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Today's Chanakya Poll: Effect of DTC on SEZ Policy – A Major Setback for the Industry Growth

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SEZ Policy was drafted with an intention to bring an overall boost to the Indian economy attracting the foreign [investment](#) & to give a very strong message to [the investors](#) worldwide about the strong desire to give them a friendly [business environment](#) & policies free from the clutches of bureaucracy & red ribbon mind set [of the](#) people involved in the [decision making process in India](#).

SEZ policy was accepted with a very open heart from the investors both in India & overseas. This need no proof as the numbers of applicants to start up a SEZ was good enough & all of a sudden India was looked as a manufacturing hub by large MNC to cater to their needs for the Asian & Middle East market of their products.

Unfortunately the hype created for SEZ was so much that the India's "Self Interested" Politicians owing to their own political mileage & benefits, first raised the issue of land & depletion of agricultural land, which in itself was very fanatic as the land involved was a meager percentage of the land available for agriculture & such was the situation that the commerce ministry has to give the area details in Parliament, which was under SEZ use. It was a pity that when politicians across the country should have been assisting in promoting the land acquisition in view of the overall development of that area & industry, they went against the policy & the business houses keen in [developing](#) SEZ, only for their political benefits, by misguiding & playing with the sentiments of the common people.

When this was not enough the World was caught in the recession, one of the worst known economic crises of the recent times. It was the Indian cultural, style of savings & a parallel cash market economy which made very less impact on the Indians however the foreign trade was highly affected.

When the world started recovering & the economic crises was getting over, the shock for SEZ developers & investors came in the form of drawback of reliefs [in the name of](#) DTC, which otherwise is very good & on a positive sign.

With numerous efforts by the Commerce ministry, their Secretaries, various business associations & bodies trying to convince the Finance ministry, through their presentation & the presentation from the various Industry experts to bring the benefits of SEZ policy as it was initially framed, all the efforts till date were futile & in vain.

There may be a very strong reason, looking on the figures of Exports, Employment generated & the Huge investments coming from SEZ's spread across the country, that the Finance Ministry is so adamant on withdrawing the benefits of taxation from SEZ policy, which will make this policy almost ineffective & lose its sheer charm.

- a) Exports from SEZs : Rs. 22,840 crore in 2005-06 to Rs. 2,20,711 crore in 2009-10.
- b) Investment in SEZs : Rs. 2793 crore, as on 31.3.2006 to Rs. 1,48,488 crore as on 31.3.2010.
- c) Direct Employment in SEZs : 1,34,704 persons in March 2006 to 5,03,611 persons on 31st March, 2010.

Today's Chanakya.

Today's Chanakya tried to catch the pulse of the various industry experts & interviewed a random sample of 847 adult people between 25th June – 10th July 2010. Interviews were conducted across

the country & Data were tabulated to the profile of all adults age 25 + including by age, Sex, Social class. Only persons involved in the decision making process with a knowledge of Export Import Policy & related directly to the International trade were interviewed.

Do you think that proposed changes in DTC for SEZ is breach of sovereign promise made by an Act of Parliament and it would be a shame for India?

Yes (89%); No (4%); No Idea/Can't say (7%)

If DTC is implemented without any changes then would the SEZs be financially viable?

Yes (17%); No (74%); No Idea /Can't say (9%)

Would there be an effect on overall exports from India?

Yes (87%); No (7%); No idea / Can't say (6%)

Would there be an effect on FDI in India in SEZs?

Yes (86%); No (8%); No idea / Can't say (6%)

Would there be an overall effect on FDI in India?

Yes (81%); No (6%); No idea / Can't say (13%)

Do you agree that the argument of revenue leakage and area based development given in the revised draft is correct?

Yes (7%); No (64%); No Idea (10%); Can't Say (19%)

Would there be impact on credibility of India as an investment destination?

Yes (81%); No (9%); No Idea / Can't say (10%)

Do you think that if DTC is implemented without any changes, current SEZ Developers would not be able to realise their investment and in turn not able to repay the loan?

Yes (90%); No (2%); No Idea / Can't say (8%)

Should government restore all the benefits of the SEZ Act in the DTC

Yes (93%); No (3%); No Idea / Can't say (4%)

Do you feel that DTC would simplify the current Income Tax Act?

Yes (30%); No (19%); No Idea (23%); Can't say (28%)

Are you satisfied with the revision of provision related to MAT in the revised discussion paper?

Yes (18%); No (46%); No Idea(20%); Can't say (16%)

How would you overall rate the DTC after release of revised discussion paper?

Excellent(12%); Good(46%); Poor (11%); Very Poor(17%); Can't Say(14%)

Do you feel that there would be better compliance and less litigation with new DTC?

Yes (38%); No (21%); No Idea(25%); Can't say (16%)

The revised discussion paper on DTC released on 15.6.2010 has created huge uncertainty for the SEZ scheme, striking to the very fundamental basis of the scheme itself. SEZ Projects are long term projects & investors do need a long term continuity of the scheme for them to realize on their investments made on the infrastructure developments. It no more gives the message of long term stability and continuity of the Scheme. Without this promise, we are afraid, investment under the SEZ Scheme, from the international and domestic investors would be hugely & adversely impacted and which in turn would affect employment, exports and regional development. Since no new SEZ unit will come up in the SEZs, the development of all the SEZs will automatically stop & huge investment, by international and domestic investors, done in SEZ Scheme, based on the sovereign promise made by an Act of Parliament (SEZ Act) will put them into a state of confusion

& financial crisis. The Revised Discussion Paper on DTC has come as a rude shock to all investors. Many [countries in the world](#), including our neighboring countries like Bangladesh, Sri Lanka, Pakistan, Vietnam, Thailand, Malaysia, Indonesia, Philippines etc. are providing exemption from income tax to the investors under the SEZ Scheme. Hence large international and domestic investors may think of investing in such countries which will lead to drawing away investment, exports and employment from India. At a time when SEZ Scheme was doing extremely well in India and many international investors were showing tremendous interest in the Scheme, a very wrong message has been conveyed to the international investors that even an Act of Parliament, which was made operational just around 4 years back, can be altered at a very short notice.

Something has to be done to bring back the same old confidence in the investors.

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Media contact details

Anuj,
RNB Research,
+91 93104 22229,
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