



**MAD - 2020
ECONOMY
Day - 23**

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Question:

Manufacturing in India cannot take off until land reforms take off. Do you agree? Elaborate your answer.

Structure:

- A quick introduction of India's tryst with manufacturing.
- How land is a hinderance in achieving.
- Reforms taken
- Way Ahead

Answer:

India and Manufacturing

- India rolled out the '**Make in India**' initiative in 2014 with the primary goal of becoming a global manufacturing hub.
- The **current sentiment of diversifying manufacturing facilities** could be an opportunity for India as many MNC's have expressed interest in exploring India as a destination to set-up their manufacturing facilities.
- Government is focusing on a **favorable ecosystem** and a trusted supply chain partner to evolve as a manufacturing hub.
- Manufacturing **sites require large pieces of land** to start their operations.
- India is developing a **land pool** nearly double the size of Luxembourg.
- That includes 115,131 hectares of existing industrial land in states such as Gujarat, Maharashtra, Tamil Nadu and Andhra Pradesh.

Lack of Land Reforms as a challenge to Manufacturing:

Land policy in post-Independence India has evolved through different phases. These policies had varying **impacts on poverty and the overall development process**. Land issues continue to hinder India's emergence as an attractive investment destination.

- **Acquisition of land** has been one of the major hindrances for enterprises considering investing into India.
- **Land costs have more than doubled** over the past five years, hitting labor intensive sectors like textile, leather and gems and jewellery.
- **Land Records** in most parts of the country are **fragmented and disorganized**. In most cases they haven't been updated for decades.
- Once a land dispute goes to court, judicial incapacity leads to pendency of disputes. **Poor enforcement of court decisions by the government**, and limited judicial capacity to follow up on such enforcement, especially when such decisions go against the government, also lead to prolonging of land disputes.

- No government has ever attempted an exercise to **rationalize existing land laws**. - **Land grabbing** is the biggest issue today India is facing.
- **Fake documents**, coupled with **muscle or money power**, have played a dominant role in **land grabbing offences** reported across the nation.
- The Scheduled Tribes (STs) and other traditional forest dwellers have customary **usufructuary land rights**.

- **Teacher's Note:**

- Usufruct is a limited real right that unites the two property interests of usus and fructus:
- Usus (use) is the right to use or enjoy a thing possessed, directly and without altering it.
- Fructus (fruit, in a figurative sense) is the right to derive profit from a thing possessed: for instance, by selling crops, leasing immovables or annexed movables, taxing for entry, and so on.)

- Often, because technically and legally, they do not own such land, it is **acquired by the government without consulting, compensating and rehabilitating** them.

- **Other land related issues that inhibit setting up of manufacturing sites in India:**

- **Computerization of land records**

- **Tenurial security**

- **Access to Land**

- **Ceiling surplus**

- A large number of **"fake" Bhoodans** (gifted) of uncultivable lands.

There are a lot of examples where the opportunity to set up important manufacturing sites has been lost because of the lack of relevant land reforms:

1. South Korean steel major **Posco's planned steel plant** in Odisha with \$12 billion would have been the largest foreign investment in India. However, after 10 years of struggle the project had to be abandoned- largely due to land issues.
2. **Delay in dedicated freight corridor** of Indian Railways between Mumbai and Ahmedabad too are manifestations of this issue.

Technical Hurdles:

- Land availability is the first requirement for investments. **Land ownership records** are patchy and **process of land acquisition is fairly complicated**.

- **Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013**, (LARR) act promulgated in 2013 was a big upgrade over the land acquisition law of 1894.

- 2013 law mandated the land acquisition cost in **rural areas to 4 times of market price** apart from employment or pension to one person in the family.
- With 4x of market price **capital will stick to urban areas** where mandated cost of land acquisition is 2x and broad infrastructure already exists for industrial development thus causing further **accentuation of regional disparities** in development.
- In practice, **this law made land acquisition process complicated and tardy**, and the **cost of land expensive**.

- The **requirement of SIA** (social impact assessment) for every project made the process long drawn out.
- Amendments were proposed in 2015 to continue with **SIA but not for projects related to five key sectors** including rural infrastructure, industrial corridors, and infrastructure worked well.

Some way forward in Land Reforms and Manufacturing:

- The need of the hour is to **enhance the share of manufacturing** in the economy in order to **bolster employment generation, labor productivity, and investments**.
- **Governments own many enterprises that have vast volumes of land.**
- The production activity of these enterprises takes place in a fraction of the land; thus, the **excess land could be hived off and sold** on the market.
- Indian cities need **more liberal laws** governing its conversion from one use to another.
- **Urbanization often entails amalgamating agricultural land** on the periphery of cities into them.
- The **culture of parking black money in real estate** also raises land prices unduly. Therefore, the anti-corruption drive is good not just for the usual reasons but also because it will help urbanization to lower land prices.
- India needs to **reform the Land Acquisition Act** to permit acquisition of land at speed and at market prices.
- Indian manufacturing, if it has to grow, has to take off by **being part of the global supply chain**.
- **At least 15 states in the country should have manufacturing as the key driver of growth** and these states must drive India's manufacturing.
- India has an opportunity to become the factory of the world. There's no reason why India should not be a manufacturing hub. India has **ports, young population, a long coastline and good private sector**. There is a **need to get the ecosystem right** - do away with **clearances** and have a **transparent and consistent policies**.
- All government **departments dealing with land**, and particularly those involved in **land acquisition, must update administrative manuals** in accordance with **changes in legislation and judicial precedent**.
- There needs to be a **coordinated effort between the Ministry of Law and Justice, Department of Land Records, Ministry of Environment and Forest, Ministry of Tribal Affairs, state boards of revenue, and state forest departments** to resolve conflicting land laws and streamline land administration.
- So, overall manufacturing can happen if you are able to bring in an ecosystem - **create backward and forward linkages**, a supply mechanism and better labor laws.