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Special Economic Zones: Powering India's Industrial and Export Boom

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India's Special Economic Zones (SEZs) are special areas within the country where businesses enjoy relaxed rules, duty-free imports, tax breaks and easier regulations. These zones aim to attract investment, boost exports, improve infrastructure and create jobs, helping to drive economic growth. The concept started with India's first Export Promotion Zone in Gujarat in 1965 and over the years, more zones were set up in Mumbai, Cochin, Chennai and Kandla. In 2000, the government introduced the SEZ policy to address challenges faced by businesses, such as complicated approvals and poor infrastructure. This led to the passing of the SEZ Act in 2005, which officially defined SEZs as areas created to promote exports through streamlined rules. Today, SEZs continue to play a vital role in India's industrial and export development, with thousands of operational units across the country.

Types of Special Economic Zones

Special Economic Zones come in different types, each designed to serve specific business needs and promote economic growth.

Free-Trade Zones (FTZ)	Less customs duty, easier handling of goods.
Export Processing Zones (EPZ)	Focus on export-oriented manufacturing.
Free Zones/ Free Economic Zones (FZ/FEZ)	Tax benefits to attract foreign investors.
Industrial Parks/ Industrial Estates (IE)	Designed for manufacturing with ready infrastructure.
Bonded Logistics Parks	Goods stored or processed without immediate customs duties.
Urban Enterprise Zones	Urban areas encouraging growth and jobs, especially in poorer regions

Objectives of the SEZ Policy

The SEZ Act aims to boost India's exports, attract both foreign and domestic investment and create large-scale jobs. Its main objectives are to create additional economic activity and promote the export of goods and services, thereby strengthening India's position in global trade. It also focuses on developing modern infrastructure like transport and power facilities to support long-term growth.

Facilities and Incentives

The government provides many benefits to SEZ businesses, such as duty-free imports, tax exemptions and easy profit return. International investment funds is encouraged, with up to

100% FDI allowed in many sectors. The SEZ approval process is made easy through single-window license and many SEZs provide ready-to-use spaces to start operations quickly. Developers get tax breaks for years and states often offer land at lower costs. This makes SEZs attractive for business expansion.

Key Features of SEZ Rules

The SEZ Rules were made to make starting and running businesses easier and quicker. They simplify procedures for developing and managing SEZs and for setting up business units inside them. To avoid delays, a single-window clearance system is used for approvals from both central and state governments. The rules also cut down on paperwork, promote self-certification and offer flexible land requirements with different minimum sizes for various SEZ types. Overall, these measures aim to create a friendly environment for businesses and attract more investment.

SEZ Approval Mechanism

Setting up an SEZ involves a simple, single-window approval process managed by a SEZ Board of Approval (BoA). Developers submit proposals to the state or directly to the board, which reviews and approves them within 45 days. The Board, chaired by the Secretary of the Department of Commerce, examines each proposal on its merits and takes decisions through agreement. Once approved, businesses can start operations.

Challenges

While SEZs offer many benefits, they also face problems. Existing companies might move operations only for tax benefits, not new growth. Many SEZs are built on farmland, raising concerns about food security and loss of government revenue. They also demand large water supplies, harming agriculture and the environment. Pollution and habitat destruction, like the loss of mangroves, damaged local communities. It is important to promote SEZs in a way that supports economic growth without harming agriculture or the environment.

Why India's SEZ policy is Struggling

Despite high hopes, India's SEZs haven't fully succeeded. One reason is that exporters outside SEZs now get similar or better incentives through other policies, making SEZ benefits less attractive. Many companies shifted existing units into SEZs just for tax breaks, not new jobs. Challenges like land acquisition delays, infrastructure issues, policy overlaps and competition from other countries have hampered growth. Additionally, free trade agreements and strict rules have reduced SEZ benefits, limiting their potential. The focus on IT and services, while neglecting manufacturing, along with poor infrastructure and ineffective approval systems, has further limited success. Overall, policy overlaps, weak implementation and structural issues have kept SEZs from becoming the growth engines they were meant to be.

Future Prospects of SEZs

SEZs are now evolving with reforms like the upcoming Development of Enterprise and Service Hubs (DESH) Bill, which is set to replace the SEZ Act of 2005, which will make rules more flexible and promote sustainability. Focus areas include technology, manufacturing and green infrastructure. Special efforts are also underway to develop underdeveloped regions. Agro-food SEZs are using new tech to boost exports, making SEZs more inclusive and environmentally friendly.

SWOT analysis of SEZ

- **Strengths:** Boost exports, skilled workforce, international funding and cost-effective manpower
- **Weaknesses:** Poor infrastructure, policy risks, currency restrictions and long profitability timelines.
- **Opportunities:** Better ports and airports connectivity, regional growth, expand exports and new industries.

- **Threats:** Rising labor costs, tax incentives may cause revenue loss, global trade challenges.

Conclusion

While challenges remain, Special Economic Zones have played an important role in supporting India's industrial growth and boosting exports by offering a business-friendly environment. They helped attract investment, improve infrastructure and generate employment, especially in export-oriented sectors. However, challenges like policy issues, land concerns and reduced incentives have limited their full potential. With upcoming reforms and a renewed focus on manufacturing, technology and sustainability, SEZs can regain momentum. If strengthened effectively, SEZs can continue to power India's industrial and export boom in the years ahead.

References

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