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Special Economic Zones

Amendment allows demarcation of non-processing area in IT/ITES SEZ

Updated - December 07, 2023 at 06:16 PM. | New Delhi, December 7

Demarcation of non-processing area in IT/ITES SEZs subject to conditions, including repayment of tax concessions

Special Economic Zone (SEZ) is a specifically delineated duty-free enclave and shall be deemed to be foreign territory for the purposes of trade operations, duties and tariffs.

Special Economic Zones

Domestic Tariff Area means the whole of India (including the territorial waters and continental shelf) but does not include the areas of the Special Economic Zones.

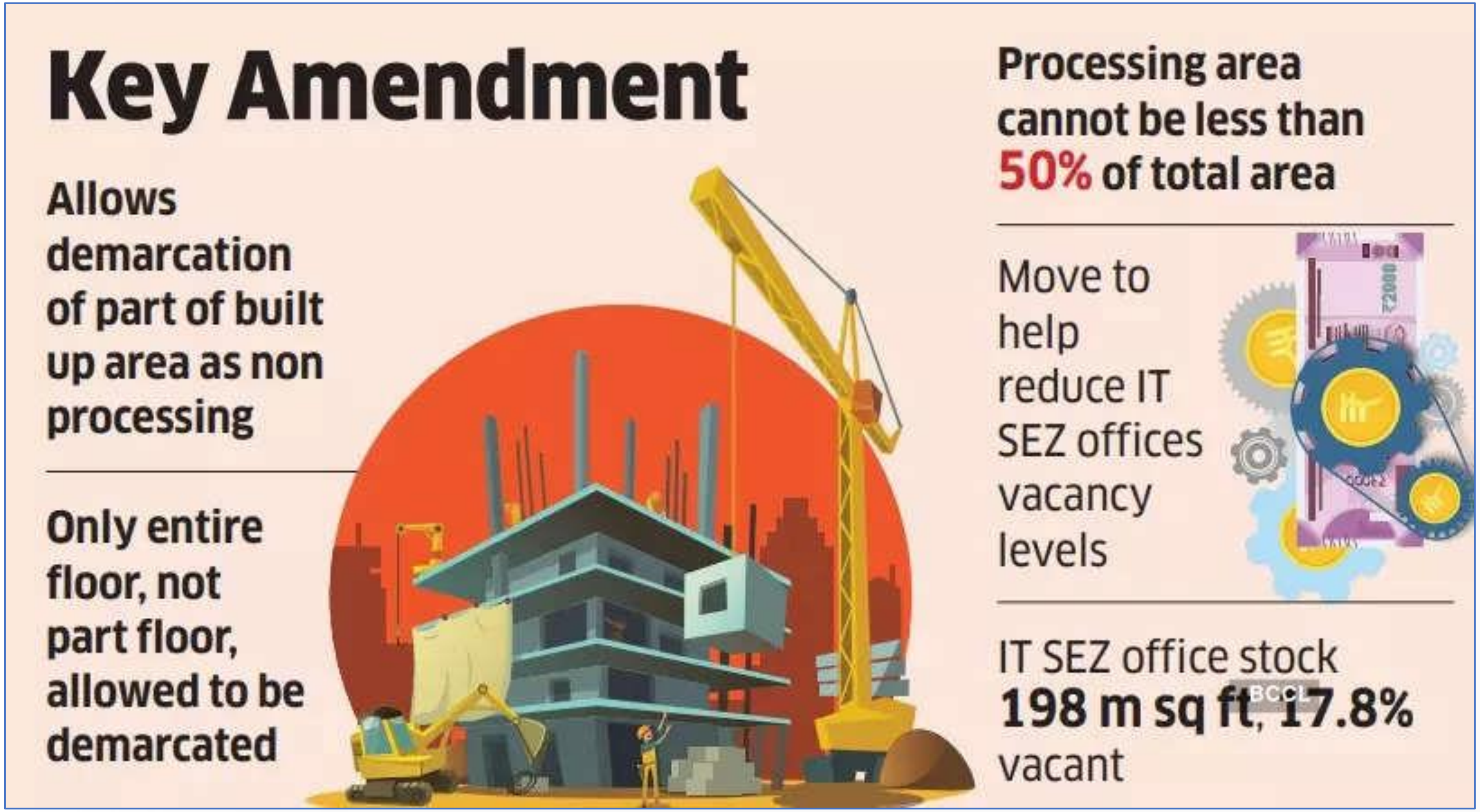
Processing Area: This is the core zone dedicated to industrial activity. Here, units can be set up for:
Manufacturing goods
Rendering services (like IT or IT-enabled services
Companies in the processing area enjoy the key benefits of SEZs, such as duty-free import of raw materials and capital goods, tax exemptions, and a streamlined regulatory environment.

Special Economic Zones

Non-processing Area (NPA): This area exists to support the activities happening in the processing area.
It typically houses: Commercial facilities like banks, insurance companies, and consulting firms.
The NPA offers essential services and amenities for those working in the SEZ.
The businesses engaged in IT/ITES SEZ in a non-processing area shall not avail any rights or facilities available to SEZ Units.

Businesses in non-processing areas must comply with Central Acts, rules, and orders applicable to entities in the domestic tariff area.

Special Economic Zones



India-US Disputes

India and the United States (US) have informed the World Trade Organization (WTO) that both countries have been able to arrive at a mutually agreed solution regarding the dispute over poultry imports from Washington.

The last of these settled cases was related to the US moving to WTO against India in the poultry case in 2012.

India had prohibited the import of various products from the US because of concerns related to Avian Influenza.

India-US Disputes

Though India had lifted the ban but the US demanded compensation because India was not able to implement the decision in time.

As part of the present settlement, India agreed to cut import duty to 5-10 per cent on some fresh and processed food items.

Extended Fund Facility (EFF) of IMF

IMF extends Egypt's loan programme to US$8 billion after massive drop in Egyptian pound value

The Central Bank of Egypt implemented a flexible exchange rate, allowing market forces to control the value of the local pound.

Egypt has a stumbling economy which has further been spoiled due to the added pressure by the war in Gaza and Israel.

Extended Fund Facility (EFF) of IMF

The Extended Fund Facility (EFF) provides financial assistance to countries facing serious medium-term balance of payments problems because of structural weaknesses that require time to address.

Eligibility: All member countries facing actual or potential external financing needs. Most often used by advanced and emerging market countries.

Duration: Typically approved for periods of 3 years, but may be approved for periods as long as 4 years.

Extended Fund Facility (EFF) of IMF

Repayment: Over 4½–10 years in 12 equal semiannual installments.
Interest rate: It includes market-determined Special Drawing Rights (SDR) interest rate along with surcharges.

India and IMF Lending

Facility	Date of Arrangement
Standby Arrangement	Oct 31, 1991
Standby Arrangement	Jan 18, 1991
Extended Fund Facility	Nov 09, 1981
Standby Arrangement	Mar 22, 1965
Standby Arrangement	Jul 09, 1963
Standby Arrangement	Jul 09, 1962
Standby Arrangement	Mar 11, 1957

India-Mauritius Tax Treaty

India and Mauritius have recently amended their double taxation avoidance agreement (DTAA) which aims at curbing tax avoidance.

DTAA between India and Mauritius was first signed in 1982 and was amended in 2016.

Before 2016, the DTAA between India and Mauritius allowed investors based in Mauritius to be taxed on their Indian investments at the lower rate applicable in either country.

India-Mauritius Tax Treaty

Many businesses and funds, despite having no real presence in Mauritius, set up shell companies there to channel investments into India tax-free.

However, the revised tax agreement in 2016 allowed India to tax capital gains from transactions in shares routed through Mauritius from April 1, 2017.
Investments made before this date were grandfathered.

The key feature in the recent amendment is the introduction of a principal purpose test (PPT).

India-Mauritius Tax Treaty

The PPT aims to deny tax treaty benefits to arrangements designed primarily to avoid taxes. Many countries incorporated the PPT through the OECD's Base Erosion and Profit Shifting (BEPS) Project.

Country A

Country B

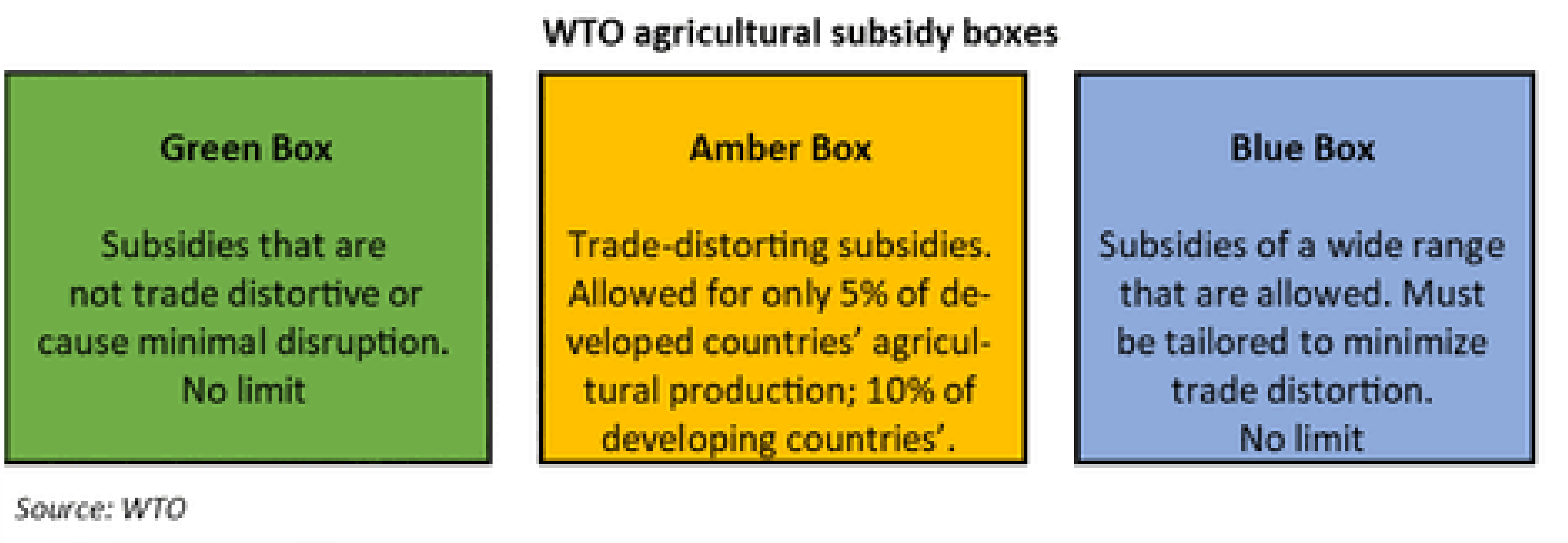
Peace Clause Invoked In WTO

India has recently invoked the ‘peace clause’ at the World Trade Organization (WTO) for the fifth consecutive time for the marketing year 2022-23 (October-September).

Agreement On Agriculture (AoA) of WTO
It was concluded in 1994 with the aim to remove trade barriers and to promote transparent market access and integration of global markets.
It stands on three pillars: Domestic Support, Market Access and Export Subsidy.

Under the Domestic Support, AoA calls for reduction in domestic subsidies that distorts free trade and fair price.

Peace Clause Invoked In WTO



There is no immediate repercussion for the breach since India has invoked the "peace clause", agreed upon at the Bali ministerial of WTO in 2013 under the Agreement On Agriculture (AoA).

Peace Clause Invoked In WTO

This clause provides immunity to developing countries from challenges for breaching the ceiling for wheat and rice until a permanent solution is found.

India had been exceeding the domestic support limits on rice since 2018-19, but has been able to shield it from any legal challenge by invoking the Bali peace clause.

This clause provides immunity to developing countries from challenges for breaching the ceiling for wheat and rice until a permanent solution is found.

Credit Deposit Ratio

The credit-deposit ratio in Indian banks has reached its highest levels since 2005.

Recent data from RBI showed that the credit-deposit (CD) ratio in Indian banks has reached at its highest level in last 20 years to 80%.

As of March end, 2024, deposits saw a 13.5% increase, reaching Rs 204.8 lakh crore compared to previous year. However, lending during the same period surged by 20.2%, reaching Rs 164.3 lakh crore.

Credit Deposit Ratio

The CD ratio is defined as the proportion of a bank's deposit base being used for loans.
A high CD ratio indicates higher liquidity and credit risks for banks.

Key reason for high credits: An increased loan uptake, particularly in categories like home loans and other consumption loans.

Reasons for low deposits: Customers are shifting towards high-return, equity-linked products, reducing the funds available for deposits in banks.
There has been an uptick in mutual funds and also in physical assets such as gold and real estate market.