



ALIGNING SPECIAL ECONOMIC ZONES POLICIES OF PAKISTAN AND CHINA



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Preface




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The strategic formulation and development of Special Economic Zones (SEZs) are integral mechanisms in driving economic growth and catalyzing foreign direct investment (FDI) inflows. When optimized through robust regulatory frameworks, substantial infrastructural investments, and strategic economic planning, SEZs can significantly enhance technological advancements, employment generation, and export capabilities. However, the efficacy of SEZs is highly contingent on the unique economic environments, policy frameworks, and governance structures inherent to each nation.

This report offers a rigorous comparative analysis of the operational dynamics of SEZs, juxtaposing the exemplary success of China's SEZs with the challenges faced by Pakistan in achieving similar outcomes. China's SEZs, particularly those in Shenzhen, Zhuhai, and Xiamen, are globally acknowledged as benchmarks of economic transformation. These zones have substantially contributed to national GDP, FDI inflows, and export growth, thereby establishing a global standard for SEZ efficacy. The success of these zones is predicated on market-oriented reforms, extensive infrastructure development, and unwavering governmental support, encapsulating China's pragmatic and strategic approach to economic development.

Conversely, Pakistan's efforts to replicate the Chinese SEZ model under the China-Pakistan Economic Corridor (CPEC) framework have encountered substantial impediments. Despite a meticulously structured framework and consistent guidance from China, Pakistan's SEZs have




not achieved the anticipated economic benefits. This discrepancy necessitates a comprehensive examination of the causative factors and the formulation of strategic interventions to bridge this performance gap.

Critical issues impeding the success of SEZs in Pakistan include inconsistent policy frameworks, delayed infrastructure projects, and inefficient land allocation mechanisms. Furthermore, lack of conceptual clarity regarding SEZ location identification, choice of industrial sectors, documentation of data, technology advancement, monitoring mechanism, and the absence of a streamlined one-window operation for investors, deterred potential investments. These structural challenges underscore the necessity for cohesive policy frameworks and efficient administrative processes.

The concept of import substitution, aimed at reducing reliance on imported goods by promoting domestic production, has also encountered significant obstacles in Pakistan. The lack of supporting industries, inconsistent energy supply, and inadequate transportation infrastructure have stymied the growth of local manufacturing within SEZs. Addressing these challenges necessitates a concerted effort towards comprehensive infrastructure development, policy stability, and the cultivation of a skilled workforce.

The concept of establishing “silos of excellence” in an otherwise resource constrained environment, though international, requires local modifications to address the peculiar challenges. For optimal utilization of SEZs, it is important to establish a complete business ecosystem with forward and backward linkages, fiscal and non-fiscal incentives, reduced transaction cost, legal and dispute resolution mechanism, supplemented by financial and institutional reforms.





Drawing lessons from China's model, Pakistan can adopt several strategic governance and management practices. China's emphasis on market-oriented reforms, strong institutional autonomy, and proactive governmental participation at all levels have been instrumental in the success of its SEZs. The integration of public-private partnerships, technology transfer, and innovation has further amplified their economic impact.

To unlock the full potential of SEZs, Pakistan must prioritize comprehensive infrastructure development, policy coherence, and the creation of a conducive business environment. Enhanced coordination between federal and provincial governments, the establishment of one-window operations, and the implementation of transparent regulatory frameworks are imperative. Furthermore, fostering public-private partnerships and facilitating technology transfer are crucial for driving economic growth within SEZs.



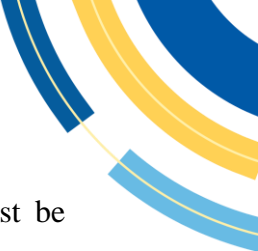


Mr. Qaiser Ahmed Sheikh
Federal Minister
Ministry of Maritime Affairs

It is with profound pleasure that I write this preface for the report titled "Aligning Special Economic Zones Policies of Pakistan and China" authored by Pakistan-China Institute and PowerChina. As the Minister of Maritime Affairs, I am honoured to introduce this pivotal report, which outlines a strategic framework for Pakistan's economic development, drawing inspiration from China's transformative economic policies.

Special Economic Zones (SEZs) are universally recognized as powerful engines for economic transformation. The establishment of the Shenzhen Special Economic Zone in 1980, under the visionary leadership of Deng Xiaoping, serves as an exemplary model. Shenzhen's meteoric rise from a modest fishing village to a global metropolis, with a GDP exceeding \$491 billion by 2023, underscores the transformative impact of well-conceived SEZs. This model has driven substantial industrialization, technological advancement, and economic prosperity, showcasing the strategic importance of SEZs in national economic policies and development strategies.

Inspired by China's extraordinary achievements, Pakistan is poised to embark on a similar path of industrialization and economic growth through the China-Pakistan Economic Corridor (CPEC) Phase Two. The recent visit of Prime Minister Shahbaz Sharif to China in June 2024 reaffirmed the unwavering commitment of both nations to this ambitious endeavour. This strategic partnership seeks to harness China's extensive expertise and experience to actualize Pakistan's industrialization aspirations, particularly within the framework of developing SEZs.




However, the path to industrialization via SEZs presents several challenges that must be addressed with precision and strategic foresight. Infrastructure development remains a cornerstone of this effort. Despite the substantial progress made during CPEC Phase One, ongoing improvements and expansions are imperative. Robust transportation networks, state-of-the-art logistics facilities, and efficient ports are critical to the success of SEZs, ensuring seamless connectivity and integration with global markets. The Gwadar Port, a linchpin of CPEC, has attracted over \$1.62 billion in investments, transforming it into a strategic hub for regional trade and commerce.

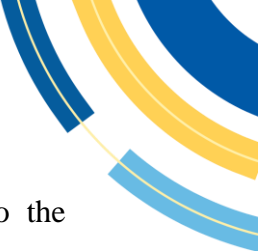
A streamlined regulatory framework is also essential for attracting and sustaining foreign investment. Simplified administrative procedures, transparent policy guidelines, and investor-friendly regulations will cultivate a conducive business environment within SEZs. Such regulatory enhancements will facilitate investment inflows and ensure operational efficiency and compliance. The World Bank's Ease of Doing Business Index underscores the need for Pakistan to enhance its ranking, currently at 108 out of 190 countries, to become more competitive in attracting foreign direct investment.

The development of a skilled workforce is another critical element. Collaborative efforts between Pakistan and China in vocational training and education are essential to equip the labor force with the necessary skills to thrive in industrial settings. Emphasis on technical and vocational education will bridge the skills gap and enhance workforce productivity, aligning with the demands of modern industries. Projections indicate that CPEC projects will generate over 2.3 million jobs by 2030, highlighting the importance of a competent and skilled workforce.

Additionally, the adoption of sustainable practices is crucial for the long-term viability of SEZs.

Emphasising green technologies and adhering to international environmental standards will





contribute to sustainable development. Integrating environmental considerations into the planning and operation of SEZs will ensure their resilience and positive impact on local communities. Adopting renewable energy sources and sustainable industrial practices will also align with Pakistan's commitment to the Paris Agreement, targeting a 20% reduction in carbon emissions by 2030.

China's unwavering support has been instrumental in enhancing Pakistan's infrastructure and alleviating the energy crisis during the first phase of CPEC. The construction of roads, bridges, and energy projects has laid a robust foundation for further economic growth. This collaboration has not only fortified bilateral ties but also paved the way for deeper integration in future phases.

The report represents a monumental step towards achieving our shared vision of economic prosperity and serves as a comprehensive blueprint, navigating the complexities and opportunities that lie ahead. I extend my heartfelt gratitude to Pakistan-China Institute and PowerChina for contributing to this endeavour. Together, we can transform the vision of industrialization into a tangible reality, fostering a brighter and more prosperous future for Pakistan.



Executive Summary




This report delves into the dynamics of Special Economic Zones (SEZs) as a catalyst for economic growth and foreign investment, with a specific focus on the contrasting experiences of China and Pakistan. The report commences with an introduction to SEZs and highlights their significance in attracting investment, technological advancements, economic growth, job creation, and exports. Four distinct types of SEZs are outlined: free-trade zones, export processing zones, industrial parks, and specialized zones.

China's unparalleled success with SEZs is then examined. Chinese SEZs have contributed significantly to the country's GDP, foreign direct investment, and exports, leading to the creation of millions of jobs and promoting industrialization and urbanization. The Chinese model emphasizes market-oriented reforms, adaptability, and continuous updates to SEZs to ensure sustainable growth. The report also categorizes different types of SEZs in China, showcasing its versatility and ability to address various economic needs.

The decision-making and governance of SEZs in China are explored, revealing diverse administrative strategies and management models, including administrative management, administrative committees, and joint management. A focus on market-oriented planning, adaptability, and the long-term perspective underpins China's successful SEZ administration. One of the critical elements behind China's SEZ triumph is the strong commitment and pragmatism of its top leadership, exemplified by leaders like Deng Xiaoping. Their commitment to economic reform, pragmatic policies, autonomy, and liberalization has been instrumental in the growth of SEZs.





Preferential policies and broad institutional autonomy have also been pivotal in the success of Chinese SEZs. These policies have attracted investment and fostered innovation, with specific examples from Shenzhen and Xiamen demonstrating their impact. The flexibility provided to these zones enabled them to adapt to evolving economic conditions and encourage the growth of specific industries.

Staunch support and active participation of the Chinese government in the development of infrastructure, legal reforms, trade liberalization, and talent development have been essential factors. Additionally, SEZs have been strategically positioned along the Belt and Road Initiative, enhancing connectivity and trade opportunities.

The report offers a detailed case study of Shenzhen SEZ, illustrating its remarkable transformation into a global economic powerhouse with impressive GDP growth, port throughput, and foreign direct investment.

The second part of the report assesses why Pakistan has struggled to replicate China's SEZ success. Several challenges are outlined, including inadequate infrastructure, policy and regulatory hurdles, security concerns, a shortage of skilled labor, and economic challenges. The disconnect between Pakistan's federal and provincial governments is identified as a significant barrier. Inconsistent incentive structures, infrastructure delays, inefficient land allocation, and a lack of coherent promotion of SEZs have resulted from this disconnect. The report concludes by emphasizing the need for Pakistan to address these challenges and recommends prioritizing infrastructure development, policy stability, security, skilled workforce development, and harmonized incentives to foster a business-friendly environment within SEZs.



Introduction

Special Economic Zones (SEZs) are designated areas within a country for stimulating economic growth and development.¹ This area is mostly favored by the government through policies, laws, and provisions that allow local and foreign investors to invest money with more chances of economic success.² Usually, SEZs impact local economic structures by bringing in Foreign Direct Investments, technological advancements, economic growth, job-creation, and exports.³



There are predominantly four different types of SEZs: free-trade zones, export processing zones, industrial parks, and specialized zones. Free-trade zones are commercial areas designated for the processing of goods for import and export. These usually have special custom rules and procedures to facilitate the ease of foreign trade. Export processing zones are for the purpose of processing commercial and industrial exports. This type of SEZ has a special

¹ Investopedia, "Special Economic Zone (SEZ)," Investopedia <https://www.investopedia.com/terms/s/sez.asp>.

² Investopedia, "Special Economic Zone (SEZ)," Investopedia <https://www.investopedia.com/terms/s/sez.asp>.

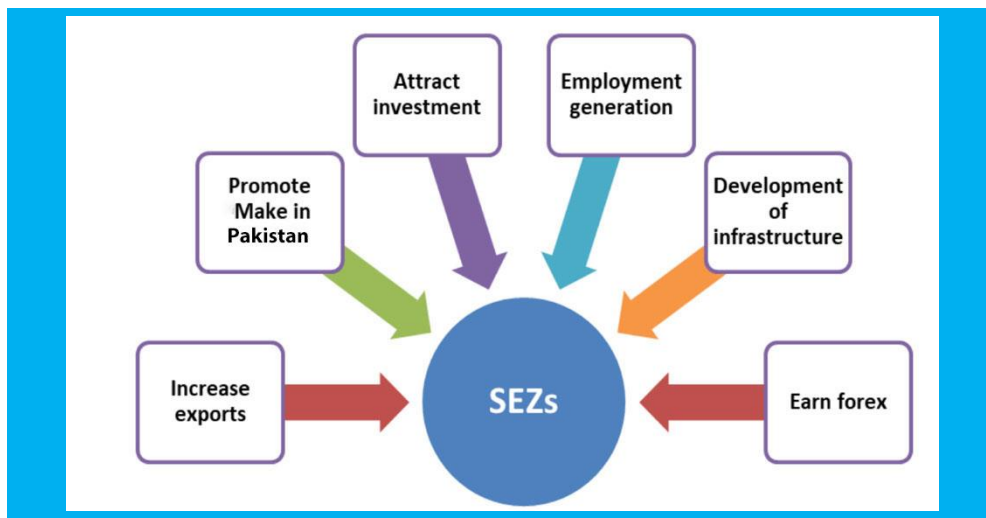
³ Investopedia, "Special Economic Zone (SEZ)," Investopedia <https://www.investopedia.com/terms/s/sez.asp>

focus on ensuring the growth of foreign investment in a country. In contrast, Industrial Parks focus on collecting, predominantly domestic industry, within a designated area. To ensure this, tax incentives are most commonly provided to local companies and businesses. Occasionally, international businesses that are operating in the region are also appreciated to be part of such industrial parks. The last type of SEZs is Specialized Zones which include technological hubs, airport-based zones, and logistic parks.



Many countries around the world have adopted the concept of SEZs to promote their economic growth and encourage the flow of foreign investment in their economy. However, no country has better benefited from this concept than China. Chinese Special Economic Zones, such as those in Shenzhen, Zhuhai, and Shantou in Guangdong province, and Xiamen in Fujian province, are termed to be the most successful SEZs in the world. Learning from China's success, Pakistan attempted to adopt a similar strategy to promote economic growth within its domestic sphere. As part of the Belt and Road Initiative's (BRI) flagship project China Pakistan Economic Corridor (CPEC) a number of SEZs were created in light of the substance and procedure suggested in the Special Economic Zone Act, 2012. But despite consistent Chinese guidance and assistance, Pakistan has been unable to reap the aspired benefits from its SEZs.

This report seeks to evaluate ways in which Pakistan can improve the administration of its SEZs to be able to achieve its desired results. For this, it first presents a detailed overview of the Chinese Success Story with SEZs to set a benchmark for effective comparison. Next, it will identify the problems with Pakistan's implementation of the concept of SEZs. Later on, it will give suggestions and recommendations that can help Pakistan enhance the outcomes of its SEZ related policies.⁴



China's success story

SEZs have contributed 22% of China's GDP, 45% of total national foreign direct investment, and 60% of exports. SEZs are estimated to have created over 30 million jobs, increased the income of participating farmers by 30%, and accelerated industrialization, agricultural modernization, and urbanization.⁵

China started to develop SEZs in the early 1980s with an objective to boost its economic growth. There were many considerations that went behind the implementation of the concept, however, the most prominent was the interest of foreign companies in the economic potential

⁴ Investopedia, "Special Economic Zone (SEZ)," Investopedia <https://www.investopedia.com/terms/s/sez.asp>

⁵ Investopedia, "Special Economic Zone (SEZ)," Investopedia <https://www.investopedia.com/terms/s/sez.asp>

of the country.⁶ As part of the effective function of the SEZs, China complemented the formation of these zones with market-oriented reform, which remains to be a prominent feature of the Chinese Model.⁷ To ensure the success of these reforms, China ensured that they were regularly updated. For instance, in the 1990s, new SEZs were established in accordance with the evolving market standards to continue fuelling growth.

Currently, there are six different categories of SEZs in China. These include Administrative Areas, Geographical Areas, Areas for International Cooperation, Local industrial Parks, Industry Clusters, and Corporate SEZs.⁸ The following figure provides a brief overview of each type of SEZ.

Types of Chinese SEZs	
Administrative Areas	<ul style="list-style-type: none"> • Based on existing administrative regions • Newly established administrative regions run as SEZs
Geographical Areas	<ul style="list-style-type: none"> • Based on geographical features and resources
International Cooperation	<ul style="list-style-type: none"> • Economic or industrial cooperation areas established with another country
Local Industrial Parks	<ul style="list-style-type: none"> • Industrial and specific industry parks designated by local governments
Industry Clusters	<ul style="list-style-type: none"> • Established to support the development of certain industries • Clusters of industries
Corporate SEZs	<ul style="list-style-type: none"> • Industrial parks established by enterprises with their own supply and market chains

⁶ Investopedia, "Special Economic Zone (SEZ)," Investopedia <https://www.investopedia.com/terms/s/sez.asp>

⁷ World Bank, "Investing in Africa Forum: China's Special Economic Zone" (World Bank, 2015), https://www.worldbank.org/content/dam/Worldbank/Event/Africa/Investing_in_Africa_Forum/2015/investing-in-africa-forum-chinas-special-economic-zone.pdf

⁸ World Bank, "Investing in Africa Forum: China's Special Economic Zone" (World Bank, 2015), https://www.worldbank.org/content/dam/Worldbank/Event/Africa/Investing_in_Africa_Forum/2015/investing-in-africa-forum-chinas-special-economic-zone.pdf

The following sections considered various aspects of SEZs in China in detail with the objective of determining certain lessons that Pakistan can learn to improve its own SEZs.


Decision-making and governance of SEZs

There are a range of administrative strategies employed by China in running its SEZ policies depending on the nature, scope, function and geographical location of the SEZ. Some are under the administration of provincial authorities and consist of designated geographical spaces where special policies and measures support effective economic functioning and growth.⁹ Others are more formal in their status and classified as free-trade areas, innovation parks, bonded zones and industry parks.



Various management models have been followed in China to administer these SEZs. These include a) the administrative management model, with managerial functions regulated by

⁹ World Bank, "Investing in Africa Forum: China's Special Economic Zone" (World Bank, 2015), https://www.worldbank.org/content/dam/Worldbank/Event/Africa/Investing_in_Africa_Forum/2015/investing-in-africa-forum-chinas-special-economic-zone.pdf



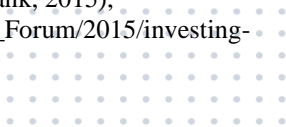
government bodies; b) administrative committee, with management by government appointed committees; and c) joint management with SEZ partners and government-institutive administrative bodies.

Some pivotal factors that impact the ways in which administrative functioning and decision making happens for SEZs include recognition of the need to constantly adapt to changing conditions; the need to ensure accurate functional position; and the focus on market-oriented planning. SEZs in China are consistently monitored and policies are adopted that ensure these SEZs constantly adapt to the changing environment.¹⁰ While doing so there is always an understanding of what benefits are to be reaped in the long run (the long-term perspective). Key areas to focus on while doing so are questions like how to develop new industries and prevent duplication and how to deepen reform and encourage entrepreneurship.¹¹ Accurate functional position allows SEZs to maximize their contribution by giving them room to experiment their strengths, weaknesses, and comparative advantages. This way, different types of Chinese SEZs are able to focus on different aspects of the trade market. Collectively, they are able to generate this substantial impact that we see in the numbers that reflect Chinese economic growth over the years.¹² For instance, SEZs can pilot and test institutional innovations, while free-trade oriented zones can experiment with financial models to attract investment. Joint intercity and port development zones can leverage resource sharing and clustering for regional development. Industry clustering can take advantage of geographic location and resources. In addition, planning also needs to include identification of capital

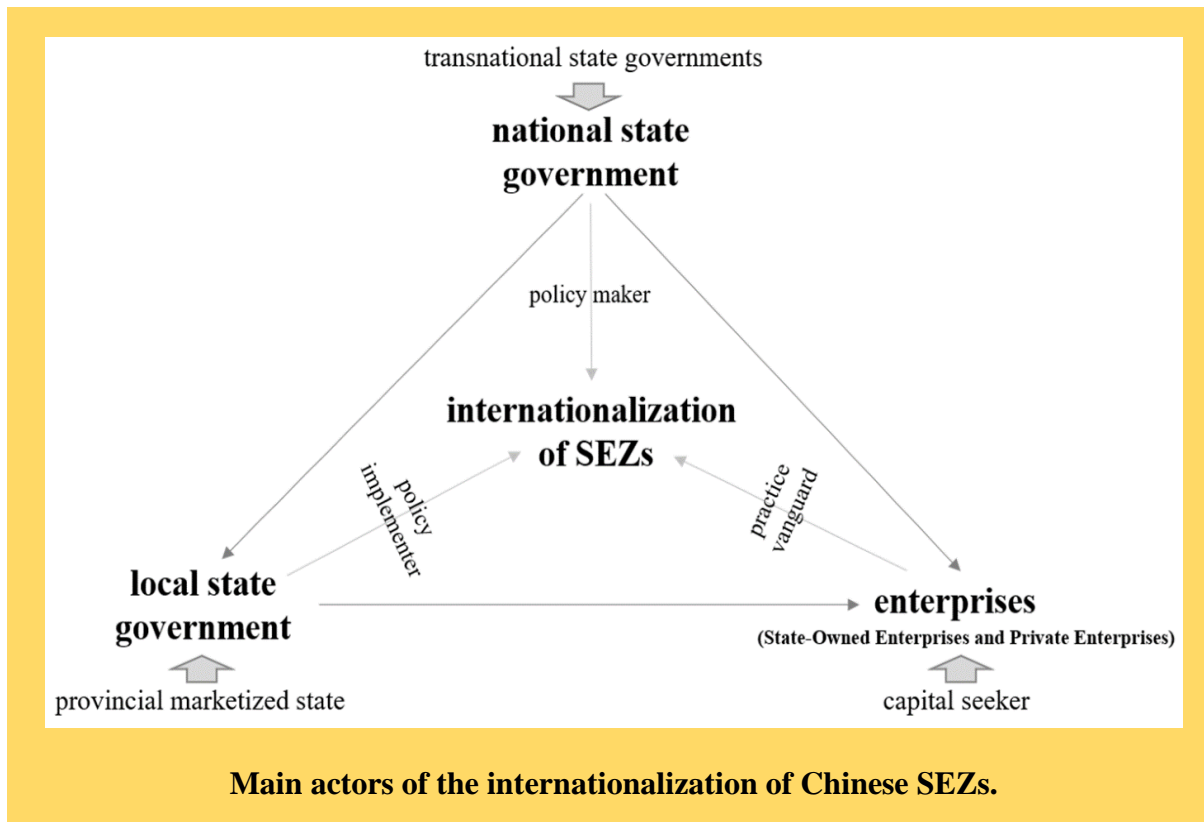
¹⁰ World Bank, "Investing in Africa Forum: China's Special Economic Zone" (World Bank, 2015), https://www.worldbank.org/content/dam/Worldbank/Event/Africa/Investing_in_Africa_Forum/2015/investing-in-africa-forum-chinas-special-economic-zone.pdf

¹¹ World Bank, "Investing in Africa Forum: China's Special Economic Zone" (World Bank, 2015), https://www.worldbank.org/content/dam/Worldbank/Event/Africa/Investing_in_Africa_Forum/2015/investing-in-africa-forum-chinas-special-economic-zone.pdf

¹² World Bank, "Investing in Africa Forum: China's Special Economic Zone" (World Bank, 2015), https://www.worldbank.org/content/dam/Worldbank/Event/Africa/Investing_in_Africa_Forum/2015/investing-in-africa-forum-chinas-special-economic-zone.pdf




investments and requirements for infrastructure and supporting services thus making it very market-oriented.¹³



Strong commitment and pragmatism from the top leadership

Strong commitment and pragmatism from the top leadership have been instrumental in the remarkable success of Chinese Special Economic Zones (SEZs). One of the most iconic examples of this is the transformation of Shenzhen SEZ, which was initially a fishing village, into a global economic powerhouse. Deng Xiaoping, China's paramount leader in the late 1970s and early 1980s, played a pivotal role in this success story. His commitment to economic reforms and pragmatism in implementing them were critical.

¹³World Bank, "Investing in Africa Forum: China's Special Economic Zone" (World Bank, 2015), https://www.worldbank.org/content/dam/Worldbank/Event/Africa/Investing_in_Africa_Forum/2015/investing-in-africa-forum-chinas-special-economic-zone.pdf



Deng Xiaoping's famous phrase, "To get rich is glorious," encapsulated his commitment to economic development.¹⁴ Under his leadership, the Chinese government granted Shenzhen SEZ greater autonomy and relaxed regulations to attract foreign investment and encourage entrepreneurship.¹⁵ The pragmatic approach included allowing foreign companies to establish wholly owned subsidiaries in the SEZ, offering tax incentives, and simplifying bureaucratic processes, making it easier to conduct business. As a result, Shenzhen transformed into a thriving metropolis, becoming a hub for technology and manufacturing.¹⁶

Beyond Shenzhen, similar leadership commitment and pragmatism were evident in other SEZs across China. For instance, Xiamen SEZ and Zhuhai SEZ, both established in the early 1980s, followed the Shenzhen model with strong support from the central leadership.¹⁷ These zones, too, attracted foreign investment, developed infrastructure, and implemented business-friendly policies to drive economic growth.¹⁸

The following chart outlines the Joint Venture Law introduced by China during the initial stages of its modernization. The data, based on fictional figures for readers understanding, presented in the accompanying graph conveys several key points. Firstly, if a firm invests in China and does not realize any profits in the initial years, it is exempt from paying taxes to the government during this period. Secondly, should the firm begin to generate profits, it remains exempt from taxes for an additional two years. Thirdly, if the firm's profit trajectory continues

¹⁴ MS Advisory, 'Special Economic Zones in China' (MS Advisory, n.d.) <https://www.msadvisory.com/special-economic-zones-china/>

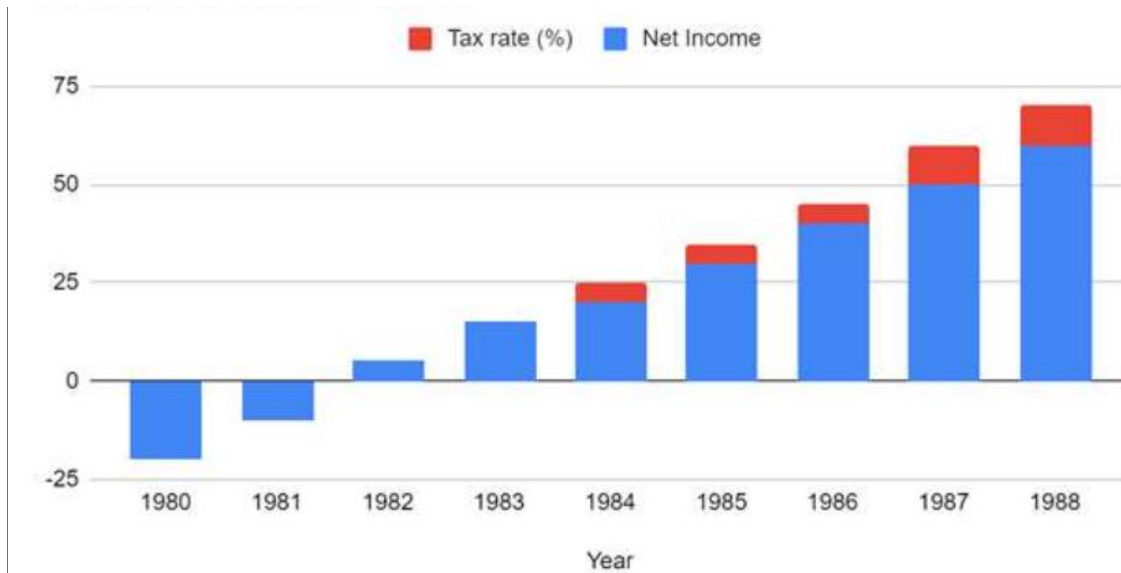
¹⁵ MS Advisory, 'Special Economic Zones in China' (MS Advisory, n.d.) <https://www.msadvisory.com/special-economic-zones-china/>

¹⁶ MS Advisory, 'Special Economic Zones in China' (MS Advisory, n.d.) <https://www.msadvisory.com/special-economic-zones-china/>

¹⁷ MS Advisory, 'Special Economic Zones in China' (MS Advisory, n.d.) <https://www.msadvisory.com/special-economic-zones-china/>

¹⁸ Zeng, D. Z., 'China's Special Economic Zones: Five Years Later' (Lincoln Institute of Land Policy, 2013) https://www.lincolninst.edu/sites/default/files/pubfiles/2261_1600_Zeng_WP13DZ1.pdf


to ascend after the first two years of profitability, it will only be subject to 50% of the standard tax rate for the subsequent three years. Finally, after this three-year period, the firm will be required to pay the full standard tax rate.



Representation of Joint Venture Law

In the 1990s, the Pudong New Area in Shanghai emerged as another successful SEZ, with strong backing from the central government. China's leadership recognized the potential of Pudong and provided the necessary resources and regulatory flexibility to turn it into a dynamic financial and commercial district. Pragmatic policies, including tariff incentives, encouraged multinational corporations to set up their regional headquarters in Pudong.

Chinese leadership's commitment to education and innovation also played a significant role in the success of SEZs. The establishment of universities and research institutions in or near these zones contributed to the development of a skilled workforce and fostered innovation. For instance, Tsinghua University Science Park in Beijing, which is adjacent to Zhongguancun



SEZ, is a prominent example of how education and innovation were strategically integrated into SEZ planning.¹⁹

Preferential policies and broad institutional autonomy


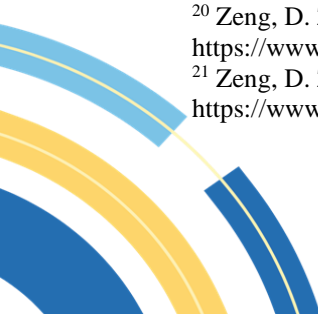
Preferential policies and broad institutional autonomy have also played a significant role in the success of Chinese Special Economic Zones (SEZs), contributing to their improved performance. These policies have attracted investment, fostered economic growth, and allowed for innovative approaches to development. Specific examples from Shenzhen SEZ and other SEZs in China illustrate this impact.²⁰

Shenzhen is a prime example of how preferential policies and autonomy have driven success. Established in 1980, Shenzhen was granted considerable freedom to design its economic policies. The zone was allowed to experiment with market-oriented reforms, including preferential tax rates, lower trade barriers, and streamlined administrative procedures. Shenzhen's success in implementing these policies has transformed it into a global technology and manufacturing hub.²¹ For instance, it offered reduced corporate income tax rates for foreign investors, which attracted multinational corporations like Huawei and Tencent to establish their headquarters there. The institutional autonomy allowed Shenzhen to adapt its policies to the evolving economic landscape, enabling the rapid development of industries like electronics and technology.

¹⁹ MS Advisory, 'Special Economic Zones in China' (MS Advisory, n.d.) <https://www.msadvisory.com/special-economic-zones-china/>

²⁰ Zeng, D. Z., 'China's Special Economic Zones: Five Years Later' (Lincoln Institute of Land Policy, 2013) https://www.lincolnst.edu/sites/default/files/pubfiles/2261_1600_Zeng_WP13DZ1.pdf

²¹ Zeng, D. Z., 'China's Special Economic Zones: Five Years Later' (Lincoln Institute of Land Policy, 2013) https://www.lincolnst.edu/sites/default/files/pubfiles/2261_1600_Zeng_WP13DZ1.pdf




Xiamen, established in 1980, is another SEZ that benefited from preferential policies and institutional autonomy. It was granted exemptions from import duties and lower corporate income tax rates. These incentives attracted foreign direct investment and encouraged the growth of the port and export industries. Xiamen SEZ's autonomy also allowed for experimentation with economic policies, contributing to its successful transformation into a vibrant coastal city and a significant trading centre.²²



The Pudong New Area in Shanghai, established in the early 1990s, enjoyed broad institutional autonomy, making it a crucial financial and commercial district. Pudong was granted greater control over land allocation, infrastructure development, and foreign investment approvals. This autonomy allowed Pudong to implement innovative financial and trade policies, such as establishing the Shanghai Stock Exchange and creating the Lujiazui Financial District. The

²² World Bank, "Investing in Africa Forum: China's Special Economic Zone" (World Bank, 2015), https://www.worldbank.org/content/dam/Worldbank/Event/Africa/Investing_in_Africa_Forum/2015/investing-in-africa-forum-chinas-special-economic-zone.pdf



district's preferential policies, including tax incentives and simplified customs procedures, attracted numerous multinational corporations and financial institutions.²³

While not a traditional SEZ, the Hainan Free Trade Port, established in 2020, is an example of China's evolving approach to SEZs.²⁴ Hainan was granted extensive institutional autonomy, with the aim of promoting liberalization, openness, and innovation. The zone is implementing preferential tax policies, relaxing visa requirements for tourists, and encouraging foreign investment, with a focus on developing high-tech and modern service industries.²⁵ This approach reflects the Chinese government's ongoing commitment to providing autonomy and incentives for development in new areas.²⁶

Staunch support and proactive participation of governments

The success of Chinese Special Economic Zones (SEZs) is a testament to the unwavering support and active participation of the Chinese government. These zones were established with the primary aim of experimenting with economic reforms and attracting foreign investment, and over the years, they have become powerful engines driving China's economic growth. Several key factors illustrate how the government's dedication has played a pivotal role in the remarkable success of these zones.



Infrastructure development has been another cornerstone of the government's support for SEZs. These zones have witnessed significant investments in infrastructure, including the


²³ MS Advisory, 'Special Economic Zones in China' (MS Advisory, n.d.) <https://www.msadvisory.com/special-economic-zones-china/>

²⁴ Zeng, D. Z., 'China's Special Economic Zones: Five Years Later' (Lincoln Institute of Land Policy, 2013) https://www.lincolnst.edu/sites/default/files/pubfiles/2261_1600_Zeng_WP13DZ1.pdf

²⁵ MS Advisory, 'Special Economic Zones in China' (MS Advisory, n.d.) <https://www.msadvisory.com/special-economic-zones-china/>

²⁶ Zeng, D. Z., 'China's Special Economic Zones: Five Years Later' (Lincoln Institute of Land Policy, 2013) https://www.lincolnst.edu/sites/default/files/pubfiles/2261_1600_Zeng_WP13DZ1.pdf





construction of modern transportation networks, world-class ports, and state-of-the-art industrial parks. For example, the Qianhai-Shekou Free Trade Zone in Shenzhen is a testament to China's commitment to infrastructure development, boasting cutting-edge facilities and efficient logistics networks.²⁷

Foreign Direct Investment (FDI) played a critical role in the success of SEZs. The Chinese government actively promoted FDI in these zones by offering incentives such as tax breaks, simplified administrative procedures, and the establishment of free trade zones. Multinational corporations, such as Foxconn, have set up operations in SEZs, leading to job creation, technology transfer, and economic growth.²⁸


Moreover, the government actively encouraged technology transfer and innovation within SEZs. The Hainan Free Trade Port, established in 2019, is a prime example of China's commitment to fostering innovation, particularly in areas like artificial intelligence, blockchain, and digital trade. This emphasis on innovation has enabled SEZs to stay on the cutting edge of technology and remain globally competitive.²⁹

Legal reforms within SEZs also played a pivotal role. These zones often had their own legal systems and courts, providing a favorable business environment and efficient dispute resolution

²⁷ World Bank, "Investing in Africa Forum: China's Special Economic Zone" (World Bank, 2015), https://www.worldbank.org/content/dam/Worldbank/Event/Africa/Investing_in_Africa_Forum/2015/investing-in-africa-forum-chinas-special-economic-zone.pdf

²⁸ World Bank, "Investing in Africa Forum: China's Special Economic Zone" (World Bank, 2015), https://www.worldbank.org/content/dam/Worldbank/Event/Africa/Investing_in_Africa_Forum/2015/investing-in-africa-forum-chinas-special-economic-zone.pdf

²⁹ Zeng, D. Z., 'China's Special Economic Zones: Five Years Later' (Lincoln Institute of Land Policy, 2013) https://www.lincolnst.edu/sites/default/files/pubfiles/2261_1600_Zeng_WP13DZ1.pdf



mechanisms. The Pudong New Area in Shanghai, for instance, had a distinct judicial system, enhancing legal certainty for businesses operating within the zone.³⁰

Trade liberalization has been a central feature of SEZs. They have allowed for more relaxed import and export regulations, promoting international trade. The establishment of the China (Shanghai) Pilot Free Trade Zone exemplifies China's commitment to trade liberalization, encouraging businesses to explore international markets and engage in cross-border trade.³¹

The Chinese government's unwavering support extended to talent attraction and development within SEZs. Universities, research institutions, and vocational training centers were established to provide a skilled workforce. For instance, the Hainan International Tourism Island College aimed to train professionals in the tourism and hospitality industry, aligning with the development goals of the Hainan Free Trade Port.³²

In addition, financial services in SEZs were more liberalized, facilitating cross-border financing and investment. The Shanghai Pilot Free Trade Zone spearheaded financial reforms, allowing for innovations in cross-border RMB lending and the introduction of innovative financial products.³³

³⁰ Zeng, D. Z., 'China's Special Economic Zones: Five Years Later' (Lincoln Institute of Land Policy, 2013) https://www.lincolnst.edu/sites/default/files/pubfiles/2261_1600_Zeng_WP13DZ1.pdf

³¹ Zeng, D. Z., 'China's Special Economic Zones: Five Years Later' (Lincoln Institute of Land Policy, 2013) https://www.lincolnst.edu/sites/default/files/pubfiles/2261_1600_Zeng_WP13DZ1.pdf

³² World Bank, "Investing in Africa Forum: China's Special Economic Zone" (World Bank, 2015), https://www.worldbank.org/content/dam/Worldbank/Event/Africa/Investing_in_Africa_Forum/2015/investing-in-africa-forum-chinas-special-economic-zone.pdf

³³ World Bank, "Investing in Africa Forum: China's Special Economic Zone" (World Bank, 2015), https://www.worldbank.org/content/dam/Worldbank/Event/Africa/Investing_in_Africa_Forum/2015/investing-in-africa-forum-chinas-special-economic-zone.pdf

Lastly, SEZs were strategically positioned along the Belt and Road Initiative (BRI) route, providing them with increased connectivity and trade opportunities. Horgos in Xinjiang, for instance, benefited from its location along the BRI, enabling it to play a pivotal role in the development of trade and infrastructure projects under China's ambitious global initiative.³⁴

FACTORS LEADING TO THE SEZ SUCCESS IN CHINA

- **Quick one-stop shop decision-making and governance of SEZs**
- **Strong commitment and pragmatism from the top leadership to bring about progressive development**
- **Preferential policies and broad institutions autonomy**
- **Staunch support and proactive participation of local governments**

³⁴ Zeng, D. Z., 'China's Special Economic Zones: Five Years Later' (Lincoln Institute of Land Policy, 2013) https://www.lincolnst.edu/sites/default/files/pubfiles/2261_1600_Zeng_WP13DZ1.pdf

Case Study of Shenzhen SEZ

The Shenzhen SEZ is the largest SEZ with an area of about 327.5 square kilometers and a population of 469,800.³⁵ The geographical construction of the land includes a narrow strip of land along the southern coast of China in Guangdong Province between Shenzhen City and the New Territories of Hong Kong. It is about 147 kilometers from Guangzhou and 32 kilometres from Kowloon.³⁶

This SEZ is renowned for its infrastructural development and growth which includes deep-water berths that can handle over three million tonnes of water annually; a telecommunications network that is connected with around the world; and its own solar park that can generate a total of 120 million kilowatts of electricity.; and a nuclear power plant which has a generation



Development zones

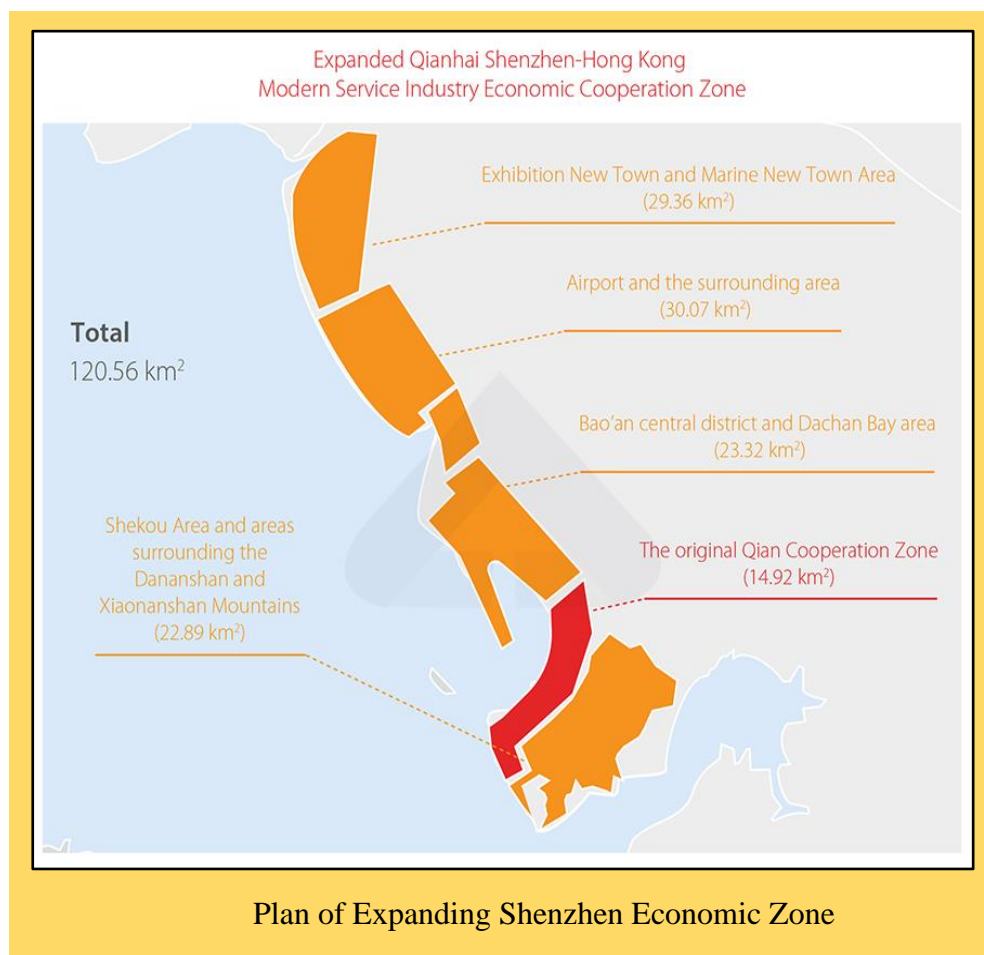
- Shenzhen High-Tech Industrial Development Zone
- Shenzhen Futian Bonded Zone
- Shenzhen Yantian Port Bonded Zone
- Shenzhen Yantian Port Bonded Logistics Park
- Shenzhen Shatoujiao Bonded Zone
- Shenzhen Export Processing Zone
- Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone

³⁵ Zeng, D. Z., 'China's Special Economic Zones: Five Years Later' (Lincoln Institute of Land Policy, 2013) https://www.lincolnst.edu/sites/default/files/pubfiles/2261_1600_Zeng_WP13DZ1.pdf

³⁶ Zeng, D. Z., 'China's Special Economic Zones: Five Years Later' (Lincoln Institute of Land Policy, 2013) https://www.lincolnst.edu/sites/default/files/pubfiles/2261_1600_Zeng_WP13DZ1.pdf

capacity of 180 million kilowatts. The figure below provides for the different development zones in Shenzhen.³⁷

Acknowledging the success of this SEZ, in September 2021, the State Council released the Plan to Comprehensively Deepen Reform and Opening Up of the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone (the Qianhai Plan), which lays the development blueprint for the area over the next five years, with additional long-term goals set for the year 2035.³⁸



³⁷ Investopedia, "Special Economic Zone (SEZ)," Investopedia <https://www.investopedia.com/terms/s/sez.asp>

³⁸ China Briefing, 'Investing in Shenzhen - An Economic Profile: Industry, Policy, Trends' (China Briefing) <https://www.china-briefing.com/news/investing-shenzhen-economic-profile-industry-policy-trends/>

After 29 years of development, Shenzhen has become one of China's most important high-tech research and development (R&D) and manufacturing bases.³⁹ It is now the world's fourth-largest container port; has the fourth-largest airport in China; and draws the fourth-largest number of tourists among Chinese cities.⁴⁰

From 1980 to 2008, Shenzhen's GDP increased from US\$4 million to US\$114.47 billion, with an average annual growth rate of 26.9 percent.⁴¹ In 2021, the GDP of Shenzhen was estimated to be over RMB 3 trillion with a growth rate of 6.7 percent from the previous year.⁴² Its per capita income flow was highest in China reaching RMB 173,663 (US \$ 25,899) in 2021.⁴³

Shenzhen is also China's largest exporting city for the past 29 years. The port in Shenzhen has an annual throughput of 28.77 million TEUs as of 2021, which was 8.4 percent higher than 2020.⁴⁴ This makes Shenzhen's port the fourth largest in the world. As a consequence of this huge infrastructural development, Shenzhen trade in 2021 reached US \$ 528.3 billion, which is quoted to be a staggering 16.2% year-on-year growth. Exports grew at a rate of 13.5 percent to reach 1.9 trillion RMB (USD \$ 283.9 Billion).⁴⁵ The numbers of 2021 have simply outpaced those of 2020.⁴⁶

³⁹ China Briefing, 'Investing in Shenzhen - An Economic Profile: Industry, Policy, Trends' (China Briefing) <https://www.china-briefing.com/news/investing-shenzhen-economic-profile-industry-policy-trends/>

⁴⁰ China Briefing, 'Investing in Shenzhen - An Economic Profile: Industry, Policy, Trends' (China Briefing) <https://www.china-briefing.com/news/investing-shenzhen-economic-profile-industry-policy-trends/>

⁴¹ World Bank, 'Global Competitiveness in Africa - A Case Study of China-Zambia Relations' (World Bank, 2013)

<https://documents1.worldbank.org/curated/en/294021468213279589/pdf/564470PUB0buil10Box349496B01PUBLIC1.pdf>

⁴² China Briefing, 'Investing in Shenzhen - An Economic Profile: Industry, Policy, Trends' (China Briefing) <https://www.china-briefing.com/news/investing-shenzhen-economic-profile-industry-policy-trends/>

⁴³ China Briefing, 'Investing in Shenzhen - An Economic Profile: Industry, Policy, Trends' (China Briefing) <https://www.china-briefing.com/news/investing-shenzhen-economic-profile-industry-policy-trends/>

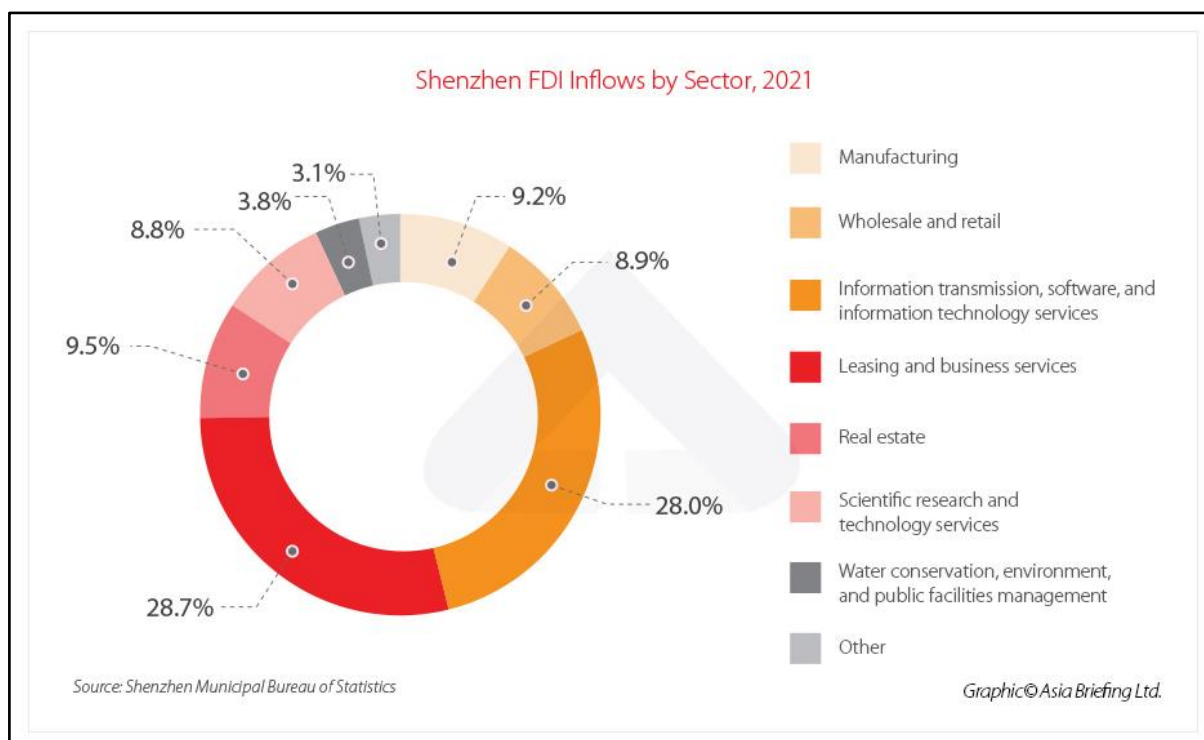
⁴⁴ World Bank, 'Global Competitiveness in Africa - A Case Study of China-Zambia Relations' (World Bank, 2013)

<https://documents1.worldbank.org/curated/en/294021468213279589/pdf/564470PUB0buil10Box349496B01PUBLIC1.pdf>

⁴⁵ China Briefing, 'Investing in Shenzhen - An Economic Profile: Industry, Policy, Trends' (China Briefing) <https://www.china-briefing.com/news/investing-shenzhen-economic-profile-industry-policy-trends/>

⁴⁶ China Briefing, 'Investing in Shenzhen - An Economic Profile: Industry, Policy, Trends' (China Briefing) <https://www.china-briefing.com/news/investing-shenzhen-economic-profile-industry-policy-trends/>

Actual use of foreign capital grew 26.3 percent in 2021, reaching US\$11 billion. A total of 5,788 new FDI projects were signed throughout the year.⁴⁷




Shenzhen FDI inflows by Sector in 2021

Numbers and statistics show Shenzhen as China’s greatest success in the SEZ formulation and administration sector. There are many lessons that can be learnt from the Chinese formulation of the SEZ in Shenzhen, especially for Pakistan, which is currently struggling to reap similar benefits from the SEZs that have been created in its territory.⁴⁸

Shenzhen’s SEZ boasted a governance structure that could swiftly process and approve business applications. For instance, it took just a few days to register a new company in

⁴⁷ China Briefing, 'Investing in Shenzhen - An Economic Profile: Industry, Policy, Trends' (China Briefing) <https://www.china-briefing.com/news/investing-shenzhen-economic-profile-industry-policy-trends/>

⁴⁸ China Briefing, 'Investing in Shenzhen - An Economic Profile: Industry, Policy, Trends' (China Briefing) <https://www.china-briefing.com/news/investing-shenzhen-economic-profile-industry-policy-trends/>



Shenzhen, compared to several weeks or months in other parts of China. This agility allowed businesses to start operations quickly, attracting both domestic and foreign investors.


Deng Xiaoping's famous Southern Tour in 1992 demonstrated the central government's commitment to Shenzhen's development. During this visit, he openly endorsed and encouraged further market-oriented reforms in the SEZ, giving it a powerful boost on the national stage. His support signalled a clear commitment to progress and development.

Shenzhen's ability to set its own policies and regulations within the SEZ boundaries led to the creation of innovative measures. For instance, it implemented preferential tax policies, such as lower corporate tax rates and exemptions, which made it highly attractive for multinational corporations. Additionally, Shenzhen pioneered the "Shenzhen-Hong Kong Stock Connect" program, enabling cross-border investment in the stock markets of Shenzhen and Hong Kong and enhancing its financial competitiveness.

The local government actively supported Shenzhen's transformation into an economic powerhouse. For instance, they invested heavily in infrastructure development, such as the construction of modern transportation networks, ports, and technology parks. This support not only improved the ease of doing business but also facilitated the growth of key industries in the region, such as technology and manufacturing. Local governments worked hand-in-hand with central authorities to create a conducive investment and business growth environment.

Shenzhen Special Economic Zone (SEZ) has played a pivotal role in fostering the growth and success of companies like Huawei and Tencent.





Shenzhen's SEZ has been a hub for technological innovation and research and development (R&D) activities. This environment has been particularly beneficial for Huawei, which was founded in Shenzhen in 1987. Huawei has capitalized on the SEZ's commitment to innovation by making substantial investments in R&D, resulting in the creation of cutting-edge telecommunications equipment and technology.

Within the SEZ, companies enjoy preferential tax policies, including reduced corporate tax rates and exemptions for specific periods. These financial incentives have given companies like Huawei a competitive edge, enabling them to reinvest their profits into further research and expansion.

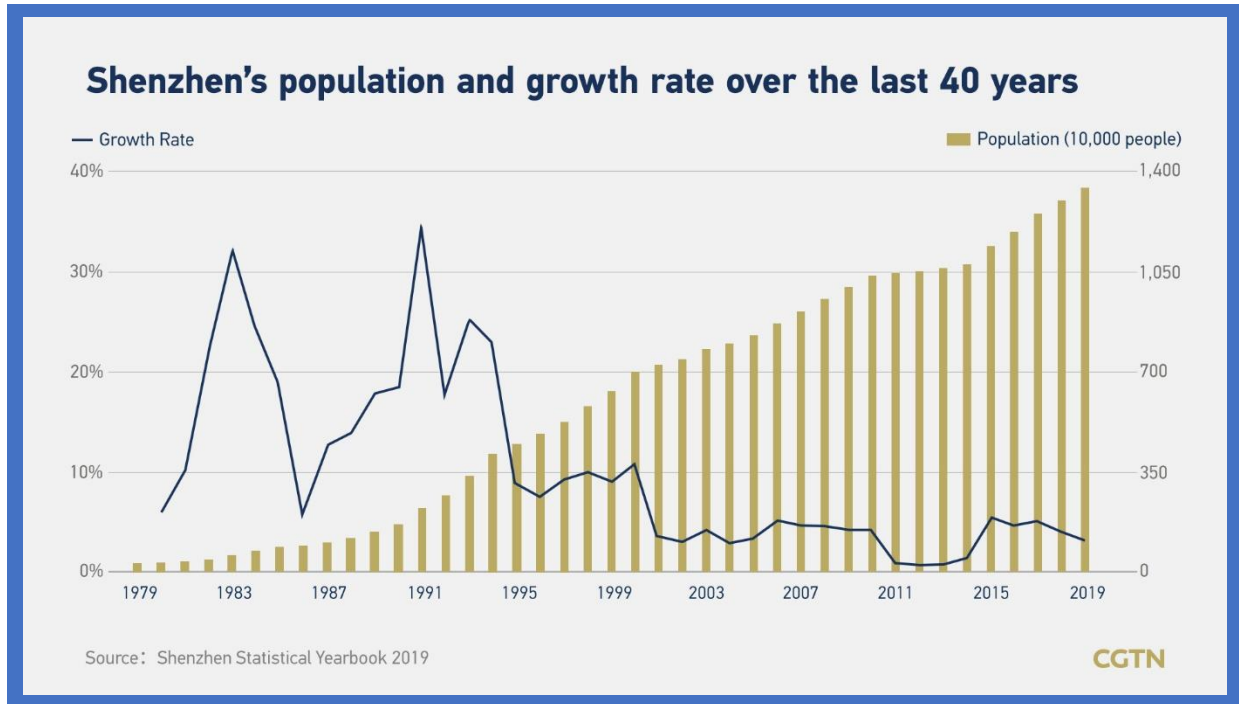
Shenzhen's SEZ status provides a strategic advantage by facilitating easier access to global markets. Huawei has adeptly leveraged this status to expand its international presence and attain a prominent position as a global leader in the telecommunications industry.

The SEZ has also attracted a diverse and highly skilled workforce, including engineers, researchers, and professionals, drawn by the city's reputation as a thriving technology hub. Huawei has been able to tap into this talent pool to support its growth and innovation endeavors.

Similarly, Tencent, another major player operating within Shenzhen SEZ, has experienced significant benefits from the zone's policies. These policies have spurred the growth of the digital and internet sectors, propelling Tencent to expand its services and user base significantly.



Tencent's geographical proximity to leading universities and a vast pool of tech-savvy professionals in Shenzhen has played an integral role in talent acquisition. The SEZ's supportive ecosystem for technology careers has empowered Tencent to attract top-tier talent across various fields, contributing to its sustained success.



Why Pakistan has not been able to make SEZs a success story

The success of Special Economic Zones (SEZs) in any country hinges on several critical factors, and Pakistan has encountered significant challenges in establishing SEZs as success stories.

#	Project Name	Details
Under Construction Projects		
1	Rashakai Special Economic Zone	view details
2	Allama Iqbal Industrial City	view details
3	Dhabeji Special Economic Zone	view details
4	Bostan Special Economic Zone	view details
In-Pipeline Projects		
5	ICT Model Industrial Zone	view details
6	Industrial Park on Pakistan Steel Mill Land	view details
7	Mirpur Industrial Zone	view details
8	Mohmand Marble City	view details
9	Moqpondass Special Economic Zone	view details

List of SEZs in Pakistan

These challenges encompass a range of issues. One major challenge lies in the insufficient infrastructure and connectivity within Pakistan's SEZs. Inadequate transportation, utilities, and communication networks have hindered their appeal to potential investors, discouraging businesses from establishing operations within these zones. Another key issue is the presence of policy and regulatory obstacles. Inconsistent or changing regulations, complex bureaucratic processes, and policy uncertainty have created uncertainty for businesses looking to invest in SEZs, as investors typically seek stability and predictability in regulations. Security concerns pose yet another challenge. In some regions of Pakistan, security issues and political instability deter potential investors from operating in SEZs. Furthermore, a shortage of a skilled workforce has limited the attractiveness of SEZs for businesses requiring highly trained labor. Economic challenges, such as inflation, currency depreciation, and fiscal issues, have also impacted the profitability and sustainability of businesses in these zones.

Infrastructure development within the SEZs, including industrial parks and utilities, is essential for attracting businesses, but such infrastructure may be lacking or underdeveloped in certain cases. Global competition is another factor at play, as Pakistan competes with countries that have well-established SEZs and more favorable business environments, making it challenging to attract foreign and domestic investments.



Administrative inefficiencies, corruption, and bureaucratic obstacles have slowed the process of setting up and operating businesses within SEZs. To address these challenges and transform SEZs into successful entities, the government must prioritize infrastructure development, policy stability, improved security conditions, and a business-friendly environment. Additionally, attracting foreign investments and nurturing a skilled workforce in these zones are essential steps to enhance their competitiveness and appeal to businesses.

The following sections consider some of these factors in detail to illustrate the nature and scope of the problem in Pakistan.



The disconnect between federal and provincial government

The disconnect between the federal and provincial governments in Pakistan has had tangible repercussions for the success of Special Economic Zones (SEZs). One notable example is the inconsistent incentive structures offered to businesses within SEZs. While the federal government might promise certain tax breaks or import/export incentives, provincial governments could have their own sets of incentives or even different tax regimes. This lack of harmonization makes it challenging for investors to predict their long-term financial commitments and creates uncertainty, deterring potential investments.

In terms of infrastructure development, coordination issues have impeded progress. A specific instance of this is the delayed development of transportation networks and utilities within SEZs. The federal and provincial governments need to work together to ensure the timely establishment of these crucial facilities. When this collaboration is lacking, it results in infrastructure delays, affecting the attractiveness of SEZs to businesses that require reliable and efficient infrastructure to operate effectively.

Another example is the allocation of land for SEZs. This process often involves both levels of government, and disagreements or misalignment can cause significant delays. For instance, the delayed allocation of land in a key SEZ might discourage prospective investors, who may choose to invest in a more efficient and coordinated environment in another country or region.

Furthermore, the promotion and marketing of SEZs have not been as effective as they could be due to a lack of coherent messaging between federal and provincial governments. Potential investors may receive mixed messages or find it challenging to discern the actual benefits and opportunities associated with a specific SEZ, thus reducing the overall appeal of these zones.



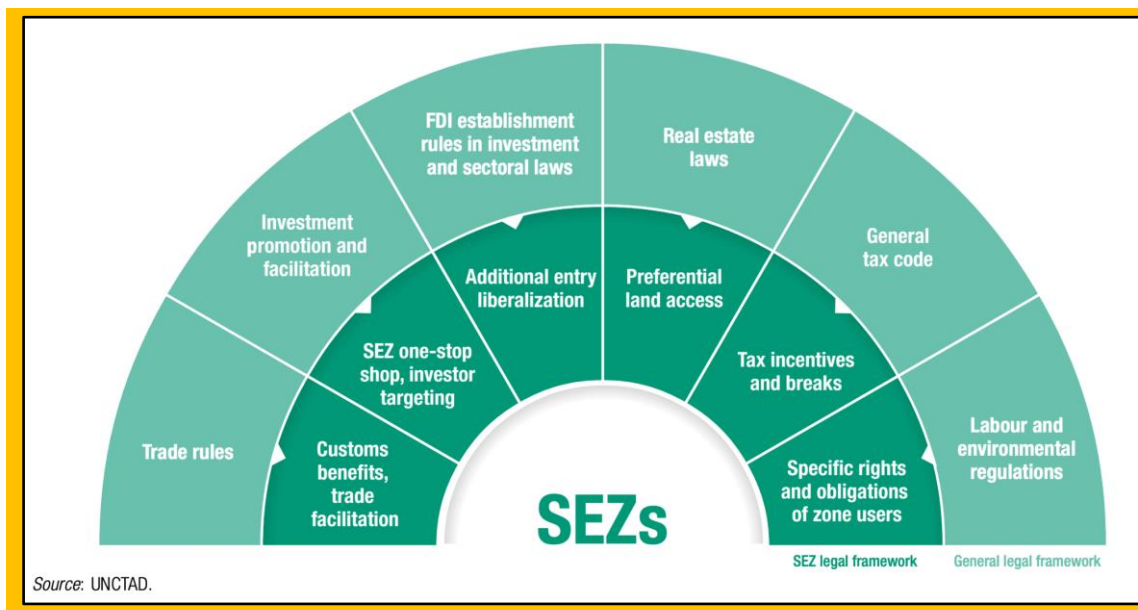
In essence, the disconnect between different levels of government in Pakistan has led to challenges in policy alignment, inconsistency in incentives, delayed infrastructure development, inefficient land allocation, and inadequate promotion of SEZs. These issues have collectively hindered the overall success of SEZs, making it imperative for the federal and provincial governments to enhance their coordination and cooperation to address these challenges and improve the investment climate within these zones.

Lack of one window operation/investor facilitation centre

SEZs around the world are run by national policies that have the objective of making the most economic benefit out of the creation of such special zones. Most national policies around the world have some important factors that need to be taken in consideration when replicating a similar policy structure in Pakistan. The figure below reflects some common elements in the SEZ framework and the General Legal Framework that is to be followed by most domestic legislative landscapes for the success of the SEZs in that country.⁴⁹

⁴⁹ World Bank, 'Global Competitiveness in Africa - A Case Study of China-Zambia Relations' (World Bank, 2013)
<https://documents1.worldbank.org/curated/en/294021468213279589/pdf/564470PUB0buil10Box349496B01PUBLIC1.pdf>


A promising factor that can be seen in most SEZs related legislative frameworks is the creation of a one-stop shop for investors. By this expression, it is meant that states have to create a single platform that facilitates investors in bringing their money to the country. This platform assists them with all law-related practices such as registration of their business, NOCs for them to carry out their activity, tax-payment windows and so on.⁵⁰



One-stop windows are integral components of Special Economic Zone (SEZ) legislative frameworks worldwide, and their significance is exemplified by China's experience. These one-stop windows serve as centralized service points that streamline administrative processes and provide a single point of contact for businesses operating within SEZs. One of their key roles is in streamlining bureaucracy, reducing the bureaucratic red tape, and simplifying the process for businesses and investors looking to set up and operate in these designated zones. For instance, in the Shanghai Pilot Free Trade Zone (FTZ), a one-stop service center has significantly reduced the administrative burden, making establishing and running businesses

⁵⁰ World Bank, 'Global Competitiveness in Africa - A Case Study of China-Zambia Relations' (World Bank, 2013)

<https://documents1.worldbank.org/curated/en/294021468213279589/pdf/564470PUB0buil10Box349496B01PUBLIC1.pdf>

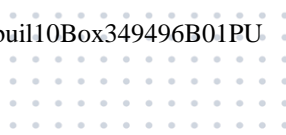


within the FTZ is more efficient. Furthermore, these windows expedite the processing of licenses, permits, and clearances, offering a streamlined system for application submissions and approvals. In the Hainan Free Trade Port, an online platform and service center have simplified the application process, saved time and ensured transparency.⁵¹ Additionally, one-stop windows help in coordinating various government agencies involved in SEZs, enhancing investor confidence by providing a predictable and reliable regulatory environment. They play a critical role in improving the overall competitiveness of SEZs, attracting both foreign and domestic investments, and fostering economic development. As witnessed in China's experience, one-stop windows are pivotal in creating an efficient and business-friendly environment within SEZs, making them vital engines for economic growth and innovation on the global stage.

Pakistan's Special Economic Zones (SEZs) have faced challenges due to the absence of a one-stop window for investors, hindering the ease of doing business in these zones. Investors looking to establish operations in SEZs often encounter a cumbersome and time-consuming bureaucratic process, as they need to navigate multiple government departments for various approvals and permits. This lack of a coordinated and streamlined approach can be discouraging for investors and can deter foreign and domestic investment. For example, investors in the Rashakai Economic Zone in Pakistan's Khyber Pakhtunkhwa province have reported the need to engage with multiple government agencies, such as the Board of Investment, the SEZ Authority, and various regulatory bodies, for different approvals, creating a time-consuming and complex process. This fragmented approach not only leads to delays but also makes it challenging for investors to navigate the regulatory landscape effectively.

⁵¹ World Bank, 'Global Competitiveness in Africa - A Case Study of China-Zambia Relations' (World Bank, 2013)

<https://documents1.worldbank.org/curated/en/294021468213279589/pdf/564470PUB0buil10Box349496B01PUBLIC1.pdf>





To promote investment and economic growth within SEZs in Pakistan, the establishment of a one-stop window could significantly enhance the investment climate, reduce bureaucratic hurdles, and increase investor confidence by simplifying the administrative procedures and making the process more efficient and transparent.



	Infrastructure and utilities			Co-ordinate with Federal Govt. (FG)/ Provincial Govt. (PG)				Facilitate interaction of Developer. & Enterprises.	
	Ensure services within vicinity	Build and/or operate/distribute within the zone	To SEZ zero point	To facilitate Developer		To facilitate Zone Enterprise		With all FG/PG	With PG/LG
Firefighting facilities	SEZA	Developer						BOI	SEZA
Medical facilities	SEZA	Developer						BOI	SEZA
Acad. & voc. training fac.**	SEZA	Developer						BOI	SEZA
Roads		Developer	FG & PG	SEZA				BOI	SEZA
Electricity		Developer	FG & PG	SEZA	SEZ Committee	SEZA	SEZ Committee	BOI	SEZA
Natural gas	SEZA*	Developer	FG & PG	SEZA	SEZ Committee	SEZA	SEZ Committee	BOI	SEZA
Water		Developer	FG or PG	SEZA	SEZ Committee	SEZA	SEZ Committee	BOI	SEZA
Sewerage/ drainage		Developer	FG or PG	SEZA	SEZ Committee	SEZA	SEZ Committee	BOI	SEZA
Waste water treatment		Developer			SEZ Committee	SEZA	SEZ Committee		SEZA
Security	SEZA/ PG	Developer						BOI	


Responsibility Matrix of Pakistan's SEZs⁵²

Import substitution

Import substitution in Special Economic Zones (SEZs) is a strategy employed by many countries to bolster their domestic industries and reduce their reliance on imported goods. It involves creating designated areas within a country where businesses are provided with an array of incentives such as tax breaks, reduced regulations, and improved infrastructure to set up their operations. This favorable business environment aims to stimulate investment, enhance local production, create jobs, and ultimately decrease a nation's trade deficit.

The concept of import substitution is based on the idea that by producing goods and services domestically that were once imported, a country can protect its industries, reduce foreign

⁵²State Bank of Pakistan, Pakistan's External Debts and Liabilities, available at <https://www.sbp.org.pk/reports/annual/arFY21/Chapter-07.pdf>




exchange expenditures, and strengthen its economic self-sufficiency. SEZs play a pivotal role in implementing this strategy because they provide a controlled environment for businesses to thrive. As these zones offer numerous advantages, they attract a wide range of industries, from manufacturing to services, each contributing to the broader goal of import substitution.

In the case of Pakistan, import substitution has been a central economic policy for several decades. SEZs have been established to foster industrial growth and job creation, with a particular focus on sectors like textiles, electronics, and manufacturing. However, the success of this policy has been hampered by a number of challenges. One of the significant problems is the limited development of supporting industries outside the SEZs. For instance, the textile industry, which is a cornerstone of Pakistan's economy and a key focus of its SEZs, heavily relies on imported cotton. This reliance on imported raw materials undermines the core principle of import substitution and drives up production costs, making Pakistani products less competitive in the global market.

Another issue is the inconsistent energy supply in Pakistan, which is a significant impediment to sustained industrial growth. Frequent power outages and energy shortages not only disrupt production but also add to the cost of doing business within the SEZs. In addition, the complex and frequently changing regulatory environment can deter both foreign and domestic investment. Businesses operating in SEZs require a stable and predictable regulatory framework to plan and execute their long-term strategies effectively.

Furthermore, transportation and logistics infrastructure in Pakistan also need substantial improvements. The efficient movement of goods within and outside SEZs is vital for ensuring





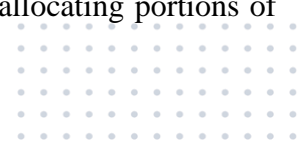
that local products can compete with imports. Inadequate transportation infrastructure can lead to increased production costs and delays, making it harder for businesses in SEZs to thrive.


To address these challenges and enhance the success of SEZs in promoting import substitution and economic production, Pakistan should prioritize several key areas. First, there must be a concerted effort to develop supporting industries outside SEZs to ensure a steady supply of raw materials and inputs. The government should incentivize the growth of domestic industries that cater to the needs of SEZ-based businesses, which can potentially reduce reliance on imports. Additionally, infrastructure development is crucial. Investment in reliable power supply, transportation networks, and communication facilities is essential to streamline production processes and logistics. Pakistan should also create a consistent, transparent, and business-friendly regulatory environment, which would instill confidence in domestic and foreign investors and encourage long-term commitments.

Furthermore, initiatives to boost the workforce's education and skill levels can significantly impact the quality and productivity of industries operating within SEZs. A well-trained and skilled labor force is essential for the success of these zones and for enhancing economic production in the country.

Turning SEZs into real estate projects

The transformation of Special Economic Zones (SEZs) into real estate projects in Pakistan has emerged as a complex and multifaceted issue that warrants closer examination. One of the primary concerns lies in the diversion of valuable land from industrial and commercial activities to real estate ventures. This shift is exemplified by instances such as the Faisalabad Industrial Estate Development and Management Company (FIEDMC) allocating portions of






the M3 Industrial City SEZ for housing schemes. While real estate development can be lucrative, it reduces the land available for industrial and manufacturing purposes, hindering the growth of export-oriented businesses and potentially impacting the economic benefits these zones were designed to deliver.

The impact on SEZs' economic objectives is another critical consideration. These zones were initially conceived to drive economic growth, exports, and job creation. However, when SEZs are repurposed for real estate, there is a risk of compromising these objectives. The Lahore Allama Iqbal Industrial City, for instance, has undergone a transformation into a mixed-use development, with commercial and residential components. This transition may prioritize short-term profits from real estate and construction over the long-term economic contributions that SEZs were intended to achieve.

Investor confidence and foreign direct investment (FDI) inflows are also susceptible to the transformation of SEZs into real estate projects. Foreign and domestic investors were initially attracted to SEZs due to their streamlined regulations and investment incentives. The shift towards real estate development can undermine the credibility and trustworthiness of these zones as viable investment destinations, potentially impacting FDI inflows and economic growth.

In seeking a balanced approach to this issue, it is worth considering that some SEZs may incorporate a mix of industrial, commercial, and residential spaces, as seen in the case of the Dhabeji SEZ in Sindh province. By creating a more comprehensive economic ecosystem, the aim is to address the evolving needs of the local economy while preserving the fundamental goals of SEZs.





Nevertheless, each transition should be evaluated on a case-by-case basis, aligning decisions with local economic needs, regional development strategies, and the potential for job creation and value addition. Robust regulations, careful planning, and stringent oversight are essential to strike the right balance between SEZs and real estate development, ensuring that these zones remain engines of economic growth in Pakistan.

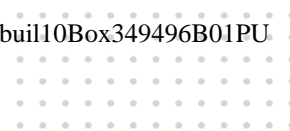
Learning from China's model

The Chinese experience with Special Economic Zones (SEZs) has identified several essential elements that contribute to their success and efficient functioning: a) establishing a linkage between SEZs and economic liberalization while harnessing the power of innovation; b) combining a bottom-up problem-solving approach with top-down governmental support; c) Promoting industrial growth within SEZs by nurturing market leaders, supporting research and development, and building strong brands; d) Serving as incubators for local ideas by integrating learning, innovation, and production; e) facilitating the amalgamation of resources and expertise from government, industry, and research institutions to advance into more advanced value chains.⁵³

China's experience demonstrates that successful Special Economic Zones (SEZs) require a combination of geographic advantages, available resources, access to markets, a skilled workforce, and sufficient capital. The key takeaways from this are as follows: firstly, high-quality infrastructure is indispensable and secondly, efficient organization and management

⁵³World Bank, 'Global Competitiveness in Africa - A Case Study of China-Zambia Relations' (World Bank, 2013)

<https://documents1.worldbank.org/curated/en/294021468213279589/pdf/564470PUB0buil10Box349496B01PUBLIC1.pdf>



should prioritize aspects like security, policy support, investment promotion, environmental governance, service-oriented practices, and talent recruitment.⁵⁴

What laws are needed?

To improve the performance of its Special Economic Zones (SEZs), Pakistan can draw valuable lessons from China's successful experience and consider adopting specific laws and policies. China's SEZs have been instrumental in driving economic growth, and Pakistan can replicate certain aspects of their success.

Name of Organization/Committee	Description
Board of Approval (BOA)	Chaired by the Prime Minister, the BOA comprises top political, technical and business leadership of the country. Its main functions are: approval of regulations for implementation of the SEZ Act; approve or reject zone applications and development agreement; take decisions on policy issues; notify additional benefits for developers or zone enterprises as per law; and review annual reports by the SEZ Authorities.
Approvals Committee	This committee exercises the powers and responsibilities as delegated by the BOA, including the screening of zone applications.
Board of Investment (BOI)	Originally established as the federal Investment Promotion Agency (IPA), the BOI works as the Secretariat of the BOA and the Approvals Committee to implement the SEZs framework. It is a coordinating agency for all activities pertaining to SEZs, developers and zone enterprises; it processes applications for development of zones and submits them to BOA for its approval; and it also approves all development agreements proposed by SEZAs. The BOI is also the SEZ Authority for SEZs in the Islamabad Capital Territory.
Provincial investment promotion agencies (IPAs)	The responsibilities of provincial IPAs include assisting the concerned SEZ Authority in its overall operations, as well as facilitating developers and zone enterprises in various matters relating to the SEZ.
SEZ Authority (SEZA)	The Act requires SEZAs to be set up as the highest SEZ authority for a province. Its main responsibilities are: preparation of zone application; selection of developers; formulation of zone regulations; and liaison with federal and provincial government departments and organizations
SEZ Committee	Chartered by the BOA for each SEZ, the SEZ Committee comprises representatives from the developer, the BOI, provincial IPAs, respective SEZA, and the relevant district government. The developer appoints the chairperson of the SEZ Committee, which in most cases is a representative from the developer itself. The SEZ Committee is responsible for examining and approving SEZ entry applications; providing certification of zone enterprises; oversight of enterprises; and coordinating with various government departments.
Zone Enterprises	A zone enterprise is an enterprise admitted to an SEZ by a developer through a detailed selection process involving the developer and the relevant SEZA, with the BOI as the monitoring authority. In the case of Sole Enterprise SEZ, the developer and the Zone Enterprise may be the same entities.
Developer	Developer means an enterprise which has entered into an agreement with the relevant SEZA to develop an SEZ. The development agreement is reviewed by the BOA.

Source: Special Economic Zones Act, 2012

Features of SEZ Rules and Policy

⁵⁴https://www.worldbank.org/content/dam/Worldbank/Event/Africa/Investing_in_Africa_Forum/2015/investing-in-africa-forum-chinas-special-economic-zone.pdf


Pakistan currently faces challenges in several key areas, highlighting the room for improvement. Firstly, Pakistan can enhance its tax regime within SEZs, where it currently lacks the kind of favourable tax structure seen in China's SEZs. Implementing reduced corporate tax rates and offering tax holidays could incentivize businesses to invest and operate within Pakistan's SEZs. Until recently, Pakistan has been giving Income Tax Holidays, Custom Duty Exemptions, Sales Tax and Value Added Tax Exemptions, Repatriation of Profits, Custom Tariff Rationalization, and certain Land Lease Incentives. However, the complex nature of tax incentives and their eligibility criteria in SEZs can create uncertainty for potential investors. Ambiguity in the rules and regulations may deter investors who seek transparency and predictability.⁵⁵



In some cases, tax incentives within SEZs have relatively short timeframes. Investors may hesitate to commit to long-term projects if they are uncertain about the future availability of these incentives, especially if the government's commitment to their extension is unclear. Some investors find navigating the administrative procedures to access tax exemptions and incentives

⁵⁵ World Bank, 'Global Competitiveness in Africa - A Case Study of China-Zambia Relations' (World Bank, 2013)

<https://documents1.worldbank.org/curated/en/294021468213279589/pdf/564470PUB0buil10Box349496B01PUBLIC1.pdf>



within SEZs cumbersome. Bureaucratic hurdles can discourage investment, particularly from foreign companies looking for ease of doing business. In addition, to enjoy tax incentives, investors are often required to meet specific conditions and compliance standards. The cost and effort of ensuring compliance can be a barrier, especially for small and medium-sized enterprises (SMEs).⁵⁶


Secondly, in terms of labour laws, Pakistan's current framework is relatively rigid, making it difficult for businesses to adapt quickly to changing labour needs. Greater flexibility akin to what China has in its SEZs would be an improvement, as it could spur job creation and adaptability in the labour market.

Thirdly, legislation is needed to address the problem of SEZs changing into real-estate projects. Pakistan should establish clear and comprehensive legislation specifically governing SEZs. This legislation should define the purpose and objectives of SEZs, emphasizing their role in promoting industrial and economic activities, rather than real estate development. There is also a need to enforce strict land use regulations within SEZs. These regulations should specify the permissible activities and prohibit any deviation from the designated industrial or economic purposes. Land within SEZs should primarily be allocated for manufacturing, export-oriented businesses, and related activities. Furthermore, it is essential to develop zoning regulations and master plans for SEZs that clearly outline the layout, land use, and development guidelines. These plans should be strictly adhered to and updated as necessary to prevent any deviation towards real estate projects.

⁵⁶ World Bank, 'Global Competitiveness in Africa - A Case Study of China-Zambia Relations' (World Bank, 2013)

<https://documents1.worldbank.org/curated/en/294021468213279589/pdf/564470PUB0buil10Box349496B01PUBLIC1.pdf>





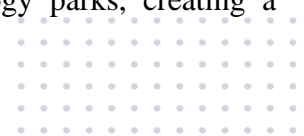
There is a need to implement a transparent and accountable approval process for projects within SEZs. Any proposed development or changes to land use should require thorough scrutiny and approval from relevant authorities, including the SEZ Authority and local planning authorities. In addition, there should be regular within SEZs to ensure compliance with land use regulations. Unauthorized construction or activities deviating from the designated purpose should be promptly identified and addressed. Violations must be penalized strictly, including fines, revocation of permits, and legal action against individuals or entities responsible for the changes. Enforcing these penalties consistently will deter any attempts to convert SEZs into real estate projects.

Role of private sector in scaling investments in SEZs

The role of the private sector in scaling investments in Special Economic Zones (SEZs) and ensuring their effective functioning is paramount. Drawing lessons from China's experience with SEZs offers valuable insights for Pakistan. In China, the private sector played a pivotal role in the success of SEZs, and specific cases from China demonstrate how private sector engagement fueled economic growth.

Chinese SEZs, such as Shenzhen, exemplify how the private sector actively promoted investments. Shenzhen, once a fishing village, transformed into a bustling metropolis with the assistance of private sector enterprises. Private businesses attracted foreign investors and encouraged domestic enterprises to operate within the zone. They marketed Shenzhen as an attractive destination for investment, resulting in its rapid development.

Private companies in China, notably in Shenzhen, contributed significant capital investment for infrastructure development. They funded industrial and technology parks, creating a




conducive environment for businesses to flourish. The private sector's financial contributions were instrumental in creating the modern, world-class infrastructure that now characterizes many of China's SEZs.

Moreover, the private sector played a vital role in job creation. Shenzhen's growth is a prime example, where private enterprises generated numerous employment opportunities. This not only benefited the local population but also had a multiplier effect on the economy, boosting consumer spending and overall economic growth.

Chinese SEZs, including Pudong in Shanghai, were also notable for their emphasis on technology transfer and innovation. Private companies within these zones actively engaged in technology transfer, bringing advanced technologies, manufacturing processes, and management practices. This accelerated economic development and enhanced China's competitiveness in various industries.



Export-oriented manufacturing was a significant focus for private enterprises in many Chinese SEZs. Shenzhen, in particular, emerged as a global manufacturing hub. The private sector's



commitment to export-oriented strategies significantly contributed to China's rise as a global manufacturing powerhouse, benefiting from international trade.


Diversification of industries within SEZs was another strength of the Chinese private sector. They played a pivotal role in diversifying the business landscape, allowing a wide range of industries, from manufacturing to high-tech sectors, to coexist and thrive within these zones. Public-private partnerships were instrumental in developing and managing SEZs in China. Private companies actively collaborated with the government to create efficient infrastructure and provide administrative support. This synergy between the public and private sectors was a driving force behind the successful operation of SEZs.

The private sector in China exhibited a strong entrepreneurial spirit within SEZs, allowing them to innovate and adapt quickly to market demands. Their flexibility and innovation were key factors in responding to changing business conditions and emerging industry trends. China's private sector was not confined to national markets; they actively integrated into global supply chains. Many private enterprises became essential components of global manufacturing and trade networks, driving economic growth through exports and expanding their market reach.

Efforts need to combat red-tapism and bureaucratism.

To combat red-tapism and bureaucratism within Pakistan's Special Economic Zones (SEZs), the country can draw valuable lessons from the experiences of China, which has successfully streamlined administrative processes and reduced bureaucratic hurdles in its own SEZs. These strategies can significantly enhance the effectiveness and appeal of SEZs as investment destinations.





One of the key lessons from China's SEZs is the establishment of One-Stop Service Centers. These centres serve as a single point of contact for investors, simplifying administrative procedures, providing guidance, and coordinating various government approvals and services.

Another crucial strategy is the development of Online Portals that allow investors to submit applications, access information, and track progress electronically. This reduces the need for physical visits to government offices, enhances transparency, and expedites the approval process. China's SEZs have demonstrated the effectiveness of these online platforms in reducing red-tapism.

Simplifying approval processes is another lesson from China's SEZs. Clear and standardized procedures help minimize the discretion of bureaucrats, reducing the potential for corruption and inefficiencies. Pakistan can follow suit by establishing a Clear Regulatory Framework for SEZs and ensuring that rules and regulations are well-documented and easily accessible to investors, minimizing ambiguity.

Furthermore, China's SEZs have implemented strict Time-Bound Approvals, with penalties for delays. These measures incentivize government officials to process and grant approvals within set timelines. Pakistan can adopt similar practices to expedite administrative procedures and enhance investor confidence.

To ensure accountability and transparency, Pakistan can establish mechanisms for Investor Complaints, allowing investors to report grievances and concerns related to bureaucratic obstacles. This feedback will help identify and address issues more effectively.



In addition to learning from China's SEZ experiences, Pakistan should promote public-private partnerships in SEZ management. The private sector can provide valuable insights and expertise to streamline administrative processes. Moreover, it is essential for Pakistan to Regularly Review and Improve administrative procedures. This ensures that SEZs remain attractive to investors by keeping pace with changing circumstances and emerging best practices.


Third BRI Forum and Lessons for Pakistan

From the 16th to the 20th of October 2023, China hosted the 3rd Belt and Road Initiative Forum, which discussed the milestones and future prospects of the BRI. Pakistan and China issued a joint statement at the end of this forum. In this joint statement, the two countries recognized their close partnership and commitment to the cause of the BRI. It was agreed that the two countries will continue to view the relationship between China and Pakistan from a strategic and long-term perspective, move forward together on the path of development, and accelerate the building of an even closer China-Pakistan Community with a Shared Future in the new era.



The two sides also recognized that the Belt and Road Initiative (BRI) is a strong driver of world economic growth, provides a platform for international economic cooperation, opens up space for common development around the globe, and has become a widely welcomed international public good as well as an important practice in building a community with a shared future.

Pakistan also welcomed more Chinese companies to invest in Pakistan and informed them



about the recent initiatives for improving the investment climate and the creation of the Special Investment Facilitation Council (SIFC).


The joint statement between the two countries speaks of the requirement to enhance business-to-business cooperation between China and Pakistan. This can be beneficial for Pakistan when it comes to SEZs. Cooperation with China opens room for many learning and funding opportunities from the Chinese experience. The development of SEZs in Pakistan under the BRI is expected to boost economic growth by attracting foreign investment, creating jobs, and increasing economic activity in these designated areas. This can help in addressing Pakistan's economic challenges. Making the most of the Chinese intent as expressed in the Joint Statement, Pakistan should attempt to promote industrial development in Pakistan by providing incentives and infrastructure to support manufacturing and other industries through China's financial promise.

Chinese leadership's vision of openness, regional connectivity, economic integration and willingness to share technology can be a great opportunity for Pakistan to strategically to promote regional development.

Practical Steps that can be taken by Pakistan

To ensure that its SEZs reap similar, if not same, results as the Chinese SEZs, it is essential for Pakistan to adopt the following three steps. Firstly, Pakistan must change its laws to facilitate investors from around the world to invest in its domestic sphere. Secondly, Pakistan must improve on the involvement of the private sector in scaling the investments in SEZs. Lastly, special efforts must be taken to combat red-tapism and bureaucratism in the country which hinders investors from investing in the country.





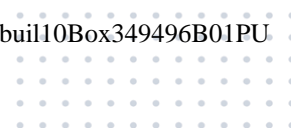
Pakistan's legal framework can be enhanced by allowing SEZs to have their own legal systems and courts, similar to China. This can improve legal certainty for businesses by providing them with more efficient dispute-resolution mechanisms. Pakistan can also improve its trade policies within SEZs by adopting more liberal trade regulations, making it easier for businesses to engage in international trade and attract foreign investors. Furthermore, financial services within Pakistan's SEZs can be liberalized to enable cross-border financing and investment, similar to China's SEZs. Currently, Pakistan lacks the financial reforms seen in China, which have benefited its SEZs.⁵⁷


it is crucial to actively involve the private sector in SEZ development and operations. The private industry can leverage its strengths and resources to drive economic growth, create jobs, and boost exports. By adopting practices that have been successful in China's SEZs, Pakistan can stimulate investment and foster economic development within its own zones, enhancing its global competitiveness.

Pakistan's government must establish One-Stop Service Centres. The government can facilitate smoother interactions between investors and government agencies. The development of Online Portals will allow investors to submit applications, access information, and track progress electronically. In addition, strict Time-Bound Approvals, with penalties for delays should be established in Pakistan. Pakistan should also reduce the volume of paperwork required for approvals, simplify documentation requirements, and use technology to facilitate information-sharing among government agencies.

⁵⁷ World Bank, 'Global Competitiveness in Africa - A Case Study of China-Zambia Relations' (World Bank, 2013)

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Training government officials in SEZ-specific procedures is also vital. This can be achieved through Regular Training and Capacity Building programs, creating a culture of efficiency and responsiveness among bureaucrats. In addition, Interagency Coordination is essential to improve cooperation among various government agencies involved in SEZ operations. Cross-departmental collaboration and information-sharing can eliminate bottlenecks and delays, reducing bureaucratic obstacles.

Independent oversight bodies can also be created to Monitor and Evaluate the Performance of Government Agencies in SEZs. These bodies can track and report on bureaucratic efficiency and suggest improvements, promoting accountability and transparency.

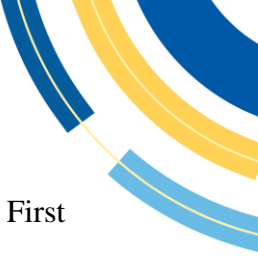


Conclusion

The comparative analysis of Special Economic Zones (SEZs) in China and Pakistan reveals a stark contrast in the outcomes and effectiveness of these zones as drivers of economic growth and foreign investment. China's SEZs have not only exceeded expectations but have set global benchmarks for their contribution to GDP, job creation, and industrial development. Meanwhile, challenges and missed opportunities have marked Pakistan's experience with SEZs.

China's success with SEZs can be attributed to a combination of factors: visionary leadership, pragmatic and market-oriented policies, strong institutional autonomy, unwavering government support, and a keen focus on infrastructure development. These zones have thrived due to their adaptability, innovation, and commitment to long-term planning. China's top leadership recognized the potential of SEZs and provided the necessary resources and regulatory flexibility to fuel their growth. The implementation of preferential policies, infrastructural development, technology transfer, and a focus on talent development within these zones have significantly contributed to their remarkable success.

In contrast, Pakistan has faced multiple challenges that have hindered the realization of SEZs as a success story. Inadequate infrastructure, inconsistent policies, security concerns, policy uncertainty, and a lack of skilled labor have hampered the attractiveness of SEZs to investors. Additionally, the disconnect between federal and provincial governments in Pakistan has led to a lack of harmonized incentives, delayed infrastructure development, inefficient land allocation, and suboptimal promotion of SEZs.



To unlock the true potential of SEZs in Pakistan, a series of concerted efforts are required. First and foremost, there is a pressing need for enhancing infrastructure, including transportation, utilities, and communication networks, within SEZs to attract businesses looking for efficient operations. Policy stability and predictability should be a top priority, as investors seek consistency in regulations to make informed investment decisions. Addressing security concerns is crucial to creating a safe and conducive environment for investment. Furthermore, developing a skilled workforce is imperative to cater to the diverse needs of industries operating within SEZs.

The disconnect between federal and provincial governments must be bridged through harmonized incentives and policy alignment. The efficiency of infrastructure development, land allocation, and promotion of SEZs will depend on the collaboration and cooperation between these entities. A well-coordinated approach can create a seamless and attractive environment for investors.

In conclusion, while China's SEZs stand as a shining example of the economic potential these zones hold, Pakistan has the opportunity to learn from this success story and make the necessary adjustments to enhance the administration of its SEZs. By addressing the challenges, streamlining policies, and fostering an investor-friendly climate, Pakistan can unlock the true potential of its SEZs and embark on a journey of economic growth and prosperity. The transformation of SEZs from missed opportunities into thriving centers of economic activity requires a concerted effort and a commitment to long-term success.





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