

## SPECIAL ECONOMIC ZONE FPR SEMICONDUCTOR: ECONOMY

**NEWS:** Why have special economic zones rules been relaxed? | Explained

### WHAT'S IN THE NEWS?

The Indian government has relaxed SEZ rules to boost domestic semiconductor manufacturing, enabling SEZ units to sell more freely in the domestic market. This complements the ₹76,000 crore Semicon India Programme aimed at building a resilient, self-reliant semiconductor ecosystem and reducing reliance on imports.

#### Context

The Government of India has recently relaxed rules governing Special Economic Zones (SEZs) to attract greater investment in semiconductor and electronics manufacturing. This move complements the existing Semicon India Programme launched in 2022, which aims to build a resilient domestic chip-making ecosystem with a ₹76,000 crore financial outlay.

#### Semiconductors: Strategic Importance

- **Definition:** Semiconductors are materials that have conductivity between conductors and insulators. They are the foundational materials used to build electronic chips or integrated circuits (ICs).
- **Applications:** Semiconductors power virtually all modern technologies – mobile phones, computers, AI processors, defence equipment, satellites, electric vehicles, and industrial automation.
- **Strategic Resource:** The COVID-19 pandemic exposed vulnerabilities in global semiconductor supply chains, as countries like China dominate production (~35% global chip output in 2021).
- **National Security Link:** Semiconductor disruptions can jeopardize defence preparedness, critical infrastructure functioning, and digital sovereignty. Hence, chip-making is now considered a national strategic asset.

#### SEZ Rule Relaxation: Key Highlights

- **Previous Restriction:** SEZ units had to export at least 51% of their total output. Sales to the domestic tariff area (DTA) were discouraged with high taxes and cumbersome processes.
- **New Relaxation:** The government has now eased the DTA norms, allowing SEZ-based manufacturers (especially semiconductors and electronics) to sell more freely in India's domestic market without being penalized.
- **Implications:**
  - Attracts global and domestic semiconductor manufacturers to set up in Indian SEZs.
  - Encourages investments by reducing risk linked to limited export demand.
  - Aligns SEZ policy with the growing domestic consumption of electronics in India.

## Semicon India Programme (2022)

- **Launched by:** Ministry of Electronics and Information Technology (MeitY)
- **Budget:** ₹76,000 crore (US\$ 10 billion approx.)
- **Key Components:**
  - **Design Linked Incentive (DLI) Scheme:** Promotes innovation and chip design capabilities.
  - **Modified Programme for Semiconductors and Display Fab Ecosystem:** Provides capital support to semiconductor and display fabs.
  - **Incentives for Compound Semiconductors, ATMP/OSAT Units:** Aims to boost packaging and testing infrastructure.
- **Objective:** To create a comprehensive and self-reliant semiconductor ecosystem covering chip design, manufacturing, packaging (ATMP – Assembly, Testing, Marking, and Packaging), and research.

## Global Context

- **U.S. – CHIPS and Science Act:** Aims to bring back chip manufacturing to the U.S. with large subsidies and R&D funding.
- **European Chips Act:** Targets semiconductor independence in the EU.
- **Common Objective:** To reduce dependency on Taiwan and China, which dominate global chip manufacturing.

## Special Economic Zones (SEZs): Key Features

- **Definition:** SEZs are special zones designated within a country where businesses enjoy simplified regulatory, tax, and customs frameworks to promote export-led growth.
- **Primary Objective:** Boost exports, generate employment, attract foreign and domestic investments, and develop world-class infrastructure.

## Evolution of SEZs in India

- **1965:** Asia's first Export Processing Zone (EPZ) established at Kandla, Gujarat.
- **2000:** SEZ concept included in Foreign Trade Policy.
- **2005:** SEZ Act enacted by the Parliament.
- **2006:** SEZ Act and Rules notified.
- **Inspired by:** China's SEZ model which led to rapid industrialisation and exports.

## SEZ Governance Structure

- **Board of Approval (BoA):** Apex authority chaired by Secretary, Department of Commerce.

- **Development Commissioners:** Oversee and administer individual SEZs.

### **Current Status of SEZs in India**

- **379** SEZs notified; **265** operational as of now.
- **Geographical Distribution:** Around 64% of operational SEZs are concentrated in:
  - Tamil Nadu
  - Telangana
  - Karnataka
  - Andhra Pradesh
  - Maharashtra

### **Objectives of the SEZ Act**

- Enhance India's export competitiveness.
- Promote investment in infrastructure, technology, and R&D.
- Create large-scale employment opportunities.
- Encourage inclusive industrial development.

### **Major Incentives under SEZs**

- Duty-free import and procurement of goods for development and operations.
- Tax exemptions:
  - Income Tax holidays for a certain number of years.
  - Relaxation from Minimum Alternate Tax (MAT) in specific cases.
- External Commercial Borrowings (ECBs) up to \$500 million per year allowed freely.
- **Single-window clearance** for regulatory approvals at both state and central levels.

### **Reform Initiatives and Policy Reorientation**

- **Baba Kalyani Committee (2018):**
  - Recommended WTO-compatible SEZ reforms.
  - Suggested aligning SEZ incentives with employment generation and global value chains.
  - Emphasised infrastructure consolidation, enhanced services exports, and linkages with domestic economy.

**Source:** <https://www.thehindu.com/business/Industry/why-have-special-economic-zones-rules-been-relaxed-explained/article69698704.ece>