

## Strengthening SEZs for Global Competitiveness

*Mains: GS-III - Economy*

### Why in News?

Recently, in the Union Budget 2026-27 has announced a comprehensive set of measures, including targeted reforms for Special Economic Zones (SEZs) affected by global trade disruptions.

### What about the Special Economic Zones (SEZs)?

- **SEZs** - These are designated areas within a country that operate under a distinct regulatory and fiscal framework to promote trade and investment.
- Also, is a specifically delineated duty-free enclave and deemed to be a territory outside the customs territory of India for authorized operations.
- SEZ units are set up for the manufacture of goods, for rendering of services and providing warehousing services through Free Trade Warehousing Zones.
- **Objective** - To generate 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.
- **Role in India's Economy**
  - **Boost Export** - Since the enactment of the SEZ Act in 2005, these zones have significantly accelerated export growth while fostering industrial expansion across sectors.
  - **Holistic Local Development** - Beyond foreign exchange and infrastructure, SEZs have created direct & indirect jobs, enabled new business ecosystems and improved socio-economic outcomes in local economies.
  - **Fiscal & Regulatory Advantages** - By offering fiscal incentives, streamlined regulatory processes, and modern infrastructure, SEZs have enhanced India's global competitiveness.
  - **Industrial Growth & Innovation** - SEZs have built specialized industrial clusters, encouraged innovation and technological progress, and positioned India as a reliable global investment destination.
- **Present status**
- **SEZs** - Currently, there are 368 notified SEZs across India as of 28th February, 2026.



- **Employment** - Shows a *rise*, with SEZs employing over 31.73 lakh people as of December 2025.
- **Total investment** - Amounted to Rs.7.86 lakh crores (as of December 2025).
- **Exports** - Totaled over 11.70 lakh crores in 2025-26 (till December, 2025), a 32.02% increase from the corresponding period in 2024-25.

## What are the measures announced in the Union Budget 2026-27 to focus on SEZ?

- **One-Time Concessional DTA Sales (New special measure)** - It has been proposed that eligible SEZ manufacturing units will be permitted to sell a prescribed proportion of their output in the 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 and necessary regulatory changes will ensure fair competition with DTA units.
- **Aim** - To improve capacity utilization, achieve economies of scale, lower export costs, strengthen resilience of SEZ ecosystem and boost global investor confidence.
  - **Domestic Tariff Area (DTA)** - It means the whole of India (including the territorial waters and continental shelf) but does not include the areas of the SEZs.
  - **Section 30 of the SEZ Act, 2005** - Stipulates that goods and services cleared from SEZ to DTA are treated as imports into the country and attracts all applicable duties and levies.
  - **Section 2(m) of SEZ Act, 2005** - The supplies from DTA to SEZ are treated as

*exports* to SEZ and are eligible for applicable export benefits.

- **Technology & Infrastructure Incentives** - Extension of tax incentives for cloud & data-centre operations within SEZs is expected to attract global manufacturers & technology firms, strengthening India's investment ecosystem.

## What is the Evolution & Policy Framework of SEZs in India?

- **Early Phase** - India was among the *first Asian countries to adopt the Export Processing Zone (EPZ) model* to promote exports, establishing Asia's first EPZ at Kandla in 1965.
- **Challenges** - Multiple regulatory controls, procedural delays, inadequate infrastructure, and an unstable fiscal regime limited its effectiveness.
- **SEZ Policy, 2000** - It was announced in April 2000 to overcome EPZ shortcomings and attract greater foreign investment.
- **Aim** - To transform SEZs into engines of economic growth by providing world-class infrastructure, an attractive fiscal framework at both Central and State levels, and a simplified regulatory environment.
- **Operated under** - The Foreign Trade Policy (November 2000 to February 2006), with fiscal incentives implemented through relevant statutory provisions.
- **SEZ Act, 2005 & SEZ Rules, 2006** - This introduced a simplified regulatory framework with single-window clearances for matters relating to both Central and State Governments.
- **Guiding principles** -
  - Generation of economic activity,
  - Infrastructure development
  - Employment creation.
  - Ensured environmental compliance
- The performance & impact of SEZs are monitored via monthly reports by Development Commissioners, who are appointed by the Government to oversee the functioning of SEZ units.
- **Semiconductor & Electronics SEZs** - The SEZ Rules, 2006 were amended in June 2025 to allow the establishment of SEZs exclusively for the manufacturing of semiconductors and electronic components.
- **2 new SEZs** - At Sanand, Gujarat (semiconductors), and Dharwad, Karnataka (electronic components).
- **Relaxations** - Minimum land requirement norms, encumbrance rules (mortgaged/leased land to Govt allowed), DTA supply of semiconductor products and inclusion of free-of-cost goods in Net Foreign Exchange (NFE) calculations.
- **Incentives & Facilities to Attract Investment** - SEZs offer a competitive & investor-friendly environment to promote exports, attract domestic and foreign investment, and enhance ease of doing business.
- Incentives and facilities offered includes
  - Duty free import/domestic procurement of goods for development, operation and maintenance of SEZ units.
  - Exemption from Central Sales Tax, Service Tax and State sales tax (now subsumed under GST).
  - Supplies to SEZs are zero rated under IGST Act, 2017.

- Other levies, if exempted by the respective State Governments.
- Single window clearance for Central and State level approvals.

### What lies ahead?

- **From Ports to Sectoral Hubs** - From port-led hubs such as Mundra Port and Kandla Port to sector-focused ecosystems like Sri City and GIFT City, each SEZ offers a distinct value proposition for global and domestic investors alike.
- **Strong Foundations** - With world-class infrastructure, stable policy support, and seamless access to domestic and international markets, SEZs create a strong foundation for sustainable, long-term growth.
- They ease market entry, accelerate operationalization, and integrate businesses into India's expanding trade and industrial networks.
- **Strategic Role in India's Economy** - As India sharpens its focus on exports, advanced manufacturing, and financial leadership, the SEZ framework poised to drive the next wave of investment and reinforce the country's global economic stature.

### Reference

[PIB | Strengthening SEZs for Global Competitiveness & Growth](#)

