

India's SEZ Policy Shift

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India's SEZ Policy Shift: A Step Towards Chip Self-Reliance

Context

In a significant policy shift, the **Government of India has relaxed key regulations for Special Economic Zones (SEZs)** to promote **semiconductor and electronics manufacturing**. This reform is aligned with India's strategic goal to reduce import dependency, enhance technological self-reliance, and support the **Semiconductor Mission** launched in **2022**.

What are Special Economic Zones (SEZs)?

- SEZs are **designated duty-free zones**, treated as areas **outside the customs territory of India** for authorized operations.
- India adopted this model early, establishing **Asia's first Export Processing Zone (EPZ)** in **Kandla in 1965**.

Objectives of SEZs

- Promote **additional economic activity**
 - Enhance **exports of goods and services**
 - Attract **domestic and foreign investments**
 - Generate **employment opportunities**
 - Support **infrastructure development**
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Legal Framework

- **SEZ Policy announced: April 2000**
 - **SEZ Act passed: May 2005** by the Indian Parliament
 - Administered through a **three-tier structure**:
 1. **Board of Approval (BoA)** – Apex body headed by Secretary, Department of Commerce
 2. **Approval Committee** – Zone-level body for unit approvals
 3. **Development Commissioner** – Heads each SEZ and chairs the zone's Approval Committee
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Key Features of SEZs

- **No licence required** for imports
 - Manufacturing and service activities are permitted
 - Units must achieve **Positive Net Foreign Exchange** over **five years**
 - **Domestic sales** subject to customs duty
 - **Subcontracting** allowed
 - **No routine customs inspections** of cargo
 - **Tax benefits** (direct and indirect) available under the **SEZ Act, 2005**
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Current Status

- As of **January 31, 2025**, there are **276 operational SEZs** across India

Approval Process

- Proposal submitted to the **State Government**
 - State must forward proposal to the **Board of Approval** within **45 days**
 - Once approved and notified, units can be established in the SEZ
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Recent Reforms for Semiconductor Manufacturing

To facilitate semiconductor manufacturing within SEZs:

- **Minimum land requirement reduced** from **50 hectares to 10 hectares** for SEZs dedicated to semiconductors/electronic components
 - **Encumbrance-free land condition relaxed** if the land is mortgaged or leased to **Central/State Government or their agencies**
 - Aims to **ease entry barriers** for companies, especially **startups and MSMEs**
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Significance of Semiconductor SEZs

- India aims to launch its **first indigenously produced semiconductor chip by end of 2025** (using **28-90 nm technology**)
 - **Six chip fabrication units** under development as of **May 2025**
 - **Semiconductors** are vital for AI, ML, automation, and modern electronics
 - Relaxed norms make SEZs more attractive to **investors, startups**, and global players
 - Will boost **high-tech manufacturing**, reduce dependency, and **foster innovation**
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Strategic Importance

- India's semiconductor demand is currently **\$45-50 billion**, projected to reach **\$100-110 billion by 2030**
 - SEZs will help:
 - Meet domestic demand
 - Reduce **import dependency**
 - Build a **comprehensive supply chain**
 - Attract both **foreign and domestic investment**
 - Create **high-skilled jobs** in design, R&D, and fabrication
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Way Forward

- **Reforms are a foundational step** toward building a strong semiconductor ecosystem
- Focus areas:
 - **Human resource development** through specialized training and courses
 - Promotion of **Public-Private Partnerships (PPP)** to mobilize private investment
 - Strengthen the ecosystem with **supportive infrastructure** and **policy incentives**

