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Issue Brief

Towards Import Substitution: Manufacturing of Consumer items in Special Economic Zones under CPEC

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As activities under China Pakistan Economic Corridor (CPEC) are steadily gathering pace, more goods, both capital and consumer, are being imported from China. It is expected that there will be a sharp rise in the import bills due to the rise in demand for these goods. The government is trying to reduce import of non-essentials items through various plans so that import of machinery and technology (capital goods) can be continued which are considered important for the success of this mega project.

Recently, the Board of Investment (BOI) has devised a comprehensive plan to attract investments in manufacturing consumer goods in the Special Economic Zones (SEZs), to be set up under CPEC. According to the Board, consumer items, most of which are imported from China, stand first in line to be encouraged at the SEZs.[1] The Board officials have started consultations with the respective provinces and other stakeholders in drafting import substitution incentive packages for industries to be set up in these SEZs, which, according to them, will be equally applicable to the local investors.

The aim is to reduce import of those consumer goods which can be manufactured locally with the help of available technology. These items include electronic appliances, personal care, plastic toys, stationary, home appliances and other household items. This shows that import substitution has come on the policy map again.

Also known as Import Substitution Industrialization (ISI), it is a trade and economic policy which advocates replacing foreign imports with domestic production.[2] It is based on the premise that a country should attempt to reduce its foreign dependency through the local production of industrialized products.

Pakistan pursued import substitution policy in the 1950s and 60s as the country started with a weak industrial base. In order to increase exports and encourage local firms, the government intervened via tariff controls, quotas, depreciation and interest rate. Through such measures, imports were strictly controlled. Later, in the 1970s, Pakistan pursued export promotion schemes.[3] After the birth of World Trade Organization (WTO) and with growing global business to business linkages, pursuing such policies

[1] Import Substitution, Dawn, March 13, 2017
[2] https://en.wikipedia.org/wiki/Import_substitution_industrialization
[3] Issues in Pakistan Economy, by Akber Zaidi

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have become difficult as member countries are obliged to reduce tariff rates for getting access to the global market.

Today, in the wake of CPEC, Pakistan has the domestic advantage to incentivise the production of consumer goods locally so that imports of all such goods can be reduced. This will help in easing out pressure on the trade deficit and improve balance of payment as bulk of consumer goods are imported from China. In 2015-16, Pakistan imported US$12.099 bn worth of goods from China, out of which consumer items accounted for US$ 1.794 bn.[4] The value of imports from China shows that there is a huge scope for import substitution as most of consumer goods listed above require simple technology. Local firms can easily acquire the required technology under the package of SEZs and start producing them locally.

Under the SEZ Act 2012, the government can offer an income tax holiday for 10 years along with duty exemption on machinery imports.[5]

With more projects under CPEC entering in their operational stage, it is inevitable for the government and concerned departments to devise effective plans to reap maximum benefit out of them. It is equally important to address the issues pertaining to future debt obligations and safeguarding the interests of local firms. Such timely steps will help in resolving apprehensions of the local business community and will ensure that the government is committed in making the project inclusive and sustainable in the long run.

4 Economic Survey of Pakistan, 2015/16
5 Board of Investment/Special Economic Zones

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