

The Economic Impact of Land Acquisition for Industrial Projects

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Abstract

Land acquisition for industrial projects plays a crucial role in promoting economic development, yet it often leads to significant socio-economic challenges. In India, land acquisition is regulated under the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013. While this legislation aims to ensure fair compensation, transparency, and proper rehabilitation for affected individuals, its implementation often faces significant hurdles. Prolonged administrative delays, ongoing legal battles, and socio-economic challenges frequently complicate the acquisition process, affecting both development projects and the communities involved. In contrast, foreign countries employ diverse approaches—ranging from streamlined eminent domain procedures in the United States to participatory planning and technological integration in the European Union, Australia, and Canada—resulting in faster project implementation, predictable costs, and better community integration. This study critically examines the economic impact of land acquisition for industrial purposes in India, comparing it with international practices to identify gaps, challenges, and potential policy improvements. The aim of researchers in their research to provide actionable insights for policymakers, industrial planners, and researchers, emphasizing strategies that minimize socio-economic displacement while facilitating sustainable industrial growth. Moreover, the Act's requirement for detailed social impact assessments, consent from affected landowners, and multiple approval stages often makes the acquisition process time-consuming. While these measures aim to protect communities, they can also complicate project timelines, especially for infrastructure and industrial development.

Keywords: Land acquisition, industrial projects, economic impact, india, comparative analysis, policy intervention, socio-economic effects

INTRODUCTION

Land is a critical resource for industrial development, infrastructure expansion, and overall economic growth. Industrial projects often require significant tracts of land, and acquiring this land can have wide-ranging economic, social, and environmental consequences. In India, land acquisition has historically been a complex and sensitive process due to fragmented landholdings, legal ambiguities, and socio-cultural attachments to land [1].

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The Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act (LARR), 2013 was enacted to provide a more transparent, equitable, and participatory framework, focusing on fair compensation, rehabilitation, and resettlement of affected communities. Despite these provisions, many projects face delays due to disputes, litigation, and social resistance, resulting in increased project costs, disruption of livelihoods, and economic inefficiencies.

Table 1. The Economic Impact of Land Acquisition for Industrial Projects.

India	Foreign
Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act (2013)	Streamlined eminent domain procedures
Emphasis on compensation and rehabilitation	Structured compensation and resettlement
Frequent delays, legal disputes and social resistance	Faster implementation
Increased project costs	Predictable costs
Disruption of livelihoods	Better community integration

INTRODUCTION AND CONTEXT

Acquiring land for industrial development is a common strategy in emerging economies aiming to stimulate growth, manufacturing, and structural transformation. But unpacking its economic impacts requires examining both macro-level (regional growth, industrial output) and micro-level (household incomes, livelihoods) effects.[2] We also need to consider distributional consequences (who wins, who loses), institutional/contextual factors (policy, compensation, rights), and sustainability (long-run welfare, land-use change).

One key concept: When land shifts from agriculture (or informal use) to industrial use, the assumption is it moves to “higher productivity” uses—yet that transition is neither automatic nor uniformly beneficial [3].

THEORETICAL UNDERPINNINGS

Several theoretical strands are relevant:

1. Two-sector growth models (agriculture ↔ manufacturing) treat land as an input in both sectors. For example, Land acquisition and industrial growth present a model where land acquired from farmers for manufacturing raises capital growth rate but also has welfare/distribution implications.
2. Second-best and misallocation frameworks show that transferring land from traditional/rural communities may reduce non-pecuniary benefits (cultural, community, non-market uses) even if industrial use is “more productive.”
3. *Compensation/rehabilitation economics*: The design of remuneration, resettlement, and compensation packages matter for outcomes. For instance, whether the land-loser reinvests compensation or is marginalized matters for welfare.
4. *Distributional/efficiency trade-offs*: The debate between Pareto improvement vs. Kaldor-Hicks frameworks (i.e., winners can in theory compensate losers) is captured in Land Acquisition in India: A Pareto and Kaldor-Hicks Perspective in the Indian context. [4]

EMPIRICAL EVIDENCE: MACRO-LEVEL IMPACTS

At the broader economy / regional level, studies examine how land acquisition for industrial parks, special economic zones (SEZs), or large-scale infrastructure correlates with growth, land-use change, and productivity.

- For example, in China’s Yangtze River Delta region, research on industrial agglomeration and land-use efficiency finds complex, non-linear effects of industry clustering on land intensification.
- The study on China’s land-resource allocation highlights that although land transfers helped industrialization and innovation early on, over time distortions (e.g., real-estate over-development, crowd-out of manufacturing-R&D) have emerged.
- In India, studies of SEZs show mixed results: while the intent is to spur manufacturing and exports, large parts of acquired land have remained unused or have gone to real estate rather than productive industry. For instance, Special Economic Zone, Land Acquisition, and Impact on Rural India find that forced acquisition often leads to unemployment and displacement when not matched by actual industrial activity [5].

Key Take-aways at the Macro/regional Level:

- Land acquisition can enable industrial growth, clustering, and potentially higher productivity if industrial projects materialize and labour/infrastructure are available.
- But benefits are not automatic: risks include under-utilization of acquired land, speculative transfers, and mismatch between compensation/rights and actual use [6].
- Institutional, spatial and temporal factors (how much land, where, when, how used) strongly mediate outcomes.

EMPIRICAL EVIDENCE: MICRO-LEVEL / HOUSEHOLD IMPACTS

This is especially relevant given your focus on human dimensions (psychological, social) in your wider work. Several studies examine what happens to households when land that they rely on (agricultural or communal) is acquired for industrial projects.

- The study of Sri City in India examines 250 households in and around this industrial-zone, and uses multiple indicators (income, education access, health, quality of life). They find that land-lost farmers' incomes increased significantly over time and variability declined (i.e., some convergence) [7].
- In Vietnam, the study Effect of Land Acquisition and Compensation on the Livelihoods of People in Quang Ninh District, Quang Binh Province shows that after land loss: about 25-30% of households had no or inadequate employment, and incomes of many were lower than prior to acquisition.
- A field survey in India (Singrauli region) documented in Land Acquisition and Its Socio-economic Implications: Field Survey found that project-affected families (PAFs) faced livelihood disruptions, social/cultural changes, and that compensation and resettlement processes often fell short.
- The article in Journal of Indonesian Economy and Business (2022) reports that in many developing-country contexts, land acquisition for industrial infrastructure tends to yield negative impacts for household welfare—especially when compensation is inadequate.

Key Micro-level Insights:

- Compensation and rehabilitation matter hugely: mere transfer of money/land does not guarantee upward mobility or welfare improvement.
- Households with lesser education, smaller land holdings, or dependent primarily on agriculture tend to be more negatively impacted.
- Outcomes may improve over time if the industrial project creates jobs and the land-lost households engage productively—but timing and matching matter.
- Proximity matters: households near the industrial site benefit more than those further away. The Sri City study found income gains for both land-losers and nearby households but diminishing with distance [9].
- Non-monetary dimensions (quality of life, access to services, social disruption) are often under-studied but critical.

INSTITUTIONAL, POLICY AND DISTRIBUTIONAL ISSUES

A robust literature highlights that the process of land acquisition—legal framework, rights, compensation, transparency, community participation—shapes outcomes.

- In India, the Right to Fair Compensation and Transparency in Land Acquisition, Rehabilitation and Resettlement Act, 2013 (RFCTLARR Act) attempted to make acquisition more transparent, humane and to assure that affected persons become partners in development.
- The legal-historical review by Mahmood (2023) outlines how land acquisition for development-induced displacement (DID) has deep roots in India, and how institutional weaknesses (e.g., lack of consultation, weak rights) exacerbate negative impacts.

- The misallocation literature (e.g., “Acquiring Land from Traditional Communities”, 2024) reflects that land is valued beyond its productivity (community ties, social capital) and policy must allow for this.
- Compensation and R&R (rehabilitation & resettlement) schemes matter: in model, although R&R transfers benefit farmers initially, long-run welfare might decline depending on how industrialists perform and how land is utilized.

Distributional Concerns

- “Winners” (industrialists, local government, some households) may gain, but “losers” (small farmers, vulnerable groups) may bear costs.
- Equity and justice issues: less education, landless labourers, women often less compensated or supported.
- Spatial inequities: regions where land is acquired may gain industrial growth but lose agricultural resilience, food security, cultural capital.

ECONOMIC IMPACT DIMENSIONS

Breaking down *economic impact* helps structure your chapter. Here are several dimensions where land acquisition intersects with economics:

Growth & Productivity

- Acquired land allows industrial expansion, potentially higher output, job creation. But must be measured: land converted must be effectively used for industry.
- Empirical evidence is mixed: in some Indian contexts, large tracts acquired for SEZs remained unused or became real estate-speculative [10].
- Chinese evidence: land allocation supports industrial innovation early on, but over-time may hamper innovation as land use shifts to real-estate/less productive uses.

Employment & Livelihoods

- Converting land from agriculture to industry affects livelihoods of land-owners and land-users.
- Studies in Vietnam: after land acquisition ~25-30% households faced insufficient job opportunities; loss of land correlated with unemployment and income decline.
- Sri City study: incomes improved for land-lost farmers compared to control group; variability dropped (suggesting improved equality) over time [11].

Household Income, Consumption, Welfare

- Loss of agricultural land reduces primary income and may increase vulnerability unless alternative employment arises.
- Compensation plays a role—but if funds are mis-used or no alternative livelihood emerges, income falls.
- The Indonesian case (Kendal industrial area) shows changes in livelihoods and income levels.
- Non-monetary welfare: access to education, health, housing quality, social capital. Sri City study includes such multidimensional indicators [12].

Land Markets, Land-use Change, Asset Values

- Acquisition may increase local land/asset values, but also may displace less empowered owners.
- In some cases, land remains idle (speculation) or is under-utilized, reducing expected economic benefits [13].
- Institutional deficiencies such as ambiguous property rights (common in rural areas) exacerbate inefficiencies (Misallocation literature).

Food Security, Agriculture, Ecosystem Services

- When productive agricultural land is converted, there can be negative externalities: reduced food production, environmental cost, loss of ecosystem services.

Table 2. Contextual & Moderating Factors.

Author(s), Year	Country / Region	Sample / Context	Methodology	Key Findings
Das & Saha, 2015	India	Theoretical model on land acquisition for industrial projects	Analytical / Theoretical	Land transfer can raise industrial output and growth, but long-term welfare of original landowners depends on compensation & project utilization.
Sharma et al., 2018	India	Policy analysis	Comparative framework (Pareto vs Kaldor-Hicks)	Highlights distributional trade-offs: industrial growth may benefit some but harm small landowners; compensation alone insufficient for welfare improvement.
Parwez & Sen, 2016	India (SEZs)	150 households near SEZs	Field survey, interviews	Large land acquisitions sometimes remain idle; displaced households face unemployment and livelihood disruption; industrial gains not evenly distributed.
Garg et al., 2024	India (Sri City Industrial Zone)	250 households affected by land acquisition	Household survey, multidimensional indicators	Income gains for land-losing farmers; reduced income variability; benefits diminish with distance from industrial zone.
Nguyen et al., 2022	Vietnam (Quang Ninh District)	200 households losing agricultural land	Field survey, quantitative analysis	25–30% households experience insufficient employment post-acquisition; income decline for land-dependent households; compensation not always sufficient.
Singh, 2020	India (Singrauli region)	Project-Affected Families (PAFs)	Field survey, interviews	Disruption of livelihoods, social and cultural changes; inadequate compensation & resettlement; household welfare declines short-term.
Hambur Wang, 2024	China (Yangtze River Delta)	Industrial clusters & land-use data	Statistical / spatial analysis	Land acquisition enabled industrial clustering; non-linear effects on productivity; efficiency depends on proper land-use planning.
Frontiers, 2022	China	National land allocation data	Empirical analysis	Early industrial growth facilitated by land transfers; long-term distortions include speculative real estate, reduced innovation potential.
IJCRT, 2020	India	Case studies of industrial townships	Field observation, interviews	Conversion of agricultural land to industry poses risk to food security; local agricultural production declines; industrial gains uneven.
Journal of Indonesian Economy and Business, 2022	Indonesia	Households affected by industrial land acquisition	Survey econometric analysis +	Negative welfare effects for many households; compensation insufficient; industrial projects benefit few, harm many.

- The IJCRT (2020) piece notes concerns: “We are losing our large agriculture production land to set up Industrial Township’ while we need industrial development but not at the cost of losing agricultural land, loss of agriculture production, [14]”
- These opportunity costs must enter economic impact assessments.

The outcomes of land acquisition for industrial projects vary widely depending on context and moderating factors. Key ones include:

- *Institutional Regime*: transparency, participation, adequacy of compensation, enforcement of resettlement.

- *Project design and implementation*: presence of actual industrial activity (not just land banking), infrastructure, connectivity, labour skills.
- *Location and region*: proximity to urban centres, availability of labour, pre-existing industry, ecological sensitivity.
- *Time horizon*: short-term disruptions vs. long-term gains. Some studies show negative short-term but improved long-term incomes [16].
- *Household characteristics*: education level, land size, dependence on agriculture, ability to shift to non-farm employment.
- *Alternative land uses and opportunity costs*: if agriculture or ecosystem services lost, there may be net negative welfare even if industrial growth occurs.
- *Distributional / equity lens*: Are the benefits broadly shared or captured by a few? Are vulnerable groups compensated/rehabilitated?

GAPS AND RESEARCH AGENDA

From the literature surveyed, several gaps emerge which are useful to flag in your chapter:

- Many studies focus on compensation and income but less on psychological, social, identity impacts of land loss — which is relevant given your book's focus on people and mental health.
- Longitudinal studies are fewer: tracking households over long periods (10+ years) to see sustained welfare changes.
- Less evidence on industrial project non-completion or land lying idle post-acquisition — and the economic costs thereof.
- The role of non-farm employment readiness (skills, mobility, networks) post-land acquisition is under-explored, especially in emerging economies [17].
- The interlink between land acquisition, environmental externalities, and how those externalities feed back into economic impacts (health costs, ecosystem degradation) is under-studied.
- *Macro-micro linkage*: how individual/household outcomes aggregate to regional economic transformations (or fail to) is less explored.
- *Psychological and cultural dimensions*: how loss of land (often meaning identity, belonging) affects well-being and economic behaviour (risk, migration) — aligned with your broader themes.
- *Comparative cross-country studies or meta-analyses are limited*: many studies are country-specific.
- Studies on the industrial land-holding side (investors, firms) and how land acquisition conditions affect firm performance, innovation, productivity (some in China; less in Africa or South Asia) but more could be done [18].

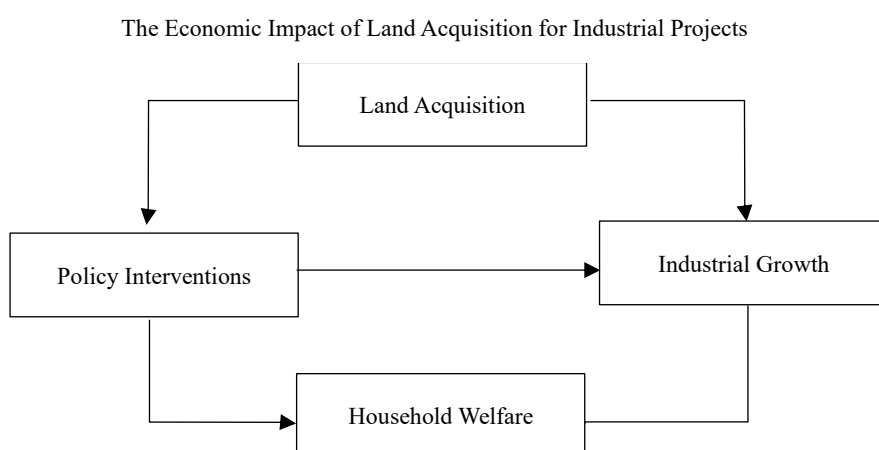


Figure 1. Economic impact pathway of land acquisition on industrial growth and household welfare.

IMPLICATIONS FOR PRACTICE AND POLICY

Drawing on the reviewed literature, some policy/practice implications emerge:

- Ensure robust compensation + rehabilitation/ resettlement frameworks that are timely, adequate and consider livelihood alternatives.
- Facilitate skills training, employment linkages for land-losers rather than assuming employment flows automatically.
- Protect productive agricultural land and balance conversion with food-security/environmental concerns.
- Prioritize active utilisation of acquired land for productive industry rather than leaving it idle or speculative.
- Monitor and assess distributional outcomes, ensuring vulnerable groups are not disadvantaged.
- Build institutional capacity for transparent land acquisition, community participation, grievance redress.
- Embed psychosocial support and community-engagement in land acquisition processes: land is more than an asset—it is part of livelihood, identity, social fabric.
- Conduct pre- and post-impact assessments, including long-term tracking of welfare, employment, land-use, environmental outcomes.
- *Consider regional/cluster-based planning*: locating industrial projects where infrastructure, labour, connectivity exists to increase probability of positive outcomes [19]

CONCLUSION

The economic impact of land acquisition for industrial projects is complex and context-dependent. While the potential for growth, industrialisation, job creation exists, the evidence shows that those benefits do not automatically accrue to affected households or regions. The outcomes depend heavily on the institutional regime (rights, compensation), project implementation (industry realisation), spatial and temporal factors, and the capacity of households to transition into new livelihoods.

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