Driving Special Economic Zones (SEZs) Development in Pakistan Under CPEC 2.0: Opportunities for Sustainable Industrial Growth

High-Level Policy Dialogue

This panel is not accepting abstracts

Introduction

The China-Pakistan Economic Corridor (CPEC) has brought significant development in Pakistan's economic landscape. With CPEC 2.0, the focus has evolved from government-to-government collaboration towards a business-to-business framework. This shift emphasises a people-centric approach towards integrating Chinese manufacturing within Pakistan's Special Economic Zones (SEZs), marking a significant paradigm change in strategy.

SEZs play a crucial role in economic development by offering attractive incentives to domestic and foreign investors. Between 1983 and 2005, Pakistan established seven SEZs with the aim of transitioning its economy from Import Substitution Industrialisation (ISI) to export-oriented growth. They are envisioned as catalysts for industrial growth, employment generation, technology transfer, and export diversification. They provide a controlled environment with infrastructure tailored to meet the needs of businesses, fostering innovation and competitiveness.

Now, under CPEC, Pakistan plans to establish nine new SEZs at various locations. These SEZs under CPEC aim to use Pakistan's strategic geographic location and the enhanced connectivity provided by projects like the Gwadar Port, to attract significant Foreign Direct Investment (FDI) and bolster economic activities.

Under CPEC 2.0, Pakistan has identified several key SEZs strategically located across the country. These zones are designed to accommodate diverse industries, including manufacturing, technology, and services. The initiative has gained momentum with notable progress in infrastructure development, regulatory frameworks, and institutional support. For instance, incentives such as tax exemptions, duty-free imports, and long-term land leases have been introduced to attract investors. The government's efforts to streamline approval processes through the Special Economic Zone Authority (SEZA) reflect a commitment to facilitate ease of doing business within these zones.

Despite the ambitious plans, the development of SEZs in Pakistan faces several challenges. Historical challenges such as poor governance, bureaucratic inefficiencies, and institutional weaknesses persist as significant hurdles. These factors have undermined Pakistan's industrial base and impede the smooth functioning of SEZs. The complexity of regulatory environments and overlapping responsibilities between federal and provincial authorities have also contributed to delays and confusion, impacting investor confidence and project timelines. Furthermore, while incentives like tax exemptions are intended to attract investment, concerns exist regarding potential revenue losses and the adequacy of these measures to spur sustainable economic growth.

Learning from China's experience with SEZs, it becomes evident that tailored policies and consistent implementation are crucial for achieving long-term success. Addressing these challenges requires concerted efforts to reforming governance frameworks, clarifying roles and responsibilities, and strengthening collaboration between the public and private sectors.

Pakistan is in the early stages of establishing SEZs under CPEC, while China has nearly 40 years of experience in successfully setting up and operating such zones. It is important to assess the potential benefits of SEZs in Pakistan and what policymakers can learn from China's experience.

Scope and Objectives

In line with the above, this policy dialogue on *'Driving Special Economic Zones (SEZs) Development in Pakistan Under CPEC 2.0'* aims to discuss key challenges, explore collaboration opportunities, and provide a strategic roadmap for Pakistan to maximise the benefits of SEZs under CPEC 2.0. Key guiding questions for the discussion will include:

1. What are the potential opportunities and challenges of developing SEZs under CPEC 2.0 in Pakistan, particularly addressing historical governance issues, bureaucratic inefficiencies, and institutional weaknesses that may hinder their effective establishment and operation?
2. How can Pakistani and Chinese enterprises collaborate within SEZs under CPEC 2.0 to foster technology transfer, joint ventures, and economic growth, and what are the strategic implications of such collaborations for both countries?
3. How can Pakistan learn from China's experience with SEZs and adapt international best practices to tailor policies effectively, ensuring successful SEZ development and alignment with Pakistan's economic and industrial goals?

Panel Organisers

Dr Khalid Waleed, Research Fellow, Sustainable Development Policy Institute, Islamabad
Email: khalidwaleed@sdpi.org

Engr. Ubaid ur Rehman Zia, Senior Associate / Lead Energy Unit, Sustainable Development Policy Institute, Islamabad
Email: ubaid@sdpi.org

Ms Saira Adnan, Project Coordinator, Sustainable Development Policy Institute, Islamabad
Email: sairaadnan@sdpi.org