Semiconductor Special Economic Zone

> Mains Syllabus: GS III - Indian Economy and issues relating to planning, mobilisation, of resources, growth, development and employment.

Why in the News?

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

What are special economic zones?

India was one of the first in Asia to recognize the effectiveness of the Export Processing Zone (EPZ) model in promoting exports, with Asia's first EPZ set up in Kandla in 1965.

- **Special Economic Zones** - A designated duty free enclave to be treated as a territory outside the customs territory of India for the purpose of authorised operations in the SEZ.
- **Objectives**
  - Generation of additional economic activity
  - Promotion of exports of goods and services
  - Promotion of investment from domestic and foreign sources
  - Creation of employment opportunities
  - Development of infrastructure facilities
- **Statues** - Special Economic Zones (SEZs) Policy was announced in April 2000 and Special Economic Zones Act, was passed by Parliament in May, 2005.

Features of SEZ

• No licence required for import.
• Manufacturing or service activities allowed.
• The Units are only required to achieve Positive Net Foreign Exchange to be calculated cumulatively for a period of five years from the commencement of production.
• Domestic sales subject to full customs duty and import policy in force.
• Full freedom for subcontracting.
• No routine examination by customs authorities of export/import cargo.
• SEZ Developers /Co-Developers and Units enjoy Direct Tax and Indirect Tax benefits as prescribed in the SEZs Act, 2005.

- **Existing SEZ** – There are 276 SEZ are operation across the country as on 31 st January, 2025.
- **Approval mechanism for setting up SEZ** - The developer submits the proposal for establishment of SEZ to the concerned State Government.
- The State Government has to forward the proposal with its recommendation within 45 days from the date of receipt of such proposal to the Board of Approval.
- **Administrative set up** - The functioning of the SEZs is governed by a three tier administrative set up.
    - **Board of Approval** – It is the apex body and is headed by the Secretary, Department of Commerce.
    - **Approval Committee at the Zone level** - It deals with approval of units in the SEZs and other related issues.
    - Each Zone is headed by a Development Commissioner, who is ex-officio chairperson of the Approval Committee.
- Once an SEZ has been approved by the Board of Approval and Central Government has notified the area of the SEZ, units are allowed to be set up in the SEZ.
- **Recent Changes** - An SEZ set up exclusively for the manufacturing of semiconductors or electronic components will require a minimum contiguous land area of only 10 hectares, reduced from the earlier requirement of 50 hectares.
- Board of Approval for SEZs has been approved to relax the condition requiring SEZ land to be encumbrance-free in cases where it is mortgaged or leased to the Central or State Government or their authorized agencies.

What are the significances of establishing SEZ for semiconductors?

India is set to launch its first domestically produced semiconductor chip by the end of 2025, using 28 to 90 nanometre technology.

As of May 2025, six chip fabrication units are under development, marking a major step forward in the country's semiconductor mission, which was initiated in 2022.

- **Heart of Electronics** - Semiconductors lie at the heart of an increasingly electronic society, with AI and machine learning being the latest in a long trend of increased digitisation and automation.
- **Boost high-tech manufacturing** – Special zones with relaxed norms and rules will facilitate setting up semiconductor manufacturing industries.
- This makes it feasible for more companies, including MSMEs and startups, to enter the sector, fostering competition and innovation

According to the Semiconductor Industry Association, China accounted for about 35% of all semiconductors manufactured in the world in 2021.

- **Spur growth of semiconductor manufacturing ecosystem** – Semiconductor SEZ will bring all subsidiary, allied industries under a single complex, thus improving the product supply chain in semiconductor industry.
- **Attract Investments** - By setting up SEZs specifically for semiconductors, India aims to attract both domestic and foreign investments
- **Creates high skilled jobs** – It will create high skilled jobs in semiconductor design, research and manufacturing.
- **Meeting Domestic Needs** - India's semiconductor demand, currently at $45-50 billion, is expected to reach $100-110 billion by 2030.
- SEZ for semiconductors will help in meeting this requirement and reduce import dependency on semiconductors.

What lies ahead?

- The recent changes are significant step towards boosting the domestic semiconductor ecosystem.
- Human skill set on semiconductor needs to be upgraded to provide adequate human capital to the sector.
- New specialized courses on semiconductor manufacturing can be created.
- Public Private Partnerships can be encouraged to support private investments in creating SEZs.

Reference

[The Hindu | Why have special economic zones rules been relaxed?]