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Report- In-House Meeting
with
**“6-Member Delegation from
China Special Economic Zone Think Tank”**
June 8, 2017



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Pictures of the Event



The Institute of Strategic Studies Islamabad (ISSI) hosted a delegation from China Special Economic Zone Think Tank on June 8, 2017. The delegation was led by Mr. Wu Sikang, Director, Development Research Centre of Shenzhen Municipal People's Government, Guangdong Province. Other members of the delegation included: Mr. Wang Chao, Researcher & Deputy Director General, Human Resources & Social Security Administration, Pingshan District Government, Shenzhen; Mr. Huang Hucheng, Deputy Chief of General Affairs Division; Ms. Xia Yanna, Chairman Huazhi, Shenzhen Ltd.; Ms. Zhang Weiju, Chairman of ADTECH (Shenzhen) Technology Co. Ltd.; and Ms. Yang Ya, Chairman of Lian Suo (Shenzhen) Education Investment Management Ltd.

The delegation expressed its interest in discussing vocational education, development of innovation industry, and how to help Pakistan foster intelligent manufacturing talent.

Welcoming the delegation, Ambassador Khalid Mahmood, Chairman ISSI said that China has a very successful experience in the establishment of Special Economic Zones (SEZs) domestically. The first four economic zones in early 1980s were very successful. Now the number of SEZs in China, of different kinds, exceed 1750. He said that Shenzhen started developing a Special Economic Zone in 1991. Recently, a delegation from ISSI visited Shenzhen again, and we were impressed by the phenomenal progress in terms of industry, import-export and technology. We also learnt that there are certain prerequisites for having a successful economic zone. A basic prerequisite is to attract domestic and foreign sources of investment. For that, one needs to give incentives such as tax exemption, as well as provision of basic utilities like gas, means of communication, banking system and water, which, in other words, means building a friendly environment based on transparency. And, of course, security comes on top of it all.

On the other hand, one needs to appreciate that the host country also expects something in return. There can be one-country ventures, but there must also be joint ventures between the host country and the foreign country/countries. There must be a level-playing field for both domestic and foreign investors. There should be local employment generation and capacity-building. This was the essence of our visit to China. Pakistan did try and establish SEZs in the past, but we were not very successful. There were many reasons that can be accounted for that, but we are looking towards the establishment of present China-Pakistan SEZs now. As you know, nine SEZs are going to be established under China-Pakistan Economic Corridor (CPEC). Eventually, a total of 27 such zones are to be established. We are very much interested in learning from your experience of SEZs and adapting to the changes along the way.

Mr. Wu Sikang thanked the Institute for hosting the delegation. He said that as a research personnel, the biggest policy should be research development. Quoting the example of the SEZs in Shenzhen, he emphasised that development was our key policy, which continued for forty years. Sharing his experience in the development of Shenzhen, he said that the city had begun with a population of only 30,000, but now it has reached 20 million. We have an economic volume of \$300 billion, that's the GDP of 2016. Our volume of import-export is \$4.5 billion. The size is in third position in the world. This is the general description of our economic volume.

He said that establishment of SEZs does not necessarily mean its success. It is the same situation in China. We established four different SEZs, but the progress in each is very different. The

success of Shenzhen is based on its proximity with Hong Kong. Similarly, the possible success of SEZs in Pakistan would rely on adjacent cities.

We really want to promote economic integration between Pakistan and Shenzhen. And we hope to bring investment and technology in this country. Introducing the members of his delegation from diverse backgrounds and enterprises, he said that our aim is to promote city-to-city and enterprise-to-enterprise cooperation. A very important conference is going to hold in November and December 2017, and we look forward to receive our Pakistani friends there.

Ambassador Khalid Mahmood said that we are encouraged by your interest in establishing a Shenzhen-Islamabad relationship. This will be a very good beginning. He said that the ISSI has now set up a China-Pakistan Study Centre (CPSC), which, besides carrying out policy research, will also work to promote such linkages.

Muhammad Faisal, Research Fellow at CPSC, gave a detailed presentation on Special Economic Zones and Vocational Training under CPEC. He said that industrial development is the engine for long-term growth of an economy. Special Economic Zones are a critical part of industrial development planning to improve economic growth. Special Economic Zone is a trade capacity development region with the goal to promote rapid economic growth by using tax and business incentives to attract foreign investment and technology. Today, there are approximately 3,000 SEZs operating in 120 countries, which account for over US\$ 600 billion in exports and about 50 million jobs.

In 1952, Pakistan Industrial Development Corporation (PIDC) was established to encourage industrial growth. It worked successfully till 1970. In the 1960s, industry grew by 11.9 per cent. Later on, the focus shifted to establishment of industrial estates, industrial clusters and special economic zones. More than 100 industrial estates have been established over the past 4 decades. Pakistan's successful industrial clusters are Sialkot: surgical goods Cluster; Gujarat: ceramic/pottery industrial cluster; Faisalabad: readymade garments manufacturing cluster; Khyber Pakhtunkhwa (KPK): marble Cluster; Hattar Industrial Estate (KPK): food and beverage, textile, crockery, chemical industry; and Gujranwala: tannery/leather industrial cluster.

Under the CPEC umbrella, nine Special Economic Zones have been planned. One each in Punjab, Khyber Pakhtunkhwa, Balochistan and Islamabad, two in Sindh and one each in FATA, Azad Kashmir and Gilgit-Baltistan. SEZ Act 2012 provides the governing structure for these zones and allows both federal and provincial governments to set them up under various administrative frameworks. The federal government has also agreed to provide gas, water, electricity and other facilities to industries in SEZs.

The Board of Investment (BoI) has established "CPEC-SEZ" Cell for facilitating stakeholders on the matters relating to CPEC and Special Economic Zones. Industries to be established in CPEC-SEZs need to be on the basis of joint venture and investments between Chinese and Pakistani industries. Investment policy for CPEC-SEZ can be open to other foreign and Pakistani investors.

There is little information in the public domain about provision of labour, from China or Pakistan, in CPEC-SEZs. China and Pakistan can discuss a framework for employment of Chinese and Pakistani labour. It needs to be fair and equitable with the goal to create jobs for Pakistani manpower.

Currently, Pakistani labour relies on manual operations in the industry, while Chinese enterprises would require labour proficient use of technological tools. Chinese and Pakistan governments can make provision of vocational training to Pakistani manpower a critical component of CPEC cooperation. It is proposed that a special CPEC-industry vocational training cell be established with National Vocational and Technical Training Commission and provincial Vocational Training authorities/organisations. Existing set-ups can be used for capacity-building of Pakistani manpower in collaboration with Chinese enterprises and experts.

Mr. Wu Sikang said that local enterprises are playing a significant role in SEZs and its investment. Now we have eleven local enterprises with a volume of \$11 billion.

Director CPSC, Dr Ahmed Rashid Malik furthered the discussion by saying that Pakistan set-up an exports processing zone in Karachi. It was our first effort to provide an opportunity for both domestic and international investors. Our success ratio is not as great as Chinese. However, we can learn a lot from SEZs of China and establish a successful network of SEZs in Pakistan as well. In 2012 and 2016, the government of Pakistan amended laws to encourage foreign investment. The government dedicated 40,000-acre land for 46 SEZs in all the provinces. Prior to the CPEC, many industrial zones were established. He said that this is a timely visit, and it is about time Pakistan learns from SEZs in Shenzhen and other provinces.

Ambassador Khalid Mahmood said that CPSC can play a very supportive role in streamlining the implementation process of China-Pakistan SEZs. It can help provide information and facilitate contacts between various enterprises.

Mr. Wu Sikang said that China's opening up policy is its distinct feature which has really opened the door for many countries in China. We emphasise equality. We expect fair treatment from other countries. Since its initiation, foreign citizens have become more than normal citizens. The host should bear in mind the interests of the investors.

We are completely relying on the policy of “opening up” in building the industrial base of our country. Secondly, Shenzhen is a very active and dynamic entity, and its proximity to Hong Kong is a very important since it is a transportation centre of the world. But we are better than Hong Kong in terms of volume of import-export and innovation. We hope that Pakistan understands the special value of Shenzhen in building the SEZs. It attracts investment from other provinces of \$7 billion, and is playing a greater role in industry information and adjustment. A lot of investors are looking for the opportunities there. We hope that the people of Pakistan come to Shenzhen and take advantage of its investment-friendly environment.

Ambassador Khalid Mahmood complimented the phenomenal progress in Shenzhen as it has a very impressive story to tell. From a small fishing town, the city has become a centre of

innovation and industrial development and even outpacing Hong Kong. Indeed, there is a lot to learn and a lot to adapt from the experience of Shenzhen.

Research Fellow and Associate Editor Saira Ijaz, highlighted the possible areas of cooperation between China and Pakistan in SEZs: agriculture, water management, disaster management, mineral extraction, sharing of intermediate and high technology, home appliance and automobile technology.

To this, Mr. Wu Sikang responded that we have a very warm response towards Pakistan since China views Pakistan as its brother. However, a comprehensive instrument of understanding needs to be reached between the two governments.

Other members of the delegation briefed the researchers on auto-control car technology, offered access to human resources and investment, and urged for a coordinated cooperation between Shenzhen and Islamabad.

Ambassador Khalid Mahmood Chairman ISSI complimented the delegation's efforts in promoting cooperation and becoming a conduit in the implementation of SEZs under CPEC.