Impact on World Trade/Manufacturing:

The impact of the COVID-19 pandemic on the World Economy is predicted to surpass that of the global Financial crisis of 2008-09 and emerge as the greatest economic disruption since the Second World War. Global trade is expected to fall between 13% and 32% in 2020 with order cancellations at an all-time high of 20-25% with some sectors experiencing order cancellations close to 50%. Ironically in a globalised world the sectors that will face the greatest impact will be the ones with the most complex value chains who source their raw materials, logistics etc. across multiple geographies. On the other hand the trade in services which are in the nature of cross-border services such as Tourism is likely to see a decline.

The trade impact for India is less as compared to other economies such as EU, the US, Japan and South Korea. Still, India is among the 15 most affected economies due to the coronavirus epidemic and slowdown in production in China which serves as a major supplier of Raw materials and Capital Goods to many sectors of the Indian Economy. For example, China supplies around 80% of the requirement of APIs (Active Pharmaceutical Ingredients) of the Indian Pharmaceutical Sector.

The Trade impact of the Coronavirus epidemic for India is estimated at USD 348 million (Source: UNCTAD report dated 08.04.2020). The same report predicts that if the worldwide situation does not improve or flatten in next couple of weeks, then the impact can even cross USD 500 million. India’s Economy is likely to take a hit of nearly 3% of GDP.

Post-COVID World Economic Order:

The Post-COVID World Economic Order will be characterised by the following:

- Lower production & supply
- Demand drop especially of non-essential goods.
- Disruption in Supply chain
- Worldwide disruptions in manufacturing, services and logistics
- Worldwide recession in economy
- Protectionist Trade Measures reflecting Health & Safety fears
- Decreasing cash flow due to funds being locked up, owing to non-payment of dues by large buyers in the US, Europe and West Asia
- Global Unemployment leading to changing consumption pattern towards essential items leading to dip in demand
- Large scale shutdowns and bankruptcies specially in banking & financial sectors due to non-recovery of loans
• Fall in stock markets, oil prices and currencies leading to liquidity crunch and increased debt burden

**Opportunities for India:**

In the last One and a half decades, China became the factory of the world, with every major company being dependent upon it, one way or the other. It became a major part of global supply chain. The COVID-19 breakout whose origins are traced to China has led many countries to incentivise their companies to bring production back to their shores or to other nations where they can find favourable terms or cheap labour. Further, the weak IPR regime in China its Vulturist tendencies and Beijing’s association with dubious countries like Pakistan make India a favourable destination for companies looking for alternatives to China. However, in order to make India a preferred destination for MNCs it would require India to provide the right ecosystem for businesses through the right mix of policies and incentives which will help the country in taking advantage of its demography and low cost. In this context, the Special Economic Zones (SEZs) in the Country are eminently poised to enable India to be in an advantageous position to attract investments both in the Manufacturing and Service sectors.

**Indian Advantage:**

India is a democratic country with high demographic dividend supported by various Govt. run Skill Development initiatives. Further, India has a large domestic market, cheap access to labour as well as professionally qualified English-speaking Human resources.

India would need to be very fast in creating a conducive environment for the Multi National Companies to set up their production base here through policy intervention, financial incentives, tax holidays, faster completion of industrial infrastructure, create comprehensive logistics and warehousing parks, ports etc.

**Indian SEZ Advantage:**

• Indian SEZs have an available pool of land, available infrastructure and other human resources to scale up faster and provide an alternative for China. E.g. Gujarat state is having vacant land of around 5000+ Hectares.

• SEZs in India also have the unique advantage of being closer to ports and other supply chains thereby reducing dependence on road transportation. They are located near large metropolitan areas and transport hubs with superb connectivity domestically and internationally.
• Opening up SEZs to MNCs would drive up the employment opportunities and other associated economic activities. In this context the Invest India Portal of the Department of Industrial Policy and Promotion (DIPP) needs to exclusively have a section on SEZ as it is the first point-of-contact for any investor desirous of investing in India.

• In SEZ, the services sector has reported an annual growth of 24%. Still there is ample scope for growth of service sector SEZs.

• Energy intensive manufacturing sector units can easily be set up in SEZ as GST is not levied on electricity/energy supplied to SEZs.

• Nearly one-third of Indian Exports are from of SEZs, which now have the potential to become a strong pillar of the Indian economy and allow integration of technology and businesses to tap and drive the growth potential of the country.

• Multi-sector Special economic zones offer a true ecosystem of operations.

• The facilities are world class, offering manufacturing and warehousing plug and play solutions with excellent infrastructure, simple and fast start up of operations and operational flexibility to react effectively in the future.

• SEZs are ideal to encourage clustering i.e. an area of geographical concentration of interconnected businesses, suppliers, and associated institutions in a particular field. It is proved that economic clusters have improved the productivity of companies located in them, as well as stimulate economies of scale for small companies to enjoy as resources and expertise are pooled together. With strong clusters of interconnected businesses and sectors, SEZ’s will be better positioned to compete regionally and internationally.

• Besides serving as an attraction factor for investors, a focused sector strategy also increases the likelihood of success of SEZs as development efforts and resources are concentrated on high-impact industries. Poor sector targeting has been one of the leading causes of failure for SEZs as governments spread their resources too thin without achieving growth momentum in industries.
In order to attract MNCs to shift to SEZs in India the interventions are required to be two-fold: (i) At the Policy level (ii) At the Fiscal or Taxation level.

**Suggested Policy Interventions:**

- Need to shift the focus of SEZs from Exports to Employment and Economic Activity. Baba Kalyani Report also recommended the same.

- Extension of Sunset clause for **2 years (up to 31/03/2022).**

- **Introduction of a Sunrise Clause for Emerging sector/ Incoming MNCs:**

  In order to generate more number of employment opportunities for different strata of workforce in India, such as employment in the high technology and knowledge-intensive sectors aside from employment for semi-skilled, unskilled and highly skilled workforce, it is important to identify sectors, which are capable of growing fast internationally by providing Sunrise Clause for Emerging sector/ Incoming MNCs.

- **Permit limited window for DTA clearances by SEZ Units at Concessional Rate of Import Duty:**

  Units in SEZs may be permitted to manufacture or provide services up to 50% of their business to the DTA for a limited period (1-2 years) with parallel or minor additional taxes/ surcharges etc. as is applicable for domestic manufacturer or service provider

  At present the SEZ Units are required to pay full import duty on clearances into DTA as the supply is treated as an import into India. In view of the disruptions to business caused due to the COVID-19 pandemic it is suggested that the DTA sales of SEZ units should be allowed at a Concessional rate of Import Duty for a limited period say 1-2 years.

  Therefore, the matter needs to be taken up by the DoC with the DGEP (Department of Revenue, Ministry of Finance) for issuance of appropriate Notification with reference to Section 30 of the SEZ Act, 2005 for allowing DTA clearances by SEZ units at a concessional rate of import duty.

  As an alternative solution for implementing the scheme of concessional duty on DTA clearance by SEZ units it is suggested that Duty may be charged on import of inputs by SEZ units at the same time allowing Duty –free clearance of finished goods. This will effectively result into levy of concessional duty at the time of DTA clearance as the value addition part by SEZ unit will not be taxed.
As an additional suggestion all SEZs should be covered under Preferential trade Agreements and provided a status similar to countries with which India has signed PTAs. This will promote the Make in India scheme. The supplies from SEZ to DTA therefore will be done at concessional rate of Duty which will make products of SEZ more market competitive.

- **Contract manufacturing may be permitted within the SEZ for domestic manufacturers to utilize their idle capacity:**

At present under Rule 18(6) of the SEZ Rules, 2006, Contract Manufacturing or Manufacturing Services can be provided by SEZ units only to Overseas Entities and that too under strict conditions. At the same time the Manufacturing services are not recognised as “services” under Rule 76 of the SEZ Rules. Therefore, such services are kept out of the purview of SEIS benefits. In order to achieve the full potential of Manufacturing services the SEZ units should be allowed to provide subcontracting facilities for the DTA units for the domestic market needs. **This would help to utilise their surplus or idle capacity and will in turn, increase manufacturing activities and employment in SEZs including providing seamless support business outside the SEZ.** (Baba Kalyani report, Para No.4.2.1)

- **Creation of a new category of SEZs for Audio-visual Services:**

Audio-visual services broadly comprise the production, post-production and distribution of motion pictures, television and radio services and music and interactive digital media services such as animation, gaming and online/mobile media. Technological innovations and changes in business models have increased global trade in audio-visual services. This sector is closely linked to other services sectors such as IT, tourism, recreational and cultural services and education services. The US is the largest market for audio-visual services, followed by the EU. Over time, audiovisual hubs have developed in cities such as Los Angeles (US), Mumbai (India) and London (UK). Several other countries have established ‘media cities’ that provide production, post-production and distribution services for movies, animation and gaming. These media cities produce new content, promote themselves as broadcasting hubs and encourage investments in interactive and digital media. For example, Dubai (UAE) launched the Dubai Media City in 2001 as a free zone. It has attracted global media companies such as the British Broadcasting Corporation World, Cable News Network and Middle-east Broadcasting Centre to set up establishments. The Dubai Media City is connected to other free zones such as Dubai Internet City and Dubai Studio City. Similarly, the Abu Dhabi Media Company (UAE) was established in 2007 by consolidating the state-owned media assets. In this context, it is worth mentioning that in many countries there are restrictions on trade in audio-visual services due to its possible adverse impact on domestic
firms and for cultural protection. Setting up of audio-visual SEZs in India will enable foreign companies to operate in India bringing precious Foreign Exchange and employment into the Country.

- In certain critical or certain emerging technologies e.g. Artificial intelligence, Big Data, internet of things. Even if the services are provided to DTA and even the payment is received in Indian rupees the same shall be treated as exports as will help India in gaining the mastery in these technologies in long run thereby eliminating the need to import these technologies from abroad and will act as import substitution.

- **Encouraging R&D:**

  One factor which goes against China is the absence of a robust IPR regime which is a necessary pre-condition to encourage innovation and R&D. This sector by its very nature is characterised by huge uncertainties, large gestation periods and large investments. India shifted to the product patent regime in the year 2005 thereby enabling a robust IPR regime to be put in place. Due weightage should be given to the R&D activities undertaken by an SEZ unit in assessing the performance of the unit i.e. factors other than NFE should be given due weightage.

- **Labour-related issues:**

  - An outright waiver of EPF / ESI contribution for all employees for operational SEZ Units to support the trade.
  
  - To counter layoff in industries to avoid losses, **50% (or suitable percentage) tax exemption for industries** that keep people on payroll until the next financial year may be considered

  - India has strength in apparel, auto and pharma sectors. These sectors should be given more impetus. Such **Incentives should be linked to employment/retaining of employment/incremental employment**

  - **Separate funds** should be placed with SEZs to collaborate with industry to train the employees in emerging technologies.

  - In case of IT sector, the funds available under **Future Skills PRIME (Programme for Reskilling/Upskilling of IT Manpower for Employability)** and other Skilling programmes needs to be utilized to reskill and upskill the employees on emerging technologies.
• Skill Development Centres can be set up in SEZs to match the skill sets available with that of the requirements of the units in the SEZ. For example, the Indian Institute of Packaging (IIP) situated in the Ahmedabad Apparel Park SEZ at Khokhra in Ahmedabad conducts various courses in the area of Packaging Technology. Special incentive........

**Fiscal incentives :-**

• **Interest Subvention Scheme to be extended to SEZ units:**
  The Micro, Small and Medium Enterprises [MSME] sector is a significant contributor towards building up of a strong and stable national economy. Hon’ble Prime Minister while launching outreach initiative for MSME sector on November 2nd, 2018 highlighted that access to credit, access to market, technology upgradation, ease of doing business and a sense of security for employees are five key aspects for facilitating MSME sector. Twelve announcements have been made to address each of these five categories. As part of access to credit, Prime Minister announced 2% interest subvention for all GST registered MSMEs, on fresh or incremental loans.

On the same line Govt. may introduce may interest subvention scheme for SEZ, EOU, and Developers.

• **Extending benefits of SEIS Scheme to IFSC units:**
  In this context, it is pertinent to mention here that although MEIS has been subject to challenge in WTO, no such challenge has been faced with regard to SEIS Scheme.

• **Concession in lease rent:**
  Concession in lease rent for the next three months during the COVID period and no increase in lease rent for the next two years which would be a major support to the SEZ Industries in this scenario.

• **Exemption from Electricity Duty:**
  An outright exemption from payment of electricity duty charged by Electricity department to SEZ units for the period of at least two years.

• Waiver of detention, demurrage, ground rent or any other new charges by all EXIM supply chain service providers such as SEZ warehousing units, CFS, Shipping lines and port during the lock down and further one month till the situation comes to normalcy.