

DESH (Development of Enterprise and Service Hubs) Bill

August 30, 2022

Manifest Pedagogy:

The government was planning to introduce the Development of Enterprise and Service Hubs (DESH) Bill in the monsoon session of Parliament. Through this, the government is seeking to go beyond export-oriented manufacturing and focus on broad-based parameters such as boosting additional economic activity, generating employment, and integrating various industrial hubs. Coordinated action from the Government of India, state governments, industry associations, investors and all stakeholders, along with efforts to address any teething issues, could make DESH a game changer for India and go a long way towards realising the goal of making it a USD 5 trillion economy by FY 2026.

In News: The govt was planning to introduce the Development of Enterprise and Service Hubs (DESH) Bill in the recent monsoon session of Parliament.

Placing it in the Syllabus: Economy- Infrastructure.

Static Dimensions

- About Special Economic Zone (SEZ)

Current Dimensions

- Provisions of the Bill
- Significance of the Bill
- Issues with the Bill

Content

The bill seeks to overhaul the existing Special Economic Zone law of 2005, aiming to revive interest in SEZs and develop more inclusive economic hubs.

About Special Economic Zone (SEZ)

- It is an area in a country that is subject to different economic regulations than other regions within the same country.
- The Special Economic Zones (SEZs) policy was launched in 2000.
 - SEZs Act, 2005, was passed by Parliament in 2005.
 - **Salient features:** A designated duty-free enclave to be treated as a territory outside the customs territory of India for the purpose of authorised operations in the SEZ.
 - No licence is required for import.
 - Manufacturing or service activities allowed.
 - The Unit shall achieve Positive Net Foreign Exchange to be calculated cumulatively for a period of five years from the commencement of production.
 - Domestic sales are subject to full customs duty and import policy in force.
 - SEZ units will have freedom for subcontracting.
 - No routine examination by customs authorities of export/import cargo.
 - Till mid-June this year, 378 SEZs were notified. And of them, till March this year, 268 SEZs were operational. Rest were de-notified.

Issues with SEZ

- A large number of SEZs have to be denotified. Among the reasons listed by the government were poor market response, lack of demand for space and change in the fiscal incentive regime.

- More than **1 lakh acres of land** within the current SEZs is still not occupied.
- Exports from these SEZs have **fallen to \$102.3 billion in FY21**, from \$112.3 billion in FY20. They account for less than 20% of exports now.
- Set up to fulfil India's plan of becoming a manufacturing powerhouse, these special zones fell short of expectations as the competitive advantage waned and several direct tax benefits were withdrawn.
- The current legislation is over 16 years old and the legislation was framed under different circumstances and a lot has changed since then.
- A WTO panel had in 2019 said that incentives given to entities located in SEZs violated the agreement on subsidies. So now, the government has decided to overhaul the SEZ rules.

Provisions of the Bill

- Unlike in the SEZ ecosystem, the government has proposed to create developmental hubs, whose focus is not limited to exports, but also to cater to the domestic markets.
- The DESH Bill classifies two types of **developmental hubs** – **Enterprise and services** hubs.
 - The **enterprise hubs** will have land-based area requirements and be allowed for both manufacturing and services activities,
 - **Services hubs** will have built-up area requirements and be allowed for only services-related activities.
- These hubs, which will come up under the regional boards of states, could be created by Centre or states or jointly by both or by any goods and services provider.
- The customs duty would only be paid on the inputs used and not on the expensive final goods.
- Net positive growth criteria will be used to judge performance.

- The new law will allow units to produce both for domestic and international markets. Evaluation based on net foreign exchange and direct tax incentives have been done away with in order to comply with WTO rules.
- The government may impose an equalisation levy on goods or services supplied to the domestic market to bring taxes at par with those provided by units outside.
- The Bill also seeks to integrate existing industrial estates such as textiles and food parks by converting them into developmental hubs.
- One of the key aspects of the new DESH Bill is also to promote the expansion of the gambit of service sector units.
 - Currently, only specified services such as IT, ITeS are allowed in special economic zones.
- The Bill also proposes to offer tax benefits and other sops.
 - According to reports, the draft bill proposes to freeze the corporation tax at concessional **15%** for greenfield and brownfield units in the developmental hubs.
- It does not seek to make it mandatory for the SEZs to have positive net foreign exchange earnings. It seeks to focus on single-window clearances.
- According to the draft Bill, there will also not be any requirement to have specific demarcation for trading and warehousing activities.
- Conditions related to minimum employment and production are likely to be added to the proposed Development of Enterprise and Service Hubs.

Significance of the Bill

- India's target of becoming a USD 5 trillion economy by FY 2026, with a contribution of USD 3 trillion and over USD 1 trillion from the services and manufacturing sector respectively, requires accelerated investments.

- India needs large industrial manufacturing zones, which have world-class infrastructure so that those places become manufacturing hubs of the future.
- Enables India to become an attractive global destination for manufacturing and services
- This new Act will lead to the revival of activities in SEZ areas.
- The new SEZ Act will be WTO-compliant and will have a single window (clearance system). High-class infrastructure will be there and more benefits will be there.
- To bring about a paradigm shift by moving the focus from exports to domestic investments, eliminating compliance and procedural challenges, and integrating multiple models of economic zones such as SEZs, coastal economic zones, and food and textile parks.
- Boosting economic activity and the domestic market, integrating the various models, facilitating ease of doing business and generating employment.
- Enable states to play a greater role in the integration of all existing industrial parks within states with existing SEZs across the country.

Issues with the Bill

- Earlier SEZ Act did provide for enhanced Ease of Doing Business (EoDB) through single-window clearances through the office of the Development Commissioner, the implementation has been a mixed bag in some states which did not do away with their individual departmental approvals.
 - How well this single window will be implemented under the DESH Act remains to be seen.
- Various tax breaks that the DESH bill proposes to bestow. To what extent the process of obtaining these breaks is smoother and dispute free is to be seen.

- The revenue department raised objections to the draft bill, which proposes a 10-year concessional corporation tax of 15% for new and brownfield units.

Way Forward

- Many IT/ITES firms relocated into SEZs just to get tax exemptions. Their contribution to exports was minimal. So the Government should consider excluding the IT sector from DESH.
- A GSTN-like number system can be used to monitor movement of goods.
- Sectoral hubs for textiles, electronics, or pharma must invite a large global anchor firm to kick-start operations.
- Speedy factory-to-ship movement through dedicated freight corridors (DFCs) from all hubs is a must.
- Government should return such non-operational SEZ land to its rightful owners.
- The Government must learn the lessons from not-so-successful SEZs and ensure that the proposed hubs make India the centre of global manufacturing value chains.

Mould your thoughts

Q.The special economic zone ecosystem needs a complete overhaul as it has failed to achieve its desired objectives. Critically Discuss in light of the newly proposed DESH (Development of Enterprise and Service Hubs) Bill. (250 words)

Approach to the answer.

- Introduction about SEZ.
- Shortcomings of the SEZ.
- Provisions of DESH bill.
- Significance and how it is an improvement over SEZ
- Issues with DESH.
- Way Forward and Conclusion.