Impact of COVID-19 on Indian SEZs
Assessment, Recommendations & Wayforward
COVID-19

Triggered a deeper recession than that of the 2008-2009 Global Financial Crisis.

The world is now amid the greatest economic disruption since the Second World War.

Two decades of economic progress eroded swiftly…
Past laurels will not help…
Need to be prepared for what's coming…
Fallout

World would never be same again…

- Worldwide disruptions across every aspect of life
- Worldwide disruptions in manufacturing, services and logistics
- Worldwide recession in economy
- Countries are increasingly likely to adopt more and more protectionist measures
- Unprecedented order cancellations upwards of 20-25%
- Cancellations close to 50% in certain sectors
- Funds being locked up, owing to non-payment of dues by large buyers in the US, Europe and West Asia
The WTO released a sobering Trade Forecast on April 8th

1. World trade is expected to fall by between 13% and 32% in 2020 as the COVID-19 pandemic disrupts normal economic activities … around the world.

2. The predicted decline … will likely exceed the [decline] in trade brought on by the global financial crisis of 2008-09.

3. Nearly all regions will experience double digit declines in 2020.

4. Trade will likely fall more steeply in product sectors with complex value chains.

5. Services trade will likely be very adversely affected, especially in transportation and travel.

6. Estimates of the expected recovery are currently very positive for 2021 but are uncertain, with outcomes depending largely on the duration of the outbreak and the effectiveness and extent of the policy responses, worldwide.
The most affected sectors include precision instruments, machinery, automotive and communication equipment.

Among the most affected economies are the European Union (USD 15.6 billion), the United States (USD 5.8 billion), Japan (USD 5.2 billion), South Korea (USD 3.8 billion), Taiwan Province of China (USD 2.6 billion) and Vietnam (USD 2.3 billion).

*India is among the 15 most affected economies due to the coronavirus epidemic and slow down in production in China*

The trade impact for India is less as compared to other economies such as EU, the US, Japan and South Korea. Trade impact for Indonesia is 312 million dollars.
Trade impact of Coronavirus epidemic for India estimated at 348 million dollars

UN report

If the worldwide situation does not improve or flatten in next couple of weeks, then the impact can even cross 500 million dollars
India’s GDP to take @ 3% hit

National & Global lockdown
Lower production & supply
Demand drop
Disruption in Supply chain
Health & Safety fears
Trade war & barriers
Key Insights
Top 10 insights for India to consider
World trade would take a massive beating especially in non-essential goods & services

Expanding Exports base in US, EU, Gulf and other developed nations would be a huge challenge
Unemployment globally is at its peak, and future is uncertain, forcing people to cut short on their spends, changing consumption pattern, leading to dip in demand.

Fear of uncertainty has led people to hoard globally, especially the essential goods, leading to shortages in supply, and amidst lockdowns and disruption of supply chains the shortage is leading to price rise.

Large scale shutdowns and bankruptcies would be witnessed globally and any other major shock is going to be detrimental for world economy, especially in banking & financial sectors.

Fall in stock markets, oil prices and currencies will lead to liquidity crunch and increased debt burden.

Travel, entertainment, outdoor events, sport events, hospitality, retail, luxury and non-essential goods, oil, automobiles, construction, mining, heavy manufacturing, shipping & logistics have all witnessed heavy disruptions and depression. Some sectors have depressed to the extent of 90% of their original volume.

Post containment period, the developed nations will promote their own national interests and their companies, they would not only try to force their products across other markets but in parallel restrict non-essential imports from other nations.
More protectionism & bigger trade wars

WTO would be a big loser and all trade treaties and policies will come under reconsideration.
Countries, exporting finished manufacturing goods, with established export markets, are likely to wade through current environment, those like India that are dependent on intermediate and agricultural exports and are on the lookout to tap newer markets, are likely to find the going tougher.

USA, EU and many other nations are already blaming WHO for toeing China line and concealing critical and timely information. They are already asking for change and threatening financial detrimental consequences.

UN, NATO and other such international institutions are losing relevance and respect.

Conspiracy theories regarding Covid-19 are being fuelled worldwide to suit political and nationalistic narratives, some calling it China virus and others calling it handiwork of US intelligence agencies without proof or any substantiation.

The age of collaboration, globalisation, multilateralism and inclusiveness is taking last breaths.

Hardening of national borders, globally would be witnessed, with stringent controls, restricting movement of people and goods.

EU unity is going to get tested as nations like Spain, Italy are asking for support and nations like Germany being reluctant towards it.

The geo-political & religious fault lines are already emerging, with nations with similar interests forming informal blocs and blaming others.
Economic Narcissism will rise & takeover

Japan, US, EU and other developed nations have offered special stimulus packages and introduced trade barriers to bring back their industries from China and other nations to their shores.
In last One and half decade, 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.

China benefited tremendously and other nations started losing due to trade misbalancing.

Dubious Chinese laws and weak control on Intellectual properties led many companies to lose their critical advantage.

The Covid-19 breakout, China’s handling & response of it had shaken the faith of multi-nationals and they now are incentivising their companies to bring back the production back to their shores. Many companies solely don’t want to put all their stake in China, thus are willing to shift back or to other nations, where they find favourable terms or cheap labour.

China’s Border & Road initiative is being looked upon by suspicion and as its expansionist ploy.

With its economic, military and political might growing, China has become aggressive with its immediate neighbours and have been intolerant to other nations counter claims. Its association and close partnership with nations like Pakistan, Iran and other nations with dubious records has already diluted its global positioning.
China’s global economic emergence is inevitable. China is ahead of the curve and most prepared to scale up its manufacturing, capture newer export markets, expand and benefit from current pandemic.
China accounts for 17% of global GDP, 11% of world trade, 9% of global tourism and over 40% of global demand for some commodities

It has a large domestic base, with improving living standards and appetite for consumption

China had been ahead in the curve, not only it has weathered out the pandemic, it has prepared itself to benefit from it. When other nations would be fighting to stay safe, China would be in advantageous position and prepared to fulfil demand supply gap

Government supported, well-aligned, start-to-finish and modular industry chain allowed companies to rapidly change processes and produce new product types while absorbing large-scale changes to volume, capacity or capability

The Chinese political system puts it at an advantage to direct its financial resources and invest in other nations strategically, through its “Vulture firms, institutes & organisation”, in disguise of aid, help in extending easy loans and ultimately takeover, once a default occurs

China has invested in acquiring vast natural resources and technologies across all continents, especially in Africa, through intricate network of shadow companies

Its ambitious BRI corridor has helped it extend its influence to its immediate neighbours and provided access to European markets, making it easier and cheaper for it to export its products

China had invested heavily in industrial infrastructure development, building stable logistics and investing in acquiring R&D or getting access into advanced intellectual properties & technologies
India by 2021-22 would be key benefactor

Disruption in Global supply chain, suspicion towards China’s role in spread of disease, transparency and sharing of information, US-China trade war and its vulturist tendency has made large multinational cautious and lookout for new manufacturing base.
• India can benefit from the current crisis through strategic planning & response, it already has a large domestic market, favourable demography, cheap access to labour as well as professionally qualified English speaking resources.
• India would need to be very fast in creating a conducive environment for the multinationals to set their production base here through policy intervention, financial incentives, tax holidays, faster completion of industrial infrastructure, create comprehensive logistics and warehousing parks, ports etc.
• All the talk would need to be converted to action, whatever may be political consequences. The time is ripe for taking such initiative as Indian will look at such initiatives positively and even some hard decisions would be welcomed in national interest.
• Indian SEZs have an available pool of land, available infrastructure and other human resources to scale up faster and provide an alternative for China
• Indian SEZs also have unique advantage of being closer to ports and other supply chains, reducing the dependence on on-road transportation, they are also connected to DTA
• Opening up SEZ’s to MNC would drive up the employment opportunities and other associated economic activities
It will be a world of regional self-sufficiency

Globalisation is a passé….self sufficiency will be the new buzz word. Nations and regions would look inwards to avoid such massive disruption.
• The five key nations in South-East Asia must come together and form a larger regional trade alliance to counter the current situation as well as move towards regional-self sufficiency.

• India, Bangladesh, Vietnam, Indonesia and Thailand on principles of mutual respect, sensitivity, equality and brotherhood can create a transparent fabulous network, supporting all the regional requirements amongst them from production to service sectors and collectively can take on the might of China, be it trade, manufacturing, R&D, financial funding, or otherwise.
De-Risk, Realignment & Redesign in Global Supply Chain

Global & Local supply chains will be redrawn to cushion against any re-run of a similar situation.
In the wake of the coronavirus, the world is waking up to several unpleasant realities —

- that the most-affected countries are the ones closely integrated commercially with the Chinese economy; that the global economy will take a beating; and that the global value chains (GVCs) will have to rethink their future strategies.

Traditionally, the cost, quality and delivery were key metrics when developing supply value chains strategies yet the recent crisis has shown, global events caused by pandemics, natural disasters, climate change and geopolitical tensions, can create significant disruption to the reliable supply of parts or products.

Supply value chains cannot be established overnight. It takes time and effort to qualify potential suppliers, thus supply value chains are designed for long-term needs.

Once they are established, it can be difficult to change them quickly to adapt to unpredictable disruptions.

There is a need to develop new business strategies in future supply chain designs. The KPIs to be considered for future supply value chain designs will likely contain both traditional metrics, and new performance measures including resilience, responsiveness, and re-configurability (3Rs).

Increased need for infrastructures and technical means to create the transparency within global supply chains.

Development of predictive models for proactive scheduling and dynamic planning of supply demands with the consideration of uncertainties and risk factors. These predictive models will help corporate decision-makers do what-if analysis of various scenarios.
Paradigm shift in production, service sectors & trade

Newer technologies, processes, infrastructure and resources will be deployed. Automation, VR, AI, Industrial data platforms, newer energy sources, logistics along with new standards of ergonomics, social distance, sanitary and phyto-sanitary measures will be adopted.
Key sectors that saw growth were Gems & Jewelry (13.3%), Trading & Logistics (35%), Leather & Footwear (15%), Non-Conventional Energy (47%), Textiles & Garments (17.6%), these sectors will see major disruption and reduction in demand, except for Non-Conventional Energy. Though pharmaceuticals, medical devices and equipments, along with other essential products and services will witness growth, this year

Service sector primarily led by IT/ITeS services have grown traditionally and the same trend continued by growth of over 23%. Hospitality, tourism, aviation industry and other similar services contracted by more than 90% in last 3 months.

Going forward Health and safety factors would take precedence over everything and will alter the way we produce, pack, transport or serve

Social distancing, PPE gears and other health safety norms will become stringent and integrated, thus changing the way we design our facilities, machines or operate them. Sanitary & phyto-sanitary measures, compliances and certification will become essential

The way we travel domestically and internationally will alter with stringent measures, checks and longer waiting periods

Hospitality, Aviation, Tourism, Travel, entertainment industry and similar service sector will be altered
Consumption and demand patterns will be volatile and ultimately change. Sustainability, Environment, Health, Energy Personalisation and Security will take precedence over current mass consumption trends.
Unemployment, longer duration of uncertainty, limited availability of cash in hand etc. leads to panic and changes consumption patterns

- Leading to hoarding of essential goods, thus rise in its price and unavailability
- Postponement to spend on non-essential goods, thus bringing steep decline in demand and resulting in closures of many firms dealing in same, resulting in layoffs
Other Global factors will influence and may further impact adversely on global trade.

Crude Oil Prices, Elections in USA, BREXIT, EU, West & Central Asia geo-eco-political fault lines, Tokyo Olympics and other major sports events along with invention of vaccine for the disease will decide the future of global trade.
• Trump is going to push further protectionist measures and would be more America and American centric. His administration is very hawkish on foreign trade.

• The relationship between the US with respect to Iran/ Syria/ Afghanistan/ Russia/ China/ Mexico/ Venezuela/ Pakistan/ North-Korea is very unpredictable and susceptible to flare-ups.

• EU’s unity will be tested post Covid-19 period, with UK already out of it and number of nations with nationalistic outlook are becoming more conservative and inward looking. The richer EU nations are hesitant to help or bear the burden of poorer or weaker member nations. Turkey is defiant and occasionally taken contrary stand then stated EU opinion.

• Oil prices are at historic low and volatile. OPEC++ nations unity is at stake and very fragile, with Saudi Arabia, Russia and Mexico being divergent in their stand.

• Large sports events like Olympics, grand slams, IPL, grand prix, Football league matches, Hajj, Eid, Easter used to be occasions of festive celebrations, and key marketing and economic events. Hospitality, transportation & Aviation, Tourism etc. has been adversely impacted.
Half measures, knee jerk, copy book approach will not revive India’s Export…

Radical, Measurable, Out of the box Thinking required
The immediate goals:

- Policy for operations units catering to or providing essential services under strict containment approach
- Need of a clear yet gradual exit policy post containment period
- Introduction of permanent measures to ensure that SEZs and nation are prepared for such other events or pandemics

Revival of foreign trade will need a long-term outlook, especially the role of SEZs
Why SEZs?

- Foreign Investors who wish to set up new manufacturing units will find the SEZs as attractive investment hubs.
- Nearly one-third of Indian Exports are out 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.
- They are located near large metropolitan areas and transport hubs with superb connectivity domestically and internationally.
- 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.
- SEZ’s can promote themselves as a very attractive solution for global businesses.
1. SEZs can serve as a catalyst to achieve these objectives by providing a conducive environment for new businesses and industries to grow. With excellent investment and physical infrastructures, as well as investment incentives, SEZs are an excellent medium to attract FDI.

2. 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.

3. 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. According to our analysis, 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.
Recommendations

Awareness, right diagnosis, prevention, medication, surgery and if necessary amputations are undertaken by experienced surgeons to save the life of their patients…the current situation too demands, immediate relief, intermediate and long term strategy

Bold reforms across the value chain starting with approvals, clearances, land, labour reforms to attract investment as India emerges as an alternative manufacturing base.
Rapid policy decisions to mitigate the crisis and prevent further structural damage to industry & economy

Speed & Time is of the essence in mitigating any crisis...

- Faster decision making at all levels, especially at ground Zero…DC’s can be authorised to take key decisions
- Faster, co-ordinated & single window approvals for MNC willing to shift manufacturing base in India
- Faster assessment and disbursal of relief stimulus
Empower Development Commissioners to take decisions

- Constitute on war footing a committee of DCs to formulate a standard guideline document with a broader macro-level policy framework for development of SEZ’s infrastructure, allocations and approvals on existing LOA’s

- Let the respective DC’s of SEZs independently perform at micro level within the broader policy framework

- Make DC’s accountable for set targets yet provide them legal framework for not penalising a genuine unintentional mistake
Let Market Dynamics play-out

10% of GDP Fiscal Stimulus
Current package inadequate it is mere 1% of India’s GDP

Lead and not Follow
Need to demonstrate the will to lead, will have to take responsibility & risk

Need to think beyond 1-2 quarters to a realistic period of 2-3 years for any major transformational change

Need not fall prey to opportunistic, individualistic, selfish and unsustainable businesses or sectors
Government needs to design & announce the stimulus package which can put the economy and industry at par with other nations, which intend to utilize the package to bailout and subsidise their industries....in other scenario, it would be extremely hard for India to compete and trade.

Fiscal stimulus @ 10% of GDP

<table>
<thead>
<tr>
<th>Country</th>
<th>Stimulus Size (as % of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>10.71</td>
</tr>
<tr>
<td>France</td>
<td>11.38</td>
</tr>
<tr>
<td>Italy</td>
<td>1.30</td>
</tr>
<tr>
<td>UK</td>
<td>15.27</td>
</tr>
<tr>
<td>China</td>
<td>1.32</td>
</tr>
<tr>
<td>S Korea</td>
<td>5.13</td>
</tr>
<tr>
<td>Spain</td>
<td>15.29</td>
</tr>
<tr>
<td>Brazil</td>
<td>2.10</td>
</tr>
<tr>
<td>Germany</td>
<td>20.95</td>
</tr>
<tr>
<td>Canada</td>
<td>2.16</td>
</tr>
<tr>
<td>Israel</td>
<td>5.94</td>
</tr>
<tr>
<td>Australia</td>
<td>8.02</td>
</tr>
<tr>
<td>Russia</td>
<td>0.30</td>
</tr>
<tr>
<td>Malaysia</td>
<td>16.17</td>
</tr>
<tr>
<td>Japan</td>
<td>10.00</td>
</tr>
<tr>
<td>India</td>
<td>0.85</td>
</tr>
</tbody>
</table>

COUNTRY CLUSTERS BASED ON THE SEVERITY OF OUTBREAK

Note: Govt support includes loans and credit guarantees for companies, direct transfers (in some cases via employers) to workers, tax freeze and debt repayment moratorium. Not all countries have done all of these.

* Includes loan packages/bailout funds, and liquidity support, apart from fiscal response

** Not announced yet, based on govt intention

Based on 2018 GDP data from World Bank (current dollar)

Source: Agency reports; figures for Russia & Brazil from Goldman Sachs
### 6 objectives of Stimulus Package

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>01</strong></td>
<td>Develop preventive measures against the spread of infection and strengthen treatment capacity</td>
</tr>
<tr>
<td><strong>02</strong></td>
<td>Regain economic activities after containment</td>
</tr>
<tr>
<td><strong>03</strong></td>
<td>Protect employment and businesses (formal &amp; informal)</td>
</tr>
<tr>
<td><strong>04</strong></td>
<td>Rebuild a resilient economic structure</td>
</tr>
<tr>
<td><strong>05</strong></td>
<td>Leapfrog to Self-sufficiency (Aggressive push on Infra development)</td>
</tr>
<tr>
<td><strong>06</strong></td>
<td>Enhance readiness for the future</td>
</tr>
</tbody>
</table>
As many as 19 nations have announced rescue packages to companies hit by COVID-19.

India's fiscal response to Covid-19 inadequate compared to other countries, says industry body.

Finance Minister Sitharaman on March 26 announced a stimulus package valued at approximately 0.8 percent of GDP in addition to a previous commitment by Prime Minister Modi that an additional 150 billion rupees (about 0.1 percent of GDP) will be devoted to health infrastructure, including for testing facilities for COVID-19, personal protective equipment, isolation beds, ICU beds and ventilators.

- Japan offered 1 Trillion USD stimulus package, approximately 20% of its GDP
- USA on March 17, the Trump administration proposed a stimulus package of $1 trillion.
- On March 13, China's central bank launched $79 billion stimulus effort
- United Kingdom has sanctioned 330 billion pounds ($424 billion) to fight the coronavirus pandemic
- EU has initiated a 22.5 billion USD package and yet to finalise a comprehensive package
- Germany announced that it would provide a stimulus package of up to 550 billion euros ($610 billion) to companies hit by coronavirus.
- Italy has announced a rescue package of up to 25 billion euros ($28 billion) on March 16.
- South Korea announced a stimulus package of 11.7 trillion won ($9.8 billion). An additional 10.3 trillion won in treasury bonds will be issued this year to fund the extra budget.
- Uzbekistan created $1bln special fund, $3bln loans to the private sector, $500 mln loan deferrals, bonuses and other financial support equalling close to 10% of GDP.
Reimagine SEZs

Special Economic Zones transformed to Special Centre of Excellence Zones

Implement Baba Kalyani Report recommendations
SEZs can be Employment & Economic Enclaves (3Es) in India

Unleash the “Power of Potential”

- Approaching MNCs to setup their manufacturing base in Indian SEZs must be taken with fighter zeal.
- DC’s of SEZ may be assigned targets to pitch, invite and setup new manufacturing base every year.
- Considerable area is already available in every SEZ and DC’s can be permitted to earmark such areas for these establishments.
- Cost Benefit analysis must be undertaken and if the project satisfy the DC a minimum number of years can be locked down and committed to the MNCs establishing their production base in SEZs.
- No retrospective liabilities can be enforced on these new units.
- Sunrise & Sunset clauses shall be well defined with a degree of flexibility. LOA period can be extended every five years for satisfactory compliances to all guidelines.
There is a big possibility in surge of goods being dumped in Indian market by China and other nations trying to push their economies and trade artificially….India need to safeguard its interest and it is paramount that Indians prefer goods being produced in India.

India needs to be self-sufficient and competitive with other global markets.

- Need to shift the focus of SEZs from Exports to Employment and Economic Activity.
- Units in SEZs may be permitted to manufacture or provide services up to 50% of their business within the DTA for a limited period (1 year to 2 years) with parallel or minor additional taxes/surcharges etc. as is applicable for domestic manufacturer or service provider.
- Contract manufacturing may be permitted within the SEZ for domestic manufacturers to utilize their idle capacity.
- Essential services or products being manufactured or provided can be permitted & equated with 50% value of their NFE targets, keeping them duty free.
- We need to move up the ladder of value chain in manufacturing as well as in service sector.
Research & Development

- SEZs must become the mark of excellence in production, design, productivity, cost efficiencies as well as identifying and establishing new trends.
- Despite all resources and expertise, India lags behind in R&D index.
- R&D plays a very important role in getting the first mover advantage, which helps an organisation/country move up the value chain. The perception is positive.
- There are numerous opportunities available through introducing innovations or extensions in manufacturing, design, identifying new needs, trends, markets and products.
- Possibility of backward integration or forward integration or expanding horizontally through addition of new product categories.
- Fiscal stimulus must constitute a fair share for the units in SEZs setting up R&D centres, common data centres, or testing laborotaries.
1. ‘Tax Free Bonds’ could help raise additional resources, apart from revisiting fiscal deficit targets and fast tracking monetisation of operating assets across the infrastructure sector to raise required resources.

2. All tax disputes can be settled through these bonds if the litigants can invest or clear the dues with decided penal amounts invested in these bonds with a lockable period of 5 years or so, and the Government can honour them post completion of lock in period.

3. CSR funds for the SEZ units can be utilized in advance to buy these bonds with a long lock in period, and organisations may get rebate in taxes/dues etc. for a similar amount after the completion of lock in period.

JAI HIND or GARV tax free bonds
Behavioural change

All employees required to wear personal protection equipment, be fully aware of transmission pathways within the workplace and be trained on how to minimise spread.

Comprehensive and regular disinfection of the workplace.

Thorough monitoring of employee’s health with onsite containment measures.

This approach could surely be adopted; however, it would take time and expense and considerable effort from all involved to be implemented successfully.

But these are crisis management strategies and unlikely to be adopted long term with little benefits as and when a vaccine becomes available.
Disruptions should be left to market economy
Paradigm shift in manufacturing & Services

- Introduce Global Standards & Best technologies
- Embrace technology & IT in manufacturing
  - Automation
  - 3D printing
  - Industrial Data Platforms
  - AI & Data mining
- Allow contract manufacturing in SEZs for DTA market to strengthen the concept of “Make For India”.
Biggest measure of all

Government shall clear all outstanding dues to the organisations having raised and submitted their bills immediately.

All exports related refund and statutory refunds like duty drawback, GST should be paid to exporters, including risky exporters, within 15 days so as to ease liquidity at their end.

A bond may be taken from risky exporters so as to recover it.
Take advantage of open skies for essential cargo

50 per cent freight subsidy on air freight to encourage exporters to use air freight to compensate for time loss
THANKS!

Disruption is the next eruption...let us move ahead with further disruptive yet meaningful strategies.