

SEZ Reforms, Strengthening Exports and Manufacturing Ecosystem

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Special Economic Zones (SEZs) are duty-free areas established to promote trade, investment, and industrial growth, with the **Union Budget 2026-27** reinforcing their importance through targeted reforms and incentives to boost exports and India's global competitiveness.

About Special Economic Zone (SEZ)

Special Economic Zone (SEZ) is a geographically delineated duty-free area deemed to be foreign territory for the operations of trade, duties, and tariffs. The **SEZ Act, 2005**, provides the legal framework for these zones.

Established with the **objectives** of generating additional economic activity, boosting exports, attracting domestic and foreign investment, creating employment opportunities, and developing world-class infrastructure, SEZs serve as engines of export-led growth.

India has 368 notified SEZs, which have enhanced global competitiveness, facilitated the growth of specialized industrial clusters, and positioned India as an attractive investment destination.

Evolution of Special Economic Zones (SEZs) in India

India was one of the first countries in Asia to adopt the **Export Processing Zone (EPZ) model**, setting up the **first EPZ at Kandla in 1965**. While EPZs initiated export promotion, their impact was limited due to procedural bottlenecks, inadequate infrastructure, and a complex fiscal regime. To address these issues, the government introduced the **SEZ Policy in 2000**, followed by the enactment of the **SEZ Act, 2005**, and **SEZ Rules, 2006**.

These legal frameworks provided a simplified regulatory environment, single-window clearances, fiscal incentives, and guidelines for environmental compliance. Subsequent amendments, including those in June 2025 for semiconductor and electronic component manufacturing, have further strengthened the SEZ framework to attract strategic high-tech investments.

Special Economic Zones (SEZs) in India Significance

Special Economic Zones (SEZs) have played a transformative role in India's economic landscape:

- **Export Promotion:** SEZs serve as engines of export-led growth. Exports from operational SEZs in 2025-26 (till December) amounted to ₹11.70 lakh crore, a 32% increase from the previous year.
- **Investment Attraction:** SEZs have attracted total investments of ₹7.86 lakh crore as of December 2025, from both domestic and foreign investors.
- **Employment Generation:** SEZs provide direct and indirect employment. As of December 2025, they employed over 31.73 lakh people.
- **Infrastructure Development:** SEZs facilitate world-class industrial clusters and port-led hubs such as **Mundra Port**, Kandla Port, and sector-focused ecosystems like Sri City and GIFT City.
- **Innovation and Technology Advancement:** SEZs encourage technological adoption, research, and high-value manufacturing, particularly in sectors like electronics and semiconductors.
- **Global Competitiveness:** By offering a stable policy environment, SEZs position India as a reliable destination for trade and investment.

Key Government Reforms for Special Economic Zones (SEZs)

The Government of India has introduced a range of targeted incentives and reforms to enhance the operational efficiency, investment attractiveness, and export-oriented character of Special Economic Zones (SEZs).

One-Time Concessional DTA Sales:

- As a special one-time measure, the Union Budget 2026-27 proposed that eligible SEZ manufacturing units be permitted to sell a prescribed proportion of their output in the Domestic Tariff Area (DTA) at concessional duty rates instead of standard customs duties.
- The quantity of such sales will be limited to a prescribed proportion of their exports. Necessary regulatory amendments will be undertaken to operationalize this provision while ensuring a level playing field for units operating in the DTA.
- This reform is expected to achieve economies of scale, improve production efficiency, and strengthen resilience against global market volatility.

Support for Semiconductor and Electronics Manufacturing:

- In June 2025, the Government notified two new SEZs- one at Sanand, Gujarat, and another at Dharwad, Karnataka- for the manufacturing of semiconductors and electronic components, respectively.
- Amendments include relaxed land encumbrance norms, eligibility of leased or mortgaged land, DTA sales of semiconductor products, and inclusion of the value of free-of-cost goods in Net Foreign Exchange (NFE) calculations.

These measures are designed to attract pioneering investments, expand domestic capacity in high-tech sectors, reduce import dependence, and generate high-skilled employment.

Incentives for Cloud and Data-Centre Operations:

- Tax incentives for cloud and data-centre operations within SEZs are extended to attract global technology firms.
- This is expected to strengthen India's digital infrastructure, encourage technology-led investment, and boost the knowledge economy.

Regulatory Simplification and Ease of Doing Business:

- SEZ units benefit from duty-free import/domestic procurement for development, operation, and maintenance.
- They enjoy exemption from Central Sales Tax, Service Tax, and State sales tax, now subsumed under GST, with supplies to SEZs zero-rated under IGST.
- Single-window clearances continue to streamline approvals, reducing procedural delays and improving operational efficiency.

Implications of SEZ Reforms

- **Export Enhancement:** Improved DTA access and operational flexibility will reduce export costs, strengthen supply chains, and enhance integration into global value chains.
- **Strengthening Domestic Manufacturing:** Targeted SEZs for high-tech sectors like semiconductors will reduce import dependence and expand domestic manufacturing capabilities.
- **Employment Generation:** Expansion of high-value and high-tech industries within SEZs will generate skilled employment opportunities.
- **Investment Attraction:** World-class infrastructure, stable policy support, and fiscal incentives will increase domestic and foreign investor confidence, promoting long-term investment.
- **Economic Resilience:** Reforms enhance SEZs' capacity to adapt to global market disruptions and strengthen India's position in international trade.

Challenges Faced by SEZs

Despite their significant contributions to exports, investment, and employment, SEZs in India face several structural and operational challenges that can limit their effectiveness.

- **Land Acquisition Issues:** Difficulty in acquiring contiguous land parcels for setting up SEZs, leading to project delays.

- **Uneven Regional Distribution:** Concentration of SEZs in a few states limits balanced regional industrial development.
- **Regulatory Disputes:** Occasional conflicts over exemptions, approvals, and compliance with SEZ rules.
- **Infrastructure Gaps:** Some SEZs face inadequate connectivity, power, and logistics facilities.
- **Maintaining Export Orientation:** Ensuring that domestic sales and incentives do not dilute the export-focused character.

Way Forward

To enhance the effectiveness of SEZs and ensure they continue to drive export-led growth, the government must adopt strategic measures addressing policy, infrastructure, skills, and regional balance.

- **Policy Stability:** Ensure a predictable and consistent SEZ policy framework to attract long-term investment.
- **Improved Infrastructure:** Develop robust transport, power, and logistics support within and around SEZs.
- **Skill Development:** Focus on high-skilled workforce creation to support advanced manufacturing and service sectors.
- **Targeted Incentives:** Customize incentives for strategic and high-tech industries to encourage innovation and domestic production.
- **Balanced Regional Expansion:** Promote SEZs in underdeveloped regions to ensure equitable economic growth across states.

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