

# Zones of reterritorialization: India's free trade zones in comparative perspective, 1947 to the 1980s\*

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## Abstract

*During the period of decolonization and the Cold War, the United Nations Industrial Development Organization (UNIDO) and US development agencies promoted free trade zones to developing countries. However, other zones emerged prior to and apart from these policy models, some of which, including India's early zones, took on features of this model only by the 1980s. To make sense of zones within and beyond a UNIDO model, this article understands them through their connection to the rise of nation-state territoriality around the world. The zone is thereby a spatial strategy used in processes of state (re)territorialization to rearticulate state spatiality under the global condition. This article explores such a perspective by situating the history of India's early free trade zones comparatively.*

**Keywords:** export processing zone, free trade zone, India, reterritorialization, special economic zone

Approximately three-quarters of states around the world contain demarcated zones in which the state eliminates certain laws and taxes for business operations, generally to increase exports and thereby generate foreign exchange.<sup>1</sup> Customs tariffs and other taxes such as corporate taxes are reduced or abolished, and contemporary zones may be associated with tax havens.<sup>2</sup> Zones may also enable business services offshoring, meaning that they are no longer linked

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1 'Special economic zones: political priority, economic gamble', *The Economist*, 4 April 2015, <http://www.economist.com/news/finance-and-economics/21647630-free-trade-zones-are-more-popular-everwith-politicians-if-not> (consulted 27 June 2016); 'Special economic zones: not so special', *The Economist*, 4 April 2015, <http://www.economist.com/news/leaders/21647615-world-awash-free-trade-zones-and-their-offshoots-many-are-not-worth-effort-not> (consulted 27 June 2016).

2 Keller Easterling, *Extrastatecraft*, London: Verso, 2014, pp. 59–60; Roland Palan, *The offshore world: sovereign markets, virtual places, and nomad millionaires*, Ithaca, NY: Cornell University Press, 2003.

exclusively to manufacturing and transport logistics.<sup>3</sup> These spaces are often known by terms such as free trade zones, export processing zones (EPZs), and special economic zones (SEZs). By the 1970s, researchers had identified the zone as a key feature enabling the shift towards manufacturing in the developing world, that is, the new international division of labour.<sup>4</sup> By 1975, the International Labour Organization (ILO) estimated that there were 79 zones in 25 countries. By 2006, the ILO recorded approximately 3,500 EPZs/SEZs in 130 countries, employing 66 million people.<sup>5</sup> Two 2015 articles in *The Economist* put the global estimate at 4,300 zones and rising, becoming so ubiquitous that even tax enclaves such as the Canary Islands are creating their own.<sup>6</sup>

Most social scientists have tended to study zones as a recent development. The zone has factored in historical work on shifting US production overseas, though analysis of the space itself has not been the primary focus.<sup>7</sup> Several recent studies have begun to focus on the emergence of such spaces in a global context. Patrick Neveling, an anthropologist, and Dara Orenstein, a historian of US history, both situate the emergence of the zone in two different contexts within the US during the 1930s and the 1940s. Their findings offer us new insight into the history of the concept. Neveling looks to the developments in Puerto Rico during the 1940s, while Orenstein discusses the foreign-trade zone on the US mainland from the 1930s onwards.<sup>8</sup> Neveling's work has focused on the role that the United Nations Industrial Development Organization (UNIDO), US development agencies, and consulting firms played in spreading the zone policy to developing countries during the Cold War.<sup>9</sup> He maintains, however, that US foreign-trade zones do not fit in the same historical trajectory as EPZs; UNIDO officials who sought to standardize zones around the world (under the term EPZ) did not find the same features of 'success' in US zones and therefore did not include them in their handbook outlining an international zone 'best practice'.<sup>10</sup> Yet, as Neveling's research shows, the fact that other similar spaces existed apart from a UNIDO model suggests that UNIDO did not just spread a zone policy but also sought to standardize a more widespread practice. This article seeks to understand these zoning practices by concentrating on India's first free trade zones and placing them contextually with zones in Ireland and in China, and with East Asia's Japanese zones.

Though UNIDO promoted zones to developing countries, marketed as an economic remedy to increase foreign exchange earnings, a closer look may yield different motivations for state officials. Interdisciplinary research on India's 2005 SEZ policy offers us perspectives on zones in a context

3 Jana Maria Kleibert, 'Islands of globalisation: offshore services and the changing spatial divisions of labour', *Environment and Planning A*, 47, 4, 2015, pp. 884–902.

4 Folker Fröbel, Jürgen Heinrichs, and Otto Kreye, *The new international division of labour: structural unemployment in industrialised countries and industrialisation in developing countries*, Cambridge: Cambridge University Press, 1981.

5 Jean-Pierre Singa Boyenge, 'ILO database on export processing zones (revised)', International Labour Office working paper, Geneva, 2007, p. 1.

6 'Special economic zones: political priority, economic gamble'; 'Special economic zones: not so special'.

7 Jefferson Cowie, *Capital moves: RCA's seventy-year quest for cheap labor*, Ithaca, NY: Cornell University Press, 1999; Ellen Israel Rosen, *Making sweatshops: the globalization of the U.S. apparel industry*, Berkeley, CA: University of California Press, 2002.

8 Dara Orenstein, 'Foreign-trade zones and the cultural logic of frictionless production', *Radical History Review*, 109, 2011, pp. 36–61; Patrick Neveling, 'Free trade zones, export processing zones, special economic zones and global imperial formations 200 BCE to 2015 CE', in Immanuel Ness and Zak Cope, eds., *The Palgrave encyclopedia of imperialism and anti-imperialism*, Basingstoke: Palgrave Macmillan, 2015, pp. 1007–16; Patrick Neveling, 'Export processing zones, special economic zones and the long march of capitalist development policies during the Cold War', in Leslie James and Elisabeth Leake, eds., *Decolonization and the Cold War: negotiating independence*, London: Bloomsbury, 2015, pp. 63–84.

9 See especially Neveling, 'Export processing zones'.

10 *Ibid.*, p. 75.

not framed by international policy transfer. Loraine Kennedy highlights the central government's strategic role in policy implementation, stating that zones and other policies enabling state rescaling do not emerge out of crisis, as literature from the European context suggests, but rather as a strategy to reformulate Indian state space to engage selectively with the global economy.<sup>11</sup> However, India's use of zones did not begin in 2005 but in 1965 with the Kandla free trade zone at a remote port in north-west India. The zone's isolated location and targeted incentive structure suggest that state reterritorialization strategies were dominant in the minds of the zone's planners. Furthermore, historical research on the implementation of zones in Taiwan and China demonstrates that national politicians' debates over zone policies focused extensively on political rather than economic outcomes. Christopher Miller argues that these state actors sought to use zones to reposition themselves in a transregional spatial order of states during the shifting context of decolonization and the Cold War.<sup>12</sup> The current article therefore situates zones within global history and critical political geography literature on state spatiality and demonstrates that, although many zones did emerge from models promoted by development agencies, others developed as a state spatial strategy to manage processes of state territorialization and, thereby, globalization.

More specifically, the history of the zone may help us to better understand how the zone has been connected with changes in state territoriality and other accompanying spatial formats<sup>13</sup> on a global scale.<sup>14</sup> Zones here are understood as spaces that enable flows of goods, capital, and people while simultaneously shielding the rest of the national economy from this connectivity. Understanding the zone's functionality through the history of territorialization strategies opens the inquiry to the study of globalization itself in so much as globalization is understood as a dialectical process of de-territorialization and reterritorialization.<sup>15</sup> In other words, state actors implement zones to flexibly articulate their territorialization and globalization strategies. The focus of this article is not on the zone-space itself;<sup>16</sup> rather, it is on the processes of spatialization – namely reterritorialization – that the zone enables, examined

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- 11 Michael Levien, 'Regimes of dispossession: from steel towns to special economic zones', *Development and Change*, 44, 2, 2013, pp. 381–407; Jamie Cross, *Dream zones: anticipating capitalism and development in India*, London: Pluto, 2014, especially chs. 1–2. Loraine Kennedy, *The politics of economic restructuring in India: economic governance and state spatial rescaling*, Abingdon: Routledge, 2013.
  - 12 Christopher Miller, 'From foreign concessions to special economic zones: decolonization and foreign investment in twentieth-century Asia', in James and Leake, *Decolonization and the Cold War*, pp. 239–53.
  - 13 Spatial orders (*Raumordnungen*) and spatial formats (*Raumformate*) are terms being developed by the Collaborative Research Centre 1199 'Processes of spatialization under the global condition' at the University of Leipzig, led by Matthias Middell and funded by the German Research Foundation (DFG). Simply put, the terms describe the idea that types of spaces exist/emerge in combination with one another, forming orders.
  - 14 John Agnew, 'The territorial trap: the geographical assumptions of international relations theory', *Review of International Political Economy*, 1, 1, 1994, pp. 53–80; John Agnew, *Globalization and sovereignty*, Lanham, MD: Rowman & Littlefield, 2009; Neil Brenner, 'Between fixity and motion: accumulation, territorial organization and the historical geography of spatial scales', *Environment and Planning D. Society and Space*, 16, 4, 1998, pp. 459–81; Neil Brenner, 'Beyond state-centrism? Space, territoriality, and geographical scale in globalization studies', *Theory and Society*, 28, 1, 1999, pp. 39–78; Neil Brenner, *New state spaces: urban governance and the rescaling of statehood*, New York: Oxford University Press, 2004; Charles Maier, 'Consigning the 20th century to history: alternative narratives for the modern era', *American Historical Review*, 105, 3, 2000, pp. 807–31; Charles Maier, *Once within borders: territories of power, wealth, and belonging since 1500*, Cambridge, MA: Harvard University Press, 2016; Matthias Middell and Katja Naumann, 'Global history and the spatial turn: from the impact of area studies to the study of critical junctures of globalization', *Journal of Global History*, 5, 1, 2010, pp. 149–70.
  - 15 Brenner, *New state spaces*; Middell and Naumann, 'Global history'.
  - 16 See the discussion on 'global territory' in Sven Opitz and Ute Tellmann, 'Global territories: zones of economic and legal dis/connectivity', *Distinktion: Scandinavian Journal of Social Theory*, 13, 3, 2012, pp. 261–82. Opitz and Tellmann offer an important analysis of 'the global' not as scale but as certain types of relations and their recombinations. See also 'extrastatecraft', as discussed in Easterling, *Extrastatecraft*, ch. 1.

through the lens of India's first zones in a comparative perspective. This article proposes that these zones are potentially sites through which the reformulation of spatial world orders are negotiated.

## A comparative view on zones as spaces of state reterritorialization

Orenstein positions the US foreign-trade zone, implemented in the 1930s (well before the UNIDO model zone promoted in the late 1960s to 1980s), as a zone variant. She notes that the foreign-trade zone board promoted the policy abroad, and that official delegations from around the world came to tour foreign-trade zone 1 at Staten Island.<sup>17</sup> She describes how American politicians and journalists referenced past and contemporary European free ports to justify the implementation of a 'new' zone policy, or at least to sell newspapers to the public.<sup>18</sup> Free ports in Europe at that time were not the free cities of the Hanseatic League. Rather, as European fragmented economic spaces entered customs unions or were incorporated into nation-states, certain ports such as Hamburg were able to negotiate their tax status to allow a designated zone at the port site that would enable customs-free transshipment.<sup>19</sup> Such a space became common practice, so that, when American engineers went to study the free port model in the 1920s, they saw such sites throughout the European continent.<sup>20</sup> Likewise, Miller shows in the Chinese case that politicians actively debated the differences between past treaty ports and the 'reimplementation' of zones in south-east China.<sup>21</sup> These policy-makers perceived their own positionality to be markedly different from the previous 'age of imperialism'. Their own consciousness of this periodization allows us to reflect on zones in light of the shift towards state territorialization as the dominant spatial pattern for societal organization on a global scale. The possibility that similar features developed in the 1880s at ports throughout Europe suggests that zones are connected to state formation, not exceptions to it; creating a space that opened the state through a specific section of the port to foreign trade, while simultaneously shielding the rest of the state from this legal and spatial loophole, may have developed together with nation-state territorialization.

Territoriality, here, refers to the 'use of territory for political, social, and economic ends'.<sup>22</sup> Though the term 'territory' has been used throughout Western history, its meaning has changed substantially over time.<sup>23</sup> State territoriality is a political strategy that differs from imperial spatiality in that it involves a clear demarcation of borders and moves away from what Charles Maier has termed the 'spongy construction' of empires, which tended to consist of hierarchies of space and polities, loose confederations, and frontiers on both land and sea.<sup>24</sup>

17 Orenstein, 'Foreign-trade zones'.

18 *Ibid.*, p. 39.

19 Wolfram Delius, *Die Rechtsentwicklung zum heutigen Freihafen Hamburg*, Hamburg: Hans Christians Druckerei und Verlag, 1933, p. 43.

20 Board of Engineers for Rivers and Harbors, War Department and the Bureau of Operations, United States Shipping Board, *Foreign trade zones (or free ports), analyzed with special reference to the advisability of their establishment in the United States*, Washington, DC, 1929.

21 Miller, 'Foreign concessions'.

22 Agnew, *Globalization and sovereignty*, p. 6.

23 Stuart Elden, *The birth of territory*, Chicago, IL: University of Chicago Press, 2013.

24 Maier, *Once within borders*, p. 42. See also Jane Burbank and Frederick Cooper, *Empires in world history: power and the politics of difference*, Princeton, NJ: Princeton University Press, 2011.

And yet, territoriality is never a finished process and is therefore best analysed as territorialization: changing spatial strategies to manage state space, which emerged in the nineteenth century to deal with the global condition.<sup>25</sup> In other words, state spatiality emerged on a global scale as a strategy to deal with growing interconnectedness as actors recognized their own positionality within a global framework. Territorialization therefore arose as a strategy alongside globalization. Situated within these perspectives, the following discussion illustrates how zones have enabled state spatial strategies of (re)territorialization in a comparative context. Though the examples in this comparative framework are not as empirically developed as the Indian case that follows, they allow for a thesis that does not argue for Indian specificity.

The establishment of Shannon's zone is an illustrative example.<sup>26</sup> An airport in Shannon, Ireland, opened in 1945 as a forwarding station for northern transatlantic flights. In 1948, pressurized aircraft allowed planes to fly at higher altitudes, at which point Shannon was situated too close to Europe for a strategic fuel stop.<sup>27</sup> By 1950, the first commercial New York–London direct flight was introduced. Soon after, the invention of the long-haul jet meant that transatlantic flights would no longer need to refuel in Shannon, especially after the introduction of the Boeing 707 in 1958.<sup>28</sup> Still a new airport, Shannon's heyday appeared to have been short-lived. In response to these technological changes and the resulting shift in flight patterns, local officials developed a comprehensive scheme to increase the number of flights to the airport. As Shannon's own region did not generate significant passenger or freight traffic, they sought to return transatlantic flights to Shannon. Since 1947, it had been a customs-free airport, an early version of the now ubiquitous airport duty-free shop. In trying to reposition the airport in relation to transatlantic air traffic, planners proposed extending this 'customs-free' programme under an umbrella of three features: warehousing and freight handling, an industrial estate, and tourist facilities. The Minister for Finance and the Minister for Transport and Power both supported this plan.<sup>29</sup>

Shannon's Airport Free Zone was called an industrial estate early on, a scheme that was common in Britain, the US (including Puerto Rico), and India at the time.<sup>30</sup> Shannon leased rental space to incoming companies, which enjoyed exemptions from income tax and corporation profit tax, as well as a partial exemption from local taxes. Additionally, they received grants for machinery and worker training.<sup>31</sup> Combining an industrial estate with customs-free features resembled other emerging zone policies such as Arthur D. Little's maquiladoras and 'Operation Bootstrap' in Mexico and Puerto Rico respectively.<sup>32</sup> It likewise resembled the strategies employed in Taiwan at Kaoshiung in 1965, which then became UNIDO's first model zone prior to China joining the UN. From 1972 to the 1990s, Shannon served as the location

25 Middell and Naumann, 'Global history', pp. 163–6; Michael Geyer and Charles Bright, 'World history in a global age', *American Historical Review*, 100, 4, 1995, pp. 1034–60; Michael Geyer and Charles Bright, 'Regimes of world order: global integration and the production of difference in twentieth-century world history', in Jerry H. Bently, Renate Bridenthal, and Anand A. Yang, eds., *Interactions: transregional perspectives on world history*, Honolulu, HI: University of Hawai'i Press, 2005, pp. 202–38.

26 Neveling, 'Export processing zones', p. 76.

27 H. C. Brookfield, 'Ireland and the Atlantic ferry: a study in changing geographical values', *Irish Geography*, 3, 2, 1955, p. 75.

28 J. A. Soulsby, 'Shannon free airport scheme: a new approach to industrial development', *Scottish Geographical Magazine*, 81, 2, 1965, p. 104.

29 *Ibid.*, p. 108.

30 William Bredo, *Industrial estates: tools for industrialization*, International Industrial Development Center, Stanford Research Institute, Glencoe, IL: The Free Press, 1960.

31 Soulsby, 'Shannon free airport scheme', p. 106.

32 Neveling, 'Export processing zones'.

for UNIDO's zone training activities, earning money and a name for itself through consultancy.<sup>33</sup>

Shannon's zone was an internally motivated plan to deal with the town's positionality within various spatial and economic frameworks. Eventually, the zone was not only used to reposition the airport in relation to flight patterns but also allowed for strategic engagement in various regional trade agreements. Irish manufactures enjoyed access to British and Commonwealth markets under the Anglo-Irish Trade Agreements of 1938 and 1960. Shannon's locational advantage was particularly attractive to US firms that also sought access to these markets. Furthermore, in 1965 planners researched in what ways Shannon's customs-free zone complied with regulations allowing such spaces in underdeveloped areas should Ireland enter the European Economic Community.<sup>34</sup> Today, Shannon is one of the eighty-five 'free zones' within the European Union that allow for a complicated interplay between zones, national economies, and regional trade blocs.<sup>35</sup> While Puerto Rico's special tax status helped enable its first zone, Shannon and Ireland's later zones helped to spur the expansion of tax haven policies nationwide.<sup>36</sup> Shannon's zone is therefore a strategy used to strategically articulate Shannon's and Ireland's connectedness with the global and regional economy.

Though this article has thus far highlighted 'globalization', processes of regionalization within reterritorialization strategies should not be overlooked. Japanese involvement in the spread of EPZs in Asia in the 1960s and 1970s can be understood through a scalar lens as part of national, regional, and transregional projects.<sup>37</sup> The US sought to establish Japan as a key trading partner following the Second World War.<sup>38</sup> Building up Japan's textile industry, its pre-war strength, was considered central to rebuilding its economy, but Japan lost nearly all its regional markets as its former colonies were either unable (too poor) or unwilling to trade with Japan. Additionally, Japan's former trading partners were part of the British sterling bloc, but only countries with US dollar reserves could purchase Japanese textiles.<sup>39</sup> Japan looked to expand its exports in the region, sometimes promoted through its own extensive war reparations.<sup>40</sup> The country's expansion of foreign aid in the region was part of its industrial trade strategy,<sup>41</sup> but so too were zones. Through zones, Japan and the US sought to increase investments and trade in the region to instigate a process of regionalization. Over the course of the 1960s and 1970s, East Asia became the main location for Japanese private investment as part of a strategy to increase Japan's exports by manufacturing in other countries in the region. By the 1970s, East Asian countries were highly integrated in Japan's trade.<sup>42</sup>

33 *Ibid.*, p. 76.

34 Soulsby, 'Shannon free airport scheme', p. 113.

35 European Commission, Taxation and Customs Union, 'Free zones in existence and in operation in the Community as notified by the member states to the Commission', 30 July 2015, [http://ec.europa.eu/taxation\\_customs/sites/taxation/files/resources/documents/customs/procedural\\_aspects/imports/free\\_zones/list\\_freezones.pdf](http://ec.europa.eu/taxation_customs/sites/taxation/files/resources/documents/customs/procedural_aspects/imports/free_zones/list_freezones.pdf) (consulted 24 February 2017).

36 Palan, *Offshore world*, p. 121.

37 Tsuchiya Takeo, 'Free trade zones in Southeast Asia', *Monthly Review*, 29, 9, 1978, pp. 29–41; AMPO: *Japan–Asia Quarterly Review*, special issue, ed. Tsuchiya Takeo, 8, 4 and 9, 1–2, 1977.

38 Rosen, *Making sweatshops*, p. 37.

39 *Ibid.*, pp. 35–7.

40 Nakano Kenji, 'Japan's overseas investment patterns and FTZs', AMPO: *Japan–Asia Quarterly Review*, 8, 4 and 9, 1–2, 1977, p. 36.

41 Masao Miyoshi and H. D. Harootunian, 'Japan in the world', in Masao Miyoshi and H. D. Harootunian, eds., *Japan in the world*, Durham, NC: Duke University Press, 1993, p. 6.

42 Saburo Okita, *Japan in the world economy*, Tokyo: The Japan Foundation, 1975, p. 122; Kenji, 'Japan's overseas investment', p. 37.

Within Japan, sites for new industrial plants were limited and wages were rising. The expansion of Japanese firms' manufacturing overseas was an alternative strategy to the guest worker programmes pursued in countries such as West Germany; Japanese zones would allow Japanese firms to manufacture using cheaper labour without allowing migrants to settle in Japan.<sup>43</sup> By 1975, ninety-five Japanese firms (twenty-two joint ventures) and eight US firms (three joint ventures) were operational inside Masan zone in South Korea; 87.8% of total investment in the zone came from Japanese firms.<sup>44</sup> Japanese presence in an area once occupied by Japan was not taken lightly and was seen as a Japanese post-imperial enclave within South Korea. But beyond South Korea, Japanese firms have historically tended to cluster in specific geographic areas as they shift their operations abroad, often in zones or industrial parks.<sup>45</sup> As such, they form distinct geographies through which hubs and networks of Japanese businesses may support formal and informal regionalization strategies.<sup>46</sup>

Because of Japan's key role in promoting zones in Asia, Rajiv Kumar, an economist who published a comprehensive account of India's zone policy in 1989, noted that in India's zones 'Japanese investors were conspicuous by their absence'.<sup>47</sup> Today, however, India hosts a number of 'Japanese zones', which are, from the Japanese perspective, motivated by the aforementioned problems that Japanese firms face in manufacturing domestically. Additionally, these zones form part of a complementary regional policy that is discursively situated as a reaction to increasing economic entanglements between both parties and China, in which India and Japan 'look east' and 'look west' respectively.<sup>48</sup> In short, zones allow the Japanese government a certain flexibility in articulating both its domestic and its regional economic policies.

China's SEZs have generated much attention among political economists, political geographers, and anthropologists.<sup>49</sup> In policy arenas, Shenzhen SEZ has been the most visible and forms part of the 'global urban imagination' of the fishing village turned 'global city'.<sup>50</sup> Shenzhen and China's other SEZs also emerged out of state reterritorialization strategies. Though Jiang Zemin, China's Minister for Electronics Industries, attended a training workshop in Shannon sponsored by UNIDO in the late 1970s, the new Chinese policy appears to have been both a continuation of past zone strategies and an experimentation with

43 Okita, *Japan in the world economy*, p. 144.

44 Tsuchiya Takeo, 'South Korea: Masan – an epitome of the Japan ROK relationship', *AMPO: Japan-Asia Quarterly Review*, 8, 4 and 9, 1–2, 1977, p. 56.

45 Michael L. Gerlach, *Alliance capitalism: the social organization of Japanese business*, Berkeley, CA: University of California Press, 1992; Andrew Delios and Paul W. Beamish, 'Regional and global strategies of Japanese firms', *Management International Review*, 45, 1, 2005, p. 34.

46 Fredrik Söderbaum, 'Formal and informal regionalism', in Timothy M. Shaw, J. Andrew Grant, and Scarlett Cornelissen, eds., *The Ashgate research companion to regionalisms*, Farnham: Ashgate, 2011, pp. 51–68.

47 Rajiv Kumar, *India's export processing zones*, New Delhi: Oxford University Press, 1989, p. 128.

48 JETRO, "Look West" with the strategic partnership between India and Japan, September 2013, p. 15, [https://www.jetro.go.jp/ext\\_images/jetro/topics/pdf/1309\\_topics1\\_annexion3.pdf](https://www.jetro.go.jp/ext_images/jetro/topics/pdf/1309_topics1_annexion3.pdf) (consulted 24 February 2017); 'Rajasthan to have second Japanese industrial zone', *Business Standard*, 8 April 2015, [http://www.business-standard.com/article/news-ians/rajasthan-to-have-second-japanese-industrial-zone-115040800931\\_1.html](http://www.business-standard.com/article/news-ians/rajasthan-to-have-second-japanese-industrial-zone-115040800931_1.html) (consulted 24 February 2017).

49 Most recently, Mary Ann O'Donnell, Winnie Wong, and Jonathan Bach, *Learning from Shenzhen: China's post-Mao experiment from special zone to model city*, Chicago, IL: University of Chicago Press, 2017.

50 Jonathan Bach, 'Modernity and the urban imagination in economic zones', *Theory, Culture & Society*, 28, 5, 2011, pp. 98–122.

new zone strategies developed abroad. While Chinese officials looked to foreign models, they also sought to implement a policy of their own to meet the specific needs for this space: to connect a region of China to the global economy particularly through 'Chinese' investors abroad, while shielding the rest of the country from this activity.

As early as 1946, officials from the Republic of China toured the US foreign-trade zone 1 at Staten Island. However, as the People's Republic of China was established several years later, this tour is unlikely to have inspired the country's zone policy.<sup>51</sup> By 1960, the Central Committee approved export commodity processing bases (ECPB), export-oriented zones that received preferential access within China to mineral resources and transport services. These spaces were closed when Mao Zedong regained control in 1966 but, by 1971, Zhou Enlai had re-established the ECPBs, along with other spaces devoted to export production.<sup>52</sup> In the late 1970s, Chinese officials began to look abroad at how they could enhance their existing zone programme to selectively control foreign investment and trade.

Chinese officials went through two channels to do so. First, they received UNIDO assistance through the zone in Shannon, as well as another zone in Sri Lanka, in the late 1970s.<sup>53</sup> Second, they received more extensive assistance in Hong Kong. China's Minister of Communication, Ye Fei, met with representatives of the China Merchants' Steam Navigation Company in Hong Kong. These representatives suggested that, because of rising land values in Hong Kong, land could be set aside for Hong Kong businesses in China just across the border in Guangdong province.<sup>54</sup> Through Hong Kong representatives, the Chinese were able to indirectly study zones in Taiwan and South Korea. The zone's main impetus was to develop Guangdong province by capitalizing on its proximity to Hong Kong. Another perspective turns this statement around: the zone was meant to reconnect Hong Kong to Guangdong, and thereby China.

Various types of zones emerged from these discussions, including what the Chinese described as the 'export processing zone' model, applied in Xiamen and Shantou, and the 'comprehensive zone' model, applied in Shenzhen and Zhuhai. The 'comprehensive zone' (or SEZ) far outdid the models that Chinese officials looked at in both scale and scope. Though delimited spaces, the SEZs were much larger than zones elsewhere and were meant to build connections to sites throughout China.<sup>55</sup> Zones were also set up to target specific 'Chinese' foreign investors from Hong Kong, Macau, and Taiwan. This contrasts with Taiwan's earlier implementation of a free trade zone at Kaoshiung in the 1960s, which Miller argues was meant to reposition Taiwan politically and reinforce its independence from China by increasing its economic ties to the West.<sup>56</sup>

China's SEZ policy represented a dual reterritorialization strategy. On the one hand, the policy targeted a diaspora and profited from cultural and linguistic connections to generate foreign direct investment. On the other hand, it specifically linked these economies to the

51 Orenstein, 'Foreign-trade zones', p. 54.

52 Lawrence C. Reardon, 'The rise and decline of China's export processing zones', *Journal of Contemporary China*, 5, 3, 1996, pp. 285–90.

53 George T. Crane, *The political economy of China's special economic zones*, Armonk, NY: M. E. Sharpe, 1990, p. 27; Neveling, 'Free trade zones', p. 1013.

54 Crane, *Political economy*, p. 26.

55 Ezra F. Vogel, *One step ahead in China: Guangdong under reform*, Cambridge, MA: Harvard University Press, 1989, pp. 125–60.

56 Miller, 'Foreign concessions', p. 244.

Chinese economy, thereby leading to both a reworking of the Chinese citizen and categories of ‘foreigners’ and also the amalgamation of ‘Chinese’ cultural spaces into its national economy. As Aihwa Ong claims, targeting ‘Greater China’ (including ‘Chinese’ in Southeast Asia) was a strategy to integrate these ‘Chinese’ spaces with the mainland.<sup>57</sup> Though Ong has analysed ‘zoning’ as a form of Chinese regionalization, it appears instead to be a form of reterritorialization, whereby Hong Kong, Macau, and Taiwan have become tightly connected to the Chinese national economy.<sup>58</sup>

Anthropological research allows for a final observation about the zone’s functionality. In his research on Shenzhen SEZ, Jonathan Bach studied the ‘urban villages’ intertwined with Shenzhen’s city-space.<sup>59</sup> Shenzhen’s original inhabitants, before the planned SEZ, were rural dwellers in China’s household registration system (*hukou*). The government assumed that the villagers adjacent to the SEZ site would supply the zone with agricultural products. However, their ‘rural’ status allowed these villagers to own collective property and gave them special border privileges; they constructed low-cost housing and became successful landlords in the booming metropolis that emerged, so that now the city contains a mixture of ‘rural’ and ‘urban’ space, two different regulatory spaces that have created diverging aesthetics. The villagers were mobile – crossing borders between Shenzhen, the Chinese countryside, and Hong Kong – but they also became mediators of illicit mobility.<sup>60</sup> Despite government attempts to eliminate the network of villages throughout the city, they endured. Bach writes that not only were the villages capable of adapting to local and global economic changes, but their reconfigurations were crucial to Shenzhen’s success.<sup>61</sup> Though the zone is a planned space of connectivity controlled by the state, it relies largely on non-state actors to pursue this connectivity, adding contingency to its nature.<sup>62</sup> That is, the zone operates in tension between the planned representations of space and the spatial practices it enables.<sup>63</sup>

The aforementioned examples illustrate how zones have been used to respatialize state space. Other zones, particularly those along borders – most notably North Korea’s and South Korea’s joint zone, but also those in the Mekong region – suggest that similar strategies may be at play.<sup>64</sup> The ‘Chinese case’, however, has been considered unique by the World Bank because of its layered zone policies that integrate inland regions through corridors to coastal areas, and its policies that specifically connect outwards to its diaspora.<sup>65</sup> This article argues that the processes of respatialization that are enabled by the zone may not be unique to China but may be a general feature of the zone. The following section discusses India’s first free trade zones in more detail through such a lens.

57 Aihwa Ong, *Neoliberalism as exception*, Durham, NC: Duke University Press, 2006, pp. 97–118.

58 Xiangming Chen, *As borders bend: transnational spaces on the Pacific Rim*, Lanham, MD: Lowman & Littlefield Publishers, 2005, pp. 61–106.

59 Jonathan Bach, “‘They come in peasants and leave citizens’: urban villages and the making of Shenzhen, China”, *Cultural Anthropology*, 25, 3 pp. 421–58.

60 Mary Ann O’Donnell, ‘Becoming Hong Kong, razing Baoan, preserving Xin’an: an ethnographic account of urbanization in the Shenzhen Special Economic Zone’, *Cultural Studies*, 15, 3/4, 2001, pp. 419–43.

61 Bach, “‘They come in peasants’”, p. 433.

62 For contingency in planning, see James C. Scott, *Seeing like a state: how certain schemes to improve the human condition have failed*, New Haven, CT: Yale University Press, 1998.

63 Henri Lefebvre, *The production of space*, Chicago, IL: Blackwell Publishing Limited, 1991.

64 Arnold Dennis, ‘Spatial practices and border SEZs in Mekong Southeast Asia’, *Geography Compass*, 6, 12, 2012, pp. 740–51.

65 Jin Wang, ‘The economic impact of special economic zones: evidence from Chinese municipalities’, *Journal of Development Economics*, 101, C, 2013, p. 136.

## Planning India's free trade zone

One year after independence, in 1948, India's Ministry of Commerce and Industry considered instituting a free trade zone to bolster the country's foreign exchange reserves by increasing exports, the typical issues that a zone is meant to address. In the 1950s, as in many other newly independent countries, the Government of India pursued import substitution policies that prioritized self-sufficient manufacturing for the internal market to decrease the country's reliance on foreign imports. In order to do so, however, machinery and manufacturing inputs were often needed from hard-currency countries, which further depleted India's foreign exchange reserves. State planners began to regulate foreign trade through licences and permits.<sup>66</sup> Along with import restrictions, the Ministry of Commerce appointed an Export Promotion Committee to increase the quantity and quality of India's exports to help offset this imbalance. This committee was ultimately pivotal in implementing free trade zones in India.

Initially, the Export Promotion Committee considered Bombay, Madras, and Calcutta as possible locations for free ports or free zones.<sup>67</sup> On 29 June 1949, the Ministry of Commerce sent letters to various business chambers throughout India to solicit opinions on the US foreign-trade-zone policy. This inquiry served two purposes. First, the ministry argued that such a system might be useful at Indian ports to increase exports through re-export trade. Second, Indian exporters could also utilize the US foreign-trade zones to reassemble Indian products to meet US product standards. To increase India's hard-currency exports, manufacturing directly for the US market, as opposed to exporting to other countries where Indian products were reassembled for re-export, would avoid shifting India's rightful hard-currency earnings to a third party.

While the proposal was inspired by the US system, Indian planners immediately considered modifications to the American model, namely to expand this system to manufacturing.<sup>68</sup> Manipulation versus manufacturing is not strictly defined, but manipulation might, for example, include dyeing textiles or assembling already manufactured products, while manufacturing would involve more extensive activities such as creating entirely new products from various components. The report had already suggested naming the policy a 'free trade zone', deviating from the American 'foreign-trade zone'. Early reports used both terms interchangeably. Despite the presumed novelty of this proposal, allowing manufacturing in such a zone conformed to India's existing bonded warehouse practices at that time. The Indian government's policy had already been to freely permit import, manufacture, and re-export in bond, so a free trade zone at certain ports would only be an additional measure to promote exports, along with duty drawbacks for goods subsequently re-exported.<sup>69</sup> The proposal to create a zone overlapped considerably with this system, which the Ministry of Finance highlighted in its 1958 report. Unlike in the US case, discussions on implementing a zone did not

66 For an overview, see Isabelle Milbert, 'Building the economy: 1947–1980', in Christophe Jaffrelot, ed., *India since 1950: society, politics, economy and culture*, New Delhi: Yatra Books, 2012, pp. 84–104.

67 Indian Merchants' Chamber commercial and reference library, Mumbai (henceforth IMC), Resolution no. 64-LW (34)/49, 'Report of the Export Promotion Committee', Ministry of Commerce, Government of India, 1949, pp. 126–7.

68 IMC, Letter no. 9-FTA(4)/48, 29 June 1949, from the Ministry of Commerce, Government of India to the Indian Merchants' Chamber, in Indian Merchants' Chamber, 1949, Annual Report, p. 414.

69 Central Secretariat Library, New Delhi, India Official Reports, Annual Reports (henceforth CSL, IOR, AR) 'Report of the Customs Reorganisation Committee 1957–58', Ministry of Finance, Department of Revenue, Government of India, 1958, p. 69.

appear to be motivated by inadequacies in India's bonded warehouse system;<sup>70</sup> on the contrary, the Ministry of Commerce used the country's experience with bonded warehouses to rationalize implementing zones.

It is not clear how widespread bonded warehouses were in India prior to 1947. By the mid 1960s, these bonded zones were only located at India's largest ports: Calcutta, Madras, Cochin, and Bombay. In 1965, only Bombay's custom zone was actively importing and re-exporting, although the imported goods vastly exceeded the value of goods re-exported. By 1967–68, as the first free trade zone at Kandla opened, the use of Bombay's bonded zones had declined significantly.<sup>71</sup> The Ministry of Commerce overlooked these bonded manufacturing zones in its analysis, suggesting that the American foreign-trade zone was more attractive as a marketing label for a 'new' policy rather than as an actual policy model. International economic planning consultants in India during the 1950s and 1960s tended to lend legitimacy to plans pursued by Indian bureaucrats rather than conclusively influencing Indian planning.<sup>72</sup>

The Ministry of Commerce discussed the American recommendations with business chambers.<sup>73</sup> Those recommendations stated that zones must be located: at the 'crossroads of traffic'; somewhere with access to ample banking facilities; and where businessmen would be able to establish markets. The ministry noted that, while the second two options could be developed along with the zone, the first element, shipping, needed to be already established. Therefore, the zone should be located at a busy port. For that reason, India's three largest ports – Bombay, Madras, and Calcutta – were considered prime locations for such a scheme. The zone required connection to foreign markets. However, some planners and business chamber members did not seem completely aware of the details of the American policy, and debates ensued as to whether the zone would open only a section of the port or the whole city to 'free trade', which should be avoided in places, like Bombay, that already consumed many foreign goods.<sup>74</sup> These statements support the view that Indians did not have first-hand knowledge of US foreign-trade zones, as a lack of documentation suggests that they had never visited Staten Island foreign-trade zone 1.

To the minds of Indian planners, the zone also required isolation. Their goal was not to completely open the Indian market to foreign trade but to protect the national economy from the very connectedness that the zone enabled. Extreme congestion, especially at Bombay, became a hassle not only to the Ministry of Transport but also to the Ministry of Commerce. Shipping delays contributed to higher prices on Indian exports.<sup>75</sup> The Ministry of Commerce rejected the 1949 proposal to create a free port or zone at a major port because they could not ensure control. Lastly, the only commodities that the ministry identified as benefiting from such a zone were cashews and diamonds. The diamond trade, however, would be too susceptible to

70 Orenstein, 'Foreign-trade zones', pp. 40–1.

71 CSL, IOR, AR, 'India ports and shipping statistics 1970', Ministry of Shipping and Transport, Transport Research Division, Government of India, 1970, p. 50.

72 David C. Engerman, 'The political power of economic ideas? Foreign economic advisors and Indian planning in the 1950s and 1960s', in Andreas Hilger and Corinna R. Unger, eds., *India in the world since 1947: national and transnational perspectives*, Frankfurt am Main: Peter Lang, 2012, pp. 120–35.

73 IMC, Letter no. 9-FTA(4)/48, 29 June 1949, from the Ministry of Commerce, Government of India to Chamber, in Indian Merchants' Chamber, 1949, Annual Report.

74 IMC, 'Report of the Export Promotion Committee', Ministry of Commerce and Industry, Government of India, 31 August 1957, p. 47–9.

75 IMC, Resolution no. 64-LW (34)/49, 'Report of the Export Promotion Committee', Ministry of Commerce, Government of India, 1949, p. 22.

smuggling in this congested port. In the end, the committee settled on a drawback duty on imports later re-exported, stating that such a system would allow them to study which commodities would potentially benefit from a future zone.<sup>76</sup>

Though Ministry of Commerce planners initially entertained the possibility of a zone for the same traditional economic remedies that UNIDO later prescribed it for – increasing foreign exchange earnings through export-based manufacturing – the spatial considerations of the zone led to the policy's early rejection. Without being able to ensure proper control over the connectedness that the zone would enable, the ministry felt that the desire to increase exports was not worth the risk. The zone was eventually approved not for national economic considerations but precisely because it was a spatial tool that could be used to address other issues. Very early on, this uneven spatial development policy was paradoxically seen as a means to increase uniform economic growth in India's fragmented territory.

## A national tabula rasa

While the Ministry of Commerce sought to increase India's foreign exchange earnings, Indian planners in various ministries were also dealing with territorializing the country. This process informed the location for India's first free trade zone, substantially shifting planners' policy considerations.

Itty Abraham claims that Indian politicians sought to form India as a state recognizable to the West to gain external sovereignty; they therefore worked to present the country as a territorial, national space.<sup>77</sup> Nation-state building was an active strategy, not an inevitable outcome of independence. Nationalist leaders had considered both an Indian empire and the adoption of specific elements of fascism as other possible avenues for a future independent India.<sup>78</sup> Ultimately, following independence, planners restructured the state as a federal system to deal with the plurality of India's subnational states and ethnic groups as well as the princely states (more than 500) that left India's territory fragmented.<sup>79</sup> A post-independence map of the country would have shown 'holes' totalling about 40% of India's new territory that needed to be integrated into the federal system. While borders were constantly in flux during the colonial period, they continued to fluctuate post-independence as they simultaneously became more solidified along cultural and linguistic lines.<sup>80</sup> India's internal state borders were modified as late as 2015, and Indian official policy continues to censor maps depicting the country's (internationally recognized) external borders.<sup>81</sup> India's federal system emerged as a reaction to and a rejection of the highly centralized but territorially fragmented colonial state.<sup>82</sup>

76 *Ibid.*, pp. 26–7.

77 Itty Abraham, *How India became territorial: foreign policy, diaspora, geopolitics*, Stanford, CA: Stanford University Press, 2014.

78 Maria Framke, 'Shopping ideologies for independent India? Taraknath Das's engagement with Italian fascism and German national socialism', *Itinerario*, 40, 1, 2016, pp. 55–81; Maryanne A. Rhett, 'Race and imperial ambition: the case of Japan and India after World War I', in Andrew Tait Jarboe and Richard S. Fogarty, eds., *Empires in World War I: shifting frontiers and imperial dynamics in a global conflict*, London: I.B. Tauris, 2014, pp. 49–73.

79 Loraine Kennedy, 'Indian federalism: moving towards a more balanced system', in Jaffrelot, *India since 1950*, p. 251.

80 *Ibid.*, p. 258.

81 'Blacked out: where *The Economist* is censored', *The Economist*, 21 September 2010, <http://www.economist.com/node/17082677> (consulted 17 September 2015).

82 Kennedy, *Politics of economic restructuring*, p. 18.

Shaping India in the image of a nation-state meant that different territorialization strategies needed to be deployed from those used under colonialism.<sup>83</sup> British territorialization strategies had reinforced the image of the Hindu Indian subject at the expense of a minority Muslim subject, and independence planners reinforced this distinction.<sup>84</sup> The effects of these nation-state territorialization strategies, namely the partition of India and Pakistan, formed part of the motivation for creating a zone in India and its location. Planners used the zone as a spatial policy that enabled flexibility to deal with the country's newly articulated internal and external space.

Rather than focusing exclusively on increasing foreign exchange reserves, two other key issues emerged: resettling permanent refugees from Pakistan and developing an alternative to Karachi's port, which had previously serviced northern India, including the capital, New Delhi. Although the economic motivations for a zone had originally not been strong enough to persuade the Ministry of Commerce to implement one, territorial concerns became the driving motivation. To be clear, the zone's official justification on paper remained 'increasing exports'. Yet, the non-quantifiable territorial rationale for the zone remained strongly connected to its implementation.

Kandla port, developed in the 1930s by the princely state of Kutch, was redeveloped as a major port in 1949 to offset the loss of Karachi. This former princely state had previously been a semi-sovereign territory. Development efforts by the Government of India were focused on rapidly integrating these gaps in Indian territory. During the post-independence period, today's Gujarat and Maharashtra were both part of Bombay State before splitting into two states in 1960. Kutch was its own state until joining Bombay State in 1956; it is now part of northern Gujarat. A secondary, but important, motivational factor for siting a major port at Kandla was to decongest Bombay, India's busiest major port on the west coast. A major port refers to a port that, for reasons of national importance, is owned by the central government and operated as a financially independent port trust. Kandla port was not connected by railway and had no trade whatsoever, but the West Coast Major Port Development Committee believed that 'its geographical position is best suited to replace the port of Karachi in its service to the hinterland', despite these drawbacks.<sup>85</sup> Its 'geographical position' appears to refer simultaneously to a fixed, 'natural' space and to a socially produced space in which the government would create global and national connectedness. This framework reversed the logic of what one could call 'portals of globalization': places with a high density of global connectedness; here, rather than utilizing existing sites in India that could be characterized by such entanglements, a 'portal of globalization' would be produced and controlled.<sup>86</sup> In sum, an insignificant, remote port gained national importance for numerous government agencies ranging from commercial policy to infrastructure tasked with territorializing India.

As there was little to no trade at Kandla, developing a town near the port was considered essential for one to support the other. Following partition, the Government of India began to develop Gandhidham, comprising 4,337 acres within the port trust estate, to rehabilitate

83 Manu Goswami, *Producing India: from colonial economy to national space*, Chicago, IL: Chicago University Press, 2010.

84 Abraham, *How India became territorial*, pp. 31–3.

85 CSL, IOD, AR, 'Report of the West Coast Major Port Development Committee regarding the possibility of siting a major port on the coast covered by Kathiawar and Cutch', Ministry of Transport, Government of India, 1949, p. 11.

86 Middell and Naumann, 'Global history', p. 162.

displaced people through the Kandla Port Organisation and the Sidhu Resettlement Corporation Limited.<sup>87</sup> In 1949, Adams Howard & Greenley, a US firm hired through the US's Point Four programme, designed the township's master plan.<sup>88</sup> Although the Ministry of Commerce had ruled out free trade zones as an option in 1949, as early as 1951, the development commissioner for Kandla port, K. K. Mitter, proposed Kandla as the site for such a zone.<sup>89</sup> This proposal was resubmitted to business chambers throughout India, and was later reintroduced in 1957's Export Promotion Committee. The Ministry of Commerce identified Kandla port as a promising location for a zone. They chose it specifically because this port was *not* at the 'crossroads of traffic'.

The logic of the zone was thereby reversed: the zone could help the township, provide the port with traffic, and integrate Kutch. It was therefore implemented as a territorial strategy rather than an economic remedy to increase India's foreign exchange earnings. In any case, these considerations were national rather than strictly local. The questions were how to balance the national development space to integrate newly arrived refugees and how to balance India's nodes of external articulation: that is, how to shift trade from Bombay to Kandla to decongest Bombay port. The zone was an attempt by Indian planners to create a mediated transfer point between the internal and the external.<sup>90</sup> Kandla was chosen mainly for its isolation; the potential connectedness that such a policy would generate could be better managed there than at bustling terminals like Bombay. Isolation became a key selling point for a space that would enhance external articulation.

An industrial estate was developed at Kandla prior to the free trade zone to promote industry in the township. The anthropologist Jamie Cross discusses the industrial estate in India as a precursor to the lived experiences in the country's current SEZs.<sup>91</sup> Unlike the case in Shannon, India's zone practices did not emerge from industrial estates; the two were separate policies controlled by separate levels of government for different purposes. Industrial estates, launched in India in 1954, were typically planned by the subnational states and local governments to promote small-scale industry for national production, while free trade zones were planned by the central government to balance the current account. In other words, one policy was central to India's import substitution drive;<sup>92</sup> the other was its antidote. India's federal system separated these policies further.

During the 1960s and 1970s, UNIDO promoted both zones and industrial estates to non-aligned movement countries, of which India was a prominent member. UNIDO developed a management-training programme for industrial estate managers.<sup>93</sup> Yet again, zones were considered a separate policy. They enabled legal and spatial features that the estates did not.

87 CSL, IOD, AR, Ministry of Transport, Government of India, 1955–56, Annual Report, p. 10.

88 CSL, IOD, AR, Ministry of Transport and Communications, Government of India, Kandla Port Trust, 1958–59, Administration Report, annexure II; Satkartar Batra, *Port of Kandla: the gateway of northwest India*, Adipur, Kutch: Kandla Commercial (Weekly), 1964, p. 48.

89 IMC, Letter no. 1257, 2 April 1952, from the Indian Merchants' Chamber to the Government of India, and Letter no. 6-TP(P)(2)/50, 9 May 1951, from the Ministry of Commerce and Industry to the Chamber, in Indian Merchants' Chamber, Annual Report, 1952, pp. 469–71.

90 Michael Geyer, 'Portals of globalization', in Winfried Eberhard and Christian Lübke, eds., *The plurality of Europe: identities and spaces*, Leipzig: Leipziger Universitätsverlag, 2010, pp. 509–20.

91 Cross, *Dream zones*, pp. 30–5.

92 D. Nagaiya, *Industrial estates programme: the Indian experience*, Yousufguda, Hyderabad: Small Industry Extension Training Institute, 1971.

93 *Guidelines for the establishment of industrial estates in developing countries*, Vienna: UNIDO, 1978, pp. 73–4.

Likewise, UNIDO sought to implement an international best zone practice. In 1976 it published a handbook on setting up EPZs and trained government officials from around the world on how to establish a zone policy, offering detailed descriptions of zone features.<sup>94</sup> India's first zone and its first industrial estates preceded these activities.

Both an industrial estate and a free trade zone were located at Kandla, but they were considered separate projects. By 1964, the industrial estate was completed, comprising fifty-two sheds, though only fifteen industries had begun their operations there and twenty-nine sheds had been allotted.<sup>95</sup> These sheds were constructed and managed by the Port Trust, a central government authority, on behalf of the Gujarat state government. In contrast to this multi-scalar policy, the free trade zone fell completely under the central government's authority, which supports research on India's current zone programme that demonstrates that zones in India are sites of state spatial rescaling in which the central government, though appearing to relax certain regulations, actually enhances its oversight capacity at local levels.<sup>96</sup> The administration of Kandla's zone was carried out from Gandhidham under the direction of the Kandla Port Trust on behalf of the Ministry of Commerce.<sup>97</sup> Kandla Free Trade Zone (KFTZ) opened in 1965, though construction was only completed in 1972. It was located just nine kilometres north of Kandla Port and six kilometres from Kandla's township, Gandhidham. The site was originally 640 acres in size and later increased by a further 320 acres. This multi-product zone had twenty-three units (businesses) in operation and generated seventy jobs in its initial year.<sup>98</sup> Manufactures included mainly 'engineering' goods (such as stainless steel, hand-knitting machines, and electrical items), chemicals, and textile products.<sup>99</sup>

The Government of India established India's second zone at Santacruz in Bombay in 1973. In the early 1960s, various electronics committees had been convened by noted scientists to review the state of India's entire electronics field. In 1970, the central government created a separate department of electronics directly under the supervision of the prime minister.<sup>100</sup> Unlike KFTZ, Santacruz Electronics Export Processing Zone (SEEPZ) was a uni-product zone focused on computer manufacturing and assembly, other electronics, and computer software. In addition to increasing exports to earn foreign exchange, this zone was a part of India's national policy to specialize in electronics and computing. Like KFTZ, SEEPZ focused on 100% export-oriented production. In 1977, only 5% of total production in India was export-based, and in 1974, out of a total of 4,500 industrial enterprises in India, only 125 contributed significantly to India's manufacturing exports.<sup>101</sup> Though small drops in the bucket, SEEPZ and KFTZ were spaces in which the Indian government could focus on export-oriented industries, sometimes industries of its choosing such as electronics. These zones became strategic sites for state-driven economic engagement between India and the global economy.

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- 94 Thomas Kelleher, 'Handbook on export free zones', UNIDO, 1976. See analysis in Neveling, 'Export processing zones'.
- 95 CSL, IOD, AR, Ministry of International Trade, Government of India, 1963–64, Annual Report, p. 9.
- 96 Kennedy, *Politics of economic restructuring*, ch. 5.
- 97 CSL, IOD, AR, Ministry of Transport and Communications, Government of India, Kandla Port Trust, 1964–65, Administration Report, p. 13.
- 98 M. Dattatreylu, *Export processing zones in India: a case study of Kandla Free Trade Zone*, New Delhi: Indian Institute of Foreign Trade, 1990, p. 19.
- 99 N. Vittal, 'Free trade zones and export strategy', *Foreign Trade Review*, 12, 3, 1977, pp. 406–10.
- 100 Suraj Mal Agarwal, 'Electronics in India: past strategies and future possibilities', *World Development*, 13, 3, 1985, p. 284.
- 101 Vittal, 'Free trade zones', p. 413.

The free trade zone in India had shifted from an economic policy, the success of which could be measured by exports generated and foreign exchange earnings, to a spatial policy that allowed for the strategic deployment of select economic strategies in particular places, with projected outcomes that were not easily quantifiable. But the zones were more than spaces of territorialization; they were also externally oriented towards specific markets and towards specific individuals – Indians abroad – and therefore represented a reterritorialization strategy to rearticulate Indian citizenship and Indian economic spaces, thereby extending state space out of India.

## Reterritorializing the global Indian

Prior to independence, Indians lived across the globe, especially throughout the British empire: 'Theirs was a globally dispersed nonterritorially defined national formation.'<sup>102</sup> Though others might have recognized them, based on language, religion, and physical features, as 'Indian', they had varying degrees of connection to 'India'. In 1947, as India became a politically sovereign state, it also became territorial in that Indian citizenship was given exclusively to Indians resident within the country's borders. Ironically, though the fight for independence had been a global struggle over the treatment of Indians, abroad as well as at home, overseas Indians were excluded from politically sovereign India.<sup>103</sup> The country's approach to its diaspora following Independence focused more on bilateral engagement with states that hosted many cultural 'Indians' without Indian citizenship.<sup>104</sup> Migrants who had left India before independence were often poor, indentured labourers. As more Indians moved abroad in the wake of independence, a new 'global Indian' emerged. This diaspora's profile represented a high-caste, middle-class, educated Hindu who took advantage of new skills-based immigration laws to emigrate to the US, Canada, Australia, and the UK in the late 1960s.

In contrast to its attitude to the working-class Indians who left prior to independence, the Government of India sought to engage with the new Indian diaspora. The government created the category 'non-resident Indian' (NRI) in the Foreign Exchange Act of 1973, which facilitated remittance payments of Indians working abroad. This law reworked the NRI category established in 1961 through the Income Tax Act, which had stricter regulations on NRIs' taxes. The government targeted NRI investment through KFTZ and SEEPZ in the 1970s and 1980s, focusing especially on those residing in Western countries. Although NRI investment had not been specifically mentioned in the discussions leading to the implementation of KFTZ, a 1964 planning proposal from the Maharashtra Economic Development Council for a free trade zone in New Bombay (which was never implemented) describes the desire to establish the zone to attract investments from Indian nationals settled abroad.<sup>105</sup> Policies implemented in KFTZ and SEEPZ suggest that this motivation also played a central part in these zones' design. While there was no blanket approval for foreign investment in either zone, NRIs received blanket approval for their investments. Therefore, foreign companies would only be considered on a case-by-case basis but companies registered in foreign countries such as the US or

102 Abraham, *How India became territorial*, p. 74.

103 *Ibid.*, pp. 74–5.

104 *Ibid.*, p. 98.

105 British Library, General Reference Collection, Maharashtra Economic Development Council, 'Report on free-trade zone in Maharashtra', 1964, reprinted 1970, p. 10.

UK that were run by NRIs were automatically approved to operate inside the zones.<sup>106</sup> The hope was that, through engaging with Indians abroad, India would be able to accrue foreign exchange earnings from the countries in which these Indians resided. As individuals aware of market situations in both India and the target export markets like the US, they were particularly selected to steer India's export drive.

'Foreign' collaboration in the zone included both outsourcing, where a foreign firm supplied the zone unit with materials and repurchased the item after assembly, and foreign investment, including foreign ownership or partial equity participation. In KFTZ, foreign collaboration was low, and all foreign partners represented outsourcing. Out of eleven total units with foreign collaboration, seven began after 1980 and were therefore probably drawn to the increased tax incentives implemented in 1981 (discussed below). In addition, family ties played a role in these investments. For example, nine out of these eleven foreign collaborators in KFTZ were relatives of the Indian unit owner.<sup>107</sup> Therefore, family ties were an important investment incentive, drawing NRIs to invest in India's export drive.

In contrast, SEEPZ was characterized by more foreign collaboration, which may have been related to Bombay's strong industrial base and its diaspora, in contrast to the relative isolation of KFTZ. Between 1973 and 1989, twenty-two of SEEPZ's sixty-three approved units involved foreign equity participation while only three units represented outsourced production. Furthermore, fifteen out of these twenty-two foreign equity ventures were majority-owned by the foreign firm. In total, about 40% of investment in the zone involved foreign collaboration, and, as in KFTZ, 'nearly all these investments were made by NRIs with members of the family managing both the foreign and Indian ends of the business'.<sup>108</sup> So, an Indian citizen resident in the US could connect with family still in India and jointly operate a family business inside the zone while remaining tax resident in the US. Neither UNIDO nor the new international division of labour thesis documented diaspora investment, as it was not a standardized feature of either policy or academic constructs of a model zone.

The investment profile of the foreign collaborators also differed between zones. In KFTZ, foreign collaborators were diverse, but investment from the UK represented the largest group (three out of eight foreign collaborators).<sup>109</sup> These investors were identified as probably Gujarati in origin who had left East Africa for the UK. As an investment location, Gujarat represented a 'return' but also a strategy to integrate a company's production across borders through linguistic and cultural channels. In SEEPZ, the clear majority of foreign collaborators, mainly investors, were from the US, representing 67% of foreign collaboration and 37% of total zone units, both foreign and domestic.<sup>110</sup> Because Indians resident in the US had mainly taken advantage of skill-based immigration laws established in the 1960s, these investors represented the targeted diaspora: middle-class, upper-caste Indian citizens who left India after independence. These investors used their connections with their new homeland, the US, and their family ties in India to internationalize their firms' production.

106 Kumar, *India's export processing zones*, p. 42.

107 *Ibid.*, p. 125.

108 *Ibid.*

109 *Ibid.*, p. 129.

110 *Ibid.*, pp. 128–9.

In addition to these uses of the diaspora, specific zone units based their exports on the Indian diaspora as a foreign market niche. For example, a story recorded about one investor in SEEPZ, labelled a 'typical case', describes his export strategy:

In one typical case, the foreign partner, a non-resident Indian, had a retail agency for audio equipment in one of the West Asian countries. He contracted with his principals to start a video recording unit at SEEPZ. This records Hindi films on video cassettes for sale in West Asian markets which are handled by the non-resident Indian who has 100 percent equity.<sup>111</sup>

Hindi films are generally popular in the Gulf States, but many Indians also work there as migrant labourers. While these were the types of Indians abroad who were not desired by the Indian state for Indian citizenship or engagement once they moved outside India, they represented potential markets for Indians shifting to export production.

Different Indian diasporas were targeted in separate ways, and opening SEEPZ and KFTZ to the investment of certain types of diaspora groups was an effort to articulate the state of India beyond India: in other words, to enhance the diaspora's contribution to India's balance of payments problem through an export drive to their new homelands. These zones allowed NRIs to operate their businesses within India but maintain tax residency outside the country. The Indian diaspora in the Gulf, however, made a significant contribution to this effort without such targeted articulation, being described as the 'mainstay' of India's foreign exchange reserves by the 1980s.<sup>112</sup> In some cases, such as that of the exporter of Hindi films, private interests also targeted various diaspora groups. Using the zone to articulate global connections was layered: planners envisioned the zone, designing it for particular types of connections; in reality, zone units used the zone to pursue their own interests, sometimes forging new spatialities not sought by the Government of India.

KFTZ's Soviet trade reveals the interplay between these competing globalization strategies.<sup>113</sup> It was small firms that tended to operate in the zones; India's largest businesses houses already had a protected domestic market. The USSR became an alternative protected market for these smaller companies. Though KFTZ and SEEPZ had both been designed to allow NRIs to invest in India, the purpose had been for NRIs to re-export to their tax home. The single most important criterion for unit approval was the value added to the import during manufacturing, which should have signalled the earnings that India would accrue when manufactures were exported. But by the 1980s, over 90% of KFTZ's units exclusively utilized India's preferential trade agreements with the USSR to trade in Indian rupees rather than in hard currency.<sup>114</sup> Thus, India was losing hard currency owing to these units' activities – importing materials from the US and reassembling them for re-export to the USSR – since the imports would be accounted for in US dollars and the exports in Indian rupees.<sup>115</sup> While Indian officials produced, through their designation of a rupee payment area and a general currency area, two maps of the world, in the mental map of the zone users, these separate

111 *Ibid.*, pp. 125–8.

112 IMC, 'Memorandum on export strategy during 1980's: submitted to Tandon Committee', in Indian Merchants' Chamber, 1979, Annual Report, appendix 65, p. 311.

113 Patrick Neveling, 'Structural contingencies and untimely coincidences in the making of neoliberal India: the Kandla Free Trade Zone, 1965–91', *Contributions to Indian Sociology*, 48, 1, 2014, pp. 17–43.

114 Dattatreyyulu, *Export processing zones*, pp. 20, 29–34.

115 Neveling, 'Structural contingencies'.

spheres were combined. These families created a new spatiality in which Kandla's zone and port became highly connected to Soviet trade. Though this was not sought by the Government of India, KFTZ became so significant in alleviating India's ongoing trade imbalance with the USSR that, by 1989, Indian policy experts were suggesting that this practice could become the zone's official policy.<sup>116</sup> Why not turn India into an Austria or a Finland?

Apart from KFTZ's trade with the USSR, India's strategy to reconnect with the diaspora through a spatial and legal loophole mirrors China's use of its zones to connect with its own diaspora. This scheme was not a feature of the zone marketed to developing countries by UNIDO, but developed out of practices in India and China independently, and thus presents the zone as a spatial strategy to reterritorialize economic space and citizenship.

## Towards a UNIDO model zone

Despite the motivations discussed above, KFTZ and SEEPZ were still officially envisioned as outlets to increase foreign exchange earnings, the same purpose that drove many other import-substitution-based developing countries to create zones. KFTZ is known as India's first EPZ and, as such, the country's first zone that can be linked with its current special economic zones.<sup>117</sup> However, it did not take on the features most commonly associated with UNIDO's EPZs, such as restrictions of workers' rights and corporate tax breaks, until the 1980s. Furthermore, these zones were subject to a high level of central government oversight and therefore operated within the state planning system rather than against it. However, as Indian officials became increasingly aware that their zones were being measured in international statistics, they also became conscious that the 'results' that these reports generated ranked India's zones poorly.

The UNIDO handbook published by Shannon Free Airport Development Company in 1976 highlighted the incentives that zones around the world offered: 'The most important incentive offered in EFZ's [export free zones] is total relief from income tax on export profits. Over 80% of EFZ's offer this form of incentive ... A large number of zones have tax reliefs for periods from 5 to 10 years. There is no relief in the Bataan Zone or in Santa Cruz [*sic*] in Bombay.'<sup>118</sup> SEEPZ was singled out on several occasions, specifically to show what it lacked. In contrast, KFTZ was only included in the handbook's appendix.<sup>119</sup> This is remarkable, considering that Kaoshiung, the UNIDO model in Taiwan, and KFTZ were instituted in the same year.

In the late 1970s, Indian agencies assessed KFTZ and SEEPZ comparatively with other zones, particularly in Asia. In a regional context, the success of East Asian zones in Taiwan and South Korea had gained publicity, as did their state-led, export-oriented development models. The establishment of a zone near India's southern coastal boarder in Sri Lanka in 1978 solidified the view that KFTZ and SEEPZ were not isolated spaces. They were competing with zones in other countries. These comparisons to other zones led Indian planners to reassess the incentives offered at both facilities.

116 Kumar, *India's export processing zones*, pp. 99–100.

117 Aradhna Aggarwal, *Social and economic impact of SEZs in India*, New Delhi: Oxford University Press, 2012, pp. 64–5.

118 Kelleher, 'Handbook on export free zones', p. 42.

119 *Ibid.*, pp. 16, 18, 70.

Until the 1980s, SEEPZ and KFTZ offered numerous incentives to firms: no import duties on goods, materials, or equipment used for export processing; access to raw materials from the domestic tariff area; no municipal tax on goods entering or exiting a municipal area; income tax concessions of 20% of profits for ten years; exemption from Gujarat state sales tax (for KFTZ) on items purchased for use in the zone such as machinery; and reimbursement of central sales tax paid by zone units. Additionally, foreign investment was permitted (though not automatically); NRI investment was permitted in any form; and profits by foreign firms could be repatriated after the payment of a tax to the extent of half the year's net export earnings.<sup>120</sup> Two incentives generally attributed to EPZs are conspicuously missing from this list: the corporate tax holiday and the reduction of labour rights.

To assess whether SEEPZ and KFTZ were successful – that is, whether they were contributing to India's exports and thereby increasing India's foreign exchange reserves – Indian ministries studied both zones in the late 1970s. On 11 November 1977, the free trade zone advisory committee visited Kandla port, and later issued the so-called Kaul report.<sup>121</sup> Likewise, in 1978 the Ministry of Steel, Mines & Coal's Review Committee on Electronics assessed SEEPZ's activities in detail, in what is known as the Sondhi report.<sup>122</sup> Finally, the Tandon report, based on the advice of the previous two reports, was a more comprehensive study on India's export strategy.<sup>123</sup> Rather than assessing these zones' contributions to foreign exchange on their own merits, these reports were also the first in India that highlighted the deficiencies of KFTZ and SEEPZ in relation to other zones operating abroad, concluding that they were not on a par with international standards.<sup>124</sup>

Indian business communities visited other zones in Asia, generating standardized reports on how zones functioned in other contexts. The Federation of Indian Chambers of Commerce and Industry, a non-governmental but nationally oriented business chamber, sent a study team to South Korea, Taiwan, Hong Kong, and Singapore to ask one question: do we have this at our free trade zones?<sup>125</sup> This delegation's report was sent to the Ministry of Commerce in the early 1980s, leading public office holders to quote the document, advocating *new* zones that would be 'completely free from normal rules and regulations', including eliminating labour laws, licensing, and offering offshore banking facilities. This visit focused regionally on East Asia and addressed zones within the context of the larger questions that Indian planners were grappling with at that time: how shifting from import substitution to an export-based economy appeared to stimulate growth, generate employment, and alleviate poverty in India's East Asian neighbours.

The Government of India established a Committee on Trade Policies under the auspices of the Ministry of Commerce in the early 1980s to reassess India's export strategy. The secretary

120 Dattatreylu, *Export processing zones*, pp. 14–17.

121 CSL, IOR, AR, Ministry of Shipping, Government of India, Kandla Port Trust, 1978, Administration Report, p. 22; CSL, IOR, Ministry of Commerce and Industry, Government of India, 'Problems hindering the growth of KFTZ', Report of the committee appointed under the chairmanship of Shri P. K. Kaul, 1978.

122 CSL, IOR, Ministry of Steel, Mines & Coal, Government of India, 'Report of the review committee on electronics', 30 September 1979.

123 'Committee on export strategy 1980s', New Delhi: Ministry of Commerce, Government of India, 1980, in *Committees and Commissions in India 1979*, 17, B, compiled by Virendra Kumar, New Delhi: Concept Publishing Company, 1994, pp. 437–73.

124 'Report of the review committee on electronics', 30 September 1979; 'Committee on export strategy 1980s', pp. 449–51.

125 IMC, Indian Merchants' Chamber, 1984, Annual Report, p. 155.

of the committee, Abid Hussain, answered an extensive memorandum on India's export policy, describing the hindrances to both free trade zones in relation to international standards for logistics infrastructure and zone incentive packages. He referenced South Korea, Taiwan, Malaysia, and notably Sri Lanka, India's southern neighbour, which established a zone in the late 1970s.<sup>126</sup> His knowledge of these facilities came from the aforementioned Federation of Indian Chambers of Commerce and Industry's report. When KFTZ first opened in 1965, analysis of the zone was independent of international comparisons; by the early 1980s, so many zones existed throughout the region that these comparisons formed the basis for shifting standards.

Through its international comparison, the Sondhi report found that, unlike many of the other zones, SEEPZ, like KFTZ, did not offer a five-year tax holiday, did not offer red-tape reduction in the form of quick decision-making (analysing time to approval), did not permit 100% foreign equity participation without assessment of merits, and did not grant more exemptions on the personal income of foreign staff in comparison to policies in the domestic tariff area.<sup>127</sup> Through this comparison with zones abroad and the export incentives in India's domestic tariff area, Indian planners began to reassess what they offered within these enclaved spaces to make them competitive within an international and national context. Based on the recommendations by the Sondhi and Tandon committees, on 1 April 1981 the Ministry of Commerce implemented a zone tax holiday of five years within five consecutive years in the first eight-year period. Therefore, a policy that UNIDO considered a defining feature of zones was implemented in India's zones only in the early 1980s.

SEEPZ and KFTZ differed from UNIDO recommendations in another essential manner: labour. The UNIDO handbook emphasizes: 'In most EFZ's [economic free zones] the incentive package is built around tax reliefs on export profits and low cost land or buildings for sale or rent ... low cost labour and freedom from industrial unrest are also stressed.'<sup>128</sup> In short, minimum wages in zones were not enforced and strikes were also prohibited. SEEPZ and KFTZ did not adhere to this aspect that was present in the other zones referenced by UNIDO. In 1981, along with the additional tax holiday, Indian officials indirectly weakened labour laws governing Indian zones. Zone employees were no longer assigned an employment or industrial sector.<sup>129</sup> The central government Minimum Wages Act of 1948 did not represent a blanket minimum wage but a variegated one across subnational states, employment sectors, and worker-skill level, allowing local wage boards to dictate the minimum levels across industries. As zone units were no longer recognized as part of an industrial sector, minimum wages no longer applied to their workers.

In addition to erasing minimum wages, the government declared zone units to be public utility services under the Industrial Disputes Act in 1981. This policy change made striking without notice illegal, requiring first a reconciliation process through the Labour Commissioner's Office. The policy changes, however, did not completely prevent zone workers from resorting to strikes, even flash strikes, over labour disputes.<sup>130</sup> Finally, the changes at SEEPZ

126 *Ibid.*

127 'Report of the review committee on electronics', pp. 156–9.

128 Kelleher, 'Handbook on export free zones', p. 41.

129 Kumar, *India's export processing zones*, p. 116.

130 K. N. Ghorude, 'Labour in export processing zones: the case of SEEPZ, Mumbai', *Indian Journal of Labour Economics*, 47, 4, 2004, p. 1099.

and KFTZ allowed fully owned foreign corporations to invest in the zone. Concerning Kandla, following the tax holiday announcement in 1981, the number of units inside the zone increased dramatically, from a stagnant 47 in 1980 to 108 by 1989, increasing employment from approximately 3,000 to 8,000 people.<sup>131</sup> The government also implemented several new zones. These changes, in addition to numerous others, signalled a shift within the zones' operations that finally began to conform to UNIDO recommendations; in other words, it became an international standard zone. Yet, even after this policy shift, zones in India never fully embodied UNIDO's ideals. KFTZ trade with the USSR increased throughout the 1980s, a feature not present in UNIDO model zones in Taiwan, South Korea, or Ireland.

This shift in policy, however, should not be viewed as unique to KFTZ and SEEPZ. In 1985, a UN Conference on Trade and Development report stressed that, owing to the extreme mobility of firms operating in zones, a growing competition between zones in various countries led to ever-expanding incentive packages as each zone authority sought to outdo the others. The report closed with a word of caution: 'In view of the existing competition among EPZs, it seems particularly important that developing countries should assess carefully the costs and benefits of the operation of free zones for their economies.'<sup>132</sup> But here is the catch: as UNIDO compiled information about the international standards set in seemingly similar spaces around the world, especially in Asia, planners in India became more aware of the practices in KFTZ and SEEPZ as part of a model. The zone's rationale shifted from the construction of KFTZ as a place to enhance growth in an impoverished region to SEEPZ as an experimental space to enhance India's capabilities in electronics. With the increasing awareness of these zones as only two of many, the focus moved from internal concerns towards an international and regional understanding of these zones as spaces of global competition. That is to say, the planning for zones changed from an understanding of the zone as an internal spatial strategy within India's geography to an externalizing spatial strategy oriented to the global scale.

## Conclusions

By following the development of zone policies in India's first zones from the late 1940s through to the 1980s, this article has demonstrated the emergence of a global, normative view of zone features by the 1980s. It therefore contributes to our understanding of how actors in different contexts come to view certain spatial formations as dominant models on a global scale.<sup>133</sup> However, although the increasing awareness of global or regional rankings produced what appears to be a solidification of a zone model in the 1970s and 1980s, recent scholarship suggests that this model is currently breaking down as states and regional institutions are increasingly turning to zones long after the World Bank and UN institutions ceased advocating them.

In the Indian context, implementing zones was, and is currently, an active state strategy rather than a passive reaction to global economic flows.<sup>134</sup> This article has shown, in a comparative perspective – addressing zone implementation in Ireland, Japan, and China – how, in

131 Dattatreya, *Export processing zones*, p. 19.

132 United Nations Conference on Trade and Development, *Export processing free zones in developing countries: implications for trade and industrialization policies*, Geneva: United Nations, 1985.

133 Middell and Naumann, 'Global history'.

134 Kennedy, *Politics of economic restructuring*, ch. 5.

these spaces of reterritorialization, states themselves were active participants in processes of globalization and in their own territorial restructuring. However, through these zones, states created spaces in which non-state actors directed this connectivity, leading to contingency in the spatialization processes that ensued. This article is a modest contribution to understanding state territoriality as a way to manage state space that emerges simultaneously with other spatial arrangements, such as zones. By enabling processes of reterritorialization, zones are also spaces through which we may observe the synchronic reformulation of spatial world orders.<sup>135</sup>

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135 Maier, *Once within borders*.