

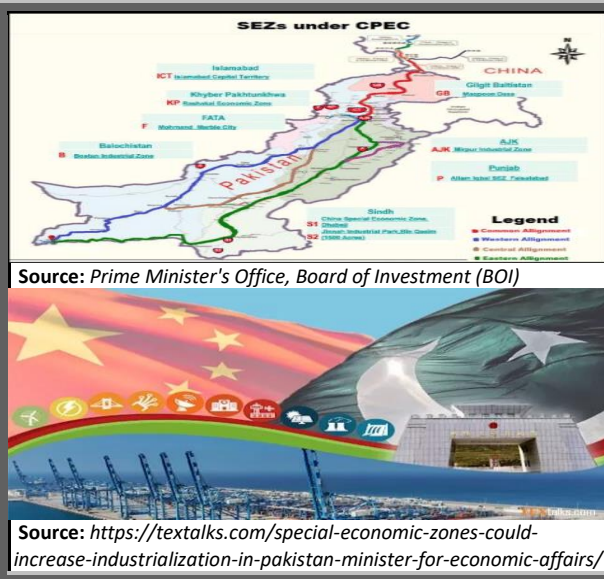
SPECIAL ECONOMIC ZONES (SEZs) IN PAKISTAN: LESSONS FROM CHINA

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Special Economic Zones (SEZs) are predefined areas of economic activity that stimulate industrial growth, international trade, and manufacturing jobs within a country. They serve as hubs of trade and business activity, due to favorable rules and regulations – like tax incentives, deregulated business activity and greater benefits for technology transfers and foreign investment. Such centers of large-scale economic operations lead to enhanced national growth, global competitiveness and greater innovation.¹ The recent report titled "Aligning Special Economic Zones Policies of Pakistan and China," published by the Pakistan-China Institute and Power China, discusses how Pakistan can learn from the Chinese model of SEZs when establishing its own.

China’s story of massive economic growth in the last couple of decades is incomplete without the mention of SEZs. China started building its SEZs in the early 1980s with an aim to further its economic growth. The successful examples of the Chinese SEZs are Shenzhen, Zhuhai, Shantou, and Xianme. Though there are many others as well but these are considered to be the most successful ones. According to statistics, all the SEZs established in China have contributed 22% of the country’s GDP. It has also facilitated 45% of China’s total foreign direct investment, and 60% of China’s exports are done via the SEZs established in different parts of the country. It has also played part in the social uplift of the society by creating 30 million jobs and increasing the income of traditional farmers by 30% through modern agricultural techniques and industrialization.

¹ “Special Economic Zone (SEZ) Meaning and Relation to FDI.” Accessed August 30, 2024. <https://www.investopedia.com/terms/s/sez.asp>.

These well sorted SEZs paved the way for foreign investment, import of modern-day technologies, and the resultant competitiveness observed in the local markets. The market-oriented reforms that China undertook in the 1980s were largely based on opening up of the economy for foreign competition while enhancing foreign trade, revitalizing domestic markets to make them more competitive, and providing greater leverage to the private sector. Most of the initiatives – lesser government regulation, greater public-private partnerships and use of more advanced technologies to boost the industrial sector – were seen to be taken within these SEZs. Customs and duties were relaxed.² Tax benefits were provided. Basic infrastructure for efficient working of the market was built. Airports, roads, seaports and other modes of communication that are essential in transporting goods and products from industrial hubs to domestic and foreign markets were constructed.³ However, the focus of such initiatives and concentration of economic activity was seen in the economic zones. Access to technology and finance within these sectors was relatively convenient, thereby reducing the barriers to access in economic activity. Unsurprisingly, these zones not only boosted economic production and trade volumes, they created enormous employment opportunities, technological acumen among the workforce, and Chinese competitiveness in export markets.⁴

There has been a policy debate within Pakistan about the utility of learning from China's experience in boosting economic production and generating trade activity through CPEC. Pakistan and China have finalized nine SEZs to be developed in the first phase under the auspices of CPEC. Four SEZs, namely Dhabeji SEZ in Sindh, Bostan SEZ in Balochistan, Rashakai SEZ in KP and Allama Iqbal Industrial City in Punjab, are at advanced stages of development. Moqpondass SEZ in Gilgit Baltistan, Mirpur SEZ in AJK, Mohmand Marble City in FATA, and two Federal SEZs namely Industrial Park on Pakistan Steel Mill land and ICT Model Industrial Zone are at the feasibility stage. Allama Iqbal Industrial City and Rashakai SEZs are leading in development works and allotments of industrial plots with many industrial units being under construction.⁵

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- ² "Aligning Special Economic zones Policies of Pakistan and China" Accessed", Published July, 2024. <https://cpecinfo.com/wp-content/uploads/2024/07/Aligning-Special-Economic-Zone-Policies-of-Pakistan-and-China.pdf>
 - ³ "Port of Shenzhen: Container Throughput 2022." Accessed August 30, 2024. <https://www.statista.com/statistics/1318579/container-throughput-port-of-shenzhen/>.
 - ⁴ "Investing in Shenzhen: Industry, Economics, and Policy Trends," Published on July 1, 2022. <https://www.china-briefing.com/news/investing-shenzhen-economic-profile-industry-policy-trends/>.
 - ⁵ "What is the Current Development Status of CPEC SEZs?" China-Pakistan Economic Corridor. Accessed September 2, 2024. <https://cpec.gov.pk/faqs#:~:text=13.-,What%20is%20current%20development%20status%20of%20CPEC%20SEZs%3F,industrial%20units%20being%20under%20construction.>

However, there have been certain structural challenges that have rendered it difficult for Pakistan to actualize and reap benefits from Beijing's successful experience with SEZs. China's success highlights several key areas such as policy coherence, institutional autonomy, infrastructure development, rule of law, and national security.

Political instability results in policy instability, making investors uncertain and unwilling to undertake long-term projects.⁶ The political and economic instability also leads to high economic emigration, with the skilled workforce leaving the country. Additionally, federal ministries tend to work in silos, creating policy incoherence across the board.⁷ There is also an evident disconnect between federal and provincial governments, with the center often out of touch with the peripheries or conflicting policies between the two levels, adding to investor confusion about potential benefits.⁸

In this backdrop, Pakistan needs to work on granting autonomy to allow SEZ-relevant laws to be contextualized for each province, considering their population, capabilities, and economic environment. Active participation from provincial, regional, and local governments is necessary, while the federal government should provide a broad yet clear direction on the goals of the SEZs. The federal government should take a top-down approach for laws that need to be consistent across all SEZs in the country. Regularly updating policies to remain globally competitive and nationally coherent is vital for maintaining a clear vision for the program's objectives.

Incorporating these lessons for CPEC will not only lead to successful realization of the goals envisioned, but could also lead to greater national integration. For instance, greater coordination among market and educational institutions could allow industries to communicate the nature of needed skills and workforce, while the universities could help develop these skills while fostering innovation. SEZs could also have specific training and vocational institutes focused on certain industries. In this vein, the eight incubation centers inaugurated in major cities of Pakistan are a prime example of successful public-private partnerships encouraging innovation and entrepreneurship.⁹

6 Sajjad Ashraf, "Pakistan's Political meltdown" Published on Jan, 30, 2024
<https://eastasiaforum.org/2024/01/30/pakistans-political-meltdown/>

7 Ahmed, Junaid." Pakistan's Emigration: Trends and Insights." Published on Feb, 2024.
<https://file.pide.org.pk/pdfpideresearch/kb-112-pakistans-emigration-trends-and-insights.pdf>

8 "Aligning Special Economic zones Policies of Pakistan and China" Accessed", Published July, 2024.
<https://cpecinfo.com/wp-content/uploads/2024/07/Aligning-Special-Economic-Zone-Policies-of-Pakistan-and-China.pdf>

9 "Ministry of Information Technology & Telecommunication." Accessed August 30, 2024.
<https://moitt.gov.pk/ProjectDetail/ZDZjYzY3ZDAtZTQ2OS00NGRhLTliNmItMzJmMzdiYTY3ZD0>

As with China's example, Pakistan needs to consider creating a separate legal system and courts for SEZs located within the zones themselves. The usual business and labor laws do not apply in SEZs, and the legal framework includes trade rules, general tax codes, FDI-related investment and sectoral laws, real estate laws, labor, and environmental regulations. Separate courts would promote efficiency in dispute resolution and provide a secure legal framework, addressing concerns of international organizations that fear unjust arbitration due to corruption in the judiciary. Arbitrators and judges could be hired internationally to ensure unbiased services.¹⁰

To further encourage investors and businesses to set up in Pakistan's SEZs, the process should be streamlined. A one-stop window operation, i.e. a single platform for investors, is vital for a more efficient business environment. This platform would reduce bureaucratic red tape and accelerate processes by allowing organizations to handle all law-related matters, such as registrations, NOCs, and tax payments through one platform. Another problem currently facing Pakistan's SEZs is the illegal reallocation of land to housing schemes and commercial plazas. If allowed to continue, this practice could undermine the credibility of all SEZs in the country. The government needs to enforce stringent measures to prevent unauthorized reallocations, but it should also consider including residential land in some SEZs' initial plans to meet existing demand.¹¹

To conclude, the new 2024-25 budget presents considerable challenges for both salaried class and businesses, with attendant impact on business confidence.¹² Coupled with recent national internet outages, the investment climate in Pakistan appears further challenged. The government needs to revisit policies and present a coherent national approach that addresses the challenges outlined above.¹³ Without both macro- and micro-level changes, the business environment in Pakistan is likely to remain unfavorable. For SEZs in particular, the federal government must collaborate with provincial governments, incorporate their insights, remain flexible in policies to stay globally competitive, promote FDI through tax breaks (instead of increasing taxes), simplify administrative processes, and encourage free trade. These policy proposals could be adopted if Pakistan wants to benefit from China's successful national policy of economic development and national rejuvenation.

¹⁰ "Aligning Special Economic Zones Policies of Pakistan and China" Accessed", Published July, 2024. <https://cpecinfo.com/wp-content/uploads/2024/07/Aligning-Special-Economic-Zone-Policies-of-Pakistan-and-China.pdf>

¹¹ *ibid*

¹² "Business confidence Index" 2024. <https://gallup.com.pk/post/36866>

¹³ "Pakistan's Attempt to Tamper With the Internet Is Leading to Economic Turmoil." Accessed August 30, 2024. <https://thediplomat.com/2024/08/pakistans-attempt-to-tamper-with-the-internet-is-leading-to-economic-turmoil/>.