-SEZ areas in the country, considering the need to

enhance foreign investment, encourage exports and the need that a level playing field must be made available to the domestic enterprises and manufacturers to be competitive globally (Laxman B. Bahir, 2009).

Due to the wide range of incentives, facilities and several other relaxations extended to SEZs, a majority of the states in the country are geared to set up SEZs to reap the benefits accruing through these zones. The Government of India has visualized SEZs as the potential source for boosting India's exports. Exports from SEZ have been growing steadily over the past one decade or so.

Conceptualized to reduce pressure on urban centres and to augment the country's urban infrastructure, SEZs have a critical role to play in increasing exports, attracting foreign investment and creating employment. The visible change in the government's outlook and policies towards the SEZs makes the case for SEZs in the private-public partnership format a realistic one.

The government has promoted all kinds of industries to set up bases in these SEZs. The changing nature of industries in the Indian SEZs is amply demonstrated in the increasing share of pharmaceuticals, engineering sectors, the gems and jewellery industry, information technology, IT-enabled services and electronic hardware, food processing, textiles, aviation, research and design.

Although the SEZ policy announced by the Government of India in April 2000 aims at promoting exports of goods and services, investments from domestic and foreign sources, creation of employment opportunities, infrastructure facilities with emphasis on generating additional economic activity, a long-term strategy is yet to be evolved to counter the socio-economic consequences of the scheme. The policy assumes that a significant rise in private investment in SEZs and consequent increase in exports would result in higher employment opportunities.

The logic of establishing SEZs is resting heavily on concepts like "growth" and "competition" and the supposed economic magic they can achieve. It is now widely accepted in official circles that to

succeed in the global market a country must have a competitive advantage that they should utilize to the fullest (Amannaya K. K., 2007).

## REVIEW OF LITERATURE

Recent times have seen a considerable debate on the cost and efficacy of special economic zones. The protagonists argue that SEZ is the panacea for the ills - particularly the poor state of infrastructure and high transaction costs involved in the bureaucratic procedures and clearances. However, the dissenters contend that this is merely a means of providing tax shelter to the favoured. Concerns have also been expressed on the displacements associated with land acquisition and adverse consequences on uneven development. The evaluation of economic spin-offs of the SEZs and its welfare cost need to be debated further.

Although SEZs offer numerous benefits, there are also various positive as well as negative features associated with the establishment of SEZs in India. Empirical evidence documenting the effects of establishing SEZs in India is mixed. The earlier studies on SEZs have not only made an attempt to analyse their potential benefits but also on the likely impact of the establishment of SEZs in agricultural production, employment, water and food security.

Swapna Banerji – Guha (2008) stated that India cannot grow fast without foreign investment for which “world class infrastructure” is an imperative. She is of the opinion that the govt. possibly cannot provide this throughout the country in a short time, it is necessary to invite private capital to provide it initially in chosen pockets. She contends that while private capital agrees to undertake this task, it becomes obligatory on the part of the govt. to offer them various concessions and subsidies in their pursuit of establishing economic and allied activities within special economic zones.

Girija Patil (2009) has considered an SEZ as an engine of economic growth supported by an attractive fiscal package, both at central and state levels, with minimum possible regulations. She has reported that the setting up of exclusive privileged zones with a liberal tax labour regime would attract more investors from developed countries interested in taking advantage to set up manufacturing units that

could send back the product for sale to richer markets.

According to Susnato Sen, Saurabh Kumar and Shreyan Maralur (2009), the success of SEZs would depend on the export demand emerging out of an increase in international trade due to improvement or economic health of developed as well as other developing countries. They feel that the future of remaining SEZs will depend on their preparedness to face challenges related to land acquisition, funding, project execution and competition.

While comparing growth and development of SEZs in China with Indian context, Swadha Sharma (2009) has opined that the SEZs of China have attracted several fortune 500 companies and Indian SEZs are still to attract one. She observed that China has established SEZ under the process of economic liberalization and got success and she lamented that the Indian experience with SEZ has fallen short of expectation so far.

Acharya (2006) studied the problems faced by the Indian economy after the establishment of SEZs. One of the most important problems, as identified by him, is the division of economy into two groups, viz; SEZ and non-SEZ. He believes that one group enjoys all the facilities and incentives, and the other would definitely suffer.

VijayaBhaskar(2010) found that actual employment generated by the special economic zones has fallen short of promises and assurances of jobs to the family members of those who sold their land to SEZs, though these SEZs promised that they would employ at least one member of the relocated families in the industrial units started in SEZ.

A study conducted by H.C. Honnappa and K.G. Ramakrishna (2009), examined the reasons for the failure to achieve the objects of developing SEZs in India. They stated that unlike in China, where SEZs are govt. institutions, in India, the govt. has failed to get the anticipated benefits from SEZs due to the greater role of private sector.

Aggarwal and Aradhna(2006) have reported that the large-scale acquisition of prime agricultural land by developers for selling them to SEZs would lead to displacement of farmers with no alternative means

of livelihood for them and also create problems relating to food security for the country.

Review of earlier studies reveals that so far only a small number of studies have been conducted on the emergence, growth, benefits and problems of SEZs in India as their focus. In all these studies, much attention has not been given to examining the socio-economic impact of establishing the SEZs. No empirical study has so far been undertaken to describe problems and prospects of relocated families with regard to their rehabilitation and resettlement, and views and perceptions of the people with regard to the development of a region into an SEZ. As a matter of fact, authoritative and comprehensive evidences are not available in sufficient number. There is a dearth of information even on the steps taken by SEZs to make it eco-friendly and people-friendly. Therefore, there is a dire need to examine and evaluate the commitment and conviction of SEZs to live up to the expectations of all its stakeholders, understand the problems faced by the families uprooted from the project area, and views and perceptions of the people when a particular region is developed as a special economic zone.

## NEED FOR THE PRESENT STUDY

Mangalore city, one of the leading urban centres of Karnataka State is now taking a new leap towards industrial boom. With the emergence of major industries along with the significant development in traditional industries, Mangalore is all set to become the second capital of the state. The new Mangalore port is acting as a catalyst to the industrial development of the region. The international airport at Bajpe near Mangalore serves the needs of industry and commerce of the area. The city has well-knit transportation and banking facilities leading to industrial progress at a greater pace. The literacy rate is very high in the area due to the presence of a large number of educational institutions. All these factors have prompted the government to promote SEZ in Mangalore.

Administrative authorities of MSEZ claim that there would be an unprecedented development in Mangalore by opening up tremendous employment

avenues, blown markets for goods and services, increased sophisticated infrastructure and an enhanced standard of living of the people in the region. However, the establishment of MSEZ does result in the evacuation of people from SEZ area, their rehabilitation and resettlement, acquisition of fertile cultivable land, felling of trees and consequent environmental hazards such as congestion and pollution of air and water and so on. Therefore, there is an impressive need to examine and evaluate the socio-economic impact of MSEZ on Dakshina Kannada District.

## OBJECTIVES

**The specific objectives of this study are -**

1. To study the directions and convictions of the administrative and regulatory body with regard to the implementation of the MSEZ project in the region
2. To project and analyze the problems and prospects of the members of relocated families on account of establishing MSEZ
3. To collect the views and perceptions of the members of the public in and around Mangalore regarding the development of the region as SEZ, and
4. To raise major policy implications and to offer feasible suggestions for the effective functioning of SEZ leading to a development that is inclusive, participatory, sustainable and equitable.

## RESEARCH METHODOLOGY

The nature of this study is partly exploratory and partly descriptive. The researcher has relied upon primary data and information to a large extent for the purpose of developing the study report. Based on an extensive review of literature, the comprehensively structured questionnaires were prepared and used to collect the primary data.

## SAMPLE

This study is coordinated by using primary data collected through three sample surveys, viz; survey of administrative and regulatory body of MSEZ to elicit information about its direction and commitment in the implementation of the project,



survey of 105 households displaced from MSEZ project area to understand their problems and prospects with regard to their rehabilitation and resettlement programme, and a public opinion survey of 300 respondents comprising professionals, businessmen and employees of different organizations of Dakshina Kannada district to gather information about their views and perceptions with regard to the development of this coastal part of Karnataka state as special economic zone. No secondary data related to the subject of the study in the area are available. However, secondary sources of information such as books, periodicals and websites have been consulted to conduct a

review of theoretical and empirical literature relating to the field of study.

## RESULTS AND DISCUSSIONS

Objects of establishing as stated by the MSEZ authorities: The most important objects of MSEZ include: to develop a multi-product SEZ, to enable the different units which come down to Mangalore to start their units to have a gateway to the global markets, create an excellent environment in the zone which is very conducive for growth and development and transform this region into a heaven for exports.

**Reasons for locating MSEZ:** Table 1 presents the reasons given by MSEZ authorities for choosing Mangalore for starting SEZ.

Sl. No.	Major reasons
1.	Presence of all-weather seaport
2.	Presence of an international airport
3.	Connectivity to Konkan Railway
4.	Good road connectivity
5.	Availability of vast land resources
6.	Availability of plenty of water
7.	Presence of reputed educational institutions
8.	Availability of skilled manpower
9.	Gateway for national and international markets
10.	Presence of excellent banking facilities
11.	Rich cultural heritage

The ownership pattern of MSEZ: Exactly half of the share capital is owned by Infrastructure Leasing and Financial Services (IL & FS). About 25 percent of the capital is owned by Oil and Natural Gas Commission (ONGC). Karnataka Industrial Areas Development Board (KIADB) has bought 23 percent

of the shares from MSEZ. Only a meager share of 1 percent in the share capital is held by Karnataka Chamber of Commerce and Industry (KCCI) and others. From this, it follows that a lion's share in the share capital of MSEZ is owned by three organisations, namely, IL&FS, ONGC and KIADB.

**Type of compensation given to the families displaced:** Table 2 portrays the type of compensation paid by MSEZ to the families dislodged from the SEZ area.

Sl. No.	Type of compensation
1.	Given site for the construction of the house
2.	Given employment for the member of the family
3.	Training facilities given to the members of the families
4.	Given rehabilitation grant, subsistence allowance and ex-gratia grant

**Problems faced by the family members of relocated families:** Table 3 shows the various problems faced by the families (105) relocated from their places for starting industrial units.

Sl. No.	Problems faced	Number	Percentage to total (N=105)
1.	Shifting the family to a new place	92	87.6
2.	Shifting the place of worship	05	4.8
3.	Delay in getting the amount of compensation due to some technical problems	22	20.5
4.	Losing the source of income	09	8.6
	<b>Total</b>	<b>128</b>	

### Response Rate: 1.2

Level of satisfaction towards compensation: Of the 105 respondents chosen from families displaced from MSEZ, 6.6 percent stated that they are not at all satisfied with the amount received and 5.7 percent are not satisfied. The respondents remained neutral account for 8.6 percent. However, it is worth noting that more than 68 percent of the respondents are highly satisfied with the amount of compensation received from MSEZ. It is quite reasonable to state that majority of the respondents are very happy with the compensation amount they have received.

district about the presence of MSEZ, more than 69 percent of 300 respondents stated that establishment of a special economic zone in the district is a welcome change. Rest of them are not happy with it and opined that developing this part of coastal Karnataka as an SEZ is not needed as it brings in a number of problems with it.

Perceptions about the benefits as perceived by the citizens of Dakshina Kannada District: Table 4 exhibits the perceptions of the respondents regarding the benefits Mangalore city enjoys if Mangalore is developed into an SEZ

Perception about the presence of SEZ: With regard to the perception of the citizens of Dakshina Kannada

Sl. No.	Benefits enjoyed by the district	Number	Percentage to total (N=300)
1.	Generation of employment opportunities	254	84.7
2.	Improves the standard of living of the people	195	65.0
3.	Material prosperity can be ensured	33	1.0
4.	Development of excellent infrastructure	214	71.3
5.	Balanced regional growth if started in backward regions	78	26.0
6.	More demand for goods and services	118	39.3
7.	Increased exports	102	34.0
8.	Increased amount of foreign exchange	119	39.7
9.	Ensures economic empowerment and social justice	44	14.7
10.	Upliftment of weaker sections of the society	67	22.3
	<b>Total</b>	<b>1224</b>	

**Response Rate: 4.1**

**Problems foreseen by the respondents:** Table 5 presents the problems foreseen by the citizens Dakshina Kannada district if an SEZ is started in Mangalore city.

Sl. No.	Problems foreseen	Number	Percentage to total (N=300)
1.	Environmental pollution	243	81.0
2.	Evacuation of framer community and consequent dislocation of normal life of villagers	186	62.0
3.	Economic inequalities	64	21.3
4.	Growth of slums and slum dwellers	53	17.7
5.	Scarcity of water in the region	42	14.0
6.	Traffic jams and congestion	167	55.7
7.	Degradation of traditional and cultural values	39	13.0
	<b>Total</b>	<b>794</b>	

**Response Rate: 2.6**

**Socio-economic and cultural changes observed:** A cursory glance at the Table-6 shown below discloses the pertinent information about the socio-economic and cultural changes observed by the citizens of Dakshina Kannada District after the establishment of MSEZ.

Sl. No.	Changes observed	Number	Percentage to total (N=300)
1.	Increased spending among the people	192	64.0
2.	Growth of big malls in the city	99	33.0
3.	Presence of more number of people migrated from other districts and states	47	15.7
4.	Changes in the lifestyle of the people	125	28.3
5.	People becoming more materialistic	26	8.7
6.	Growth of the city in a big way	183	61.0
7.	Rapid industrialization	214	71.3
	<b>Total</b>	<b>886</b>	

**Response Rate: 2.9****SUGGESTIONS**

Based on the results and discussions of this study, the following pragmatic and specific suggestions could be offered:

**Provision of sufficient infrastructure:** Growth of any SEZ is hindered by the presence of insufficient infrastructural facilities. Well-knit transportation facilities, uninterrupted supply of power and water, existence of banking and insurance facilities would go a long way in the development of SEZs in any area. However, it is feared that when a large number

of industries step into MSEZ area in a big way, the present infrastructural facilities would prove to be insufficient to cope with the situation. Therefore, the state govt. and MSEZ authorities should take proper initiative to provide these basic facilities to the industrial units started in MSEZ.

**Transparency with regard to functioning:** There is a lack of sufficient data and information around MSEZ which keeps from giving a holistic understanding of its potential and providing proper insights into its functioning. Provision of necessary data and information with regard to its establishment, growth and functioning would be an eye-opener for those who raise finger against MSEZ. This is absolutely

necessary to prove that MSEZ is working for the betterment of the people realizing the very objectives of starting MSEZ in this region.

**Acquisition of non-cultivable and barren land:**

Without facilitation by the state government, it is not possible to buy land for the huge MSEZ project. The state government should take the onus to ensure that fertile land is not notified for industrialization in the region. This could be made a reality only when MSEZ authorities henceforth acquire only non-cultivable and barren land to be allotted to the industrial units which will come to MSEZ area for starting their business. This will obviously lead to a win-win situation for the parties involved.

**Adequate compensation and proper counselling:**

There should be transparency in the acquisition of land from the poor farmers. The families dislodged from the region should never feel that they have been duped by the govt. At the same time, efforts should be made by the MSEZ authorities to give adequate compensation to the land-losers for the sacrifice they make. Proper counselling of land-losers should also be made by the trained counselors so that they will not have any regrets for having surrendered their land and property for a genuine cause.

**Protection and preservation of environment:**

There is hardly any industry which does not cause environmental pollution. When an area is developed into an SEZ, a large number of industrial units barge into the area to grab the opportunity, thus making the area an industrial hub. In consequence, obviously, there could be pollutions of all kinds like air, water and sound. Toxic emissions infused into the air by the industrial units, lack of proper system for waste disposal, presence of excessive traffic may lead to deterioration of environmental health of the region causing an imbalance in the ecosystem. The same situation may also arise with the completion of the MSEZ project. Therefore, utmost care should be taken by MSEZ authorities to protect and preserve the beautiful environment of this serene coastal region causing least damage to the natural environment.

**Livelihood for displaced:** Displaced persons holding agricultural land lose their bread earning capacity through their land which was the only

occupation known to them. Further, compensation given for acquiring their precious land to which they are traditionally attached has been insufficient in the present rate of the economy. Displaced persons have to go in search of employment. Further, they have to struggle longer period of time even to get their compensation. Thus, poor farmers are made to struggle for compensation on the one hand and livelihood on the other. Hence, the govt. and MSEZ authorities should take care of finding some jobs for the family members displaced from the region besides giving adequate compensation to such people.

**Stopping over-urbanisation:**

Establishment of MSEZ on the outskirts of Mangalore city has resulted in putting more pressure on water, housing, sanitation, infrastructure etc. There is a possibility of a shift of labour from rural areas to Mangalore Urban agglomeration, making rural areas still poorer and Mangalore urban agglomeration infested with more problems. Therefore, MSEZ authorities must take care to see that new industries which want to start their units in the zone are given land away from Mangalore urban agglomeration so that Mangalore city does not become a victim of the serious problems of acute urbanization.

**Proper and systematic rehabilitation and resettlement:**

The rehabilitation and resettlement of people displaced from the MSEZ area should be given top priority by MSEZ authorities to the entire satisfaction of such people. It has to be seen that housing colonies developed for the said purpose have all modern amenities which would impress the members of the displaced families who have been shifted to these colonies. This would certainly enhance the image of MSEZ not only in the minds of the families dislodged from the region but also in the society at large.

## CONCLUSION

In the light of the results and discussions of this study, it could be concluded that the main purpose of promoting SEZs is to speed up economic growth by increasing investment, production, infrastructure, exports and employment opportunities. All these things will happen only when SEZs are set up in the backward areas. SEZs



will be welcomed by all only when they are started in the barren land of backward districts. There should be transparency with regard to the use of land and price paid to the farmers. People who become unemployed due to land acquisition must be given employment in SEZs or elsewhere. Special attention should be given to the exports of goods and services produced by the SEZ units with a view to making them foreign exchange earning centres. The key elements for the success of any SEZ are political will, better infrastructure, zero bureaucratic barriers, relaxed labour laws, better fiscal incentives and domestic-international linkage. Mangalore Special Economic Zone cannot become an exception to this. Authorities of MSEZ should also look into the fact that the interests of all the stakeholders of the special economic zone are taken care of and the fruits of growth and development through the establishment of SEZ in this part of Karnataka State are enjoyed by all of them. Then only SEZ would become the engine of an all-inclusive growth.

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