SPECIAL ECONOMIC ZONES AND INDUSTRIAL PARKS UNDER CPEC: OPPORTUNITIES AND CHALLENGES

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Abstract

China introduced the policy of 'go global' (Zou Chuqu), in the 1990s to explore the overseas markets for building global brands. The strategic purpose for the establishment of industrial and trade zones abroad was to increase demand for Chinese manufactured machinery, boost export-oriented growth, restructure domestic value chain, and work overseas in joint ventures and transfer of the successful Chinese Special Economic Zones (SEZs) model. In 2006, the Ministry of Commerce of China (MOFCOM) unveiled its intentions to build more than fifty SEZs across the globe. Consequently, by 2010 more than 200 Chinese companies invested $700 million in the development of 16 SEZs and generated $2.5 billion dollars in revenue. Simultaneously, 10 out of 16 zones made remarkable progress in attracting investments. But Chinese overseas SEZs face four key challenges: First, lack of management capability of zone developers. Second, difficulties in coordination with host governments. Third, the lack of necessary offsite infrastructure. And fourth, financing difficulties faced by the developers. The paper, based on past Chinese experience, assesses the opportunities and challenges for SEZs under CPEC by answering the following two main questions: Will the SEZs and Industrial Parks (IPs) under CPEC face challenges similar to Chinese initiatives globally? What will be the major opportunities and

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challenges to SEZs and IPs in Pakistan? The paper argues that though the SEZs and IPs have a huge potential to transform the economy of Pakistan, they will fall in various administrative, financial, and legal traps, which will hinder the pace of their development.

پاک چین اقتصادی راہداری کے تحت خصوصی اقتصادی علاقے اور صنعتی پارک: مواقع اور مشکلات

محمود حسین اور سمارا محمود

خلاصہ

چین نے نوے کی دہائی میں اپنی 'گو گلوبل' حکمت عملی متعارف کروائی تا کہ اپنی بین الاقوامی مصنوعات کو ترویج دے سکے اور اپنے عالمی برانڈز متعارف کرائے جا سکیں۔ بیرون ملک صنعتی اور تجارتی علاقوں کے قیام کا تزویراتی مقصد چین میں تیار شدہ مشینری کی طلب میں اضافہ کرنا۔ برآمدات پر مبنی ترقی کو فروغ دینا، اندرونی پیداواری نظام کی تشکیلِ نو کرنا، بیرون ملک مشترکہ منصوبوں پر کام کرنا اور کامیاب چینی خصوصی اقتصادی علاقوں کے نمونے کی منتقلی تھا۔ 2006 میں چین کی وزارت تجارت نے دنیا بھر میں پچاس خصوصی اقتصادی علاقے بنانے کا منصوبہ ظاہر کیا۔ نتیجے میں 2010 تک 200 چینی کمپنیوں نے 16 خصوصی اقتصادی علاقوں میں 70 کروڑ ڈالر کی سرمایہ داری کر کے ڈھائی ارب ڈالر کمائے۔ 16 علاقوں میں سے 10 نے سرمایہ کاری کو اپنی طرف لانے میں قابلِ ذکر پیش رفت کی۔ لیکن چینی بیرون ملک خصوصی اقتصادی علاقوں کو چار اہم مشکلات کا سامنا ہے: سب سے پہلے، علاقہ ڈویلپرز کی انتظامی صلاحیت کی کمی۔ دوسرا، میزبان حکومتوں کے ساتھ تعاون میں مشکلات۔ تیسری، ضروری آف سائیٹ بنیادی ڈھانچے کی کمی اور چوتھا، ڈویلپرز کو مالی مشکلات کا سامنا۔ یہ مقالہ گزشتہ چینی تجربے کی بنیاد پر سی پیک کے پیدا کردہ مواقع اور اُن کی راہ میں حائل مشکلات کا احاطہ کرنے کے لئے مندرجہ ذیل دو اہم سوالات کا جواب دیتا ہے: کیا سی پیک کے تحت قائم

ہونے والے خصوصی اقتصادی علاقوں اور صنعتی پارکوں کو اُنہی مسائل کا سامنا کرنا پڑے گا جن کا سامنا اسی طرح کے دیگر اقدامات کو ہوا؟ پاکستان میں قائم کردہ خصوصی اقتصادی علاقوں اور صنعتی پارکوں کے لئے کیا مواقع ہیں اور ان کو کیا مشکلات درپیش ہوں گی؟ یہ مقالہ دعویٰ کرتا ہے کہ اگرچہ خصوصی اقتصادی علاقوں اور صنعتی یارکوں میں یاکستان کی معیشت کو تبدیل کرنے کی بہت بڑی صلاحیت ہے، وہ مختلف انتظامی، مالی اور قانونی مسائل کی لپیٹ میں آجائیں گے، جو اُن کی ترقی کی رفتار کو کم کردے گی۔

Since opening up its economy to the world in 1979, China has achieved remarkable success in economic and infrastructure development and for the first time after the communist victory, it has become the world's second-largest economy in 2010.[1] But the Communist Party of China (CPC) leadership found flaws in the existing economic structure and, ultimately, in 2012, introduced the new domestic and foreign economic policy the 'New Normal'. On the foreign front, Chinese President Xi Jinping unveiled the ambitious plan to revive the Silk Road.[2] The Belt and Road Initiative (BRI) has two components: One Belt exclusively an overland corridor, while the 21st century Maritime Silk Road is a sea-based corridor. CPEC is a land-based economic corridor connecting China's Xinjiang region with the port of Gwadar in Pakistan. Initially, the multi-billion project was announced in May 2013 by Chinese Premier Li Keqiang.[3] However, the project materialised in April 2015, when Chinese President Xi Jinping paid a state visit to Pakistan and signed 51 MOUs and agreements worth around $46 billion,[4] which later reached to $65 billion.

CPEC has vital geostrategic significance for Beijing as it will connect China's autonomous region of Xinjiang with the Gwadar port of Pakistan and will reduce the 12,000 km Chinese energy and trade route via sea to 3,000 km overland. The Chinese ambassador to Pakistan described it as a 'flagship project' of China's One Belt One Road (OBOR) strategy and the former Prime Minister of Pakistan Nawaz Sharif referred to it as a 'game changer' for the whole region. The project is a combination of highways, railway lines, energy projects, special economic zones, industrial parks, and fibre optics network. Construction work on early harvest projects is in full swing and is expected to be completed by the end of 2018. Pakistan has allocated $11 billion for infrastructure and communication projects, while $34 billion are reserved for energy and industrial development projects.[5]

The formation of Special Economic Zones (SEZs) and Industrial Parks (IPs) can be traced back to the 15th century, but the narrative gained momentum throughout the world in the post-World War II era.[6] The first Export Processing Zones (EPZs) were established in Ireland and Taiwan in the 1960s. The SEZs and IPs inherited a broader definition and so far 66 different topologies and classifications are used to describe Free Economic Zones (FEZs). For example, free ports, and Chinese SEZs, Economic and Technology Development Zones (ETDZs), Free Trade Zones (FTZs), and free frontier trade zones (FFTZs) are designated as EPZs, but these zones are different from classical EPZs. Some researchers described EPZs as FTZs and SEZs.[7]

The term Special Economic Zones (SEZs) herein refer to free trade zones (FTZs), export processing zones (EPZs), Industrial parks (IP), economic and technology development zones (ETDZs), high-tech zones, science and innovation parks, free ports, enterprise zones, and others.[8] SEZs possess several physiognomies including the geographically delimited and secured area managed through a single administrative authority. It offers certain benefits and incentives to businesses in the area of the zone such as a separate customs area (duty-free benefits) and modernised procedures for investment.[9] Additionally, a government of a particular country passes more liberal and modest laws to facilitate SEZs than those prevailing in the country. More in general, SEZs offer two main types of benefits: First are 'static' benefits such as job creation, growth of products for export, increment in revenues for the government, and growth of foreign exchange reserves. Second and more 'dynamic' benefits are skill upgrading, transfer of high technology and innovation, economic diversity, enhancement of local firm's productivity, etc.[10]

The rationale behind establishing SEZs is to achieve the following four policy objectives:

1. Attraction of inward foreign direct investment (FDI);
2. Generation of employment and serves as "pressure valves" to alleviate large-scale unemployment;
3. Support for economic reforms on a large scale; and

4. Establishment of laboratories to test new policies and strategies for sustainable economic growth. Economists believe that SEZs are a driving force to achieve industrial development effectively.[11]

Although experts believe that SEZs and IPs along the CPEC route will provide the backbone strength to Pakistan's rapid industrialisation and employment generation,[12] they will also fall in various administrative, legal, and financial traps, which this paper aims to highlight. The study adopts a nonpartisan approach to critically analyse the prospects, opportunities, and challenges to SEZs and IPs and provides some valuable policy recommendations to stakeholders. In line with the stated objectives, the paper is divided into different sections. The next section is dedicated to a review of the extensive literature on Chinese overseas investments in SEZs around the globe and highlighting the challenges and policy loopholes, which have disturbed the Chinese zone developers. The rest of the paper is focused on opportunities, challenges, limitations, and recommendations for SEZs and IPs in Pakistan.

Prerequisites for Successful SEZs

Many factors are necessary for successful implementation of SEZs and IPs. In every case, the situations and factors might be different. However, the success of SEZs and IPs draws on some common key elements. It is noted by researchers that strong commitment and support from the government is a key factor. First, the determination and special interest of top leaders increase the chances of success and expansion of SEZs. Second, land reforms are necessary for the implementation of wide-scale export-oriented zones. The most liberal and investment friendly structure of land acquisition makes it easy for zone developers and enterprises to purchase or lease land for business activities. Third, investment incentives and institutional autonomy is another factor. The various fiscal and non-fiscal incentives and preferential policies encourage firms to invest in the zones. Other requirements are strategic location of zones, a sound supply chain for raw material, provision of on-site and off-site infrastructure including roads, railways, electricity, gas water, sewerage, telephone, secure business and property rights to foreigners, innovative culture, clear objectives, provision of skilled and professional workforce, and ports.[13]

China's Global Experience of SEZs and IPs

The so-called 'go global' (*Zou Chuqu*) policy was initiated by China in 1999 and was heavily supported by the Central and Provincial governments as well as Chinese policy banks, such as the China Development Bank.[14] 'Go Global' emboldens Chinese enterprises to go abroad to hunt for export markets for domestic products, acquire new skills and advance technology, and to invest abroad.[15] The policy goal was to achieve various strategic objectives by establishing overseas SEZs and IPs. The first objective was to increase demand for Chinese-made machinery and after sale services. Second, Chinese companies would be able to avoid trade barriers imposed on China by producing overseas and exporting to North America and Europe. The third was to restructure the domestic economy and boost the value chain at home. The fourth was to create economies for overseas investment and assist Small and Medium Enterprises (SMEs) in groups. Thus the 'go globa' policy aims to transfer Chinese domestic model of establishing SEZs, which China believes would assist recipient countries.[16]

In 2006, the intentions of the Chinese government were revealed and this was to establish up to fifty SEZs in at least twelve countries. Among those, seven were identified in Sub Saharan Africa. The formation of SEZs was supported by the Chinese Ministry of Commerce (MOFCOM) with a total investment of $2 billion. The policy plan has also explained that some 500 Chinese companies would operate in overseas ventures.[17] Resultantly, more than ten African countries expressed their willingness to host cooperation zones. And, for the implementation of SEZs, MOFCOM held two rounds of tenders in 2006 and 2007, respectively, where more than 120 Chinese companies participated and exchanged proposals with the ministry. Afterwards, a panel of experts selected seven locations in Africa and some others in different continents and countries around the globe.[18] And the three stakeholders were involved in pilot zone projects including the Chinese developers, host country's government, and the Chinese government.

The Chinese developers and government are influential actors to implement zone initiatives in overseas countries. The Chinese government promised to provide financial support to developers through different special funds. Under the scheme, every zone developer had access to grants of RMB 200-300 million ($29.4-44.1 million) for construction activities as well as for long-term loans of up to RMB 2 billion ($294 million).[19] Developers can also apply for up to 30% subsidies from MOFCOM's Trade and Economic Cooperation Zone Development Fund for preconstruction costs including feasibility studies, travel expenditures for planning and negotiation, land purchase, preparing a bid), and in implementation (the land purchase or rent, space for factory or office, legal and notary fees, customs, and insurance). In 2007, one of China's major policy banks 'China Development Bank' had set up the China-Africa Development Fund (CADF) with a total capital of $1 billion to support the developers' activities.[20] It also confirmed its intentions to invest in at least three of the seven African zones in Nigeria, Mauritius, and Egypt.

Under the 'go global' policy in 1999, Chinese company Haier established an industrial zone in Camden South Carolina, US, and in 2006 it established a second industrial zone in Lahore, Pakistan, with a local partner. Similarly, in 1999, the Chinese government entered into an agreement with the Egyptian government to build Suez Economic Area. In 2003, Chinese state-owned zone developers embarked on developing two zones in Zambia, a copper producing cluster in the copper belt province and a recreational cluster outside Lusaka. So far, China has built 12 SEZs in different countries with MOFCOM support.[21]

MOFCOM sources stated that most of the zone projects are still in the early stages of their implementation and by June 2010, Chinese companies had invested more than $700 million in different zones. It is also reported that Chinese companies have invested $2.5 billion dollars and 10 out of 16 zones have made incredible progress in infrastructure and attraction of investment. The table below provides information about Chinese SEZs in different countries and their progress. However, this table only covers MOFCOM supported SEZs. The SEZs developed by private developers are not included.

SEZs supported formally by MOFCOM

Region	Zone	Initiated	Status
Sub-Saharan Africa			
1. Zambia	Chambishi Nonferrous Metal Mining Group Industrial Park Lusaka Sub-zone	2003	Operational Under Construction
2. Nigeria	Lekki Free Trade Zone Ogun Guangdong Zone	2003 2009	Under Construction (Operational plans 2010) Under Construction (Operational plans 2010)
3. Ethiopia	Eastern Industrial Park	2007	Under Construction and partly operational (a cement

Region		Zone	Initiated	Status
				plant
4.	Mauritius	JinFei Economic and Trade Cooperation Zone	2009	Under Construction
North Africa				
5.	Algeria	Jiangling Economic and Trade Cooperation zone	2007	Delayed due to policy issues
6.	Egypt	Tianjin TEDA Suez zone	2007	Operational
East Asia				
7.	Vietnam	China-Vietnam (Shenzhen-Haiphong) Economic and Trade Cooperation Zone Longjiang Industrial Park	2008 2009	Under construction Under construction
8.	Thailand	Thai-Chinese Rayong Industrial Zone	2007	Operational
9.	Cambodia	Sihanoukville SEZ	2008	Under construction
10.	Indonesia	China-Indonesia Economic Trade Zone	2008	Construction contract award 2010

Region	Zone	Initiated	Status
South Asia			
11. Pakistan	Haier-Ruba Industrial Zone	2006	Delayed (land access problems)
Eastern Europe			
Russia	Ussuriysk Economic and Trade Cooperation Zone	2006	Under construction and partly operational

Source: World Bank compilation

Policy Loopholes and Challenges to Chinese Overseas SEZs

Various studies have disclosed different policy loopholes and challenges to Chinese SEZs, which are common in many countries. We have found the following loopholes and challenges:

1. Unavailability of off-site infrastructure and incoherent framework of incentives including the customs, foreign exchanges, work permits and high administrative fees in host countries.
2. Conflict of interests between stakeholders involved in SEZs development: zone developers seek high profits while host governments stress to generate large-scale employment and industrialisation through zone development.
3. Failure of large-scale generation of employment opportunities for locals and import of Chinese nationals on management and highly skilled positions.
4. Poor security conditions for Chinese nationals, lack of political will, and chaos.
5. Gaps in promised investments by zone developers and inability of MOFCOM and other financial institutions to deliver promised subsidies and incentives to developers.

6. Failure of technology transfer and generation of revenues for host government.
7. Reluctance of zone developers to pay for land acquisition for zone development and the unwillingness of host governments to provide land free of cost.
8. Low wages for local labourers and inadequate labour standards.
9. Poor domestic supply chain of raw material, which causes failure of industrialisation in the host country.
10. Poor location, lack of strategic planning, and inadequate development capability for zone development.
11. Failure of host governments to provide committed incentives and benefits.

Some Achievements of SEZs

Despite many challenges, several zones substantially progressed and added a significant share to the local economy and employment generation. For example, 48 investors including Imad Oil and Gas FZE invested $200 million, China Railway Construction Corporation (CRCC) added $50 million, YFK Pharmaceutical FZE $30 million, and others pledged to invest $1.1 billion in Lekki Free Trade Zone.[22] The Ogun-Guangdong Free Trade Zone also attracted 35 financiers and secured nearly NGN 3 billion (around $8.3 million) worth raw materials annually. It also paid NGN 800 million (around $2.2 million) salaries to 2,500 Nigerian workers and NGN 500 million (around $1.4 million) for import duties for container clearing annually.[23] In Ethiopia, Huajian Shoe Manufacturer had established two production plants with a capacity of 2,000 pairs per day to export to the US and European markets. It generated 2,300 jobs for locals and training to its employees. The company disclosed its plan to spend $2 billion in the next 10 years to strengthen the manufacturing base which will provide employment opportunities for up to 100,000 Ethiopians.[24]

SEZs and IPs under CPEC

The Ministry of Planning, Development, and Reforms (PDR) is the premier institution to plan and execute the national economic and infrastructure development projects. But, as the CPEC is an ambitious project executed by the two time-tested friends, the ministry has established a separate planning and monitoring division with the name of CPEC co-chaired by Minister for PDR of Pakistan and Vice Chairman of the National Development and Reform Commission (NDRC) of China. The Division is responsible to oversee the pace of work on all projects and conducting feasibility studies for proposed projects. So the SEZs also fall under the mandate of this division.

A Chinese scholar stated that SEZs and IPs along the CPEC route would provide the backbone strength to Pakistan's rapid industrialisation and employment generation.[25] According to the daily *Express Tribune* in January 2016, the Board of Investment (BOI) disclosed that the federal government intended to develop 48 SEZs and IPs along the corridor.[26] However, later 27 potential sites were identified for zones in all four provinces and the capital territory.[27] Khyber Pakhtunkhwa (KP) would lead with a total of 8 SEZs among all provinces, while Punjab and Balochistan follow by 7 each, 3 in Sindh, and 1 each in Gilgit-Baltistan and Islamabad territory.

Proposed SEZs & IPs under CPEC[28]

Sr. No.	Name of SEZ	Proposed Area in Acres	Target Industry
Balochistan			
1.	Gwadar SEZ	3,000	Mines & Minerals, Food Processing, Agriculture,

Sr. No.	Name of SEZ	Proposed Area in Acres	Target Industry
			Livestock and Energy
2.	Lasbela Industrial Estate	1,290	
3.	Turbat Industrial & Trading Estate	1,000	Date and Fruit Processing
4.	Dera Murad Jamali Industrial & Trading Estate	50	
5.	Winder Industrial & Trading Estate		
6.	Mini Industrial Estate Khuzdar	50	Mine and Minerals
7.	Bostan Industrial Estate	1,000	Fruit/Food Processing, Steel Mills, Oil and Ghee Units
Sindh			
1.	Chinese Industrial Zone near Karachi	2,000	
		2.	Port Qasim Textile City
3.	Marble City Karachi	3,00	
Khyber Pakhtunkhwa			
1.	Hattar SEZ Phase-VII	424	Food, Pharmaceuticals and Engineering
2.	Mansehra Industrial	80	Marble &

Sr. No.	Name of SEZ	Proposed Area in Acres	Target Industry
	Zone		Granite
3.	Nowshera Industrial Estate	1,000	Auto, Fruit/Food Processing and Textile value addition
4.	Chitral Industrial Estate	8o	Food Processing
5.	Ghazi Industrial Estate	90	Manufacturing
6.	D. I. Khan Industrial Estate	188	Date Packaging & Processing
7.	Industrial Estate between Kohat & Karak	1,000	
8.	Bannu Industrial & Economic Zone	4,00	
Gilgit Baltistan			
1.	Moqpondass Industrial Estate	250	Mining & Food Processing
Punjab			
1.	Pind Daden Khan Industrial City	10,000	Agriculture, Textile, Food Processing, Livestock, Manufacturing and Energy
2.	Multan Industrial Estate-II	80	
3.	Rahimyar Khan Industrial Estate	450	Agriculture, Textile, Food

Sr. No.	Name of SEZ	Proposed Area in Acres	Target Industry
			Processing, Livestock, Manufacturing and Energy
4.	Bhalwal Industrial Estate	4,00	
5.	Dera Ghazi Khan Industrial Estate	3,815	
6.	Mianwali Industrial Estate	6,00	
7.	Rawalpindi Industrial Estate	2,00	
Capital Territory			
1.	Detail not available	N/A	N/A

More concrete and updated information is available on the website of the Division indicating the establishment of 9 SEZs across the country on a priority basis, which is given below:[29]

Top Priority SEZs

Zone Name	Location	Area	Remarks
Rashakai Economic Zone, M-1, Nowshera	KP	1,000	Land Acquired
China Special Economic Zone Dhabeji	Sindh	1,000	Land Earmarked
Bostan Industrial Zone	Balochistan	1,000	200 Acres have been developed
Allama Iqbal Industrial City	Punjab	3,000	

(M3), Faisalabad			
ICT Model Industrial Zone, Islamabad	Islamabad	200-500	Identification of land under process
Development of Industrial Park on Pakistan Steel Mills Land at Port Qasim near Karachi	Federal Govt	1,500	Land Earmarked
Special Economic Zone at Mirpur, AJK	AJK	1,078	
Mohmand Marble City	FATA		
Moqpondass SEZ Gilgit-Baltistan	Gilgit-Baltistan	250	Land Allotted

Source: *CPEC, Government of Pakistan.*

Prospects and Opportunities

The Board of Investment (BOI) stated that Pakistan is an attractive destination for foreign investors based on five major magnetic characteristics for investment including the geo-strategic location, young and highly skilled workforce with English proficiency, positive economic outlook with sustainable economic growth, friendly investment policy, and SEZs.[30] After the December 2015 amendment in the FDI Law, Pakistan gained the most liberal and investment-friendly country status to establish SEZs. Article 36 specifically explains the benefits for zone developers that in the following words:

> Zone developers have a one-time exemption from all customs duties and taxes on plant and machinery imported into Pakistan except the items listed under Chapter 87 of the Pakistan Customs Tariff, for setting up of SEZ subject to verification by the BOI.

In addition, zone developers have all kinds of tax exemption for a period of five years on all kinds of accruable income. Article 37 mentions that the zone enterprises have similar benefits as zone developers. Besides, it offers an exemption to enterprises from all kinds of tax from June 2020 for ten years, but if zone enterprises or firms start commercial production after ten years they shall be exempted from all tax for next five years.[31]

The government of Khyber Pakhtunkhwa has established the Provincial Economic Zones Development and Management Company (KPEZDMC) to oversee the legal, financial, and administrative tasks of SEZs and IPs. The available information discloses the proposal of three SEZs, including the Hattar Phase 7, which will be developed over 424 acres and host food, pharmaceuticals, and engineering industries. The CEO of KP EZDMC stated that Hattar SEZ will generate some 30,000 jobs. On the other hand, Rashkai SEZ will be set up over 1,000 acres and accommodate auto, fruit, food packaging, and textile value addition industries. It is anticipated that it would generate some 50,000 jobs. Jalozai Marble and Mineral Economic Zone would be set up over 287 acres and generate some 20,000 jobs.[32] Similarly, some analysts predict that the CPEC would generate some 700,000 direct jobs in Pakistan by 2030 and their major portion will materialise after the SEZs establishment. So it is anticipated that SEZs and IPs will start a new era of industrialisation in the country and will contribute a substantial share to the GDP growth and employment generation.

It is also predicted that Balochistan will convert from home of terrorism to a hub of economic prosperity. Presently, it is the most deprived province of the country and the socio-economic fabric of the local population is not satisfactory. But, it is estimated that SEZs will change the entire landscape of the socio-economic status of the province.[33] Besides Balochistan, other provinces of the country are more populous with the mostly young and dynamic workforce and it is projected the that SEZs will accommodate the youth of the country. These zones will increase manufacturing power and will boost the manufactured exports of the country. The SEZs will also encourage private investors to enter into zone areas where they will benefit from special privileges for investment and the public-private partnership (PPP) will accelerate industrialisation and open a window to import new technology and skills in the country.

Punjab is the largest province of the country and is expected to benefit most from the CPEC projects. Five industrial estates, namely Multan Industrial Estate Phase-II, Bhalwal Industrial Estate, Mianwali Industrial Estate, Rahim Yar Khan Industrial Estate, Dera Ghazi Khan Industrial Estate and Rawalpindi Industrial Estate are supposed to become special economic zones and will generate some 150,000 jobs. Another three SEZs in Punjab province are expected to generate Rs.1 trillion (around $7.2 billion) capital with 2,000,000 jobs.[34]

Challenges

Although China and Pakistan are confident about the prospects and opportunities offered by CPEC, there is also a tendency about challenges faced by the SEZs and IPs. It can be argued that the SEZs and IPs under CPEC will encounter various challenges and hindrances including terrorism, poor governance and large-scale corruption, chaotic law and order situation, difficulties in land acquisition, lack of consensus among federating units, water scarcity, red-tapism in the way of zone development, etc.

Pakistan witnessed many political controversies over mega development projects such as the Kalabagh Dam which has been abandoned after mounting criticism from KP and Sindh provinces.[35] It is expected that SEZs might meet a fate similar to the Kalabagh Dam if comprehensive measures are not adopted to ease the tensions between the provinces over the fair share of CPEC benefits. The clash of authority and overlapping laws of the federation and its units might make the application process for zone development more lengthy and complicated, because, at the federal level, the Board of Approval (BOA) is the final authority, whereas the provincial governments have also set up parallel industrial development authorities.[36] Provincial zone authorities are required to forward applications received from developers to the board of investment, which should act on the recommendations of the Board of Approvals and the Approval Committee.[37] Therefore, it can be said that dual-level authority may hinder the pace of the application process for zone development as well as create a clash of interests between provincial and federal governing bodies.

Pakistan is suffering from poor governance since 1947 and many mega development projects have stalled due to this. The SEZs under CPEC are no exception to this illness. The country is a victim of red-tapism which delays the process of development projects and causes inefficiency. The absence of good governance leads to corruption and no office and no tier of the public sector is immune from it. It has also spread its influence to the judiciary. The demonstration of corruption in Pakistan has many forms including financial and political corruption, nepotism, and misuse of power. As of 2017, on the Corruption Perception Index of Transparency International, Pakistan is the 117 the least corrupt country out of 175 countries. Although the country is making serious efforts to curb corruption, indicators show that it will not be able to completely get rid of it in the near future.

Mega development projects may face high rates of corruption because almost every public office is full of corrupt officers who demand a bribe to pass the development projects. Similarly, poor governance and concentrated power in individuals also disrupt the efficiency of the public sector. For example, health, education, law enforcement agencies, and others.[38] Although the parliament passed the 18th amendment to the Constitution, which transferred substantial the powers to the provinces, the smaller provinces claim that the central government is interfering in their operations. The major reason for the tension is the route change of CPEC and the provinces are of the view that the central government will again bypass them in the phase of SEZs.[39]

Pakistan is committed to providing offsite infrastructure including the provision of electricity, gas, and other basic facilities to SEZs, but the country is already facing severe shortfalls of electricity and gas for the last several years.[40] The situation of gas shortfalls becomes more chronic during the winter seasons with gaps in domestic demand and supply. The country's domestic gas reservoirs are sharply depleting and it is facing a 40% shortage of its total demand. Prime Minister Shahid Khaqan Abbasi once said that the Sui Northern Gas Pipelines and Sui Southern Gas Company had failed to fill the gap between supply and demand. He also said that the government was not in a position to solve the problem in the near future. Resultantly, KP and Punjab provinces are the biggest victims of gas shortage facing 200 million cubic feet shortage per day.

To rescue the country from gas shortfall, the government has entered into a deal with Qatar to import LNG, but the project has become controversial due to its distribution among provinces.[41] The deal also has negative consequences for the Pakistani economy as the imported LNG from Qatar is $18 per million British thermal units which is four times higher than the wellhead gas price of $4 per MMBtu in Pakistan.[42] It is reported that seven approved SEZs including Quaid-i-Azam Apparel Park, Sheikhupura; M-3 Industrial City, Faisalabad; Value Addition City, Faisalabad; Khairpur SEZ; Bin Qasim SEZ; Korangi Creek; and Hattar SEZ are facing challenges of gas allocation, lack of infrastructure facilities, power supply and non-existence of telephone and internet services. The SEZ Value Addition City, Faisalabad, requested for provision of 485MW electricity, however, only 40MW was approved.[43]

Water is necessary for human survival, as well as for large-scale industrial production and hydropower generation. In recent years, water scarcity has become a major concern worldwide and the World Economic Forum's Global Risks Report 2013 included water crisis in top five global risks and the United Nations declared 2013 as the international year of water cooperation. Pakistan is among those few countries that are facing a serious water crisis. Pakistan's vision 2025 document is a testament to this. The document states, "With an estimated population of 227 million by 2025, Pakistan's current water availability of less than 1100 cubic meters per person, down from 5,000 cubic meters in 1951 classifies it as a 'water-stressed' country if action is not taken urgently."[44] Due to inadequate planning and failure to build large reservoirs of water, Pakistan has only 30 days of water storage capacity compared with other countries of the same climate having 1,000 days storage capacity.

Water depletion is more drastic in Balochistan where seven SEZs are proposed including the Gwadar free trade zone. Former Governor of Balochistan Mohammad Khan Achakzai warned that lingering water scarcity might affect the implementation of the China-Pakistan Economic Corridor project.[45] In recent years, the increase in population has seriously affected Quetta, where nearly three million peoples are residing. Environmentalists warned of a stark scarcity of water, droughts, and floods in the city and around its periphery. Mud cracks can be seen in Kuchlak area some 25 km far from Quetta and these are a result of the depletion of underground water, according to Din Muhammad, a well-known environmentalist. Underwater depth also increased and it is available near 800 feet of depth, which is pumped through tube wells.[46] Abdul Rauf, President of Federation of Pakistan Chamber of Commerce and Industry (FPCCI) cautioned that water depletion would cost the implementation of the corridor project with increased costs of agriculture and industrial production.[47] The Pakistan Council of Research in Water Resources (PCRWR) has admonished that Pakistan is expected to run dry by 2025 and it needs an immediate and concrete action to combat the imminent water crisis. Moreover, water shortage is triggering tensions in the country and experts says that three out of four provinces blame the most populous and well-developed Punjab for grabbing their water resources.[48]

Currently, water consumption is 23% for industrial production in Pakistan and during the assembly of one automobile, it needs 150,000 litres of water. Additionally, refining of each litre of gasoline needs 300 litres of water and thermal conversion of each kilowatt-hour energy generation needs 225 litres of water.[49] So, based on the current scenario, it can be predicted that SEZs under CPEC will encounter water scarcity due to a substantial quantity of water needed during and post-construction process. Almost every industrial unit in the SEZs would need water for industrial production and smooth energy supply but it is highly expected that SEZs in Balochistan will face a severe crisis of water in the near future. Water depletion will be the major hurdle for their smooth operations. Thus, it is the need of the hour that Pakistan should declare an emergency for construction of water reservoirs.

Terrorism is another menace, which Pakistan is facing for the last three decades. Besides terrorism, the country is affected by ethnic, religious, sectarian, and linguistic conflicts. After the post-9/11 American invasion in Afghanistan, a new wave of terrorism has started, which damaged the economic and social fabric of the country. In retaliation, the Taliban began targeting military, police, security agencies, and public in Pakistan. The terrorist activities undermined economic growth and destroyed the physical and human infrastructure of the country. The infrastructure of health and education often affected by terrorism, which leads to scarcity of clean drinking water, sanitation facilities for a society, medical care, and a decline in education standards and low enrolment rates. All of these factors negatively contributed to national economic growth, trade, and inward foreign direct investment. For the past one and half decades, investors fled from the country showing a reduced trust of investors on the national security apparatus.[50]

The security situation is complex in Pakistan as a whole and particularly in Balochistan, where a larger part of CPEC will go through and seven zones will be developed. Gwadar port is also located in Balochistan and has a vital position in CPEC for regional connectivity. It can become the new hub of economic activity for the country, but development of Gwadar is only possible after taking the locals into confidence.[51]

Balochistan has suffered from insurgency and separatist movements for the past two-and-a-half decades. Many nationalist groups are operating in the province and occasionally targeting military installations, personnel, and workers on development projects. They expressed their opposition to the multi-billion project and argued that CPEC will convert an indigenous majority into a minority after large sums of development funds flow into the area and outsiders settle down in the province. On a similar pattern, they argue that Islamabad wants to exploit the natural resources of the province and is unwilling to offer them their due share. The evidence of lethal terrorism can be seen from 2007 to 2014, in the form of some 1,040 terrorist attacks in Pakistan out of which 23% occurred of terror incidents happened in Awaran, Gwadar, Kech, Khuzdar, Lasbela, and Panjgur districts of Balochistan.[52] The responsibility of terrorist attacks was claimed by the Balochistan Liberation Front (BLF), Lashkar-e-Balochistan, Balochistan Liberation Army (BLA), and Baloch Republican Army (BRA).

In 2015, armed militants attacked the Jiwani Airport and killed two electronic engineers and kidnapped one. The Balochistan Liberation Army (BLA) claimed responsibility and reiterated to halt the work on CPEC. The same year, another incident took place on the outskirts of Gwadar port, where at least four workers lost their lives during the offloading of a cement container. This time the Baloch Republican Army claimed responsibility for the attack. In April 2015, 20 construction workers were shot dead and three left injured by the terrorists.[53]

Security threats are medium in Sindh and KP and low in Punjab. In Karachi and interior Sindh, various wings of militant, sectarian extremists, and criminal gangs are operating. During the period between 2007 and July 2014, 962 terrorist were attacks reported in Sindh and 889 took place alone in Karachi. Most of them targeted law enforcement agencies, civilians, Shia and Sunni religious communities, and others. At the same time, Tehreek-i-Taliban Pakistan (TTP) developed a strong foothold in Karachi along with Lashkar-e-Jhangvi and Sipah-e-Muhammad.[54] The federal government with the collaboration of provincial government has already deployed boots on the ground to curb the militancy and has started counter-terrorism and combing operations across the city, in which security forces captured hundreds of terrorists and unearthed a large amount of ammunition. Although the security situation is better than the 2013, a lot is still needed to develop the confidence of local and foreign investors in SEZs.

Another major challenge for Pakistan is poverty and unemployment among youth. It is expected that CPEC and SEZs would generate thousands of jobs for Pakistani nationals, but it is anticipated that Pakistani's would be hired as low-skilled workers due to lack of management and administrative experience.[55] Balochistan is a much-deprived part of the country where nearly 45.68% population lives below the poverty line and it needs a gigantic share from job generation.[56] But it is worthy to note here that Chinese companies and enterprises may hire Chinese nationals for high skill, administrative, and management positions by following their traditional employment culture in Africa and other countries. The Chinese zones failed to create massive job opportunities for the indigenous population and were reluctant to transfer technology to host governments.[57]

SEZs encompass a colossal part of the land for development and operational activities but Pakistan has already witnessed adverse issues of land acquisition for a Chinese-led SEZ on the outskirts of Lahore. Haier-Ruba SEZ was established in December 2006 but fell in doldrums on land acquisition when zone developer refused to purchase 4,218 acres of land from its own pocket and pushed the government to provide land for zone development.[58] Besides land acquisition, resettlement is another factor for delay in mega development projects.[59] It can be argued that in future same issues will occur during SEZs development when the developers will refuse to purchase land and put an extra burden on the Pakistani economy to purchase land. So before taking practical steps, it is important for Pakistan to discuss this issue with the Chinese government.

Sick industrial units will have inescapable impacts on SEZs along the CPEC route. In KP alone, 415 out of 646 industrial units have been closed in four old industrial estates of Hayatabad (Peshawar), Gadoon Amazai, Hattar, and Nowshera and over 20,000 workers were retrenched. Likewise, 247 out of 449 units in other nine industrial estates have also been closed down and more than 5,000 workers lost their jobs.[60] These sick industrial units will obstruct the way of new SEZs in Pakistan because industry owners and enterprises have already argued that the government has failed to provide them with basic facilities of offsite infrastructure, electricity, and uninterrupted gas supply, which caused them to close their business in Pakistan.

Lack of consensus between the provinces and poor planning of SEZs can also lead to controversies. Opposition parties and small provinces have already raised their concerns over the route change of CPEC which led to serious tensions between the provinces and the central government. The small provinces stated that a change in the route will only enhance the political and economic dominance of Punjab province in policymaking. KP and Balochistan are, the major provinces opposing the change of route. The KP government expressed its concerns over the development of eastward route, which completely bypassed the entire province and raised its reservations over unfair distribution of projects. The Balochistan government also expressed its key concerns on a similar pattern. To reduce the misinformation and controversy, former Prime Minister Nawaz Sharif proposed a steering committee, but the committee lacked the power, mandate, and knowhow about CPEC projects. It is recommended to the Central government that is should establish a national commission, including the Chief Ministers from all provinces with one expert from each province.[61]

CPEC agreements have long-term structural consequences, which may possibly have negative impacts on Pakistan's economy. Economic experts have already raised their concerns over secrecy and confidentiality of the agreements. Kaiser Bengali and Ashfaque Hasan Khan argue that there is a lack of transparency in the entire venture, which gave birth to doubts about the breakdown of investment in the aforesaid areas of cooperation.[62] Experts also warned the government about the nature of loans. From available details about the CPEC projects, there will be no public bidding or announcement of projects, which will prevent the most cost-efficient companies and enable Chinese state-owned enterprises to win the biddings. It is suspected that a major portion of these loans will be channelled back to China benefiting Chinese construction companies and experts. The Senators inquired about CPEC agreement but the Minister for PDR Ahsan Iqbal stated that the agreement was confidential and could not be made public.[63]

The experiences of Chinese zone developers in Africa and other countries have displayed their failure to arrange financial investment in zone development. The four zones in Africa revealed the inefficiency of zone developers for investment. China started to develop Lekki FTZ, Ogun-Guangdong Zone in Nigeria, Eastern Industrial park in Ethiopia, and JinFei Zone in Mauritius. However, all the zone developers failed to invest committed investment and complained that Chinese central and provincial governments did not honour their committed investments. They also exposed the failure of Chinese policy banks (Bank, 2011, Deborah Brautigam, 2013). So this inadequate experience of Chinese zone developers discloses that SEZs in Pakistan may face similar challenges by zone developers and from the Chinese government. If Chinese government and the developers will repeat their experience in Pakistan, it will have negative impacts on the fate of the SEZs and industrial development in Pakistan, because the country is not in a position to finance such kind of mega industrial projects. The financial gaps will crunch the hopes of rapid industrialisation and job creation in the country, which will push Pakistan back into a stark economic, social, and political chaos.

Limitations

The idea of SEZs under the flagship of CPEC is at an early stage and both China and Pakistan are still in the discussion process. Based on available information, the authors have tried their best to picture all the relevant prospects, opportunities, and challenges to the SEZs in Pakistan. Besides all the available information we faced many challenges and limitations during the writing process that are given below:

1. Unavailability of accurate numbers of SEZs under CPEC;
2. Lack of information about the policy, planning, and implementation of proposed SEZs;
3. Unavailability of the official draft of the CPEC agreement;
4. Lack of clarity and ambiguity in government official's statements regarding SEZs projects; and
5. Lack of response from the Ministry of PDR for information about SEZs.

Recommendations

The concept of SEZs and IPs is relatively more attractive for developing economies. They believe that the SEZs are engines for fast and sustainable growth but the development of SEZs in different countries have had different results. It exposed that it is not a panacea and it cannot implement similarly in every country. It needs a careful analysis of different perspectives of the target country. So on the basis of the current scenario, we give the following recommendations to the policy-makers after assessment of the loopholes and challenges faced by the Chinese SEZs in different countries.

1. Ensure strategic location, comprehensive feasibility, and master planning for SEZs success;
2. Integrate SEZs with existing industrial clusters and ensure smooth supply of raw material;
3. Improve the governance structure in Pakistan including improvement in law and order situation, eradication of red-tapism, and abolishment of corruption;
4. Ensure high-level political support and broader commitment to SEZs and form a high-level committee monitoring the pace of work on SEZs projects;
5. Build consensus among the provinces on mega development projects and ensure that smaller provinces get their due share in SEZs. Likewise, it is necessary to form a ministerial-level committee for resolution of differences among the provinces;
6. Provide state of the art offsite infrastructure and make sure the uninterrupted supply of electricity, gas, and water to SEZs;
7. Take necessary measures to build large-scale water reservoirs as well as invest in search for new natural gas reservoirs;
8. Take necessary measures to acquire large-scale land for SEZs and prepare comprehensive plans for resettlement of the displaced population;

9. Ensure the development of sound legal and regulatory frameworks and cement them by addressing the challenges of institutional design and coordination;
10. Promote private sector participation and public-private partnerships (PPPs), along with technical assistance for structuring and negotiating PPP deals;
11. It is strongly recommended to the government that it should provide the details of the CPEC agreement for cost and benefit analysis;
12. Secure highly skilled and administrative jobs for the local population in SEZs; and
13. Make sure and smooth and uninterrupted financial investment by zone developers and enterprises.

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