

## MANUFACTURING CITIES

# Industrial Policy & Urban Growth



## INTRODUCTION

Until recently, urban India did not feature prominently in the national or regional government policy. Since the economic reforms of the 1990s, urban areas have emerged as key sites for economic growth. Despite this, concerns of employment generation and urban reform have not been adequately addressed.

To address these concerns, the government is focussing on creating particular types of industrial settlements to simultaneously meet the goals of industry-led growth and to decongest existing cities. This model of growth draws heavily on the successes of other East Asian countries such as China and South Korea where particular zones were developed to facilitate export-oriented industrialisation. In India, industrial policy includes the development of industrial estates, regions, and corridors. These types of emerging settlements display urban-like characteristics but are not currently governed as such. Their development is based on certain assumptions regarding the feasibility and adaptability of these types of policies, and their projected outcomes. In order to achieve the stated objectives of these policies, it is important to also focus on economic structure, land, and urban governance.

## CURRENT INSTITUTIONAL AND POLICY ENVIRONMENT

The current push to develop industrial corridors follows earlier policies like the development of the Golden Quadrilateral and the North-South and East-West corridors that emphasised connecting the four major Indian metros. While there are aspects of industrial development that are controlled by the central government, including transportation infrastructure, and income and corporate taxation, much about industrial development trajectories are determined at the state level.

Individual state governments have followed different developmental trajectories. In particular, Gujarat and Tamil Nadu have embraced industrialisation as an economic strategy. States are responsible for land acquisition, and planning and providing industrial infrastructure through parastatal agencies at the local level. As a result, urban local governments have a limited role to play in this process. To address this issue, the GoI has implemented several legislative and urban policy reforms.

## Urban Policy

The GoI enacted the 74<sup>th</sup> Constitutional Amendment Act (CAA) in 1992, which emphasised decentralisation and mandated the devolution of power to elected urban local bodies. In 2005, the GoI also launched the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) focussing on urban infrastructure and governance reform in India's cities over a period of seven years. This programme emphasised reform in million-plus cities, state capitals, and other cities of strategic importance.

Despite shifts in urban policy, a significant proportion of urban residents experience high levels of deprivation. Indian cities continue to suffer from fragmented governance arrangements, poor levels of infrastructure and services, and lack adequate employment opportunities. One of the government responses to this has been the creation of new economic settlements.

## EMERGING ECONOMIC SETTLEMENTS

### Special Economic Zones (SEZs)

The GoI passed the SEZ Act in 2005 to attract investment, promote exports, create employment, and develop infrastructure. The responsibility for the planning, development, and financing of SEZs rests with private developers, while the government assists with land acquisition, provides tax and other financial incentives, and expedites the process of granting approvals.

The assessment of the SEZ policy has shown that about half of these zones were in the Information Technology/Information Technology Enabled Service (IT/ITES) sector. While particular instances of SEZs have been successful, they did not generate the anticipated levels of output, and employment. Some of the main reasons for this were difficulties with land acquisition, and the inability of private developers to finance projects at this scale.

### Industrial Corridors

The Twelfth Plan focuses on cluster and regional industrial development. The Plan proposed setting up National Investment Manufacturing Zones (NIMZs) and connecting existing

settlements through industrial corridors to expand manufacturing in the country. These industrial corridors are being planned around the Dedicated Rail Freight Corridors (DFCs), which have attracted significant international investment.

An early example of the industrial corridors is the development of the Delhi-Mumbai Industrial Corridor (DMIC). The DMIC includes the creation of industrial areas and investment regions like the planned Special Investment Region of Dholera in Gujarat. There are also other similar corridors planned between Mumbai and Bangalore, Bangalore and Chennai, Amritsar and Kolkata, and the East Coast Economic Corridor.

## RISKS AND LIMITATIONS

**Feasibility:** As earlier experiences of new town development in India have shown, the creation of new settlements is a high-risk undertaking with a long gestation period.

**Land Acquisition:** The difficulty of acquiring and assembling land was a key constraint in the development of SEZs and continues to be a concern for the successful completion of projects such as the industrial townships that are being planned along the DMIC. With the recent passage of the new land acquisition-name bill in 2013, the process of land acquisition coupled with the increase in associated costs have become more challenging for state governments and their agencies.

**Water:** Easy availability of and access to fresh water is a critical constraint for the development of new settlements. Several of the proposed new settlements along the DMIC are planned in states like Gujarat and Rajasthan that already face severe water shortages.

**Food Security:** As an increasing proportion of agricultural land is acquired for urban and industrial development, there are also growing concerns about food security.

**Environmental Impact:** These policies do not take into account severe natural resource constraints, disaster risks, or the environmental impact of the creation of such settlements. Several of these settlements are located in regions that are vulnerable to natural disasters such as drought, flooding, earthquakes, and cyclones, some of which may be exacerbated by climate change.

**Urban Governance:** SEZs, industrial townships, and large Special Investment Regions (SIRs) along industrial corridors are being planned and governed by parastatal institutions like development authorities established under Article 243Q of the 74th CAA, which provides an exception for the establishment of locally elected bodies for areas designated as industrial townships.

## SPECIAL ECONOMIC ZONES: THE CHINA EXPERIENCE

Special Economic Zones (SEZs) were established in the late 1970s to open the closed Chinese economy to foreign investment through special financial incentives. Initially, only six SEZs were developed in China and were developed as new cities. Since then, the Chinese government has gradually identified and opened up several other existing cities and towns on the coast and further inland to foreign investment through the development of special manufacturing zones that were integrated with existing settlements. The Chinese government financed the development of the SEZs, and provided the land for their development as well as basic infrastructure. The establishment of the SEZs provided laboratories where the government, that was inexperienced in such reforms, could experiment with these policies before implementing them at a larger scale. It also insulated the rest of the economy from the potentially negative impacts of a capitalist system. However, as the rest of China opened up to foreign capital, the importance of the SEZs declined. While the geographic regions where the SEZs were located did experience rapid economic growth initially, this success has been varied across the different zones with only Shenzhen being an outright success. There have also been issues with large-scale displacement of residents, labour abuse, and speculation and land loss.

There are several differences between the Chinese model and its application in India. First, the locations of the Chinese SEZs were limited. India, on the other hand, did not restrict the number of SEZs that could

be set up. The scale of the Chinese SEZs was also much larger than their Indian counterparts. Secondly, the Chinese government undertook the financing and infrastructure provision within these zones, while continuing to maintain ownership of the land; in India, the entire development of SEZs, including infrastructure provision, was the responsibility of private developers. Third, India did not focus only on bringing in international capital, as in the case of China, but encouraged domestic investment as well. Fourth, the Indian economy as a whole was already opening up to FDI, reducing the attractiveness of SEZs.

## MOVING FORWARD

### 1. Integration with existing urban settlements

Instead of focussing only on the creation of new economic clusters, it is important to also generate employment intensive growth in already existing urban settlements. This will require an explicit focus on micro, small, and medium enterprises since these employ the majority of the urban workforce.

### 2. Emphasise labour intensive growth.

If past trends of capital-intensive growth continue, these policies might not lead to job creation unless this is explicitly prioritised. The current policy on SEZs and corridors does not specify the types of industries it will promote, and multiple assessments have showed that SEZs failed to generate employment in line with their targets.

### 3. Address regional disparity

The central government needs to focus on reducing regional disparity by emphasising development in small and medium towns, and economically lagging regions. Most SEZs were established in districts that were more industrialised than the national average, and that were close to metropolitan cities. The corridor policy also has the potential to reinforce trajectories of inequality, since it is planned around key transportation corridors that currently carry most of the country's freight traffic.



#### **4. Facilitate livelihood transitions**

Land acquisition, especially of farmland, also needs to be accompanied by a clear plan to help those affected transition to alternative occupations. In particular, there needs to be a focus on developing specific manufacturing related skills which take into account local demand for labour.

#### **5. Transition to urban governance**

It is important to ensure that residents in these emerging settlements have access to and are governed by the same set of policies and laws as existing cities. For instance, the recently announced DAY scheme for skills training is only applicable in statutory towns, and therefore will exclude these types of settlements. There also needs to be a clear plan laid out for the eventual transition from development authorities to elected local government.

#### **6. Develop regional infrastructure**

The industrial corridors will require significant expansion of other supporting infrastructure including ports and airports. It will also require the enhancement of power supply. In the future, it will be important to expand connectivity beyond the corridor influence area.

## REFERENCES

Comptroller and Auditor General of India, 2014. Report of the Comptroller and Auditor General of India on Performance of Special Economic Zones (SEZs). Comptroller and Auditor General of India, New Delhi

Gopalakrishnan, S. 2007. Negative aspects of special economic zones in China. Economic & Political Weekly, (1492-1494)

Knoth, C. 2000. Special Economic Zones and Economic Transformation. The Case of the People's Republic of China. Universität Konstanz.

Mukhopadhyay, P. & Pradhan, K. C. 2009. Location of SEZs and Policy Benefits What Does the Data Say? In: Centre for Policy Research (ed.) CPR Occasional Paper Series. New Delhi.



INDIAN INSTITUTE FOR  
HUMAN SETTLEMENTS

IIHS City Campus  
No. 197/36, 2nd Main Road  
Sadashiva Nagar  
Bangalore 560 080, India  
T +91 80 6760 6666

[www.iihs.co.in](http://www.iihs.co.in) | [info@iihs.co.in](mailto:info@iihs.co.in)