



## **DEVELOPMENT AND MANAGEMENT OF INTEGRATED SEZs AS STIMULUS TO ECONOMIC GROWTH: POLICY RECOMMENDATIONS FOR CHINA PAKISTAN ECONOMIC CORRIDOR (CPEC)**

*Hassan Daud Butt*

*CEO KP Board of Investment/Bahria University Islamabad*

[hdb4049@gmail.com](mailto:hdb4049@gmail.com)

*Urooj Aijaz*

*MD IRP/ Faculty Bahria University Karachi/ National Coordinator of Blue Economy.*

[uroojaijaz.bukc@bahria.edu.pk](mailto:uroojaijaz.bukc@bahria.edu.pk)

*Dr. Riaz Ahmed*

*Bahria University Islamabad*

[riaz.ahmed@bui.edu.pk](mailto:riaz.ahmed@bui.edu.pk)

### **Abstract**

*SEZs are considered as an economic tool since its first introduction but still there exist a very little evidence to date to figure out the factors of its vital outcome and success. This paper is aimed to evaluate different aspects of SEZs by investigating the growth of SEZs in developing and under developed economies of the world. For the generation of economic / business activities and employment opportunities, the investment in Industrial Sector Development is critical and a strong innovative economy can help to address the need for economic growth for targeting poverty and acceleration of socio-economic development. In the past decades number of SEZs has grown from Asia to Europe where SEZs play key role in economic prosperity and internationally most of the countries utilize their SEZs to attract foreign investors which will open the doors of employment for the population. However, not all SEZs play remarkably well like China's Shenzhen but China's performance in this area is a bench mark for the entire world as it achieves immense growth through its ventures of SEZs. It is estimated that almost 66m jobs are created by the SEZs all around the World out which almost 30m located at China. In Pakistan*



*CPEC is the project, transforming the Country and opening the doors of new business opportunities, making the country as an international investment destination. The objective of establishing Special economic zones under the China Pakistan economic corridor is to keep the wheel growth moving as it accelerates the pace of social prosperity through surge in trade, expanding export and self-sufficiency by import substitution. With 9 special economic zones (SEZs) under CPEC yet to get operational in Pakistan, it remains to be seen if the government's plan of setting up prioritized SEZs with both Greenfield and Brownfield investment will achieve desired results and not become "land grabbing real estate ventures". This study is an attempt to explore the potential of industrialization along with the policy implications necessary for sustainable growth of these SEZs. Success of these SEZs lie under its legislation, provision of utilities, level of federal autonomy and the flawless management system. Differences in the affectivity of SEZs are owned by the particularities of the territories and natural endowments where these zones are developed host country labor cost, market size and infrastructure are crucial and the delivery of positive outcome also largely depends on its geographical positions (Alexey Kuznetsov and Olga Kuznetsova, 2019). Establishment of sector specific zones for targeting tourism and agriculture sector development will also support the objective of socio economic development but still need special focus to develop basic infrastructure to attain sustainable development. This study will come up with the best suggested sustainable framework that bring high jumps of growth by contributing in the national output.*

**Keywords:** Belt and Road initiative (BRI), China Pak economic corridor (CPEC), Special economic zones (SEZs), Board of Investment (BOI), Internet of things (IoT), global value chain (GVC), Gross Domestic Product (GDP). Integrated Tourism SEZs (ITSEZs).

## **Introduction**

For Policymakers, SEZs are always regarded as a tool not only to stimulate growth by increasing foreign and domestic investment, improving Balance of payment and enhancing foreign reserves but also work as a factor that will change the dynamics of a country and its surrounding territories so, development of SEZs is always considered to be the part of broader development strategies. The incentives offered by governments to organizations are not only aimed at attracting new investments and creating employment opportunities,



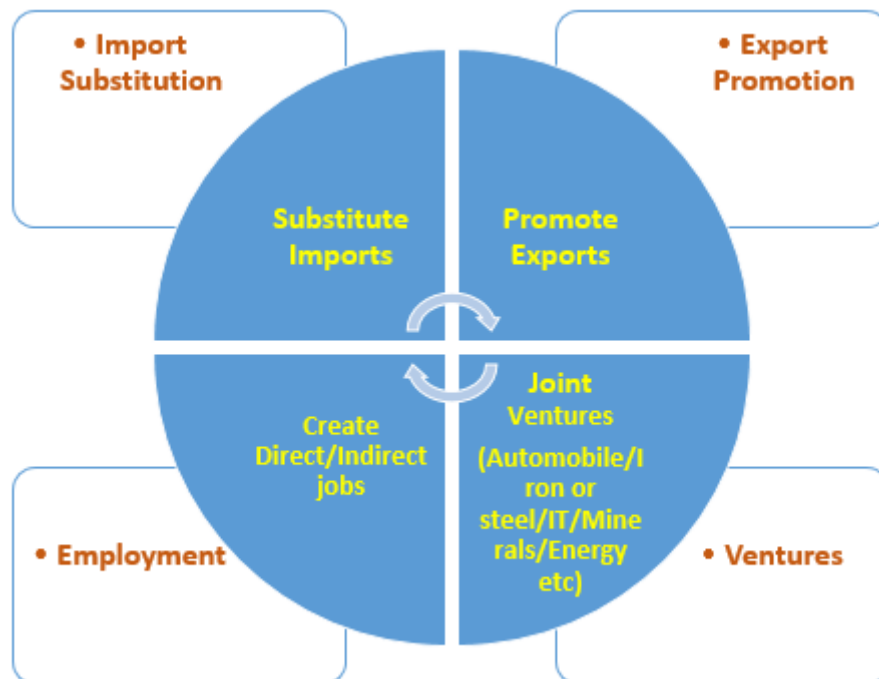
but with the target of attaining overall high returns in socio-economic development. These SEZs are, therefore, expected to as a growth stimulus that can be harvested by economic agents to grow local, regional and national economies. Many nations develop their SEZ as a strategy to boost clusters that bring support to key sectors of their economies as a part and parcel of their industrial development policies (ASEAN Guidelines for Special Economic Zones (SEZs) Development and Collaboration, 2016)

By attracting new investments along with the provision of desirable and enabling environment, Governments expect SEZs Subsidies and incentives to repay via economic growth and development in the future (Farole, 2011; Picarelli, 2016; Zeng, 2016) the investment in Industrial Sector Development is critical and a Strong innovative economy can help address the need for economic growth for addressing poverty and acceleration socio-economic development needs. Different countries follow different strategies of developing operational models for their SEZs depending upon their economic environment and which may vary in terms of economic development agenda, trade specialization, and sectoral factors. There are around 5,000 SEZs all across the globe and enough literature is available on these SEZs especially on the successful experience of the China through which China acquire rapid socio-economic growth by attracting huge investment and FDI (Zeng, Douglas Zhuhua. 2001). The first of its kind, SEZ was established in Ireland, with a concept of center of excellence for ink spot development but China gained popularity after the Shenzhen SEZ in the early 80s as part of Deng Xiaoping's vision (Mc. Kenney 1993). Initially, four SEZs (i.e., Shantou, Shenzhen, Xiamen, and Zhuhai) were set up and now there are almost 6 SEZs, 14 coastal open urban areas, 4 FT and 5 financial reform pilot areas in operation are already operational which is part and parcel of the federal investment policy adopted by the Government (Leonov, 2017). Although, setting up of SEZs does not guarantee industrial revolution as all SEZs are different by incentives it offer for its investors, time of creation and its geographical nomenclature. In addition, Investors assess these SEZs by its regional competitiveness and instrumental support offered by the host countries (S Naeem, A Waheed, Maha khan, 2020). Even some countries have sole enterprise SEZs set up by different business giants from the industry. While developing the regulatory structure of SEZ, it is very important to realize the fact that development of SEZ will change the country's economic standing only through investor specific will change the mind-set necessarily required for its development. The emergence of new and intelligent technologies have a profound impact on the development of infrastructure, as well as on the creation and development of special economic zones. According to the new approach, SEZs are now evaluated on the basis of these major aspects, i) the incentive package it offers ii) Special feature associated with the SEZ that increase its competitiveness like location, Focused industry, Size, Distance of SEZ from the port and nearby metropolitan



city, availability of basic infrastructure of utilities and the model adopted by the state for administration (Frick et al., 2019).

China Pakistan Economic Corridor (CPEC) is an investment initiative of around \$49 billion. Industrial Cooperation under CPEC is entering into the implementation stage and nine SEZs are being set up in all provinces, AJK, GB, and FATA approved in the 6<sup>th</sup> JCC held in Dec 2016 in Beijing, China. These 9 SEZs encompass advantages to attract Chinese, Global, and Local Investors too and the government is expecting following outcomes:



In the current economic situation, the requirement is to develop SEZs that are integrated in a way that provides one Window facilitation to the investors and offers incentives that are:



### **Rationale of the Study**

In the competitive world of globalization where every nation is struggling either to improve or sustain their economic prosperity, Pakistan is also fighting and working hard to achieve the desired goal. In order to leverage industrial cooperation under CPEC, Pakistan is working on SEZs that leads towards the goal of sustainable Industrialization which translates into economic wellbeing and socio-economic development of entire country. This paper is an attempt to identify the barriers along with the possible policy solutions and make recommendations that are necessary for the successful implementation of SEZs.

### **Literature Review/Discussion**

Federal Investment policy utilize SEZs as a major economic policy instrument for which they are building grounds for further investment by the state and other regional private investors through creation of attractive environment at its location as limited role of Governmental investment policy is preferable over absence (Leonov, 2017). As per Amendment act 2016, Special economic zones are the designated and demarcate geographical areas which should be authorized and notified by the board (BOA) headed by the Prime Minister of Islamic republic of Pakistan so, there exist a strong need to discriminate SEZ with other domestic policy instruments, especially by the foreigners. The policy tool of industrial parks and SEZs is not adopted in the vacuum. There are three principles fundamental to the development of SEZs. First, the zones cannot be insulated from the broader macroeconomic contexts of the economy. Policymakers must therefore assess these settings and must identify the strengths, weaknesses, opportunities, and threats of the economy. Secondly, the SEZs have to be situated where there are natural resources and qualified HR available (Hoelscher, 2016) argues that in certain cases SEZs



have failed to achieve desired outcome due to the complexity of the issues and challenges including poor infrastructure, poor availability of utilities and understanding of the outcome. In recent times SEZ development has undergone a shift to smart cities as Special Economic Zones that can attract global enterprises. Hence positioning the SEZs near airports, seaports, countries' borders, and guaranteed success (United Nation Industrial Development Organization, 2019).

Since the start of 'Reform and Open-Door' policy in 1979, SEZs were developed as the instruments to materialize the development strategy (Eunice Jieun Kim, 2017) and China today is the Asian leader that sets an example of SEZ success story at Shenzhen, located in neighbor of Hong Kong connected via blue sea and along with the improved infrastructure and that infrastructure has turned that small fishing village into revolutionary industrial state with the population upgradation from 30,000 to 10,000,000 in spite of scarce natural endowment (Shah, 2008). When China introduced the ground-breaking. Chittagong is another example of successful SEZ where positioning of zone is capitalized for acquiring advantages which highlight the positional advantage of any zone on trade (Enright. Scott and Chung 2005) and it also helps to overcome the geographical barriers by supporting growth at regional level (Demurger. Sachs, Woo, Bao, Chang & Mellinger, 2001). Therefore, development of Special Economic Zone in different locations have different set targets and objectives and the environmental ease provided in that zones entirely depends on set targets while the weak performance of few zones mostly due to the regulatory issues and few other administrative constraints highlighted by the industrial experts are;

- a. Understanding working culture and skills of the zone developers' partners in the development and management of industrial development zones. Problems involving regulations, policies, government services, and Productivity language and cultural issues;
- b. The lack of infrastructure; and
- c. Non-availability or delay in availability of utilities

In recent times globalization and technology is shaping every aspect of life in this world and it will impact millions of people in the near future Chen Xueyi, & Anna Katharina Meyer. (2011). So, there is a need to be proactive to catch up with other nations in the era of the 4th Industrial Revolution. China Pakistan Economic Corridor (CPEC) being the part of industrial revolution will create hope in the eyes of every Pakistani that it will bring prosperity in our country. CPEC scenario is transforming the country and opening the doors of new business opportunities, making the country the international business destination. Special Economic Zones (SEZs) are the pillar of the Industrial cooperation under CPEC and present the highest potential dividends for Pakistan. Since the inception



of the Joint Working Group (JWG), the development of SEZs under CPEC framework are considered as engines of economic growth, as the steps of restructuring of the economy and its model for growth, as well as enhancing national competitiveness have started to bear fruit, the Launch of CPEC SEZ has happened at an ideal time when the trend of factories moving out of China seems to accelerate with rising salaries in China and Chinese exports becoming the target of US and EU tariffs. Another factor contributing to this trend is the Chinese Government's push to move to high-end industrial manufacturing such as aerospace and tech. The following sites are the agreed CPEC SEZ sites.

List of approved SEZs (ref: [www.cpec.gov.pk](http://www.cpec.gov.pk))

No.	Province	Location
1	Sindh	China Special Economic Zone – <u>Dhabeji (Thatta)</u>
2	Punjab	Punjab-China Economic Zone, M-2 District <u>Sheikhupura</u>
3	KP	<u>Rashakai</u> Economic Zone on M-1
4	<u>Balochistan</u>	<u>Bostan</u> Industrial Zone
5	<u>Gilgit</u> <u>Baltistan</u>	<u>Moqpondass</u> , <u>Gilgit</u> SEZ
6	Federal	Model ICT Zone
7	Federal	Development of Industrial Park on Pakistan Steel Mills Land at Port <u>Qasim</u> near Karachi
8	AJK	<u>Bhimber</u> Industrial Zone
9	FATA	Mohmand Marble City

Notwithstanding the fact that Pakistan is making a significant effort to improve its overall competitiveness rankings, which is reflected in indices of various agencies, there are still areas where work needs to be done, which may lead to low competitiveness and productivity, and impede investment and diversification. As part of the CPEC industrial cooperation framework, policy makers are considering these SEZs as a solution for fast industrialization process and also as a testing ground for economic reforms under a given time plan under a tailored special regulatory regime.





In the agriculture sector, FMD free zone and Agri based SEZs are also suitable mechanisms to fast-track transformation in the agriculture sector in order to combat protracted food and nutrition insecurity and also meet both regional and global commitments such as Sustainable Development (Joseph Tinarwo, 2018). Similarly, Tourism today is one of the main sectors of the global economy and is growing rapidly everywhere, highlighting its social and economic importance. Tourism and tourism industries are powerful tools for diversification, change, and sustainable economic development. Considering the existing state of the tourism sector there is a requirement for the development of tourism infrastructure, logistical support for a number of tourist and recreational facilities. Quality of road transport infrastructure needs to be improved, tourist guides need to be trained and new ideas need to be explored. In a step towards tourism promotion, Integrated Tourism Zones (ITZs) of KP are to be discussed in the forthcoming JWG of Industrial Cooperation in 2021. The project comprises four components. The first component, sector enablement and tourism entrepreneurship aim to strengthen and formalize Khyber Pakhtunkhwa's travel and tourism (T and T) sector. The second component, infrastructure planning, and development will support the government these zones will create new employment, increase foreign exchange and revenues. When developing these tourist zones use two different conceptual approaches: Notwithstanding the fact that Pakistan is making a significant effort to improve its overall competitiveness rankings, which is reflected in indices of various agencies, there are still areas where work needs to be done, which may lead to low competitiveness and productivity, and impede investment and diversification. A clear focus the objectives of establishing SEZs with clearly defined characteristics aligned with the factor endowments are essential to enable leadership in making decision, attracting investments, and delivering on initiatives. Factors like employment and the creation of an industrial base should also be factored including the location with regional development objectives in mind. However, to achieve these objectives, suitable and sustainable infrastructure is required. The SEZs can be characterized as single management one window service





physically available within the zone. While SEZs differ in terms of types, objectives, markets, and activities the objects are fast economic growth. Zeng (2015) argues that SEZs manifest in an extensive array of forms including tourism zones, high-tech zones, science and innovation parks, and free ports, among other enterprise zones.

As a tool of socio-economic development and microeconomic growth, the tourism zone is to stimulate business attraction, growth, and increased employment opportunities in certain areas of the countries having natural endowment for sustainable tourism. When developing these tourist zones use two different conceptual approaches:

- a. Territorial
- b. Functional

The tourism zone is developed as a separate territory, where all investors may enjoy preferential tax exemptions like any other SEZ (Bobur Sobirov, 2018). According to the second approach, the zone is a preferential treatment applied to a certain type of entrepreneurial activity. Overall, the zones will provide the following benefits:

- a. Create a favorable environment for the active development of tourism
- b. Create additional jobs
- c. Investment in less developed areas
- d. Improve the local economy tourism area
- e. Increase in the level and quality of life





The tourism sector is a critical sector for employment in the Northern area in Pakistan and in a post COVID scenario, these tourism destinations will play a strong role towards competitive and prosperous Pakistan. If we utilize the nature by developing integrated tourism zones based on various natural resources, routes, religiously and culturally attractive places, development of Museums, Archeology and heritage sites and connect it with the ITSEZs to build the technological infrastructure and digitalization needed to ignite this sector than there is no doubt in the fact that we are successfully able to catalyze this sector which in turn contribute the national economy. In addition to this digitization of complete tourism sector via online travelling arrangements, hospitality and other facilities will also play a key role in exploitation of this sector. Arrangement of these kind of facilities will bring better image of Pakistan in front of the world so, efforts needed to develop one window SEZs, ITSEZs to make innovative and digital Pakistan. Integrated Tourism Zones (ITZs) are new specified tourist areas wherein the integration of activities such as construction, services, etc will be adopted in a sustainable and eco-friendly fashion to increase tourism, and safeguard the naturalness of such area. The government efforts to have these zones in PPP mode through a facilitation mechanism of one window will enable investors to navigate through approval channels through the support of relevant government departments and investment attraction agencies and provincial BoIs.

### **Objective of the Study**

This study has the following objectives,

1. To analyze the components of growth associated with these SEZs and CPEC.
2. To identify new concepts of SEZs
3. To come up with better and improved policy options necessary to achieve the objectives and removal of barriers.

### **Conclusion**

The development of successful SEZs like China will not be a dream if the conducive eco system of flexible model for legal and institutional management is incorporated along with the equipment's of skills, innovation and efficient infrastructure. Chinese enterprises are exploring venues for possible relocation overseas to destinations that provide the right set of incentives for them which is a huge opportunity for developing countries like Pakistan to capture a relocation of 85 million jobs, and billions of investment (James Zhan, 2017). Countries vying for this investment need to identify pillar industries especially in manufacturing sectors and aligning the requirements of the Chinese



enterprises and also explore JVs with a third country participation by adopting a partnership approach specially to attract new technologies. Technology parks and Industrial zones are the focal points of any country where drivers of competitiveness are integrated to bring better production possibilities that's why act a catalyst to boost industrialization through higher inflow of FDIs and link domestic economy to international productive units (Zeng 2010). This is the only path by which investments are captured by these industrial excellence units in Pakistan, and will jump start harmonized and diversified growth of entire economy and earn higher revenues for Pakistan. There exists a great potential for agro-based SEZs in Pakistan as well, as we already have successful example of these kind of zones in China, India and Mauritius but successful delivery of these kind of zones in Pakistan under CPEC require safe and secure foreign investment, enabling environment and the environment of entire region. Hence, development of SEZs is crucial for tapping growth so, there is dire need to incorporate appropriate and targeted strategy to incentivize these zones that require substantial institutional capacity. From a development perspective, as well as an investment policy perspective, SEZs are to be established as an integral part of industrial policy with active clustering efforts. The opportunity is in the integration of digital technology. This approach presents opportunities especially for enterprises within the zone. It is therefore essential that they adopt digital connectivity in order to remain competitive and relevant. The scope of SEZ development and investment may be based on following process:



### **Recommendations**

Developing new zones as a vehicle to develop manufacturing capabilities and competitive industrial forces especially with novel modes of operations will have new challenges for policymakers and zone developers in the evolving global competitive



landscape (James X. Zhan, and Bruno Casella, 2020). In these post-COVID 19 pandemic crucial times, we also need to expedite the push for improving the business environment in an effort to spur economic development amid the escalating constraints and uncertainties, and for this, we need to target specific sectors with improving efficiencies, business environment and promote market competition by crafting attractive policies through a government-industry dialogue. These SEZs should complement the overall economic development strategy and in particular be coherent with the overall investment and industrial policy framework. Utilities and infrastructure must be provided in a reliable and affordable fashion, and a supplier linkage that also help strengthen local enterprises. Learning from the best practices and Zones that failed to build linkages to the local economy because of various reasons including trade restrictions and in few regional cases zones failed to attract investors because, while infrastructure in the zone itself was suitable, the infrastructure around it was poor and electricity services are unreliable. In order to make these zones the appropriate economic tool, a value-chain approach with a cluster initiative can achieve desired results. Setting appropriate and comparative incentives, laws, regulations and environment standards can provide important benchmarks for responsible business conduct. The growing number of economic zones across region would generate competition as countries introduce flexible investment rules with targeted investment promotion measures, competing to create the enabling environment to attract investors to their zones through high-quality infrastructure and relevant environmental and social standards. For ensuring an efficient one window operation at investment attraction agencies (Federal& Provincial) for tourism and agriculture and IT, the following is recommended:

- a. The Government may give a clear signal in support for SEZs as part on the national industrial development agenda. These consistent messages will generate interest of the private sector.
- b. Providing all resources and sufficient funding to ensure fast development of SEZs prior to the SEZ approval.
- c. The roles of all stakeholders should be clearly separated in the institutional framework defining fixed task of the Government, Investment attraction agencies, developers, operator and enterprises.
- d. Integrate SEZ programs into national development strategies and plans and Support tourism and agriculture industries besides those that have a comparative advantage through SEZ development.
- e. Good practices in environmental standards must be followed by governments and firms



involved in any SEZ.

- f. Efforts to attract investment by national or regional authorities and management companies of SEZs are duplicative and are often in conflict, the same must be harmonized.
- g. Establish simple and transparent Incentive regimes providing multiple interactions with different agencies. Incentives should target new sectors and economic agenda with performance and impact monitored.
- h. Smart SEZs development involves society, economy, entrepreneurship, innovation, culture, and infrastructure development, it is imperative to involve stakeholders from different backgrounds in SEZs planning.
- i. The Governments may set up stringent and regular indicators to monitor the success of the SEZs.
- j. Lastly, assess and refine the quality of FDI sources, as well as avoid FDI sources with poor quality such as outdated technology or harming the environment and provincial governments may be cautioned on this aspect.



## **References**

- Zhan, J. X., Casella, B., & Bolwijn, R. towards a New Generation of Special Economic Zones. In *The Oxford Handbook of Industrial Hubs and Economic Development*.
- Narula, R., & Zhan, J. (2019). Using special economic zones to facilitate development: policy implications. *Transnational Corporations Journal*, 26(2).
- Aggarwal, A. (2010). Economic impacts of SEZs: Theoretical approaches and analysis of newly notified SEZs in India.
- Economic Zones, H. C. S. Asian Economic Integration Report 2015.
- Neveling, J. P. W. (2015). Free trade zones, export processing zones, special economic zones, and global imperial formations 200 BCE to 2015 CE. *The Palgrave Encyclopedia of imperialism and anti-imperialism*, 1007.
- Nations Unies. Division de la population, UN Department of Economic, & United Nations. Department for Economic. (2001). *World population prospects: The 2000 revision* (Vol. 3). UN.
- Höffken, J. I., & Limmer, A. (2019). Smart and eco-cities in India and China. *Local Environment*, 24(7), 646-661.
- Trelewicz, J. Q. (2012, June). An analysis of technology entrepreneurship in the modern Russian economy exploring SEZ, technoparks, and the Skolkovo program. In *International Technology Management Conference* (pp. 288-293). IEEE.
- Alizadeh, Y. (2012, June). Firm-level technological capability assessment; a literature review. In *International Technology Management Conference* (pp. 398-404). IEEE.
- Khan, K., Khan, K., & Anwar, S. (2016). Special economic zones (SEZs) and CPEC: Background, challenges, and strategies. *The Pakistan Development Review*, 203-



216.

Khan, K. (2019). Special Economic Zones (SEZs) and Prospects for the Domestic Economy of Pakistan.

Special Economic Zones (SEZs) and Prospects for the Domestic Economy of Pakistan  
Khan, Karim, 2019.

Zeng, D. Z. (Ed.). (2010). Building engines for growth and competitiveness in China: Experience with special economic zones and industrial clusters. World Bank Publications.

World Bank. (2007). World development report 2008: Agriculture for development. The World Bank.

Zeng, D. Z. (2015). Global experiences with special economic zones: Focus on China and Africa. The World Bank.

Frick, S. A., & Rodríguez-Pose, A. (2019). Are special economic zones in emerging countries a catalyst for the growth of surrounding areas? *Transnational Corporations Journal*, 26(2).

United Nation Industrial Development Organization. (2019). International Guidelines for Industrial Parks, Cross-disciplinary Team on Industrial Parks.

Chen Xueyi, & Anna Katharina Meyer. (2011) Management Models of Industrial Parks in China, Overview of the current situation and draft concept for an international forum.