



CPEC: FAST TRACKING WORK ON SEZS

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With energy and infrastructure projects nearing completion, the China-Pakistan Economic Corridor (CPEC) has now entered into the second phase where industrial development would take place through development of the Special Economic Zones (SEZs), opening a new era of trade and industrialization in Pakistan

In this regard, from October 11-18, 2017, Chinese experts and investors were in Pakistan to explore new trade avenues and investment opportunities in SEZs in all four provinces, the federal capital and special regions of the country.¹ The delegation of Chinese experts held workshops and meetings in Karachi, Lahore, Faisalabad and Islamabad organized by the Board of Investment (BoI). Later on, the delegation visited the industrial zones which are under construction in Punjab, Sindh, Rawalpindi, Gilgit-Baltistan and Gwadar Port Industry Zone in Baluchistan.

During the meeting of Expert Group of Industry, Chinese experts reviewed the implementation process of the SEZs that were at the centre of a long-term CPEC framework and were considered critical for Pakistan's industrialization. China urged Pakistan to fast track work on the nine prioritised SEZs in order to achieve full benefits from the second phase of CPEC.

The comprehensive discussion between both sides mainly focused on:

- An incentive package for relocation of Chinese industry.

¹ "Chinese experts to share experience of industrial development, management in CPEC projects", *Business Recorder*, October 18, 2017 <http://www.boi.gov.pk/ViewNews.aspx?NID=%201777>

- Opportunities available with export promotion zones.
- Identification of industries to be set up in SEZs.
- Terms of engagement for establishing the SEZs.
- Human resources development through technical education.²

Besides, both sides agreed to treat equally all investors who will pour capital into the planned nine SEZs, which will address concerns of the local business community about preferential treatment of the Chinese.³ They emphasized that SEZs are open for all foreign Chinese developers, and enterprises could enter into joint ventures with local developers and investors to ensure successful cooperation. This is a major development as it ensures that the industrial development under CPEC would not harm local industries and would rather augment their industrial capacity through state-of-the-art technology and expertise, enabling higher productivity to meet the high global standards.

The planned nine SEZs with incentives for investors and developers are planned to be operational by 2025, so it is important that Pakistan moves fast in providing the necessary arrangements, as offered under the SEZ package, for the investors and developers at the zones. According to officials, the provinces have been asked to complete feasibility studies in a month so that the plan could be placed for approval before the seventh CPEC Joint Cooperation Committee (JCC), scheduled to meet by the end of November 2017. Thus, Pakistan needs to complete the work on SEZs on a fast track in order to get the maximum benefit from the second phase of CPEC.

The SEZ package offers over half a dozen more incentives to the investors that will invest in CPEC zones. It proposes to cover 50 percent of the mark-up cost of loans that the investors will take. Moreover, it offers investors income tax holidays and relief from customs duty on the import of equipment and machinery. Developers will be allowed purchase of gas, electricity and other utilities in bulk and supply of these to enterprises at rates approved by the SEZ authority.⁴

It is pertinent to note that, SEZs and industrial clusters are two important drivers of China's remarkable economic development. Since the institution of market reforms and Open Door policy in

² "Chinese experts visits Pakistan for exploring opportunities in SEZs", *All Pakistan Press (APP)*, October 15, 2017
<https://profit.pakistantoday.com.pk/2017/10/15/chinese-experts-visits-pakistan-for-exploring-opportunities-in-sezs/>

³ "Pakistan and China to treat all investors equally", *Express Tribune (Islamabad)*, October 19, 2017
<https://tribune.com.pk/story/1534016/pakistan-china-treat-investors-equally/>

⁴ Special Economic Zones (Amended) Act, 2015, Board of Investment, Pakistan
<http://boi.gov.pk/UploadedDocs/Downloads/GazetteNotificationSEZAct.pdf>

1978, China's GDP has been growing at an average annual rate of more than 9 percent.⁵ Together, they have contributed significantly to national GDP, employment, exports and foreign investment. The SEZs have also played roles in bringing new technology to China and in adopting modern management practices. Above all, the SEZs have successfully tested the market reforms in China and become role models for the rest of the world to follow.

For Pakistan, CPEC provides an opportunity to learn from China's experience with SEZs which have served as a catalyst for enhancing economic development through export-oriented industrialization in China. The proposed SEZs under CPEC have the potential to attract FDI in the country, enhance the industry competitiveness and create jobs for the millions of skilled and unskilled laborers in the country.

⁵ Douglas Zhihua Zeng, *Building Engines for Growth and Competitiveness in China: Experience with Special Economic zones and Industrial Clusters*, (World Bank Publications, 2010).