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Union Budget 2026–27: Strengthening SEZs for Global Competitiveness & Growth

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Key Takeaways

- **The Union Budget 2026-27 proposed a special one-time measure to facilitate sale in domestic tariff area at concessional rate of duty by eligible manufacturing units of Special Economic Zones (SEZs).** The quantity of such sales will be limited to a prescribed proportion of their exports.
- There are **368 notified SEZs** in India, as of 28th February, 2026.
- Exports from the operational **SEZs totaled over 11.70 lakh crores in 2025-26 (till December, 2025)**, a 32.02% increase from the corresponding period in 2024-25.

Special Economic Zones: Pillars of India's Trade & Investment Ecosystem

SEZ 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.

Special Economic Zones (SEZs) are designated areas within a country that operate under a distinct regulatory and fiscal framework to promote trade and investment. 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**.

In India, SEZs have played a transformative role in strengthening the economic landscape. Since the enactment of the **SEZ Act in May 2005**, these zones have significantly accelerated export growth while fostering industrial expansion across sectors. Beyond earning foreign exchange and building infrastructure, SEZs have contributed to the holistic development of local economies through direct and indirect employment generation, the emergence of new business ecosystems, and improved socio-economic outcomes.

Currently, there are 368 notified SEZs across India as of 28th February, 2026. By offering fiscal incentives, streamlined regulatory processes, and modern infrastructure, **SEZs have enhanced India's global competitiveness**. They have facilitated the growth of specialized industrial clusters, encouraged innovation and technological advancement, and positioned India as an attractive and reliable investment destination in the global market.



Union Budget 2026–27 Focus on SEZ [6]

Recognizing exports as a key driver of employment generation, industrial advancement, foreign exchange earnings, and integration into global value chains, the Budget has announced a comprehensive set of measures, including targeted reforms for SEZs affected by global trade disruptions.



Targeted Relief Proposed for SEZ Manufacturing Units

One-Time Concessional Domestic Tariff Area Sales

Expected Impact



**Improved
capacity utilization**



**Accomplished
economies of scale**



**Reduced
export costs**



**Elevated global
investor confidence**



**Influx of global
manufacturers and
technology firms**

Source: Ministry of Finance

One-Time Concessional DTA Sales: A Strategic Boost to SEZ Manufacturing Units

Domestic Tariff Area (DTA) 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. Moreover, as per Section 2(m) of SEZ Act, 2005, supplies from DTA to SEZ are treated as exports to SEZ and are eligible for applicable export benefits.

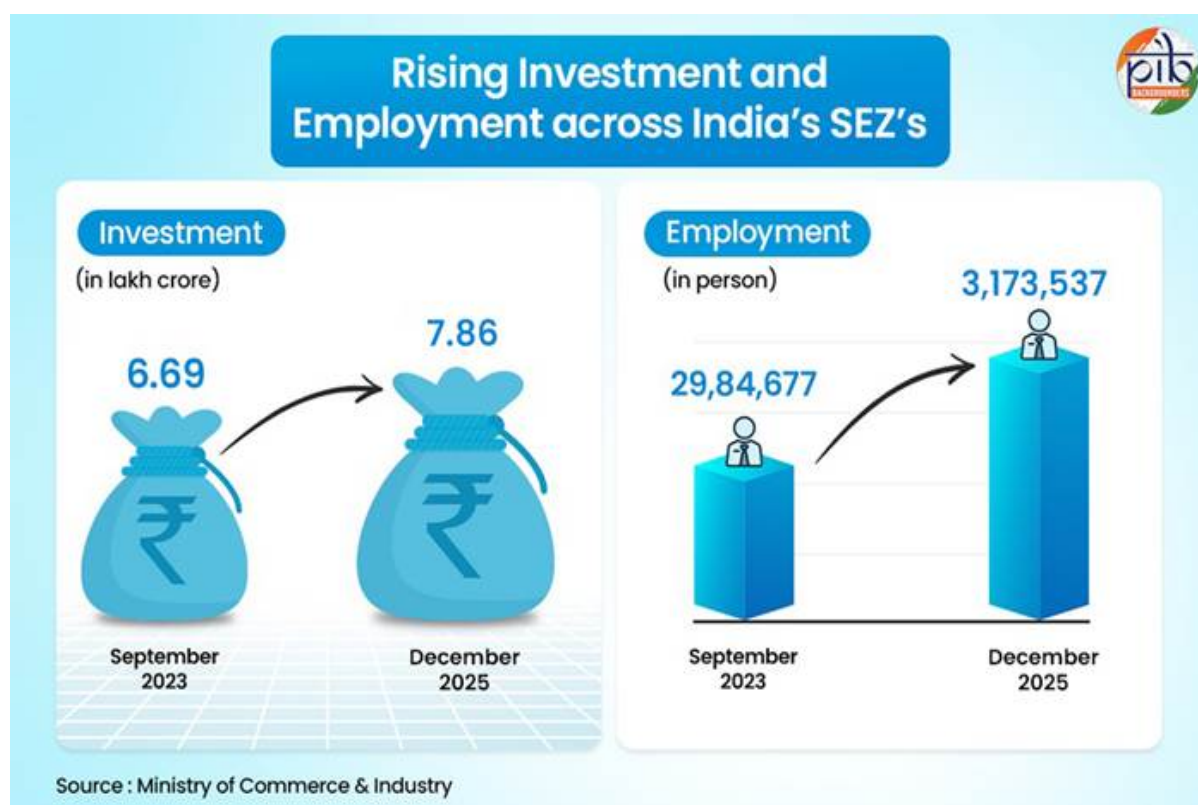
As a **special one-time measure**, it has been proposed that eligible SEZ manufacturing units will be **permitted to sell a prescribed proportion of their output in the Domestic Tariff Area (DTA) at concessional duty rates instead of standard customs duties**. The quantity of such sales will be limited 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.

These reforms are aimed at **improving capacity utilisation and achieving economies of scale** without diluting the export-oriented character of SEZs, **reduce export costs, and enhance the overall resilience of the SEZ ecosystem** and boost global investor confidence. Additionally, the extension of tax incentives for cloud and data-centre operations within SEZs is poised to **attract global manufacturers and technology firms**, further strengthening India's investment ecosystem.

India's SEZ Performance Snapshot

India's SEZs continue to demonstrate strong performance as key drivers of exports, investment, and employment generation.

- Employment has been on rise, with **SEZs employing over 31.73 lakh people** as of December 2025.
- Total **investment amounted to ₹ 7.86 lakh crores** (as of December 2025).
- **Exports** from the operational SEZs totaled over 11.70 lakh crores in 2025-26 (till December, 2025), a 32.02% increase from the corresponding period in 2024-25.



Evolution & Policy Framework of SEZs in India

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**. However, challenges such as multiple regulatory controls, procedural delays, inadequate infrastructure, and an unstable fiscal regime limited its effectiveness. To address these shortcomings and attract greater foreign investment, the **Government announced the SEZ Policy in April 2000**.

The SEZ policy aimed to transform these zones 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. **SEZs operated under the provisions of the Foreign Trade Policy from November 2000 to February 2006**, with fiscal incentives implemented through relevant statutory provisions. To build investor confidence and demonstrate the Government's commitment to a stable SEZ policy framework, **The SEZ Act, 2005 and SEZ Rules, 2006 were brought into force**.

SEZ Act, 2005 and SEZ Rules, 2006

The Special Economic Zones Act, 2005 came into effect in 2005. Following extensive consultations, the Act, along with the SEZ Rules, 2006, came into force on 10 February 2006. This ushered a simplified regulatory framework with single-window clearances for matters relating to both Central and State Governments.

The Act lays down clear **guiding principles for SEZs- generation of economic activity, infrastructure development, and employment creation**. It also incorporates specific provisions and guidelines to ensure environmental compliance by all SEZ developers and units.

The performance and impact of SEZs are regularly monitored under the framework of the SEZ Act and Rules, with the Government evaluating outcomes based on monthly reports submitted by Development Commissioners, who are appointed by the Government to oversee the functioning, approval, and compliance of SEZ units. Further strengthening the policy framework, the SEZ Rules, 2006 were amended in June 2025 to facilitate the establishment of SEZs exclusively for the manufacturing of semiconductors and electronic components.

SEZ for Manufacturing of Semiconductors & Electronic Components

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.

Semiconductors & Electronic Component sectors are capital-intensive in nature and often witness longer gestation periods before achieving profitability. To this accord, **necessary amendments** of setting up SEZs exclusively for manufacturing of semiconductors and electronics components have been introduced **to encourage pioneering investments and strengthen policy support**.

The amendments of the SEZ Rules have been made with respect to **minimum land requirement** to set up an SEZ exclusively for manufacturing of semiconductors and electronics components, **relaxation in encumbrance norms** allowing area mortgaged or leased to Government entity to be eligible for establishment of an SEZ, to **enable DTA supply of semiconductor products** and **inclusion of value of goods received free of cost in Net Foreign Exchange (NFE) calculations**, respectively.

Collectively, these measures aim to generate high-skilled employment, expand domestic manufacturing capacity in critical high-technology sectors, and reduce India's dependence on semiconductor and electronic component imports.

Key SEZ Incentives & Facilities to Attract Domestic & Foreign Investment

SEZs offer a competitive and investor-friendly policy framework designed to promote exports, attract domestic and foreign investment, and enhance ease of doing business. Through a combination of fiscal incentives, tax benefits, and streamlined regulatory approvals, SEZs provide a conducive environment for businesses to scale operations efficiently while maintaining global competitiveness.

The incentives and facilities offered to the units in SEZs for attracting investments include-

- **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.** These have now subsumed into GST and 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.

SEZs: Gateways to India's Next Wave of Growth

Over the decades, SEZs in India have evolved into powerful gateways to one of the world's fastest-growing and opportunity-rich economies. **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.**

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.

As India sharpens its focus on exports, advanced manufacturing, and financial leadership, the SEZ framework stands out as a strategic pillar- poised to drive the next wave of investment and reinforce the country's global economic stature.

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