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SPECIAL ECONOMIC ZONES (SEZ)

SYLLABUS:

GS 3 > Industry and infrastructure > Infrastructure & Investment models > SEZ

REFERENCE NEWS:

- The Government has notified **two new Special Economic Zones (SEZs)** in the Union Territory of **Puducherry**, following approval by the **Board of Approval for SEZs under the Department of Commerce**.
- These include an **IT/ITES SEZ** (Information Technology/Information Technology Enabled Services SEZ) at **Thattanchavady village**, to be developed by **Oulgaret Municipality**, making it the **first SEZ in India to be developed by a Municipal body**.
- The second is a Multi-Sector SEZ at **Karasur village**, to be developed by the **Pondicherry Industrial Promotion Development and Investment Corporation (PIPDIC)**.

SPECIAL ECONOMIC ZONES:

- "A SEZ is a designated **duty-free enclave** to be **treated as foreign territory** for the purpose of **trade operations and duties and tariffs**."
- It is a geographical region that has economic laws that are more liberal than a country's usual economic laws.

HISTORY:

- 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.
- With a view to overcome the shortcomings and to make SEZs an engine for economic growth, the **Special Economic Zones (SEZs) Policy** was announced in **April 2000**.
- To instill confidence in investors and to impart stability to the SEZ regime, the **Special Economic Zones Act, 2005** was enacted.
- As of 2023, India has **272 operational SEZs** with a combined **employment of 2.8 million people**. These SEZs generated approximately **USD 133 billion in exports**, with **service exports** making up around **60 percent of this total**.

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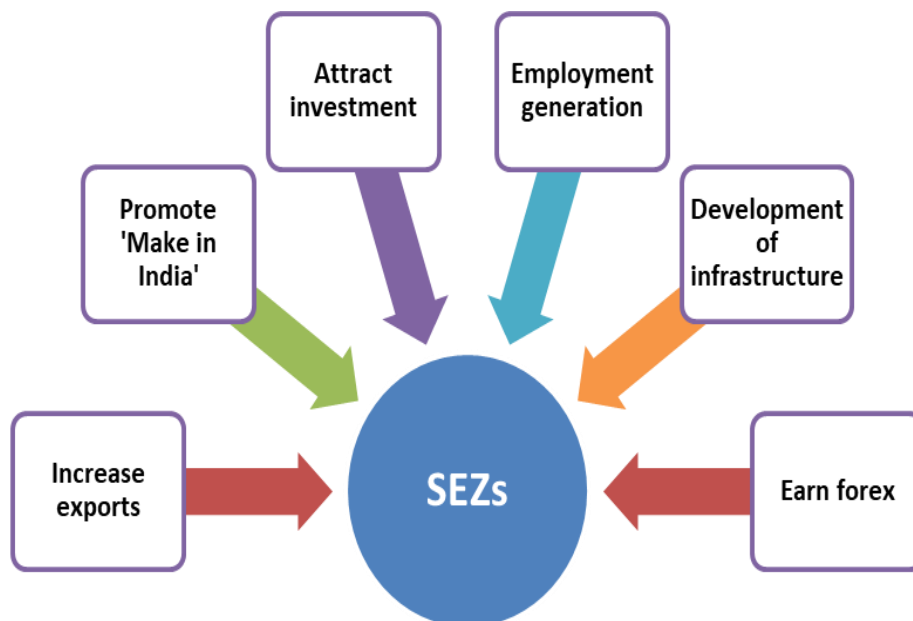
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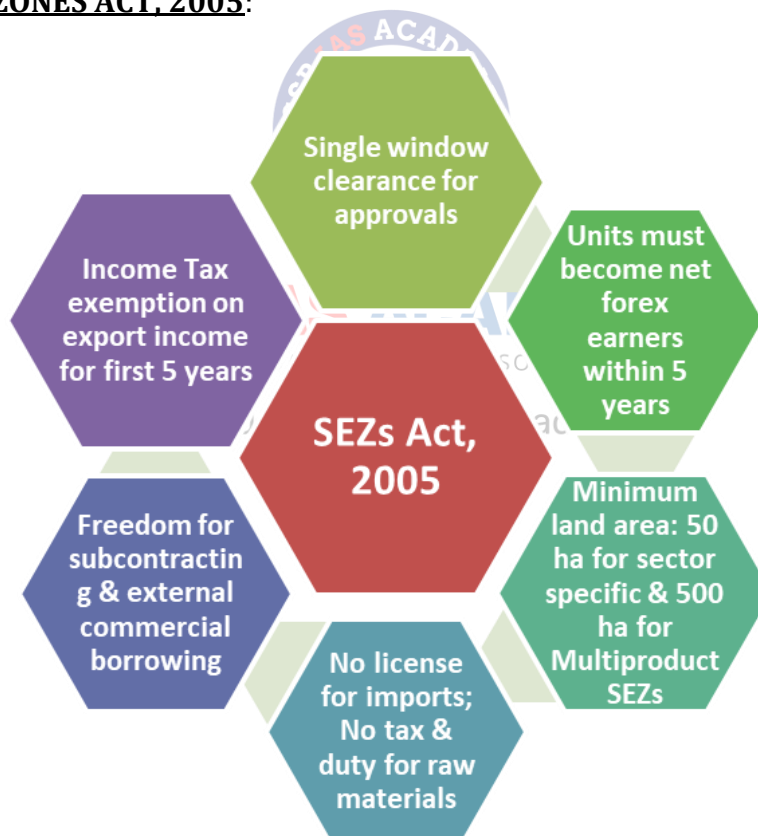
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NEED OF SEZs:



SPECIAL ECONOMIC ZONES ACT, 2005:



- The SEZ Rules provide for:
 - Simplified procedures for development, operation and maintenance of SEZs and units within them.
 - Single window clearance for setting up of an SEZ and a unit in a SEZ

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- Simplified compliance procedures and documentation with an emphasis on self-certification
- The Act was amended in 2019 to pave way for trusts to set up units in SEZs.

The Government of India **has relaxed SEZ rules** to promote semiconductor and electronics manufacturing, with changes notified in 2025, by the Department of Commerce.

- Key amendments include **reducing the minimum land requirement** for such SEZs **from 50 to 10 hectares (Rule 5)**, **allowing domestic sales** after payment of duties **(Rule 18)**, and **permitting mortgaged or leased land** to be used if held by government agencies (Rule 7).
- These changes aim to **attract investment in capital-intensive, high-tech sectors with long gestation periods**.
- Following the policy shift, the Board of Approval cleared **two major SEZ proposals**: Micron will invest ₹13,000 crore to set up a **semiconductor unit in Sanand, Gujarat**, while Aequs Group will invest ₹100 crore for **electronics manufacturing in Dharwad, Karnataka**.
- The government expects these reforms to boost **high-tech manufacturing, create skilled jobs, and advance India's goal of becoming self-reliant in critical technologies** under initiatives like Make in India and the India Semiconductor Mission.

Summary of SEZ Rule Changes

Rule	Previous Provision	Amendment	Sector Benefitted
Rule 5	50 ha minimum land	Reduced to 10 ha	Semiconductor, Electronics
Rule 18	Exports only	Domestic supply allowed with duties	Semiconductor, Electronics
Rule 7	Encumbrance-free land mandatory	Relaxed for Govt-mortgaged/leased land	All SEZs

POSITIVE IMPACTS OF SPECIAL ECONOMIC ZONES (SEZS) IN INDIA:

- **Economic Growth:**
 - SEZs have driven regional economic development by attracting major investments. **For example, the Jawaharlal Nehru Port SEZ (JNPT) in Maharashtra** has attracted companies like Reliance Industries and Bharat Petroleum, significantly contributing to the state's economic growth.
- **Employment Generation:**
 - SEZs have become hubs of job creation across multiple sectors. **The Sri City SEZ in Andhra Pradesh**, for instance, has generated thousands of jobs in manufacturing, automotive, and electronics, improving local livelihoods.
- **Global Market Integration:**
 - By attracting global institutions, SEZs help India integrate with international markets. **The GIFT City SEZ in Gandhinagar** has drawn financial institutions that align India with global financial practices and standards.

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- **Export Promotion:**
 - SEZs have strengthened India's export capabilities. **The Electronics City SEZ in Bangalore**, hosting firms like Infosys and Wipro, has played a crucial role in boosting IT and electronic product exports.
- **Technology Transfer and Skill Development:**
 - SEZs facilitate the inflow of advanced technologies and upskilling of the workforce. **The Mahindra World City SEZ near Chennai, housing BMW and Ford, has enabled both technology transfer and skill development among local workers.**
- **Infrastructure Development:**
 - SEZs often lead to improvements in regional infrastructure. **The Kandla SEZ in Gujarat, for example, has enhanced port and transport facilities, benefiting both SEZ units and surrounding areas.**
- **Balanced Regional Development:**
 - SEZs support industrial growth in less-developed regions. **The Manesar-Bawal Industrial Complex in Haryana** has catalyzed industrialization in a relatively underdeveloped area.
- **Boost to Small and Medium Enterprises (SMEs):**
 - SEZs offer SMEs access to larger markets and partnership opportunities. **The Adani Mundra SEZ in Gujarat** has helped nearby SMEs grow by linking them with larger companies within the zone.

ISSUES SURROUNDING INDIAN SEZs:

LAND RELATED:

- **Unutilized land:**
 - There is lack of flexibility to utilise land for different sectors within SEZs. Presently, **10 crore square feet of built-up space is idle** in over 250 SEZs. In money terms, at Rs. 3,000 per square foot, that is Rs.30,000 crore of built-up area idle.
- **Misuse of benefits:**
 - Developers have been misusing the SEZ policy by buying land in such zones and later denotifying these for gaining from the price appreciation. Also, there have been several instances of companies operating in these zones **misusing import tariff exemptions for tax evasion.**
- **Land acquisition:**
 - Land acquisition for SEZs in India has sparked controversies, often displacing local communities. For instance, in **Nandigram in 2007, a proposal to acquire 10,000 acres for a chemical industry SEZ led to massive protests and violent clashes**, affecting thousands of villagers and ultimately resulting in the project's cancellation.

INSTITUTIONAL:

- **Multiple models:**
 - In India, there exist multiple models of economic zones, resulting in multiplicity of legislations and regulators.

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- **Eg:** SEZ, coastal economic zone, Delhi-Mumbai Industrial Corridor, National Investment and Manufacturing Zone, food park and textile park.
- **Constrains in ensuring credit:**
 - The lack of infrastructure status for SEZs, **NPA crisis and the weakness of long-term lending institutions** in India have been major hinderances to securing credit for SEZs.
- **Legal hurdles:**
 - Judicial process in India is complex and long. Also, dispute resolution through arbitration is still in the nascent stage in India. This affects the ease of doing business in the country. For example, the **World Bank's Ease of Doing Business Report** has often highlighted the **length of time it takes to enforce contracts and resolve insolvency in India**.

POLITICAL:

- **Influence of vested interests:**
 - Site selection for SEZs has been guided by self-serving agendas rather than development. Local politicians often influence bureaucrats to secure land for personal or political gains. As such, sites for SEZs are selected based on real estate speculation rather than the economic potential of a region.
- **Lack of support from state government:**
 - Several state governments are lagging in promoting ease of doing business, through faster land acquisition, developing effective single-window system for clearances and resolving contracts.

FINANCIAL:

- **Restrictions on domestic trade:**
 - **SEZ products in local markets are treated as imports.** Also, SEZ units are not allowed to do "job work" for Domestic Tariff Area (DTA) units.
- **Unpredictable tax regime:**
 - There has been uncertainty regarding the tax regime in India. Taxes are changed without prior consultation with the industry.
 - Eg: While SEZs were first described as duty free enclaves, they were later brought under the purview of Minimum Alternative Tax (MAT).

OTHERS:

- **Dominance of service sector industries:**
 - About 70% of the country's SEZs cater to IT/ITES sector and only 9.6% cater to the multi product manufacturing sector. Hence, SEZs contribution to manufacturing sector remains low.
- **International competition:**
 - In the past few years, many countries like Vietnam and Thailand have tweaked their policies to attract investment into their SEZs. Eg: SEZs in Indonesia enjoy Income Tax exemption for 12 years. Consequently, Indian SEZs have lost some of their competitive advantages.
- **Environmental impacts:**
 - SEZs are often criticized for environmental impacts like pollution and depletion of natural resources due to rapid industrialization. For example, the **Mundra SEZ** in Gujarat has

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faced significant issues, **including mangrove destruction** and challenges in enforcing environmental regulations.

BABA KALYANI COMMITTEE:

Ministry of Commerce and Industry constituted a committee headed by Mr. Baba Kalyani in June 2018 to study the existing SEZ policy of India and prepare strategic policy measures for their development.

Some of its key recommendations were:

- **Rename SEZs as 3Es- Employment and Economic Enclave**, with the objective of moving from island of exports to catalyst of economic and employment growth.
- **Formulate separate rules and procedures for manufacturing and service SEZs.**
- **Infrastructure status** for SEZs to improve access to finance and enable long term borrowing.
- **Promote MSME participation in 3Es** and enable manufacturing enabling service players to locate in 3E.
- **Dispute resolution** through arbitration and commercial courts.
- Align the policy framework to **avoid competition among similar schemes** of industrial parks, export-oriented units, SEZ, national investment and manufacturing zones etc.
- Extend Sunset Clause and retain tax or duty benefits.
- Ease of doing business by simpler entry and exit processes.

Development of Enterprise and Service Hubs (DESH) Bill

- The Development of Enterprise and Service Hubs (DESH) Bill, **intended to replace the Special Economic Zones (SEZ) Act of 2005**, has seen significant developments but has not yet been passed.
- **Initially proposed in 2022**, the DESH Bill aims **to transform SEZs into more inclusive economic hubs, focusing not just on exports but also on serving the domestic market.**
- However, it **has not been enacted so far**. Its **passage has been delayed** mainly due to concerns over tax concessions, fiscal incentives, exemptions, and domestic tariff area access.
- At present, SEZs continue to be governed by the **SEZ Act, 2005 and SEZ Rules, 2006.**
- The government is presently pursuing **SEZ reforms through rule amendments and policy-level changes, rather than a complete replacement of the SEZ Act.**

WAY FORWARD:

- **Impact assessment:**
 - Government should undertake comprehensive social, environmental and economic impact studies before granting approval for SEZs.
- **Optimal utilisation of land:**
 - Allowing flexibility of land use and removing sector-specific constraints can help revive the SEZs.
 - There should be adequate compensation on land acquisitions and provisions for return the unutilized land back to farmers.
- **Rationalize SEZ models:**
 - A uniform model for economic enclaves should be established and overlapping laws must be removed.

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- **Predictable policy support:**
 - Taxation regime and incentives given to SEZs in India should be more predictable and in line with what is offered by competing countries in Asia.
- **Performance-measuring mechanisms:**
 - Performance review mechanisms should be put in place so that the promoters can be held accountable and prevent tax evasions.
- **Leverage SEZs for Strategic Sectors:**
 - Prioritize SEZ development in critical and emerging sectors like semiconductors, green hydrogen, EV components, and AI-based services to align with India's technological and industrial policy goals.
- **Facilitate SEZ–DTA Integration:**
 - Develop a simplified and transparent mechanism for SEZ units to supply goods and services to the domestic market, especially in sectors where India aims for import substitution.
- **Digitize SEZ Operations:**
 - Implement a unified digital platform for all SEZ operations, including clearances, compliance, and performance tracking, to improve efficiency and reduce bureaucratic delays.
- **Green SEZs:**
 - Promote environment-friendly SEZs with mandatory green building norms, renewable energy use, and zero-waste policies to make industrial growth more sustainable.
- **Focus on Skill Linkages:**
 - Establish skilling and apprenticeship centers within or near SEZs in partnership with companies and Skill India Mission to build a trained workforce pipeline aligned with SEZ needs.
- **Strengthen Data Transparency:**
 - Make SEZ performance data—on exports, employment, and sectoral spread—publicly available through a real-time dashboard to ensure accountability and informed policymaking.
- **Create SEZ Social Impact Zones:**
 - Mandate SEZ developers to invest in surrounding communities via CSR-linked models—schools, health centres, housing—for inclusive regional development.
- **Global Investment Facilitation Cell:**
 - Set up a dedicated cell within SEZs to facilitate global investor entry, legal support, and fast-track clearances in priority sector

CASE STUDY: Shenzhen SEZ, China

- Once a small, ancient village, the modern city of Shenzhen has evolved into a state-of-the-art tech and financial global epicenter. **In 1980, the Chinese govt designated the town as one of four SEZs.** It received special tax benefits and

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preferential treatment for foreign investment. Shenzhen grew exponentially and its GDP per capita grew 24,569% from 1978 to 2014. Its success is attributed to factors such as the geographical proximity to ports, strong domestic market, large size, decentralized management and investor friendly policies.

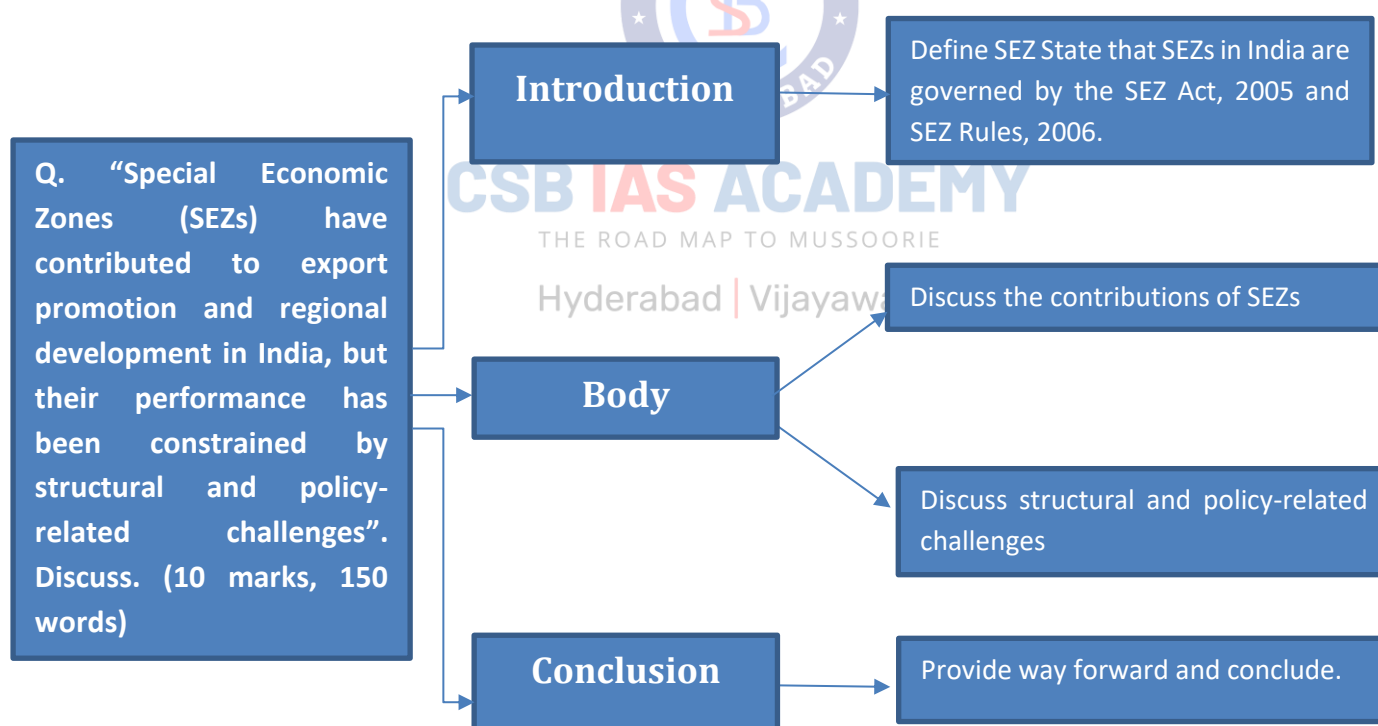
CONCLUSION:

- SEZs remain important instruments for **promoting exports, investment, employment and infrastructure-led industrialisation**. However, their future success will depend on moving beyond the traditional export-enclave model towards integrated, sustainable and innovation-driven economic hubs. The recent Puducherry SEZ notifications, especially **India's first municipality-led SEZ**, show that SEZs can **become tools of decentralised regional development** if supported by predictable policy, better land use, domestic market linkages and green industrial planning.

PRACTICE QUESTION:

Q. "Special Economic Zones (SEZs) have contributed to export promotion and regional development in India, but their performance has been constrained by structural and policy-related challenges". Discuss. (10 marks, 150 words)

APPROACH:



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MODEL ANSWER:

A **Special Economic Zone (SEZ)** is a designated **duty-free enclave**, treated as foreign territory for trade operations, duties and tariffs. In India, SEZs are governed by the **Special Economic Zones Act, 2005** and **SEZ Rules, 2006**, which provide single-window clearance, simplified compliance and self-certification.

Contributions of SEZs:

- 1. Export promotion:** SEZs have strengthened India's export base, especially in services. IT/ITES SEZs such as Electronics City have contributed to software and electronics exports.
- 2. Employment generation:** SEZs create direct and indirect jobs. Sri City SEZ in Andhra Pradesh has generated employment in manufacturing, automotive and electronics sectors.
- 3. Regional development:** SEZs promote industrialisation beyond traditional metros. The recent Puducherry SEZs, including India's first municipality-led SEZ by Oulgaret Municipality, indicate their potential for decentralised development.
- 4. Investment and infrastructure:** SEZs attract domestic and foreign investment and improve supporting infrastructure such as roads, ports, logistics and industrial facilities.
- 5. Technology and skill transfer:** SEZs hosting global firms support technology transfer and skill development, as seen in Mahindra World City near Chennai.

Structural and Policy-related Challenges

- 1. Land-related inefficiency:** Large built-up spaces remain idle due to rigid sector-specific rules and poor land-use flexibility.
- 2. Land acquisition concerns:** SEZs have faced social resistance where land acquisition displaced local communities, as seen in the Nandigram controversy.
- 3. Weak manufacturing base:** A large share of SEZs cater to IT/ITES, while multi-product manufacturing SEZs remain limited, reducing their impact on manufacturing-led growth.
- 4. Policy uncertainty:** Frequent changes in taxation, such as the later application of Minimum Alternate Tax, weakened investor confidence.
- 5. Domestic market restrictions:** SEZ sales to Domestic Tariff Area are treated as imports, limiting integration with India's domestic economy.
- 6. Institutional overlap:** Multiple models such as SEZs, food parks, textile parks, industrial corridors and NIMZs create regulatory fragmentation.

Way Forward

- Ensure predictable tax and incentive policy.

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- Allow flexible and optimal land use.
- Improve SEZ-DTA integration for domestic market linkages.
- Promote manufacturing and strategic-sector SEZs in semiconductors, EVs and green hydrogen.
- Provide infrastructure status to SEZs for easier long-term finance.
- Develop green SEZs with renewable energy and zero-waste norms.
- Strengthen social and environmental impact assessment before approvals.
- Create real-time dashboards for exports, employment and land utilisation.

Case Study: Shenzhen, China

Shenzhen SEZ succeeded due to large scale, port proximity, strong domestic market linkages, decentralised management and investor-friendly policies. Its transformation from a small settlement into a global technology and financial hub shows how SEZs can drive structural economic change.

SEZs remain vital for exports, investment, employment and infrastructure-led industrialisation. However, India must move beyond isolated export enclaves towards integrated, sustainable and innovation-driven economic hubs.



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