The Development of Enterprise and Service Hubs (DESH) Bill

Why in news?

The proposed DESH bill is seeking to revamp the existing SEZs and proposes a new set of concessions.

What are the existing initiatives?

- The four major schemes for promoting manufacturing in India are:
    1. Special Economic Zones (SEZs)
    2. 100 percent Export-Oriented Units (EOU)
    3. Manufacturing & Other Operation in Warehouse Regulation (MOOWR)
    4. Domestic Tariff Area (DTA) units

> *The 10,000 units under the SEZ, EOU, and MOOWR regimes contribute to an estimated 20 % of merchandise exports from India.*

- SEZ units are located within a physical wall.
- Any unit can opt for the EOU or MOOWR scheme irrespective of location.
- A unit outside the SEZ, EOU, or MOOWR framework can be considered a DTA unit.
- A firm willing to set up manufacturing in India has to choose from these.
- Most schemes differ in the parameters like location choice, tax benefits, payment of import duty, GST on imports, exports, domestic sales, and purchases.
- SEZs are offered more incentives than EPZs and EOUs. A MOOWR provides more than what SEZs or EOUs offer.
- DESH will be an addition to four existing schemes promoting manufacturing, which proposes to offer more than everyone else.
- Now DESH proposes to offer more than everyone else.
- A firm opts for a scheme that offers the most concessions. However, the change from one scheme to another involves cost.
- In the past, thousands of units have been shut down or crippled because they could not move to schemes that offer better concessions.

How did the Export Oriented Units (EOU) scheme fade?

- Any scheme with a more attractive feature diminishes the competitiveness of existing schemes.
- The Export Oriented Units scheme is an example of how a successful scheme fades when new schemes offer better terms.
- Introduced in 1981, the EOU scheme produced thousands of export-focused units

across the country.
- Textiles/garments, food processing, chemicals, pharmaceuticals, gems and jewelry, engineering goods, and electrical/electronic were the key sectors.
- In 2009, exports under EOUs at $39 billion were higher than SEZ exports, at $22 billion.
- The EOUs faced discrimination as the government offered more incentives to new schemes since 2011.
- For example, direct tax exemptions were withdrawn from the EOU scheme in 2011 even though they continued for 10 more years for the SEZ scheme.
- To benefit from tax exemption, a few large EOUs were converted into SEZs.
- Many EOUs shut shop as relocation was not easy.
- The EOUs faced the next shock in 2017 when the GST regime refused to allow the continuation of exemption of taxes on domestic procurement of inputs and capital goods.
- It, however, allowed such exemptions to the SEZ and subsequently to the MOOWR schemes.
- Also, sale in the domestic market was conditional for EOUs, while SEZ or MOOWR units have no such restrictions.
- More incentives to other schemes made the EOU units less competitive and maimed them.

What is the case with DTA?

- DTA units are the bedrock of manufacturing and exports.

> *Lakhs of small and thousands of medium/large units functioning in the DTA contribute to 80 % of merchandise exports and much of the domestic manufacturing turnover.*

- However, compared to other schemes, the DTA units get the lowest concessions.
- A few examples:
  1. A DTA unit pays both the Basic Customs Duty and IGST on the import of machinery for making products for domestic sale.
     - However, a unit under MOOWR or SEZ can import machinery duty-free.
     - This affects the DTA units and machinery makers.
  2. A DTA unit must use government-approved raw materials to make an export product. No such limitation under SEZ or MOOWR.
  3. No GST exemption for domestic sourcing of raw materials for the export product. Such a facility is available to MOOWR and SEZ units.

What is being proposed in the new bill?

- Through the bill, the government is seeking to go beyond export-oriented manufacturing.
- It will focus on broad-based parameters such as boosting additional economic activity, generating employment, and integrating various industrial hubs.

- **Key aspect** – To promote the expansion of the gambit of service sector units.
- Currently, only specified services such as IT, and ITeS are allowed in special economic zones.
- Unlike in the SEZ ecosystem, two types of developmental hubs are proposed, whose focus is not limited to exports, but also to catering to the domestic markets.
- **Enterprise Developmental hubs** will have land-based area requirements and be allowed for both manufacturing and services activities.
- **Services Developmental 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 the Centre or states or jointly by both or by any goods and services provider.
- **Tax benefits –** It proposes to freeze the corporation tax at a concessional 15% for greenfield and brownfield units in the developmental hubs.
- The Bill also seeks to integrate existing industrial estates such as textiles and food parks by converting them into developmental hubs.
- The customs duty would only be paid on the inputs used and not on the expensive final goods.

What is the way forward?

- **A three-step plan will harmonize the concessions under various schemes and strengthen the manufacturing framework.**

- DESH must subsume only large SEZs/industrial parks, so the zone becomes competitive and self-contained.
- MOOWR is EOU plus more concessions and the two may be merged or the government should allow the EOUs to get all MOOWR features.
- The government should create a cohesive policy framework for the DTA units.
- DTA units must not be getting lower concessions than SEZ or MOOWR units as they are India's best hope of becoming a manufacturing powerhouse and job creator.

Reference

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