SEZ Norms Relaxed to Boost India’s Semiconductor and Electronics Manufacturing

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SEZ Reforms Latest News

- The Central government has relaxed key rules related to Special Economic Zones (SEZs) to further encourage the domestic manufacture of semiconductors and electronics.

Introduction

- In a strategic push to localise high-tech manufacturing, India has amended key provisions of its **Special Economic Zones (SEZ) Rules, 2006**.
- These reforms primarily target the semiconductor and electronics component manufacturing sectors, which are crucial for India’s ambitions of technological self-reliance and reduced import dependence.
- Notified by the Ministry of Commerce and Industry in June 2025, the new rules mark a significant shift in India’s industrial policy approach, particularly given post-pandemic supply chain disruptions and rising global digital demand.

Significance of Semiconductors and Electronics Manufacturing

- Semiconductors are the foundational technology powering modern electronics, from smartphones and laptops to electric vehicles and smart appliances.
- With increasing digitisation and the rise of technologies like **Artificial Intelligence (AI)** and the **Internet of Things (IoT)**, semiconductors have become central to economic and national security.
- India, like many other countries, became acutely aware of its import vulnerability during the **COVID-19 pandemic** when semiconductor shortages disrupted key industries.
- Given that China accounted for around 35% of global semiconductor manufacturing in 2021, countries including India have sought to de-risk their supply chains through domestic production.

Key Changes in SEZ Rules

- The recent amendments in the SEZ framework aim to reduce regulatory burdens and attract capital-intensive, technology-oriented investments.
- **Reduction in Land Requirement (Rule 5 Amendment):**
  - The minimum land requirement for SEZs focused on semiconductors or electronic components has been slashed from 50 hectares to just 10 hectares.
  - This reform facilitates smaller yet high-value investments by allowing firms to avail SEZ benefits such as duty-free imports and tax exemptions without the need for large land parcels.
- **Easing of Encumbrance Norms (Rule 7 Amendment):**
  - SEZs no longer need to have "encumbrance-free" land if the land is mortgaged or leased to Central/State governments or their agencies.
  - This is especially significant in India, where legal land records and title clearances often delay industrial development.
- **Domestic Sales Permitted (Rule 18 Amendment):**
  - Units in semiconductor and electronics SEZs are now allowed to sell in the Domestic Tariff Area (DTA) after paying applicable duties.
  - Earlier, SEZs were exclusively export-oriented. The new rule provides flexibility amid global trade uncertainties and boosts domestic supply chains.
- **Revised Net Foreign Exchange (NFE) Calculations (Rule 53 Amendment):**
  - Goods received and supplied on a free-of-cost basis can now be included in NFE calculations and assessed using customs valuation rules.
  - This is particularly helpful for industries like semiconductor manufacturing that often involve high-cost prototypes and design iterations.

Early Impact and Industry Response

- The reforms have already started to bear fruit. The Board of Approval for SEZs has cleared two major proposals:
  - **Micron Semiconductor Technology India Pvt. Ltd.** will establish a semiconductor manufacturing SEZ over 37.64 hectares in **Sanand, Gujarat**, with an investment of **Rs. 13,000 crore**.

    - **Hubballi Durable Goods Cluster Pvt. Ltd.** (Aequs Group) will set up an electronics component SEZ in **Dharwad, Karnataka**, spanning 11.55 hectares, with an investment of **Rs. 100 crore**.
- These investments signal a shift in India’s manufacturing landscape and align with larger initiatives like the **Semicon India Programme** (Rs. 76,000 crore outlay), aimed at building a complete semiconductor ecosystem.

Challenges in Execution

- **Skilled Workforce:** Semiconductor manufacturing requires highly trained professionals, which India is still developing at scale.
- **Infrastructure Readiness:** High-tech units need stable power, clean rooms, and water-intensive facilities, logistics that require substantial state support.
- **Global Competition:** Other countries, including the U.S., Taiwan, and South Korea, are also rolling out incentives. India must ensure competitiveness in its policy offerings.

Strategic Importance and Future Outlook

- India’s SEZ reforms are not isolated but part of a broader national effort to position the country as a trusted global hub for electronics manufacturing.
- The flexibility offered through SEZs, coupled with Production Linked Incentives (PLI), reflects a strategic understanding that manufacturing capability in semiconductors and electronics is essential for both economic growth and national resilience.
- By reducing regulatory friction, allowing domestic sales, and facilitating faster approvals, India is making itself a more attractive destination for global investors looking to diversify from traditional supply chains.

Source : TH | PIB
