Center for Security, Strategy and Policy Research

Special Economic Zones and the China-Pakistan Economic Corridor: Opportunities and Challenges for Pakistan

THE UNIVERSITY OF LAHORE

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Special Economic Zones and the China-Pakistan Economic Corridor: Opportunities and Challenges for Pakistan

Introduction

In a 61-page election manifesto released by the Imran Khan-led Pakistan Tehreek-i-Insaf (PTI) in 2018, special emphasis was laid on bolstering the strategic bonhomie between Pakistan and China. While the foreign policy section of the document only made a brief mention of the need for strengthening the equation with China, the section on the economy dedicated a portion to the all-important, multi-billion dollar China-Pakistan Economic Corridor (CPEC). Entitled "Ensure CPEC translates into a game changer", the sub-section outlined how Khan's party will commit to creating "solid two-way linkages with China and promote an indigenous resource focused growth strategy to leverage trade infrastructure of CPEC and OBOR."[1]

Moreover, CPEC and China elicited great attention in Khan's victory speech. Khan looked forward to using CPEC as a conduit for resuscitating the country's economy through shoring up investments.[2] Khan's priorities for CPEC were different from those of his predecessor. The new government wants to leverage CPEC to promote local businesses, augment productivity in manufacturing and agriculture, and move towards industrialization and an export-driven economy.[3] One of the key foci of the Khan government's CPEC policy has been on Special Economic Zones (SEZs). According to Katharine Adeney and Filippo Boni, Khan's focus on SEZs and other projects meshed well with his "populist agenda of increasing local employment and building up local businesses."[4]

Since 2018, SEZs have indeed been high up on the agenda in consultations between the two countries. Apart from fast-tracking work on four SEZs under CPEC, the Government of Pakistan's bid to push for SEZs has gained momentum. According to Pakistan's Finance Division, "with the advent of CPEC SEZs, the establishment of SEZs across the country took up pace, showing investor confidence in the industrial regime. As of now, 22 SEZs have been approved, while 21 of them have been notified by the BOI."[5] Prime Minister Khan has, in his public appearances, dubbed the establishment of SEZs critical to Pakistan treading the path of industrialization. Inaugurating CPEC's SEZ in Rashakai, Khan said: "Industrialization is the future of Pakistan, and wealth creation in a country cannot be done without industry.

It is a very good thing that the Rashakai SEZ is being developed with cooperation of China."[6] Pakistan has committed to facilitating investors, both local and foreign, to create jobs and increase exports.[7] The enthusiasm surrounding the development of SEZs is also shared by China. In an interview to a Pakistani news portal, China's Ambassador to Pakistan, Nong Rong, while expressing a degree of satisfaction over the progress of work on the Rashakai SEZ, argued "it {investment in Rashakai} is of great significance in actualizing the high-quality development of CPEC, stimulating the regional economic vitality and attracting more people to participate in the construction of CPEC and share the development benefits."[8] This Chinese interest in the said SEZ has, according to experts, been generated by the keenness of the PTI government, something that points to Pakistan exerting agency in its negotiations with China.[9]

That said, despite the optimism linked to SEZs, there are concerns aplenty on the slow pace of their development, and the bureaucratic and structural issues that mar the prospect of their success.[10] Adeney and Boni write: "It is likely that, unless Chinese concerns are addressed, investment into the SEZs by Chinese firms will be slow, although any such investments presumably will be heralded as evidence of the success of the SEZs."[11]

It is important to note that, both Pakistan and China are committed to the success of SEZs. With these SEZs being a vital cog in CPEC's phase 2[12], it is imperative to assess the plethora of challenges and opportunities that are attached to them. This report seeks to answer the following questions:

- **What are some of the hurdles that Pakistan could face in harnessing the potential of SEZs?**
- **How can SEZs in Pakistan spur investments, create employment, and give impetus to industrialization?**
- **What can both Pakistan and China learn from SEZs in other countries and regions?**

Drawing on official documents and data as well as secondary sources, this report gives a brief historical overview of SEZs, maps Pakistan's policy towards SEZs, the induction of SEZs in CPEC, and the legislations and incentives attached to them. The report also seeks to identify global best-practices in leveraging SEZs, and, based on those, offers recommendations to policymakers in Pakistan on how best to ensconce the avenues afforded by SEZs within the country's broader economic goals: industrialization, growth, and poverty alleviation. In this regard, the report delves into how three countries in China, Poland, and South Africa fared in using SEZs for achieving three key goals: increasing employment, enhancing exports, and attracting investments.

SEZs: Mapping Performance-Boosting Factors

What are SEZs? Why do countries jump on their bandwagon? What are the factors that make SEZs a success-story, and what are those that impede countries from capitalizing on them? Answering this set of questions is critical to understanding an economic reality that, according to the World Investment Report 2019, has been embraced by more than 150 countries. The number of SEZs in these countries, according to the very report, has risen by 35% from 2015. From 4,000 SEZs in 2015, the tally has swelled to 5,400 in 2019.[13] Figure 1 shows how SEZs have spread across the world over the past four decades.

Defined as “geographically delimited areas administered by a single body, offering certain incentives (generally duty-free importing and streamlined customs procedures, for instance) to businesses which physically locate within the zone,” [14] SEZs have long been used to catalyze economic growth through the creation of jobs and the diversification of exports.[15] According to a 2017 study conducted by the World Bank, countries look towards SEZs to attract foreign direct investments (FDI) for giving impetus to economic activity. Also, stimulating exports, ameliorating firms’ performances, productivity and production, and positively shifting labour market outcomes, ranging from employment to skill-upgradation are what countries want SEZs to do. [16] The study, based on a comprehensive literature review, argues that while “SEZs have the power to bring FDI and new businesses to regions”, boost exports, and raise output, their capacity to significantly increase employment is questionable.[17] With the literature highlighting the effectiveness of SEZs in attaining key strategic goals, the line of inquiry that becomes most critical is this: **what propels the success of SEZs in delivering results in key areas?**

There are a number of structural and operational factors that, to varying degrees, contribute to the success of SEZs. According to another World Bank study, one of the keys to the success of SEZs is to ensure that programs are in line with the conditions of the host country, and fit in with its comparative advantages.[18] The study alludes to the importance of long-term planning. It notes that the “key is to make the zones an integral part of the long term development strategy, taking into account the commercial sustainability, target markets and businesses, growth trajectory, infrastructure availability, skills and technology innovation capability, and environmental sustainability.”[19] Scholars have ascribed effective operations of SEZs to host countries adopting a well-structured, strategic approach towards SEZs. They contend that, bureaucratic competence and political support are vital to the success of SEZs. In his 2019

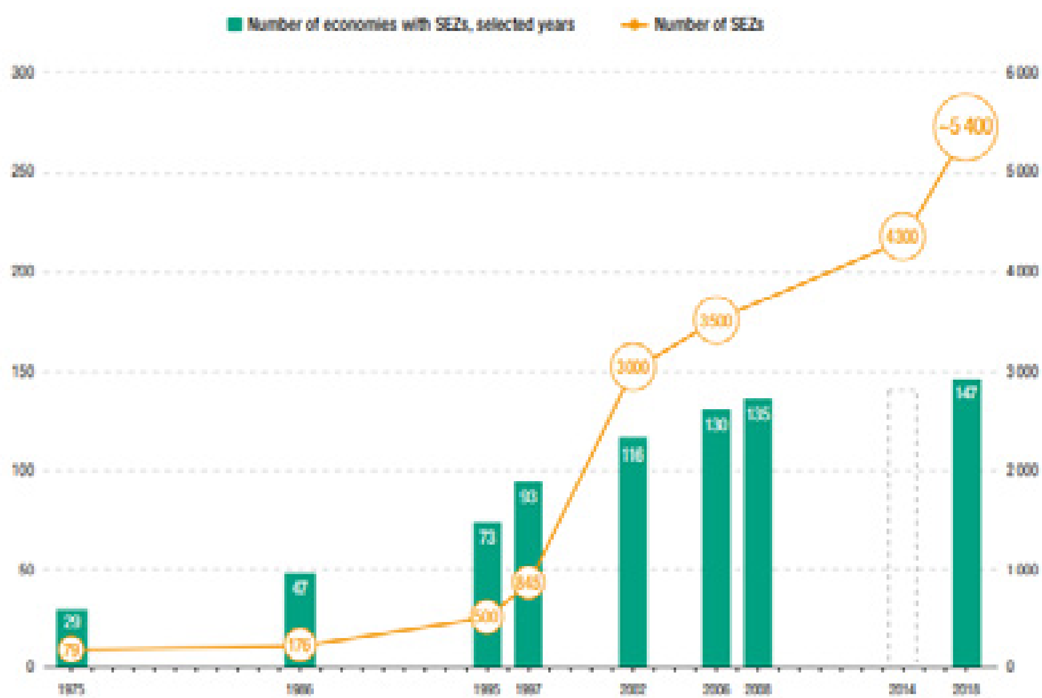

Figure 1: Source: UNCTAD

paper, Aradhna Aggarwal introduces a three-pillared ‘integrated institutional framework’ that links SEZs with broader development agendas. The framework is centered on aligning SEZs with national development strategies. He writes: “SEZs can thus support, reinforce or be at the centre of a variety of national strategies.” [20] However, even if objectives of the SEZs are assimilated in a country’s broader development priorities, SEZs cannot deliver the goods. A strategic approach, according to Aggarwal, has to be guided by continuous strategic learning. Arguing that structures, environments, and institutional dynamics change, Aggarwal stresses the need for flexibility and alacrity. He emphasizes the need for policymakers to “assign new roles, objectives and preferential policy packages to SEZs, and continuously upgrade the existing ones.”[21] Last but not least, a strategic direction, coupled with on-the-job learning, will be ineffectual if it is not implemented. This all-important phase is steered by the strengths and capacities of bureaucracies and regulatory authorities. [22] It is quite clear that, countries pinning their hopes on SEZs for an economic turnaround need to put SEZs within a bigger canvas of development, streamline learning and adaptability processes, and ensure timely execution of projects.

Further, experts have looked at many a success factor vis-à-vis SEZs. In a 2017 study looking at the drivers of SEZs performance in Thailand, Patcharee Pakdeenurit, Nanthi Suthikarnnarunai, and Wanchai Rattanawong identify eight success factors that lie across three aspects: international environments, domestic conditions, and the role of the state. The set of success-propellants includes dynamics like location, macroeconomic indicators, government policy, consistency and stability, regulations, and industrial support, among others. [23]

According to the World Bank, the design of an SEZ program is critical to pushing its performance, one that includes incentives like tax holidays. However, the study does not establish a strong connection between tax incentives and an SEZ’s economic performance. Importantly, the study notes that “tax breaks may be an effective tool to attract investments in more developed countries, but not in developing ones.”[24] On the other hand, the study gives saliency to a number of other factors. They include location, size, and the modus operandi related to an SEZ. The findings are instructive for a country like Pakistan. The report concludes that the size of an SEZ matters, arguing that larger zones have a greater growth potential. As for location, the report warns against locating zones far away from main cities, for such a decision would attenuate accessibility and dynamism while making integration all the more vexatious. [25] Another critical problem that studies like this and others point out is the pervasiveness of technology. They recommend that emerging economies focus on low-tech, low-cost manufacturing, instead of going for high-tech ones given that evidence points to how medium-sized economies do not fare well in high technology zones.[26] In a comprehensive study conducted by the Asian Development Bank in 2015, the significance of labor for middle income economies was highlighted. In light of that, the study recommended incentivizing labor to join the zones, by “providing housing, social services and other amenities can be a major inducement.”[27]

Apart from discussing the incendiary forces behind SEZs success, the study also delves into the reasons that contribute towards the failure of SEZs. The study lays out 7 factors that germinate lackluster performances of SEZs. They range from the problems that emanate from over-reliance on foreign direct investments to the misallocation of land to choosing to establish SEZs in least-advantageous areas.[28]

From the foregoing analysis, it is clear that a combination of sound policies, right from the conception phase to execution is critical to making SEZs a vehicle of economic growth. SEZs should be seen as but a part of a country's multi-pronged development strategy. This underscores the value of clear-headedness at the political level given that the leadership should know what it wants to eke out by incorporating SEZs in its country's economic toolkit.

SEZs and CPEC: Warming Up to the Task

Where do SEZs feature in CPEC's pecking order? How have Pakistan and China looked at this phenomenon, and where do things stand today? These inquiries are critical to assessing Pakistan's potential to make SEZs ignite its economy. The development of SEZs, though very much a part of CPEC, was overshadowed by both countries' bid to prioritize infrastructure and energy projects. After back and forth negotiations on its size and scale, the all-important, $46-billion dollar project was launched in April 2015.[29] CPEC was perched on a higher pedestal after China termed it the flagship of the ambitious Belt and Road Initiative (BRI).[30] While its characterization as a flagship project and game-changer may be an exercise in garnering political mileage, there is little to bicker when it comes to the magnitude of the venture. According to a 38-page abridged version of its Long-Term Plan, "CPEC is based on major collaborative projects for infrastructure construction, industrial development and livelihood improvement, aimed at socio economic development, prosperity and security in regions along it."[31] Further, the Plan outlines how CPEC is commensurate with the visions of both Beijing and Islamabad. Apart from streamlining its Western Development Strategy, China wants new routes for its trade and economics-led westward expansion. As per the Plan, Pakistan wants to "fully harness the demographic and natural endowment of the country by enhancing its industrial capacity through creation of new industrial clusters, while balancing the regional socioeconomic development, enhancing people's wellbeing, and promoting domestic peace and stability."[32] This vision, it must be noted, resonates well with the current government's geoeconomics and economic security refrain, which is an integral component of the country's narrative on CPEC and the unquestionable utility of the need to strengthen Sino-Pak relations.[33]

Assessing CPEC's three phases is important, as they help dissect the development streams preferred by Beijing and Islamabad. The first phase, according to Arif Rafiq, "is essentially an economic stimulus, aimed at helping eliminate Pakistan's industry-crippling electricity shortages and address its infrastructure inefficiencies while promoting intra-Pakistan and regional connectivity."[34] At the heart of the first phase lay starting energy projects and operationalizing the Gwadar port.[35] The second phase, in which the project has entered now, aims to shore up Pakistan's industries, especially export-based ones, via SEZs.[36] The third phase builds on the previous two phases, aiming to take connectivity to the next level, by spreading a web of pipelines, railways, and roads.[37] Andrew Small analyzes the order of priorities in CPEC, arguing that "each phase was meant to pave the way for the next: first, fix the energy crisis and infrastructure deficiencies; then, build up industry and exports, with an improved energy and infrastructure situation providing a foundation for these efforts; and finally move to other sectors of what should, by the mid-2020s, be a more successfully

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functioning economy." [38]

Termed as a conduit through which Pakistan's industrial capacities will be boosted, the establishment of SEZs was part and parcel of the Long-Term Plan. According to the Plan, both sides expressed their commitments to promoting "Special Economic Zones (SEZs) in all provinces and regions in Pakistan along with Kashgar Economic and Technological Development Zone and Caohu Industrial Park from Chinese side."[39] Moreover, as evidenced by a report of the State Bank of Pakistan (SBP), even before Imran Khan come into power, Pakistan was reposing hopes in SEZs to engender increasing levels of industrial production. The SBP enunciated that the development of SEZs would "enable industries to smoothen supply chains, enhance collaboration and innovation capabilities, and help reap significant economies of scale."[40]

With both committed to getting on with developing SEZs, in the 6th meeting of the Joint Cooperation Committee(JCC), 9 sites were identified for constructing SEZs.[41]The proposed SEZs were to be located all across Pakistan, with one each located in Punjab, Balochistan, Gilgit-Baltistan, Azad Jammu and Kashmir, and Sindh, two in Khyber Pakhtunkhwa (after the merger of the Federally Administered Tribal Areas into KP, the Mohmand Marble City is in the said province), and two under the control of the Federal Government, are located in Islamabad and Karachi.[42]

Table 1
Proposed SEZs under CPEC

Province/City	Name	Status
Faisalabad, Punjab	Allama Iqbal Industrial City	First phase completed in July 2021
Nowshera , Khyber Pakhtunkhwa	Rashakai Economic Zone, M-1	Inaugurated in June 2021
Thatta, Sindh	Dhabeji Special Economic Zone	Bidding phase ongoing
Pishin, Balochistan	Bostan Industrial Zone	Development work started in April 2021
Islamabad	ICT Model Industrial Zone	Land finalization stage
Port Qasim Near Karachi (Under Federal Government)	Industrial Park Pakistan Steel Mills Port Qasim	Feasibility/Assessment phase ongoing
Mohmand District, Khyber Pakhtunkhwa	Mohmand Marble City	Approved as an SEZ
Gilgit-Baltistan	Moqpondass SEZ Gilgit-Baltistan	Post-feasibility phase ongoing
Mirpur, Azad Jammu and Kashmir	Mirpur Industrial Zone	Feasibility stage ongoing

Source: This table has been compiled by consulting official websites/documents, to include http://cpec.gov.pk/special-economic-zones-projects, http://www.unido.or.jp/files/Revised-SEZs-for-JICA-webinar.pdf, and http://www.finance.gov.pk/survey/chapters_21/Annex%20III%20SEZones.pdf. News sources were consulted to update the 'Status' column in the table.

SEZs became a source of negotiations that led to Pakistan exercising agency over China. Adeney and Boni, drawing on interviews and secondary sources, shed light on how it was Pakistan that drove the selection of some SEZs over the others.[43] The PML-N government gave China a priority list of locations of SEZs while China agreed to send industrial zones experts, with a view to advising Pakistan on suitable locations for setting up SEZs.[44] However, work on SEZs was stifled right from the outset. Despite deciding to form experts' groups for deliberations on SEZs, Pakistan, under the PML-N, had not established them. It was China that pushed Pakistan "to expedite forming the experts' group, and emphasised on devising long-term cooperation mechanism to select priority sector and synergise policies for SEZs."[45] What is more, in the next JCC huddle, differences arose between Beijing and Islamabad. While the former "wanted the Thatta (Dhabeji) site (in Sindh), the Hattar site (in Khyber Pakhtunkhwa), and the M3 Faisalabad site (in Punjab) to be prioritized," the latter was gung-ho about moving ahead with establishing SEZs in Rashakai and Sheikhupura.[46]

The coming into power of Imran Khan became a kind of a boon for the SEZs component of CPEC. Fully committed to rejigging CPEC to change Pakistan's economic profile, Khan linked the establishment of SEZs with his goals of reducing unemployment and fuelling industrialization. [47] In this regard, it is noteworthy that, despite highly-touted concerns about CPEC during the initial months of Khan's ongoing tenure[48], both countries took a number of steps to strengthen cooperation in the industrial sector. Although watchers dubbed Khan's first visit to China relatively low-key, it was during that tour that both countries signed 15 agreements and memoranda of understanding (MOUs) in order to strengthen cooperation in the agriculture and industrial sectors.[49] This was followed by progress on SEZs-related work. In the first JCC meeting under the Khan government, China and Pakistan agreed to speed up work on SEZs while also signing an MOU on industrial cooperation. Makhdum Khusro Bakhtyar, the then Minister for Planning, hailed the signing of the MOU on industrial cooperation. He argued that the signing of the MOU would "steer Pakistan into a new era of industrialization and to expedite development of special economic zones by relocation of Chinese investments."[50] That the discourse on SEZs was dominated by the argument on rehabilitating Pakistan's fumbling economy is an apt explanation of Pakistan's burgeoning enthusiasm in their success. In his second trip to China, Khan observed the signing of a number of important agreements and MOUs. Those included the Joint Venture and License Agreement signed between Khyber Pakhtunkhwa Economic Zones Development and Management Company (KPEZDMC) and China Road and Bridge Corporation (CRBC), aimed at facilitating the operationalization of the SEZ in Rashakai.[51]

It is clear that post-2018, the setting up of SEZs was given a fillip. The year 2020 was a productive one as far as SEZs were concerned. The Allama Iqbal Industrial City, located in Faisalabad, is one of the prioritized SEZs under CPEC. It, according to experts, supplanted the previously-prioritized SEZ in Sheikhupura due to the insistence of the PTI government.[52] The groundbreaking ceremony of the Allama Iqbal Industrial City was performed by PM Khan in January 2020. Tipped to provide jobs to close to half a million skilled workers, its phase one stood completed as of July 2021.[53] The Rashakai SEZ was given special attention by the Khan government, primarily because it could change the economic conditions of areas that had suffered immensely in the internecine war on terror. After signing the Joint Venture and License Agreement in 2019, China and Pakistan signed the 'Development Agreement of Rashakai Special Zone', under which China's CRBC would partner KPEZDMC in developing the very SEZ. Pakistani officials were optimistic about the prospect of SEZs becoming an engine of the country's industrialization.[54] In May 2021, the Rashakai SEZ was inaugurated. Besides, development work on the Bostan Industrial Zone began in April 2021, with the provincial government in Balochistan earmarking Rs 2.5 billion for it.[55] All this has been backed by political will and commitment towards taking advantages from the SEZs phenomenon. In a meeting held in June 2021, PM Khan stressed the need for giving more facilities to export-based industries in SEZs. He remarked that export industries "besides providing jobs, increasing economic volume and the precious foreign exchange will ensure the access of "Made-in-Pakistan" brand in the international market."[56]

The role of SEZs in the context of CPEC has steadily increased. From disagreements and negotiations in the initial years, China and Pakistan, fully cognizant of the significance of SEZs, have settled in on what SEZs to focus on.

Despite highly-touted concerns about CPEC during the initial months of Khan's ongoing tenure, both countries took a number of steps to strengthen cooperation in the industrial sector

Pakistan's Approach Towards SEZs

How has Pakistan steered its policies in accordance with the importance it attaches to SEZs? This question is critical to understanding how much the country is geared towards matching policy actions with political commitments.

The process of developing industrial estates in Pakistan did not start recently. Industrial clusters had been developed decades ago. These clusters, however, did not prove to be effective, owing to poor policy implementation.[57] A major policy change was witnessed in 2012 when the Special Economic Zones Act 2012 was passed. The Act was promulgated to "meet the challenges of global competitiveness and to create industrial clusters in the economy."[58] The Act is elaborate, for it lays out the procedures, institutional arrangements and responsibilities, and the incentives given to investors. Other than all this, clearly-enunciated dispute-resolution mechanisms were made part of the Act.[59] Though comprehensive, the Act, according to Pakistan's Finance Division, provided a framework that was "originally not aligned with the economic realities as the SEZs from 2012-2015 were placed outside the customs territory of Pakistan limiting their appeal for the investors that wanted to capitalize on the budding domestic consumer market."[60] Thus, the Board of Investment (BOI), by virtue of being the Secretariat of SEZs, proposed a series of amendments, to make SEZs more investment-friendly. The Act was amended in 2016, providing developers and investors relief and benefits. The Act tasked federal and provincial governments to provide for public utilities and infrastructure in the zones. Sections 36 and 37 of the Act gives a list of incentives offered to developers, enterprises, and special SEZs. Tax exemptions feature prominently on the list. According to the Act, all zone enterprises shall be given "exemption from all taxes on income for enterprises commencing commercial production by the thirtieth June, 2020, in the SEZs for the next ten years."[61] A number of other incentives and rebates were extended to various groups.[62]

A number of initiatives have been taken by the government as part of its efforts to streamline processes relating to the workings of the SEZs. In 2017, the CPEC/SEZ Cell was established in the BOI in a bid to exclusively facilitate works relating to CPEC in general and SEZs in particular.[63] The progress on SEZs was linked with the ease with which businesses can operate in Pakistan. The Khan government has duly focused on improving Pakistan's Ease of Doing Business rankings. From being ranked 147 in 2018, Pakistan drastically improved its ranking in 2020 to 108. A number of reforms were introduced to make Pakistan more conducive for doing business. It is noteworthy that Pakistan was "recognized as the top reformer in South Asia and sixth reformer in the world."[64] According to Doing Business 2020, Pakistan took strides in a number of areas. For instance, the 117-page-long report acknowledges that Pakistan "made starting a business easier by expanding procedures available through the online one-stop shop." The report also shows how Pakistan took measures to remove impediments in other critical areas, ranging from property registration to paying taxes. Other than highlighting how the introduction of online payment modules for value added tax and corporate income tax have made tax payments less cumbersome, the report also notes how "Pakistan made trading across borders easier by enhancing the integration of various agencies in the Web-Based One Customs (WEBOC) electronic system and coordinating joint physical inspections at the port."[65]

Pakistan, in line with the Doing Business Reforms Strategy 2019-21, has initiated a series of reforms in order to make the business and investment climate more attractive. Since 2018, the completion of reform items has picked up pace.

Figure 2: Source: Pakistan Doing Business https://pakistandoingbusiness.com/

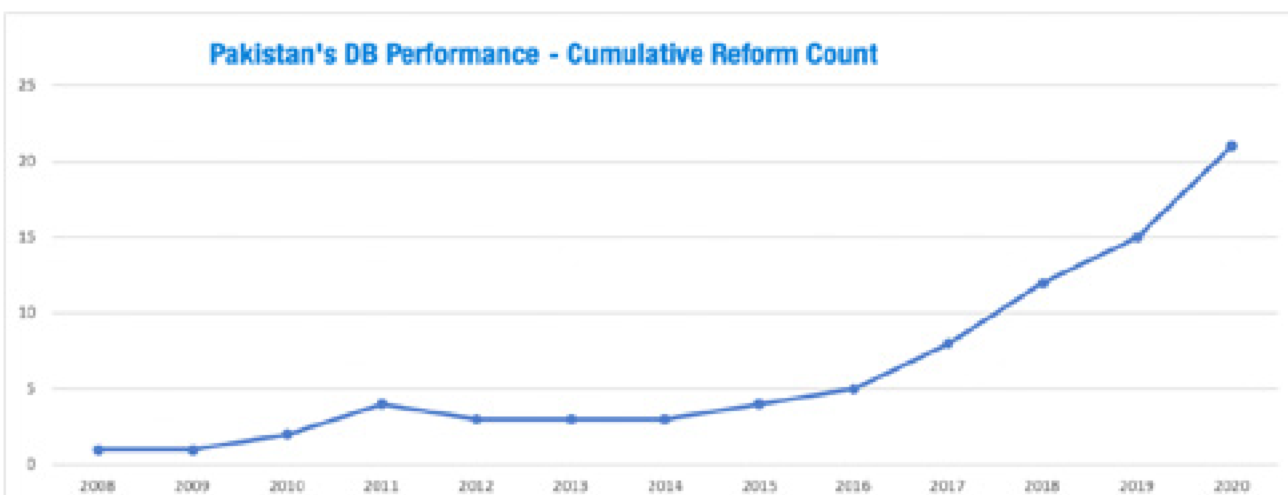

Figure 3: Source: Pakistan Doing Business https://pakistandoingbusiness.com/

Figure 4: Source: Doing Business 2020 Pakistan https://invest.gov.pk/eodb#gallery-1

Other than focusing on altering the business environment, the current government has taken some other measures, too. Attracting the Pakistani diaspora to invest in the country by launching programs like the Naya Pakistan Diaspora Fund and the Roshan Digital Account, is one of the cornerstones of the strategy adopted by the Khan government.[66] Further, by virtue of spearheading work on SEZs, the BOI has been active in removing bottlenecks in SEZs-related processes. BOI, with support from other ministries, was able to secure Rs 19.9 billion from the Public Sector Development Programme (PSDP), for the provision of public utilities to all SEZs. The Board has created an MIS Module that aims to provide one-window operations to prospective entrants in the SEZs. According to the BOI, the Module is geared towards ensuring that investors do not worry about middleman role to arrange the transaction or of any exploitation."[67] The MIS Module is meant to support investors in getting their applications processed, speed up case disposals, and circumvent painstaking bureaucratic delays.[68] All this has been supplemented by regulations that are meant to rectify procedural anomalies and add layers of the all-important element of transparency. The Sole Enterprise SEZ Regulations 2020, for example, allow serious investors to establish single unit SEZs. With a view to ostensibly putting a lid on corruption and removing inherent inefficiencies, the SEZ Zone Enterprise Sale, Lease and Sub-Lease of Plots Regulations 2021 were notified earlier this year.[69]

All this indicates that not only is Pakistan alive to the SEZs bonanza but also trying to recalibrate its policies to mitigate the challenges and pounce on the opportunities afforded by them.

SEZs and the Opportunity-Challenge Pendulum

Located at the crossroads of South and Central Asia, and by virtue of being a promising gateway to the Middle East and beyond, Pakistan's geostrategic significance is hardly up for debate. The vitality of Pakistan's location was but an important factor through the Cold War, something that saw the country become part of the Soviet-Afghan War. Though erstwhile friends become foes, Pakistan's geostrategic value remained constant, as the country was requested and induced to become a frontline ally in the U.S.-led Global War on Terror. However, other than all this, Pakistan's utility as a connector was not lost on the big wigs of global politics. Pakistan played an unprecedented role in helping the U.S. and China establish contacts in 1971. However, that Pakistan was situated in a strategically-advantageous position is the principal reason as to why it is useful as a linchpin of economic connectivity and integration. This inveterate fact has not only given birth to CPEC but has also pushed the Government of Pakistan to anchor its foreign policy in the wider construct of geoeconomics.[70]

This new direction, according to experts, will not be easy to take so long as Pakistan does not possess the economic wherewithal powerful enough to leave an indelible impact in the foreign policy domain.[71] In a 2019 study entitled Building Regional Connectivity for Pakistan, Rabia Akhtar argues that post-2030, Pakistan could become a regional power if it improves, among other things, its GDP and employment indicators.[72] It is against this background that the role of SEZs in turning a page in Pakistan's hitherto slow excursion towards industrialization and economic growth has to be analysed. Some of the questions that merit attention relate to what advantages and disadvantages do SEZs bring to the table for Pakistan.

SEZs: An Engine of Growth?

Pakistani officials have time and again shown their excitement at the prospect of SEZs playing a key role in reshaping the country's economic profile. Indeed, SEZs do have the capacity to provide much-needed momentum to economic growth. SEZs open up a host of opportunities at multiple levels. That SEZs are different than other clusters and individual industrial units is something that pushes countries towards undertaking reforms. As discussed in the previous sections, Pakistan embarked on a process of making policy interventions geared towards making SEZs precincts of export-led growth. Ejaz Hussain and Muhammad Furqan Rao write: "the proposed Special Economic Zones are expected to work as a strong economic incentive for Pakistani authorities to introduce reforms in order to improve upon domestic business environment, governing behavior, productive capacity, export base and enhance commercial attractiveness for further foreign investments."[73] According to Chairman, National Vocational and Technical Training Commission (NAVTTC), Javed Hassan, SEZs do "provide us with an opportunity to attract industry from China and the rest of the world that enhances the endowment of capabilities in the country to produce sophisticated products and services that are competitive at the global level."[74] SEZs could help in improving various aspects of the Pakistani economy. The likely increase in industrial and trading activities as a result of the establishment of SEZs, will have a positive impact on employment levels. According to a study, four SEZs that are a part of CPEC will create 575,000 direct and 1 million indirect jobs. This would, however, depend on the training and skills of local laborers. If industrial activity were to pick up on behest of Sino-Pak cooperation, it would stimulate employment, especially for the educated workforce. The prospect of this happening could increase manifold if China and Pakistan solidify their partnership, and include within its remit strong vocational training and industrial development components. Beijing and Islamabad have committed to taking steps in these areas.[75]

With the Khan government aggressively focused on drawing on the expertise, potential, and resources of the large, vibrant Pakistani diaspora, SEZs could become investment hubs for resourceful and enterprising overseas Pakistanis.[76] Most importantly, SEZs offer Pakistani businesses an ideal chance to learn from best-practices. Pakistani firms could learn from their Chinese counterparts by complementing and then competing with them. Also, SEZs do open up a window for the transfer of technology, something which will immensely help Pakistan add value, diversity, and numbers to its products while changing the way they are produced.[77]

Navigating Minefields

For Pakistan, these avenues of improvements are, however, accompanied by multifarious concerns and challenges. These issues run across various themes relating to Pakistan's approach towards SEZs. Has Pakistan rightly assessed the scope and nature of the SEZs phenomenon? What challenges could Pakistan face in its bid to elicit maximum advantages out of these zones? These questions merit attention because answering these would help chalk out the routes that Pakistani policymakers should and shouldn't take in its SEZs excursion.

Pakistan will have to contend with a set of structural issues. One of the fundamental concerns would relate to its human resource. Pakistani labor, as of now, is not trained and equipped to match the needs of SEZs. So long as Pakistani laborers do not hone their skills through training, the promise of SEZs providing jobs to locals would not fructify. According to experts, it is imperative to first identify the skill-set needed for smooth operations in SEZs.[78] However, that can only happen if and when the government clearly lays bare its priorities in SEZs.[79] According to Javed Hassan, some of the Pakistani workers require their soft skills to be enhanced and certain hard skills to be brought up to standards that international employers require. Inadequate language competencies, according to him, affect how Pakistani laborers interact with Chinese and other foreign employers. Further, he alluded to the lackluster prowess in handling high-end technology while highlighting the utility of having more Pakistani constructors and welders who are conversant with, and adept at, China's construction toolkits. That said, he acknowledged that local talent is available, but it needs to be honed and trained on modern lines, something which NAVTTC is committed to doing.[80]

Next, it is imperative for Pakistan to improve infrastructure within and outside of SEZs. Connectivity of SEZs with markets, near and afar, is a critical factor, for it, in and of itself, generates investments.[81] Other than connectivity and security, the availability of basic facilities, to include uninterrupted power supply, is but essential. This will be an onerous task

For Pakistan, avenues of improvements are, however, accompanied by multifarious concerns and challenges. These issues run across various themes relating to Pakistan's approach towards SEZs

for Pakistan, for it is back in the grips of a power crisis. Recently, textile exporters threatened to move their units to other countries in the wake of the worsening power crisis.[82] This is not good news for Pakistan given that its nascent yet promising economic recovery has been driven by rising textile production and its exports. Pakistan has, however, committed to providing incessant power to SEZs.[84] There have been voices that have talked about some of the issues that plague SEZs in Pakistan. It has been observed that most SEZs in Pakistan are bereft of basic facilities like sewerage systems and seamless water, power, and electricity supplies. The unavailability of water for industrial use has also been a major problem in Karachi.[84]

A major concern that Pakistan will have to navigate is the inconsistency in government's policies. This is closely tied to political stability. Pakistan has invariably been affected by political turmoil, something that has resulted in policy fluctuations. Political expediency has oftentimes led to the formulation of short-sighted policies. For SEZs to be become a success-story, they have to be seen as a political commitment beyond party lines. If subsequent governments change policies, or change their priorities vis-à-vis SEZs, they won't be able to create a positive, indelible impact on Pakistan's economy.[86] Political tensions, especially between the federal and provincial governments, could pose a number of challenges given that coordination between federating units is an absolute necessity for CPEC's continued success. That said, the political environment is steadily becoming stable, with the ruling-party having consolidated its position. Despite recent political victories of Khan's party, political rivals could still create trouble for it. All this, coupled with using fake news, could make CPEC and, by extension, SEZs a victim of partisan politics. Instability, however little it may be, does not inspire confidence as far as prospective investors are concerned. It is noteworthy that, in 2019, Beijing's then envoy to Islamabad, Ambassador Yao Jing, called out the vacillation of policies in Pakistan. Commenting on the lack of Chinese investments in Pakistan, Ambassador Yao argued that "the main reasons behind fewer Chinese investors in Pakistan are poor trade policies, high taxes, no tax incentives and lack of business-friendly environment." He accentuated that "your (Pakistan's) policies lack consistency, keeping investors from China and elsewhere at bay."[87] Thus, constant changes in policy directions are something that China is also uncomfortable with.

Moreover, lack of institutional capacities to perform multiple, intricate tasks relating to SEZs will discourage investors. Bureaucratic inertia will mean that paper-work would be long and debilitating. Bodies in charge of SEZs operations will be challenged by a dearth of capacity and expertise. Dealing with investors, especially foreign ones, would require skills, deftness, a broader understanding of their concerns and modus operandi, and the willingness and flexibility to accommodate those. Given the centrality of BOI for SEZs, its questionable ability to circumvent bureaucratic, systemic minefields will not go down well with investors going forward.[88] There is also a need for bodies like BOI to create more space for the private sector. Many experts believe that there is a positive correlation between the participation of the private sector and the success of SEZs. The Project Management Unit CPEC Industrial Cooperation (PMU-CPEC IC) of the Prime Minister's Office, working under the BOI, organized a conference on 'Industrial Cooperation Under CPEC & SEZs Framework' in March 2020, in which emphasis was laid on expanding the role and say of the business community as far as work on SEZs is concerned. Speakers were of the opinion that, instead of nagging and intimidating businessmen, officials should encourage them to become part of the process.[89]

Other than the aforementioned predicaments that could reduce the prospect of SEZs becoming a game-changer, Pakistan's SEZs gambit could be stifled by its financial woes. How will the government create the fiscal space needed to finance SEZs and fulfill its commitment to giving incentives to investors and developers? In this regard, it is important for the government to not tinker with the broader contours of its economic policy. As evidenced by statements of Pakistani officials, the government is moving from stabilization to growth. This policy direction, if not supplemented by structural reforms, would not lead to sustainable, positive outcomes. While political stability is of utmost importance, continuity of policy in the economic realm is critical to wooing investors. The government has to also ensure that it reduces its deficits while increasing revenues. While the current government rightly boasts of significant growth in revenue, there is still a lot that needs to be done to raise government revenue. A lack of pervasive culture of paying taxes, coupled with questionable commitments to going after tax-defaulters and non-filers, will also be one of the hindrances. Pakistani policymakers are, however, alive to the fact that, the country's push for sustainable and inclusive growth hinges upon stability.[90]

Learning from Best-Practices

As a relatively new entrant in the club of countries building SEZs for an industrial reinvigoration, Pakistan must study the experiences of other countries with SEZs. A careful analysis of how things transpired for other countries would provide Pakistan a list of dos and don'ts vis-à-vis running SEZs. While Pakistan's environment might not be similar to that of another country, dissecting its successes and failures will give the country's policymakers sets of basic guidelines, which they could apply in line with the country's peculiar milieu. This section sheds light on the experiences of three countries in China, Poland, and South Africa in dealing with SEZs, with a view to assessing their impacts on three broad indicators: employment, exports, and investments. These countries, like others, have positioned SEZs to stimulate these key components of their economies. With Pakistan embroiled in CPEC, taking cue from China's experiences is only the right thing to do. Also, that Poland and South Africa look at SEZs as vehicles of galvanizing employment, diversifying exports, and moving towards sustainable growth is reason enough for Pakistan to study their models.

China

Arguably, China is the quintessential face of SEZs success. It has leveraged SEZs to bring about a strategic transformation in its economy, a feat that has helped it become an economic power to reckon with. The story of SEZs in China is tied to a radical change in approach towards running the economy. From a centrally-planned, closed economy, China moved towards adopting the Open Door Policy in 1978. The Policy was aimed at fundamentally changing China's economic profile through foreign investments and the resultant introduction of new technologies.[91] One of the first steps undertaken under the Policy was the establishment of SEZs, with a view to accelerating exports and bringing in investments.[92] Therefore, the year 1980 saw the establishment of four SEZs in Shenzhen, Zhuhai and Shantou in the Province of Guangdong, and Xiamen in the Province of Fujian. These zones were located in economicallyunderdeveloped areas so as to limit the fallout should the Policy fail. These SEZs were deliberately located away from the center of political power in order to mitigate potential risks and unnecessary political interference.[93] SEZs were characterized by a focus on attracting foreign capital, adherence to the principles of a market economy, and facilitation of foreign companies.[94]

These SEZs started off with flying colors. According to various studies, owing to a "combination of favorable policies and the right mixture of production factors in the SEZs resulted in unprecedented rates of growth in China." For instance, from 1980 to 1984, Shenzhen, the largest SEZ, grew at a breakneck rate of 58% per annum, and, by 1986, had developed rudimentary markets in capital, labor, land, technology, communication, and other factors of production.[95]

Initially, SEZs were strictly isolated, geographically as well as with regard to the kinds and types of economic activities that were carried out there. This was primarily done so as to protect areas outside of SEZs from negative spillovers. Also, firms were mandated to only focus on export-oriented activities and compulsorily export goods manufactured in SEZs.[96] The results were encouraging, to say the least. Based on these numbers, China decided to continue opening up its economy. Chinese authorities established variants of SEZs in 1984. These were economic and technology development zones (ETDZs), which were much bigger in size. The number of ETDZs increased manifold in a short period of time.[97] China's buy-in can be gauged from the fact that, as of 2019, out of the 5,383 SEZs located in 147 countries,

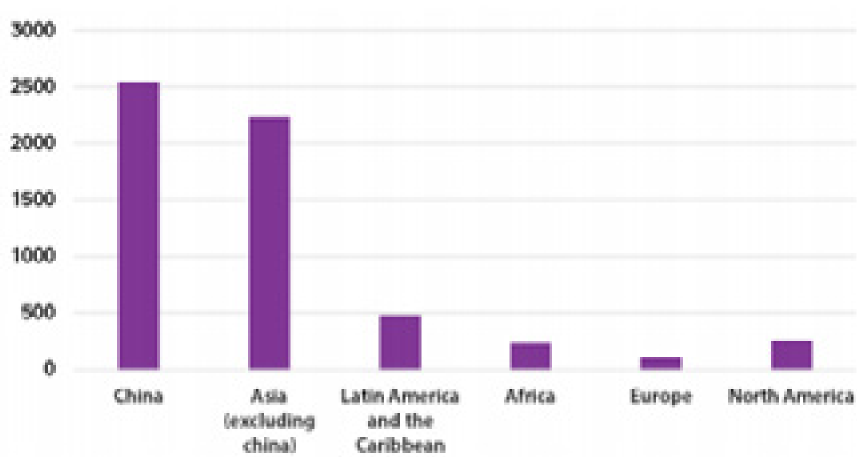

Figure 5: Source: Doing Special Economic Zones right: A policy framework https://www.theigc.org/wp-content/uploads/2019/11/WEB_SEZ-synthesis-paper-2019.pdf

2,543 SEZs are situated across that country.[98] Figure 5 shows how China is way ahead of other countries and regions as far as establishing SEZs are concerned.

This shows what value China attaches to SEZs within its broader agenda of turning around the economy. What are the sets of inducements that China has given to investors and developers in SEZs and how successful have they been in ameliorating key indicators of the Chinese economy?

China has put in place a bevy of incentives to draw in investors. Firms located in SEZs get to benefit from China's preferential treatment. For foreign producers, the enterprise tax is either exempted or reduced by approximately 7%. This kind of concession is not available to firms outside of SEZs. With a view to propping up exports, duties on export products are also abolished. What's more, the price of land is lesser inside of SEZs. Even land transferring fee is not as high as that in areas outside of SEZs. Apart from all this, firms operating in SEZs receive some fringe benefits. For example, firms who apply for loans are also allowed to apply for mortgage, and that their cases are prioritized. Foreign firms are cajoled to reinvest, by giving them an option of refunding more than 40% of the taxes paid.[99]

All this has been further complemented by introducing laws that are critical to assuaging concerns of potential investors. Efforts to ensure the protection of private property were helpful in pushing foreigners, including those from the Chinese diaspora, to set up business units in China's SEZs. Foreign investors are assured that their assets and other rights will be protected. Labor laws also allowed market forces and firms located in SEZs to deal with labor issues, to include wages.[100]

The idea behind designing attractive packages for foreign investors was to bring in foreign direct investment (FDI) to China. This was the main plank of China's openness drive that was meant to change the nature of the country's economy. SEZs were able to enchant foreign investors. A year after these SEZs were established, they accounted for almost 60% of FDI in China. According to a 2013 study, an SEZ program "increases the level of per capita FDI by 21.7% and the growth rate of FDI by 6.9 percentage points…" [101] Assessing 2,660 SEZs, another study identifies that, the establishment of SEZs, coupled with continuous institutional improvements, has paved the way for increased foreign investments in China.[102] By 2007, it was estimated that, SEZs accounted for 46% of China's total utilized FDI of $74.8 billion.[103] The Sino-Singapore Suzhou Industrial Park (SIP) is another exemplar of how compartmentalized precincts were able to drive up FDI. SIP is deemed of as one of the most successful industrial

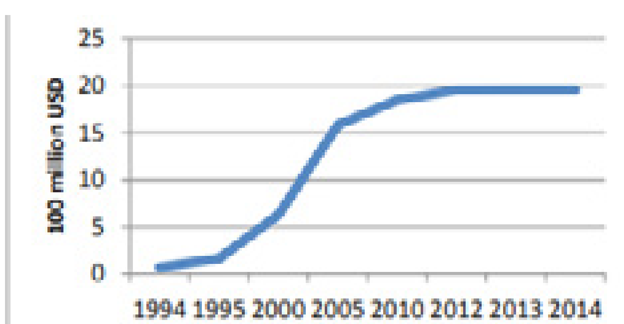

Figure 6: Source: SIPAC 2015 https://documents1.worldbank.org/curated/en/234971468196142758/pdf/WPS7570-REVISED-Building-competitive-cities-through-innovation-and-global-knowledge.pdf

zones in the world. One of the reasons why its performances have been hailed is the consistent rise in FDI. From utilizing $70 million of FDI in 1994, SIP was able to significantly ratchet up the utilization amount to $2 billion in 2020. Apart from that, despite the raging COVID-19 pandemic, SIP saw the entry of "295 new foreign investment projects and 142 capital increase projects."[104] Figure 6 represents how FDI swelled over the years in SIP.

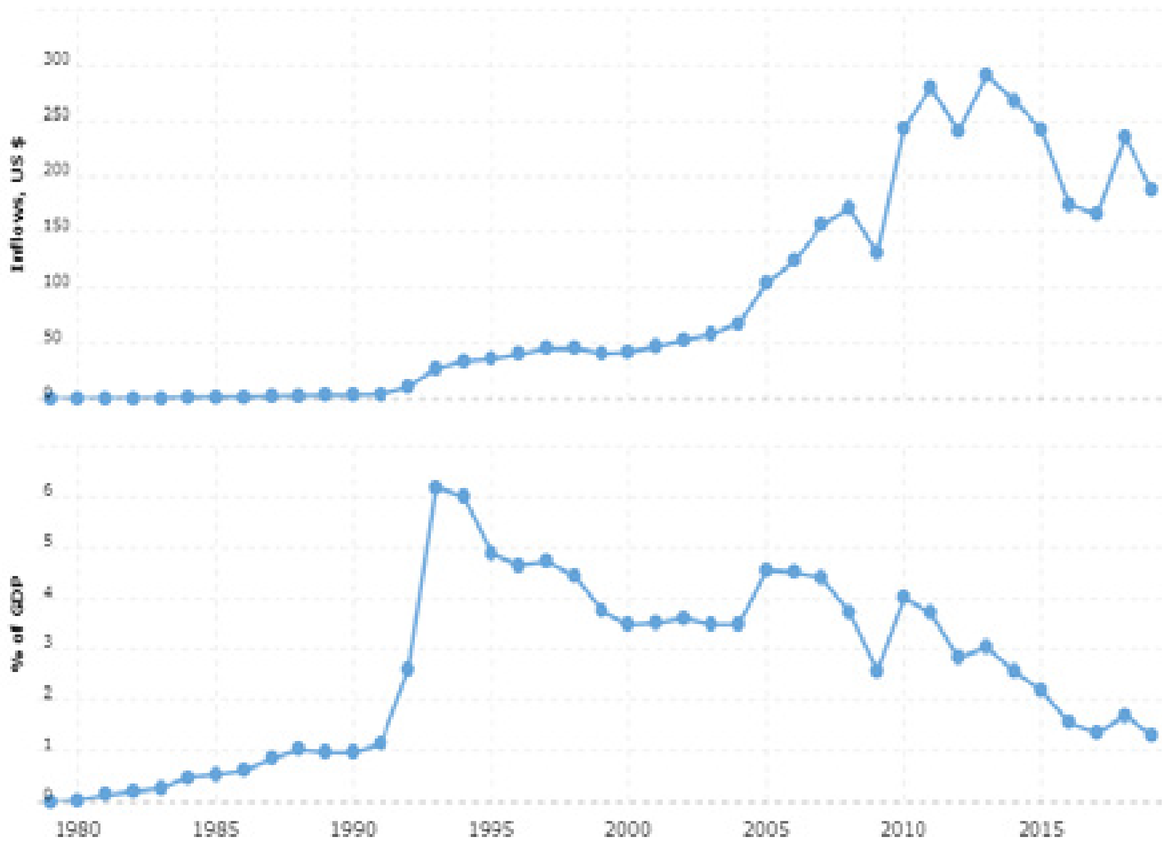

Figure 7: Source: World Bank

These results had a positive effect on FDI outside of SEZs. FDI in China swelled at an unprecedented and rapid pace. By the end of 2003, China had accumulated more than $500 billion in FDI.[105] The country's FDI trajectory has remained upwardly mobile. Even though the COVID-19 pandemic had ground economies to a halt, China received more FDI than the United States. In 2020, China drew inflows amounting to $163 billion, which were more than what the U.S. drew that year.[106]

Figure 7 shows the consistency with which FDI grew in China since 1979. However, in recent years, FDI has slightly decreased in comparison to previous years.

SEZs have been effective in increasing employment levels in China. Not only have employment levels increased but also the contributions of SEZs employment to national employment levels have increased. By 2006, the initial five SEZs had generated 15 million jobs, which accounted for 2% of China's total employment.[107] The percentage increased in later years, and, at one point, SEZs had created more than 30 million jobs.[108] Thus, it is reasonable to argue that, SEZs had an important role to play in Beijing's creation of 11.86 million new jobs in 2020.[109] This is because, over the years, SEZs have increased their share of national employment. At one point, for example, the employment figure of about 1.47 million in the Shanghai Pudon area accounted for about 17 percent of the total employment of the municipality of Shanghai.[110] Also, it is noteworthy that the vibrancy of SEZs affects other areas, too, including neighboring countries.[111] With investments being done in droves, the propensity to create employment opportunities has, obviously, become one of the defining features of SEZs in China.

SEZs have lived up to their expectations as far as exports are concerned. As aforementioned, the promotion of exports was one of the factors that drove the establishment of SEZs. As an integral cog in China's Open Door Policy, SEZs were slated to be the linchpin of the country's economic interactions with the outside world. Foreign trade did witness an upward trend due to China's Open Door Policy. China moved up many a notch in terms of global foreign trade rankings. China improved its position from 34th in 1978 to 11th in 1992, the year it recorded exports to the tune of $85 billion. According to a study, as vehicles of China's Open Door Policy, "the five special economic zones, the fourteen open coastal cities and the Chinese-foreign joint ventures, the number of which has leapt since 1992, are mainly responsible for the positive trend in foreign trade."[112]

By 2010, exports from SEZs made up 60% of China's total exports, a statistic that highlights how, 30 years after their inception, SEZs had managed to achieve what was expected of them. SEZs have been pivotal in changing the direction of China's foreign trade. Studies have concluded that, owing to export-friendly policies, SEZs in China have been able to generate exports at a faster pace while maintaining a healthy average.[113] One of the examples of how SEZs have helped China become an export-driven economy is that of Shenzhen SEZ. After initial conditions-based hiccups, the said SEZ got its act together. From a paltry $900 million in 1978, its exports jumped to $101,518 million by 2005.[114] This phenomenal performance translated in its contribution of 13% to China's national trade. Exports and their share in the country's total exports rose in tandem and briskly.[115] Thus, SEZs have been largely successful in giving a fillip to exports, which have gone a long way in adding to China's economic, political, and diplomatic power.

Success Factors: A major question that agitates the minds of scholars and practitioners is how China, over a period of 40 years, has been able to bring about an economic transformation through SEZs. Understanding why SEZs have been China's growth-enhancer, is but critical for Pakistan, a country that looks up to it as a paradigm of development.

Absent government's support and commitment to market-oriented reforms, SEZs would not have taken off, let alone become a symbol of success. The political will and singular-focus on reforms meant that there was "a stable and supportive macro-environment for reform and for the new Open Door policies to prevent political opposition and temporary setbacks from undermining the economic experiment with the special economic zones."[116] Moreover, the Chinese leadership did not import ready-made reform models but focused on choosing locally-appropriate ones, highlighting the import of keeping local factors in mind.[117] From all this emanated policies that helped investors. Following a decentralized approach, the central government was able to create a conducive environment for SEZs to operate in. Along with sound regulatory and administrative systems, local governments ensured that basic infrastructure and amenities were available in SEZs. Also, authorities provided firms counsel on legal, technical, export-import, and other relevant aspects.[118]

There were other keys to China's success. One, the objectives and benchmarks associated with SEZs are clearly enunciated. This created a sense of competition among SEZs, something that helped each SEZ strive to be the best. Resultantly, the overall quality of output in SEZs only improves. Two, investment incentives are complemented by increasing degrees of autonomy to developers and investors. Some of the facilities that are business-friendly include rapid customs clearance, "the ability to repatriate profits and capital investments, reduced duties on imports, concessionary tax rates, export tax exemption, flexibility in hiring and firing workers…"[119] Efforts are made to attract laborers from within China and the diaspora. They include the provision of housing, subsidies for education, and other non-pecuniary benefits. All this, coupled with China giving more economic and operational autonomy to firms, was done with a view to allowing them to try out various policies and permutations to perch the economy on the pedestal of growth and development. Three, this allowance has hastened the processes of technology-transfer, learning, and innovation, among other things. This, obviously, has a direct impact on productivity, production, value-addition, and, most importantly, the nature of products exported.[120]

China has been dealing with SEZs for the past 40 years. The continuing successes of SEZs should be pinned on a host of factors, from vision to planning to execution. What's more, China has struck a balance between maintaining stability and showing flexibility. A combination of all this has led to China traversing smoothly vis-à-vis SEZs.

Figure 8: Source: Polish Investment & Trade Agency (PAIH) https://www.paih.gov.pl/why_poland/investment_incentives/sez

Poland

Poland embraced the idea of SEZs in the mid-1990s. At that time, the country's unemployment rate was close to 14%. Poland's SEZs framework is based on The Act of Special Economic

Zones and its amendments. The development of SEZs was aimed at accelerating economic development of select areas of the country, boosting exports, improving the industrial base, and increasing competitiveness.[121] There are 14 SEZs located across Poland. Though each SEZ is a self-administered, publicly-owned company, there is a central body dealing with the affairs of SEZs: Polish Investment & Trade Agency (PAIH).[122]

Some of the most high-performing SEZs are said to be located in Poland. Studies have observed how Polish SEZs were able to generate investments and employment opportunities. Polish authorities have introduced a number of demand and supply-side incentives for investors. The demand-side concessions revolve around tax exemptions from personal, corporate income tax, and, on occasions, real estate tax. These exemptions "apply for capital expenditures for at least five years or for creation of new workplaces maintained for at least five years (three years for SMEs). The tax exemption lasts for 10-15 years depending on the regions."[123] Poland segmented its policies based on the employment levels of various regions. Areas where unemployment levels were high were given more financial succor. There are upper limits to the public aid that can be given. The aid package and its duration depend on the region where an SEZ is located. Less-developed regions, especially ones with higher unemployment rates, get more aid and concomitant relaxations.

One of the objectives of Poland taking the SEZs route, as mentioned above, is to increase exports. Has Poland succeeded in using SEZs to raise its exports? A cursory look at the overall export data of Poland since the inception of SEZs shows that the country's exports have increased over the past two decades. According to the World Bank, Poland's exports as a percentage of its Gross Domestic Product (GDP), have seen a consistent, rapid increase. From accounting for 22.94% of GDP in 1995, exports made up 55.63% of GDP in 2020.[124] This time period saw the establishment and operation of 14 SEZs in Poland. So, what role did SEZs play in propelling exports? Studies show that the contribution of SEZs in Poland's national economy has increased. According to a 2019 book exploring the impact of SEZs on Poland's foreign trade, the percentage of SEZs' contribution to exports increased by 14.1% from 2004 to 2015.[125] The book points to the robust foreign trade activity in SEZs, one that is characterized with a positive trade balance.[126] That positivity created a feel-good factor outside of SEZs, too. Export-inducing activities in SEZs are, among other things, ascribed to high-tech and competitive products. According to a research, businesses engaging more with Research and Development (R&D), external and internal, is also one of the drivers of rising exports in SEZs.[127]

Other than effecting a change in Poland's trade profile, SEZs were able to lure in investments. By 2012, close to €20 billion had been invested in all Polish SEZs.[128] The year 2017 was a resoundingly successful one as far as investments in SEZs were concerned, for €5 billion were invested that year alone.[129] By 2019, total investments in the 14 SEZs had reached approximately €30 billion.[130] However, studies reveal that the effect of SEZs on investments is not as strong as it is on employment. A study concludes that "the SEZ investments do not prevent other investments from being made, nor do they encourage new investments in other firms."[131]

That said, investors were dissatisfied with some of the policies adopted by the Polish authorities. Mainly, there was the issue of their being given limited investment options. Also, with rules being less lax for firms outside of SEZs, firms, especially, SMEs were unable to make the cut when it came to being dubbed SEZs. It was believed that because neighboring countries were offering tax concessions in a non-discriminatory manner, Poland's approach towards investors may risk putting it "at a disadvantage both as a destination for FDI and as a location for domestic SME investment."[132]

Resultantly, in 2018, Poland introduced the New Investment Support Act, under which the "Poland Investment Zone" was established. The Zone ended the disconcerting discrimination, allowing firms located outside of SEZs to get preferential perquisites similar to those that firms in SEZs get. Moreover, the Act also made criteria for obtaining concessions less stringent than before. Rather than focus on size and location, the Act accentuates more on productivity-enhancement measures, such as knowledge, skills, and efficiencies apropos of societal and environmental factors.[133]

One of the biggest motivations behind the formation of a formidable SEZs scaffold was to reduce unemployment. SEZs have performed well in this domain. Scholarly works have highlighted how much of a positive impact SEZs have had on employment levels, inside and

SEZ	Number of companies	Employment	Accumulated investment
Kamienna Gorá	53	7,600	€0.6 billion
Katowice	400	80,000	€8.4 billion
Kostrzyn-Słubice	150	65,000	€2.2 billion
Krákow	~200	30,000	~€1.0 billion
Legnica	57	16,095	€1.5 billion
Łódź	167	70,000	€3.3 billion
Mielec	191	46,000	€2.3 billion
Pomeranian	139	27,000	€2.5 billion
Słupsk	75	7,000	€0.5 billion
Starachowice	76	9,500	€0.7 billion
Suwałki	128	10,000	€0.7 billion
Tarnobrzeg	156	25,000	€2.0 billion
Wałbrzych	215	95,000	€5.6 billion
Warmia-Mazury	148	25,000	€1.0 billion

Figure 9: Source: Policy Brief: European Special Economic Zones https://www.espon.eu/sites/default/files/attachments/Policy%20Brief%20SEZ%20corr%2003-12.pdf

outside of SEZs. For instance, from 2003 to 2012, employment in SEZs rose from 61,000 to 247,000. What's more, marginal increases in employment in SEZs shored up employment in other parts of the country.[134] Data reveals that approximately 600,000 jobs were created in SEZs.[135] Figure 9 depicts a summary of recent statistics.

Other than effecting a change in Poland's trade profile, SEZs were able to lure in investments. By 2012, close to €20 billion had been invested in all Polish SEZs

Employment in SEZs has grown exponentially in the past decade. By 2012, 186,287 jobs were created in 14 SEZs across Poland. There were stark variations in numbers across SEZs. For example, till 2012, whereas the SEZ in Katowice was able to create 38,037 jobs, the one in Kamienna Gora could only provide employment to 4,545.[136] Similarly, the SEZ in Mielec recorded good numbers. Between 2013 and 2015, 6,500 new jobs were created, taking the total from 23,500 to 30,000.

Success Factors: 25 years after jumping on the SEZs bandwagon, Poland has, by and large, achieved its clearly-articulated objectives. SEZs have opened the floodgates of investments, which have become the catalyst for creating jobs and boosting exports. What factors have led to the success of SEZs in Poland? One of the reasons behind the promising performances of SEZs is the flexibility with regard to policymaking. This is evidenced by how, in 2018, authorities addressed some of the pitfalls associated with previous rules. That step is set to redirect and rejuvenate investments inside and outside of SEZs. At the policy level, there was a great deal of clarity with reference to what Poland was aiming to achieve from developing SEZs. Management of SEZs is decentralized in Poland. Each SEZ has a management style that is tailored to suit its environment. That said, there are some common practices that all SEZs follow so as to align with the broader objective of uplifting rural areas through providing employment opportunities. This opens up SEZs to "compete for investors by offering them quality service and benefits such as a connection with universities, vocational training, and cooperative agreements for qualified student workers."[137] Decentralization has enabled SEZs to improvise and innovate. For example, the Kostrzyn-Slubice SEZ has designed, in tandem with local universities, courses for capacity-building of the local labor market.[138] SEZs focus on hiring competent professionals in their management teams so as to enable better liaison with investors.

Additionally, Poland has put in place an elaborate Monitoring & Evaluation (M&E) system, to keep track of key performance indicators (KPIs) of SEZs. A series of annual reports are published at various platforms and by various agencies. In this regard, the website of the PAIH acts as a kind of a depository. It uses published reports and progress updates to introduce what zones have to offer to potential investors. Also, the ministries of Development and Economy track SEZs statistics with reference to key objectives that Poland wants to achieve.[139]

Besides, financial incentives have been instrumental in pulling investors towards SEZs. Scholars opine that "favorable tax rules are only the foundation on which other issues, important for a potential investor, are built."[140] Other works acknowledge that tax incentives garner investors' attention, pushing them to locate in an SEZ. However, there are other factors that must complement financial cushions, including but not limited to selecting a conducive location for a zone. A study highlighted how cooperation between investors and local authorities has also been critical to the success of SEZs in Poland.

Last but not least, an efficient, investor-friendly management system has undergirded Polish SEZs. PAIH takes the lead in providing investors guidance in navigating bureaucratic complexities and other operational issues. Furthermore, SEZ management units liaise, on behalf of investors, with local authorities and government officials, with a view to reassuring them. According to surveys, companies operating in Polish SEZs expressed overwhelming support for this model.[141]

Poland has leveraged SEZs to its economic benefits due to a host of factors, ranging from efficient management structures to well-devised incentive-packages. All this, coupled with the systemic openness to change, has been an integral source of making SEZs an economic game changer for Poland.

South Africa

It took decades and heroics for South Africa to get out of the clutches of apartheid. The segregation of people brought with it the scourges of rampant inequality, unemployment, and poverty. For the democratic government, the challenge was to address the apartheid legacy. Thus, rural development and creating employment became critical components of South Africa's growth strategies.[142] In a bid to achieve progress in these areas, South Africa decided to pursue spatial development policies. The first step that the South African government took was to establish Industrial Development Zones (IDZs). However, their limited success drew South Africa's attention towards SEZs. Like China's Open Door Policy, South Africa's New Growth Path became one of the factors that led to the creation of SEZs.[143] Unveiled in 2010, the New Growth Path laid out an ambitious set of objectives. The Path targeted creating 5 million jobs by 2020, enhancing growth, and ensuring a greater degree of equity. The ways to achieve development, according to the Path, were to increase investments in key areas, focus on agriculture, build a greener economy, and ramp up industrialization.[144] According to the South African government, SEZs are key drivers of economic growth and will help South Africa attain its "strategic objectives in industrialization, regional development, and employment creation."[145] Released in 2012, the Policy on the Development of Special Economic Zones in South Africa outlines the core objectives of establishing SEZs. Primarily, South Africa wants SEZs to create a strong, strategically-advantageous industrial complex, which solidifies the country's industrial base in line with its broader development strategies. Further, SEZs are expected to increase the inflow of investments, enter the technological revolution, create jobs, vitalize exports, and, most importantly, ensure that industrial development is balanced.[146] With a view to determining SEZ policy and strategy, South Africa promulgated the Special Economic Zone Act in 2014. The Act gave further directions to South Africa's push for SEZs. As per the SEZ Act, SEZs are of four types: Industrial Development Zone, Free Port, Free Trade Zone, and Sector Development Zone. As of 2021, there are 10 SEZs across South Africa, as shown in figure 10.[147]

South Africa has introduced a number of incentives to persuade investors towards pumping in money, technology, and expertise in SEZs. There are five areas in which relaxations are accorded. Businesses that are located in SEZs can avail a preferential 15% corporate tax relief, provided certain criteria are met. In addition to getting tax relief, businesses and operators working in SEZs can avail a building allowance meant to encourage infrastructure development.[148]

The South African government has also extended the ambit of incentives to effect a change in employment trends. Other than being eligible for the abovementioned concessions, firms

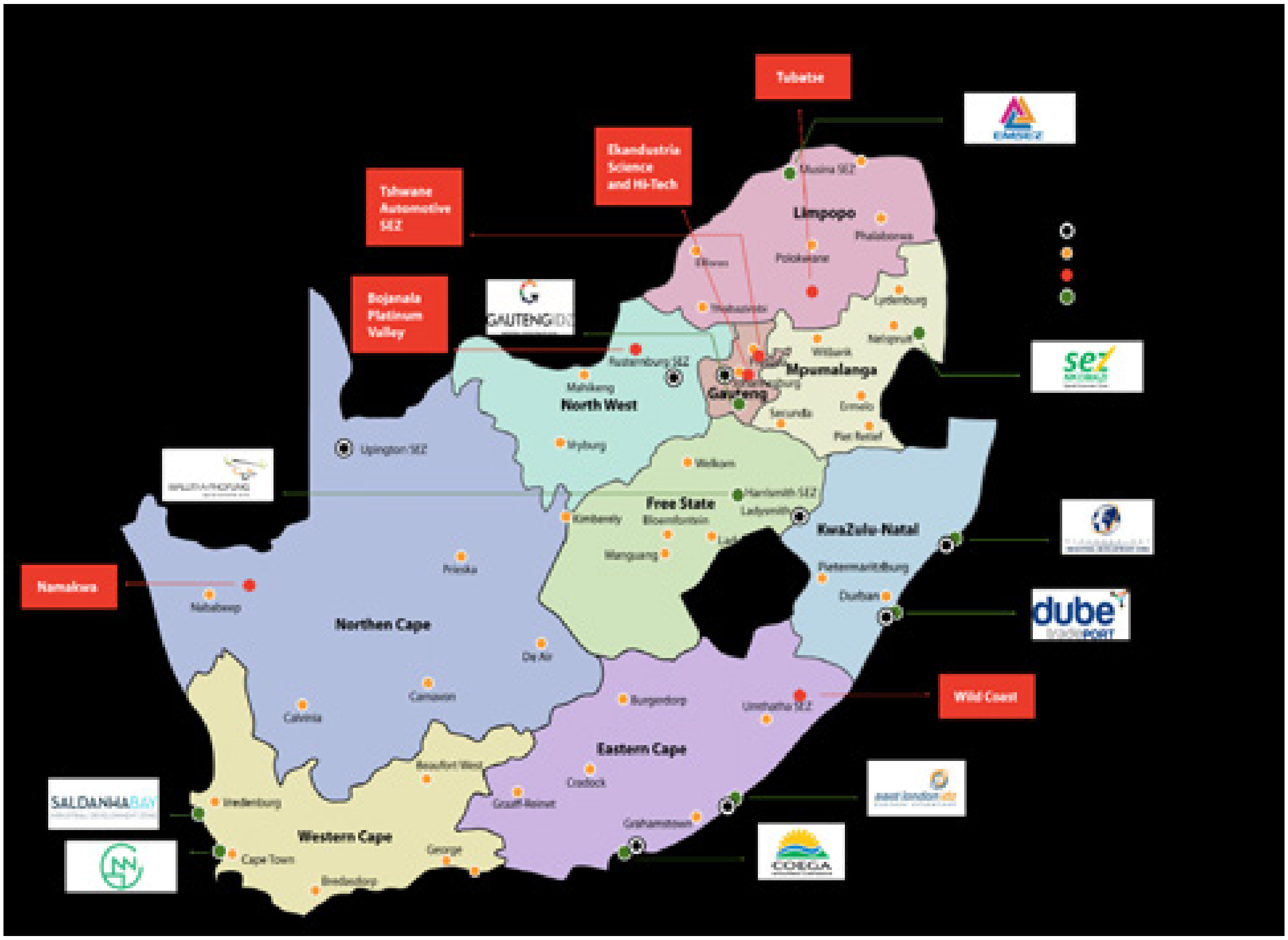

Figure 10: Source: https://industrialfinancing.co.za./

can also obtain rebates on employment tax. This intervention is avowedly aimed at instituting more employment openings. Also, as per the Act, businesses "located within a customs controlled area of a Special Economic Zone will be eligible for tax relief as per the Value-Added Tax Act, 1991…"[149] Apart from these allowances, the government has introduced the 121 Tax Allowance. This is specifically designed to draw investments in not only new industrial projects but also in activities meant to expand existing ones.[150]

How have investors responded to these inducements and how effective have they been in helping South Africa tread the path to long-term, sustainable development? These questions merit answers, for they are central to gauging as to where Pretoria's SEZ journey is headed.

Like other countries, South Africa's policies for SEZs are devised in order to increase the prospect of receiving investments. As compared to China, South Africa is a newer entrant in the SEZ arena. South Africa is one of the most attractive countries in Africa as far as foreign investments are concerned. However, statistics do not do justice to its potential. The country has witnessed FDI inflows plummet in recent years. After recording an impressive growth from $2.08 billion in 2017 to $5.4 billion in 2018, FDI numbers reduced precipitously to $4.6 billion in 2019 and $2.5 billion in 2020. The drop in FDI is, however, a corollary of the COVID-19-induced

Foreign Direct Investment	2017	2018	2019
FDI Inward Flow *(million USD)*	2,008	5,450	4,624
FDI Stock *(million USD)*	156,353	138,562	150,951
Number of Greenfield Investments*	106	109	130
Value of Greenfield Investments (million USD)	3,560	4,812	4,115

Figure 11: Source: UNCTAD

slowness in the entire African region. That said, South Africa, in recent years, has been able to excite foreign investors. One of the reasons why South Africa is the leading FDI-recipient in Africa is the phenomenon of SEZs. It is argued that the Musina/Makhado SEZ, located close to the border with Zimbabwe and along a strategic route that links up to the Southern African Development Community, is strategically-suited to elicit increasing amounts of FDI.[151] Figure 11 illustrates how FDI has plunged since 2017.

SEZs contribute a significant chunk to South Africa's total FDI inflows. Reportedly, SEZs account for 21% of FDI inflows in South Africa. The figure is healthy, to say the least, especially given that the country is still in the grips of economic woes.[152]

Despite the drop in overall numbers, SEZs have given a good account of themselves. From the first quarter of the financial year 2018/19 until the first quarter of 2019/20, "the number of operational investors in designated SEZs has increased from 110 to 122, with an investment value sitting at over R19-billion."[153] Moreover, some 61 non-operational investors are waiting to invest.[154] Individual SEZs boast a good showing, having roped in many an investor. For example, the Coega SEZ has bagged 45 active investors. The second SEZ on the list happens to be the Dube TradePort, where 35 investors are operational. The very SEZ saw investments, domestic and foreign, pour in. Also, it was able to exceed its targets, for it secured 18 new investors.[155] What's more, in 2021, the Coega SEZ signed indentures with 4 new investors. This, according to the SEZ's management, is a product of consistency that has already brought 77 investors in the past 5 years.[156]

It is important to note that, in the past, Pretoria struggled in arresting sliding FDI inflows. Political instability became one of the precursors for South Africa's FDI troubles in the 1970s and 1980s. However, the end of apartheid brought with it a commitment to removing constrictions that block investments.[157] Certainly, SEZs have played a part in making South Africa relatively more investment-friendly.

Apart from providing vigor to investments, SEZs were expected to spawn employment opportunities. How far were SEZs successful in achieving one of the main objectives of their institution? South Africa's unemployment rate went up to 32.5% in the last quarter of 2020 given that 7.2 million people lost employment. This is the highest unemployment rate since 2008.[158] SEZs, however, have added to the tally of employed workers since their operationalization.

By the end of the financial year 2015/16, four South African SEZs had created 75,360 jobs. Most of these jobs were created in the Coego SEZ. According to a DTI briefing held in 2016,

IDZ	NO. OF INVESTORS ON SITE	EST. PRIVATE INVESTMENT VALUE OF OPERATIONAL INVESTORS(R'000)	NO. OF SECURED INVESTORS(but not operational as yet)	EST. PRIVATE VALUE OF SECURED BUT NOT YET OPERATIONAL INVESTMENT(R'000)	DIRECT EMPLOYMENT	CONSTRUCTION & INDIRECT JOBS	TOTAL EMPLOYMENT
COEGA	33	6 489 450	29	6 800 000	7174	37 448	44 622
ELIDZ	28	1 8000 000	4	1 200 000	1997	23 975	25 972
RBIDZ	2	820 000	9	10 020 000	300	3961	4 261
DTPIDZ	6	372 000	5	1 700 000	505	-	505
TOTAL	69	9 479 450	47	19 720 000	9 976	65 384	75 360

Figure 12: Source: The Department of Trade, Industry and Competition, Republic of South Africa

the Coego SEZ generated 7,174 direct as well as 37,448 indirect jobs from 2001 to 2016, as highlighted in figure 12.

Coega SEZ has been a consistent performer when it comes to giving employment. According to the zone's management, in the financial year 2019/20, the zone not only finalized new investments but also engendered 14,240 jobs, out of which 5,934 were linked to the construction industry.[159] However, it is not only the Coega SEZ whose exploits are a boon for South Africa. The Dube TradePort SEZ is taking great strides in a bid to take the lead. In 2019, the Board of the Geneva-based FEMOZA (Fédération Mondiale des Zones Franches) declared it as the winner of the 2019 FEMOZA "Best Practice in Free & Special Economic Zones" award. The zone became a source of some 25,000 direct and indirect jobs, a stark increase from the number of jobs it created by 2016.[160]

Foreign Trade Values	2015	2016	2017	2018	2019
Imports of Goods *(million USD)*	104,620	91,580	101,326	113,972	107,539
Exports of Goods *(million USD)*	81,673	75,091	88,947	93,970	90,016
Imports of Services *(million USD)*	15,111	14,954	15,762	16,114	15,300
Exports of Services *(million USD)*	14,665	14,360	15,376	15,598	14,373

Figure 13: Source: World Trade Organization

SEZs have indeed had a positive effect on employment, even though South Africa's overall figures do not make for pleasant reading. With the establishment of more zones in the pipeline, the situation of the job market could slightly improve. That said, SEZS, all by themselves, cannot fight the pervasive, endemic unemployment that plagues South Africa.

Export-promotion was one of the leitmotifs of Pretoria's narrative regarding the creation of SEZs, as evidenced by its inclusion in every policy document pertaining to SEZs. Foreign trade is a very important component of South Africa's economy. Its exports make up 30.5% of its GDP, shedding light on how open the Republic is for and to international trade. Pretoria's exports hinge upon platinum, motor vehicles, platinum, and gold, among others products. They have oscillated in recent years. However, the variations have not been destabilizing. In fact, South Africa recorded a trade surplus of $1.7 billion in 2019. From approximately $96 billion in 2015, South Africa's exports of goods and services went up to $104 billion, as shown in figure 13.

The non-availability of data on exports in SEZs across South Africa is a problem. That said, statistics do show that exports have increased in SEZs. For example, the Coega SEZ was able to add to exports. From recording exports to the tune of R1, 236 million in 2015, the said SEZ was able to take the total to R1, 614 in 2018. The manufacturing sector was the main contributor to these numbers, as it accounted for R1, 485 million of 2018's exports.[161] Another key fact that underlines the role of a South African SEZ in growing exports is how the KwaZulu-Natal province was able to double its exports from 2007 to 2017. In 2007, the province's exports stood at R70.7 billion; in 2017, they swelled to R142.5 billion.[162] While the direct impact of the Dube TradePort in this turnaround is hard to ascertain, it is reasonable to argue that given its stellar journey, it was but an important factor in the province's export blitz. Though the effect of SEZs on South Africa's exports is of lesser magnitude, promised and agreed-upon investments, coupled with the creation of more SEZs, could have positive repercussions going forward. That said, it is noteworthy that South Africa has only achieved a modicum of success in harnessing the potential of SEZs. The prospect of success could increase.

Factors Limiting Success: South Africa has had trouble making SEZs a real success-story. However, the foregoing sections showcase that, despite being new to the game and afflicted by a general recession, South Africa has managed to use SEZs to traverse ahead, with a view to achieving broader policy objectives. However, the results, according to observers, are disappointing, to say the least. So, what set of factors has stymied progress?

One of the major reasons behind South Africa's relatively-poor showing is the mismatch between the kinds of subsidies given and their objectives. According to watchers and experts, South Africa giving capital subsidies would make capital cheaper and negatively affect employment. Further, they have questioned the utility of pumping in money for infrastructure, especially when it is seemingly not converting losses into profits.[163] It is important to note that, the connection between government's subsidies and investors' decisions to invest is tenuous. According to a study, investors were of the opinion that "that they would have made the investment even if the incentives had not existed."[164]

Next, the absence of coordination among government authorities and other stakeholders is something that affects the alignment of policy with problems, resources, business environments, and aims. Pundits have observed that it is imperative for the government to work in close concert with the business community so as to reframe and recalibrate policy directions.[165]

Also, given South Africa fast-deteriorating economic milieu, following lofty and somewhat competing goals is another issue that complicates the equation for that country. For instance, a focus on tapping minerals and buttressing high-tech industries require an army of highly-skilled workers. However, the more chronic problem in South Africa is not only the presence of unemployed unskilled workers but also the paucity of skilled ones.[166]

For SEZs to operate effectively and produce timely results, the entire process from conception to execution should be smooth, with each phase feeding into the other. That can only happen if a comprehensive policy framework is put in place at the highest levels. Critics argue that Pretoria's SEZ framework lacks direction and is not all-encompassing, an issue that lets deficiencies come to the fore.[167] All these issues aside, political dithering is the last thing that SEZs can afford. Due to many an ideological debate within the South African polity, SEZs have not received the political backing they merit.

South Africa has rightly identified SEZs as a panacea for its economic worries. The performances have swung between those that show promise and those that lead to despondency. South Africa can build upon both promise and potential, by trying to eradicate structural fault lines in its economy and rejigging its policy to deal with SEZs.

Lessons and Policy Recommendations for Pakistan

The Key Takeaways

A detailed appraisal of SEZs and as to how and what have they contributed to different economies brings to light a number of invaluable lessons and suggestions for Pakistan, a country that is enthralled at the potential propensity of SEZs to catalyze its economic growth and development. Being a newcomer brings with it a set of advantages for Pakistan. It can learn from various kinds and types of SEZs while also assessing their changing patterns. However, most importantly, Pakistan can use the experiences of other countries as templates of success and failure. Parsing the factors of success and failure of SEZs, generically as well as across countries, provides a useful guide to Pakistan. Some of the fundamental lessons that the country could take from the previous analysis are the following:

1. **Political commitment is crucial**

One of the critical differences between the approaches towards SEZs of Pretoria and Beijing is the extent of political support given to their respective SEZ programs. China's roaring success in inducting SEZs in its economic landscape is attributed to its leadership's commitment to keeping the process of reform going. On the contrary, political will is weak in South Africa, something that, oftentimes, leaves the country's SEZ policy in disarray. Pakistan's SEZ project is moving forward, albeit slowly and imperfectly, on behest of a strong political commitment within the highest echelons of power. Its continuation is indispensable for Pakistan. If and when a leader or a party, for that matter, at the helm in Pakistan decides to downgrade the place accorded to SEZs, or dilly-dallies in extending them support, SEZs will be dealt a severe blow. Thus, both CPEC and SEZs have to be seen as political commitments given by the

Government of Pakistan, not by a political party.

2. **Understand the local environment is the key**

One of the most conspicuous commonalities between the experiences of China, Poland, and South Africa was the importance of taking into account the local context and the advantages and disadvantages associated with it. Poland, for instance, redoubled its efforts to facilitate zones that are located in areas where unemployment is high, a step which aptly aligned with its objective of creating more jobs. South Africa was, on the other hand, found wanting in this regard; its interventions could, in fact, make unskilled and semi-skilled laborers unemployed. Pakistan, like China, should not apply models without tailoring them to suit its own conditions.

3. **Strike a balance between stability and flexibility**

China's 40-year experience of handling SEZs has, among other things, underscored the significance of navigating the stability-flexibility pendulum. Through reforms-oriented macroeconomic strength, China was able to mollify investors and developers, something which led to reduced trepidations and uncertainties. That stability, however, was complemented by the alacrity of response to investors' concerns and requirements. China was accommodative and receptive, as it tinkered with its property protection laws, gave more autonomy to investors, and tried to steer clear of influencing intra-zone activities. Poland has also been acquiescent when it comes to placating the concerns of businesses in the zones. In response to investors' complaints, Poland tweaked with its policy, making it much more investment-friendly. Pakistan has to ensure that its policies, aimed at bringing in much-need stability, do not impinge upon its adaptability. Authorities should monitor developments, offer assistance, and, through a mechanism, effect changes necessary to surmount problems.

4. **Coordination between stakeholders is essential**

One of the principal factors behind South Africa's rather unimpressive scorecard is an utter lack of coordination between key stakeholders. This gap does not only result in undermining smooth and timely policy implementation processes but also leads to wasteful expenditures on unprofitable projects. Inter-ministerial, inter-provincial coordination is an absolute necessity for Pakistan. This factor becomes all the more critical given that SEZs are inexorably linked to CPEC. Pakistan will not only have to ensure close cooperation between its federating units and agencies but also use existing channels to coordinate with China and its authorities.

5. **SEZs can only do so much**

An economy ensnared in multi-pronged crises needs to adopt a structured, strategic approach aimed at getting out of the quagmire. Thus, SEZs cannot be expected to single-handedly steer a country out of a quicksand. SEZs, even if successful, cannot carry the load of a crippling, unsustainable economic structure. South Africa's economy is an ideal exemplar of how the overall economic weakness overshadows the impact of SEZs. Pakistan, thus, has to work towards reforming its economy so as to make it an enabler of vigorous economic activities in

SEZs. For instance, if rent-seeking behaviors, unsustainable growth, and rising external debts continue to typify Pakistan's economic contours, SEZs would not be able to have the impact that Pakistan is expecting them to have on its economic development. Hence, it is essential that Pakistan smartly incorporates SEZs in its long-term, strategic agenda of development, much like China did. SEZs have to be seen as one of the very many options that, if combined methodically, can set Pakistan on the road to sustainable growth.

Policy Recommendations

How should Pakistani decision-makers appreciate this set of lessons? What policy recommendations can be gleaned from these general lessons? Based on these lessons, the general factors of success and failure, and other developments taking place, the following policy interventions are recommended to make SEZs a success-story for Pakistan:

- **Release a Long-Term Plan for SEZs**

Pakistan understands that SEZs have what it takes to revive Pakistan's economy. The government also realizes how SEZs can rekindle exports, employment, and investments. However, it has been observed that the government is not clear on the specifics of the entire scheme of things. What are Pakistan's preferences in terms of industries, and what are its targets in the short, medium, and long terms, are questions that merit clear answers. Clarity and direction are very important. All this makes it essential for the government to articulate its vision, roadmap, and the entire plan for SEZs through a publically-available document. This document should act as a point of reference, much like CPEC's Long-Term Plan does. This will, in addition to bringing in much-needed clarity in Pakistan's policy, give investors an added sense of security and confidence given that it would highlight Pakistan's enduring commitment to SEZs.

- **Establish an Independent SEZ Authority**

One of the discussion points in parleys between Pakistan and China relating to CPEC has been the latter's inability to deal with Pakistan's behemoth bureaucracy and its archaic processes that are the main causes of needless delays in moving things forward. To remove such irritants, the Government of Pakistan created the CPEC Authority. The Authority is responsible for coordinating, monitoring, enforcing, and evaluating the smooth implementation of all activities linked to CPEC. The establishment of the Authority was one of the causes for CPEC's resounding comeback. Given the importance of SEZs, an independent body dedicated to SEZs must be established. The BOI is currently the secretariat of SEZs. It has other tasks to perform, too. Also, it has to face the same bureaucratic hurdles that had slowed down previous projects. A fully-empowered, independent SEZ Authority would go a long way in the timely operationalization of SEZs. The Authority, along with the BOI and the sanctioned Special Economic Zones Authorities (SEZAs) in the federating units, should coordinate with stakeholders and provide them one-window facilities that bypass bureaucratic rigmarole. The proposed Authority should be headed by independent experts, who may be in active service or retired. The primary reason for establishing this body is its capacity to accelerate the completion of SEZs.

- **Create an SEZ Diaspora Account**

Overseas Pakistanis are considered one of Pakistan's biggest assets. The Khan government is committed to leveraging their expertise and strength while facilitating them. As aforementioned, the government has launched a number of programs to encourage them to invest in Pakistan. The results have been heartening, to say the least. The confidence shown by overseas Pakistanis in the current government allows the government to launch another initiative. The SEZ Diaspora Account, much like other programs, would allow overseas Pakistanis to invest in Pakistan. Though this account would only facilitate quick investments in SEZs. The government could give better returns on investments through the proposed account. It is noteworthy that the Chinese diaspora also played a vital role in sketching China's SEZs picture. Pakistan's strong diaspora can also do the same, provided it is given a transparent regime to invest in.

- **Establish a Pak-China SEZ Center of Excellence**

Pakistan's interest in SEZs is a function of their strategic role in China's economic miracle. It is only logical to argue that Pakistan will turn to its senior partner for help. Pakistan needs training at all levels. Absent that, Pakistan may stand to lose, as it does not have the requisite expertise to operate and manage SEZs. Also, Pakistani laborers and manufacturers, as alluded to above, lack the knowhow to work on China's technology-led equipment and production apparatuses. Thus, training is imperative. The proposed Center should be a huge complex, one that should be able to host trainees from all across Pakistan. The Center should be located in Gwadar given that it is the project's fulcrum as far as activities and location are concerned. The Center, it must be noted, should train individuals before they start engagements with an SEZ.

- **Improve Infrastructure, Basic facilities, and Security**

SEZs cannot survive, let alone thrive, without the provision of basic facilities, like water, sanitation, and above all, power supply. Pakistan's once-devastating power crisis is staging a comeback. While Pakistan has to take stock of the situation, it also has to ensure that the power supply to SEZs is not only uninterrupted but also less costly. In this regard, the Ministry of Power and the Ministry of Planning should establish a joint committee so as to ensure that power is available to and for all SEZs. Further, proper road and rail networks linking SEZs with markets must be built. Laying those should be one of the top priorities of the governments handling CPEC at the provincial and federal levels.

All this cannot be accomplished sans the physical security of SEZs across Pakistan. CPEC is but one of the targets of three boiling rivalries: Indo-Pak, Sino-U.S., and Sino-Indo. This has been demonstrated lately, as Baloch separatists and terrorists, ably supported by India, have targeted CPEC and non-CPEC projects in Pakistan. A division-sized contingent of the Pakistan Army is already deputed for CPEC's security. However, given the precarious internal and external situation that is unfolding, raising another hybrid formation is tenable. The division's forces should be deployed in all SEZs that are under development. The balance of deployments should be in line with the assessments of threats.

This list of recommendations is not exhaustive. There are many other policy options that Pakistan could employ going forward. However, this set is more apt in ensuring that the first phase comprising completion and operationalization, ends successfully. Other medium and long term policy measures can only be put to test once this phase ends.

Conclusion

At present, Pakistan is seeing SEZs as the most important element in CPEC. Quite rightly, it is enthused that, via SEZs, it could enter an era marked by industrialization and export-led growth. Cognizant of this mammoth opening, Pakistan has taken steps to remove bottlenecks in the development of SEZs. What's more, it has shown a fair degree of flexibility in changing rules and taking steps in order to become an investor's delight. Post-2018, work on SEZs has gathered pace, as the Khan government appears to be keener in seeing them operate. SEZs and their capacity to positively affect economic indicators have given Pakistani policymakers an ideal chance to help extricate their country out of the unproductive, hurtful industrial stagnation. However, Pakistan can achieve positive outcomes only if it manages to match commitments with efforts to upgrade its ability to execute policies. In other words, it has to jostle its system so as to enable it to deliver. Bureaucratic inefficiencies and the resultant delays could frustrate prospective investors, and, in the process, stall the development and operations of SEZs.

Further, with SEZs opening up vistas of opportunities as well as a basket of challenges, the onus of dwarfing obstructions is on Pakistan. For that, Islamabad has examples to learn from. This report delves into how China, South Africa, and Poland deal with SEZs. There are some useful lessons that Pakistan can learn from the immersions of these three countries in SEZs. Pakistan should, for instance, avoid copy-pasting ready-made models, and rather look for models that provide solutions to home-grown, peculiar issues.

In order to extract maximum benefits out of its project SEZs, Pakistan has to take a series of steps at various levels. For starters, it has to clearly define its objectives and choose focus areas so as to give a strategic direction to the development of SEZs. Also, Pakistan must leverage the strength of its vibrant diaspora to enhance investments in SEZs. Pakistan also needs to establish a central management authority dedicated to SEZs and, among other things, bolster the security of all CPEC projects, to include SEZs. Absent strategic and tactical policy interventions, the ecstasy surrounding SEZs would remain a mere rhetoric.

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