Annex-III

Special Economic Zones

Special Economic Zones (SEZs) were established in many countries as testing grounds for implementation of liberal market economy principles. While viewed as economic policy tools for enhancing the acceptability and credibility of industrial transformation policies, attracting domestic and foreign investment and also for the opening up of the economy, SEZs also seek to promote the value addition component in exports, generate employment, encourage import substitution as well as mobilize foreign exchange in countries for Balance of Payment Support. Many developing and developed economies have established economic zones for the regional development and prosperity, aiming at creating spillovers for the economy outside the zones, successfully.

SEZs, an industrial policy tool that depends on the attraction of local and foreign direct investment (FDI), data indicates continue to multiply and diversify all over the world. The UNCTAD's World Investment Report published in 2019, elucidates that more than 5,400 SEZs exist in nearly 150 countries, increased from 4,000 SEZs in 2015, showing growth of 35%. SEZs not only serve as a policy tool for FDI attraction but also FDI competition across the world, with many diverse incentive packages being offered to entice direct investment.

SEZ policy objectives and type differ substantially among the economies at different stages of, what UNCTAD[1] refers to as the development ladder. In developed economies, most SEZs are custom-free zones that provide relief from tariffs, and the administrative burden of customs procedures, thereby providing support to sophisticated cross-border value chains. Developing economies often establish SEZs to attract FDI, in order to build, diversify and upgrade industries. The economies that have historically struggled to attract FDI show a higher tendency to implement this concept. Whereas, new adopters, such as some African countries, are using SEZs to kickoff manufacturing, industrialization and export generation to compete with other regional countries. In transition economies, technology-centered zones are spurring. Several advanced

[1] World Investment Report 2019

economies are utilizing SEZ to promote industrial upgrading, China's Shenzhen SEZ, being the classic example.

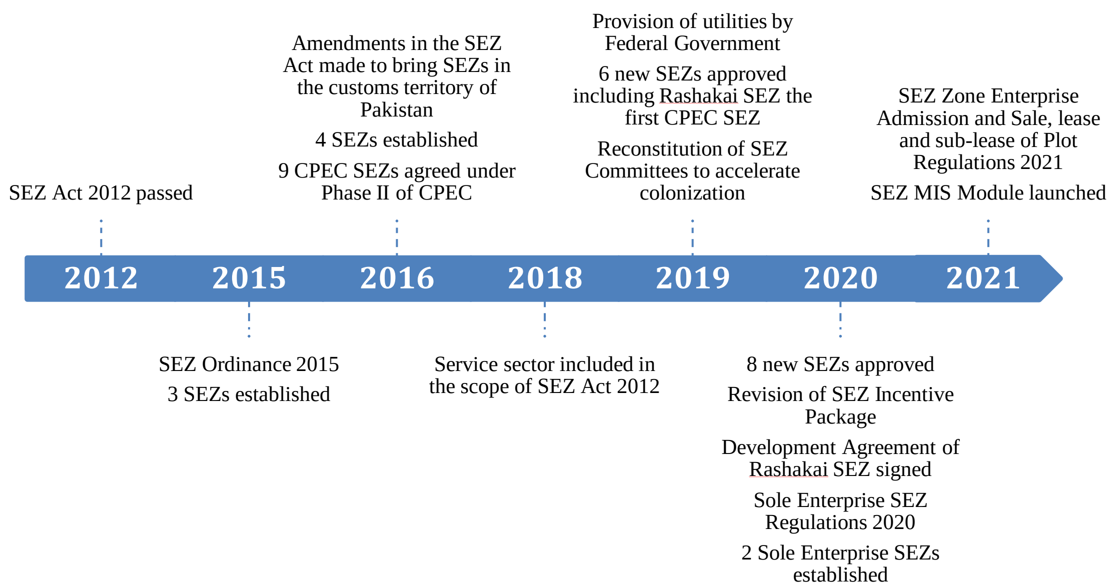
SEZ Act 2012 – the inception till first amendment

The Government of Pakistan also adopted the concept of SEZ with the commencement of the Special Economic Zones Act 2012 (herein referred to as the Act), to meet the challenges of global competitiveness and to create industrial clusters in the economy. The Act envisages SEZs to encourage domestic and international investors for promotion and establishment of industrial infrastructures focusing on export promotion, import substitution, transfer of technology, and employment generation. Section 4 of the Act allows the Federal Government and Provincial Governments to establish SEZs on their own or in collaboration with private parties under various modes of collaboration including Public-Private Partnership or exclusively through private parties. Whereas to incentivize such investment in the SEZs, the said Act provides certain fiscal and allied benefits to the SEZ investors, i.e., developers and zone enterprises.

The significance of SEZs as a policy tool for economic growth through industrialization can be gauged from the composition of its approving forums. The apex approving body is the Board of Approvals (BOA) that is headed by the Prime Minister, with the Chief Ministers, Federal Ministers from relevant economic ministries and representatives from the public and private sector. This high-powered policy making forum is effectively responsible for successful establishment of SEZs across Pakistan. At the lowest tier of the approval structure, are the SEZ Committees that are chartered by the BOA, under Section 23 of the Act, for each notified zone. These committees comprise of the representatives from the investment promotion departments at federal and provincial levels, the district government, the provincial SEZ Authorities and the developer of the respective zone. They are responsible for granting approval to the eligible zone enterprises on the basis of their business proposals to set up in the particular SEZ.

In Pakistan, the policy objectives and the type of SEZ framework provided through the SEZ Act 2012 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. Resultantly, in order to expand the scope of SEZs and to accelerate industrialization, Board of Investment, being the custodian of SEZs in Pakistan proposed certain amendments in the Act in 2015 to bring the SEZs within the customs territory of Pakistan. With the incorporation of the proposed amendments in the Act, the SEZs were made more investor friendly. By the end of 2016, seven SEZs got notified across Pakistan.

Box-I: The SEZ Journey of Pakistan



SEZs – A New Direction (2018-2020)

Till FY2018, only 7 SEZs existed, while 6 of them had converted from their earlier status as Industrial estates (IEs) or Industrial Parks (IPs). However, 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 (Box-IV). These include, 4CPEC SEZs, 3 Private SEZs (including two Sole Enterprise SEZs), and a Science and Technology Park that is being established by NUST in Islamabad.

Box-II: Case of CPEC SEZs

During the 6th meeting of Pak-China Joint Cooperation Committee (JCC) on CPEC held in Beijing, China; establishment of nine SEZs in Pakistan, seven Provincial and two Federal, were agreed under the framework of CPEC Industrial Cooperation (IC). All four provincial SEZs, namely, Rashakai SEZ in KP, Allama Iqbal Industrial City in Punjab, Bostan SEZ in Balochistan and Dhabeji SEZ in Sindh have been accorded approval by the Board of Approvals and are at various stages of development. In order to fast-track development of these SEZs, the federal government has ensured provision of utilities to the designated zero-point of these SEZs and as such allocated Rs4 billion in the Federal PSDP FY2021.

Table 1: Special Economic Zones established across Pakistan

Year	Name of SEZ	Developer	Area (Acres)
FY2014	Bin Qasim Industrial Park (BQIP), Karachi, Sindh	NIP	930
	Khairpur Special Economic Zone (KSEZ), Khairpur, Sindh	SEZMC	140
	Korangi Creek Industrial Park (KCIP), Karachi, Sindh	NIP	220
FY2016	Hattar Special Economic Zone (HSEZ), Haripur, KP	KPEZDMC	440
	M3 Industrial City (M3IC), Faisalabad, Punjab	FIEDMC	4,356

Table 1: Special Economic Zones established across Pakistan

Year	Name of SEZ	Developer	Area (Acres)
	Value Addition City (VAC), Faisalabad, Punjab	FIEDMC	214
FY2019	Oil Village SEZ (OVSEZ), Rawalpindi, Punjab	FOC-1	105
	Rachna Industrial Park (RIP), Sheikhupura, Punjab	NIP	215
	Rahimyar Khan Industrial Estate (RIE), Rahim Yar Khan, Punjab	PIEDMC	456
	Rashakai Special Economic Zone (RSEZ), Nowshera, KP	KPEZDMC	1,000
	Vehari Industrial Estate (VIE), Vehari, Punjab	PIEDMC	277
	Bhalwal Industrial Estate (BIE), Sargodha, Punjab	PIEDMC	427
	Bostan Special Economic Zone (BSEZ), Pishin, Balochistan	Industries Depart. Bal.	200
	Hub Special Economic Zone (HUBSEZ), Lasbela, Balochistan	LIEDA	406
	Naushero Feroz Industrial Park (NFIP), Naushahro Feroze, Sindh	NIP	80
FY2021	Allama Iqbal Industrial City (AIIC), Faisalabad, Punjab	FIEDMC	2,800
	National Science and Technology Park (NSTP), Islamabad, ICT	NUST	58
	JW-SEZ China-Pakistan SEZ (JWSEZ), Lahore, Punjab	JWSEZ Group	231
	Quaid-e-Azam Business Park (QABP), Sheikhupura, Punjab	PIEDMC	1,536
	Service Long March Tyres SESEZ, Jamshoro, Sindh	SLM	50
	Siddiqsons Tinplate SESEZ, Lasbela, Balochistan	STPL	71
Total	**21**		**14,212**

Source: Board of Investment

SEZ Colonization

The colonization of SEZs can be divided into two eras, pre- and post-SEZ MIS Module (Box-III). Before the notification of the SEZs, Zone Enterprise Admission and Sale, Lease and Sub-lease of Plots Regulations 2021, the SEZs were marred with real estate activities. However, in order to eradicate these practices and give way to only serious investors, all zone and zone enterprise applications are being processed through the SEZ MIS Module with effect from 1st January 2021. This Module is integrated with the SECP and only accepts applications from SECP registered concerns. Efforts are also underway to digitize and streamline the legacy data and approvals.

Box-III: SEZ MIS Module

In the 7th meeting of the Board of Approvals, held on 14th December 2020, the Prime Minister launched the SEZ MIS Module. Since 1st January 2021, all zone and zone enterprise entry applications that are received through the Module are to be entertained and put before the competent forum for consideration.

	Pre-SEZ MIS (2012-2020)*	Post-SEZ MIS (1st Jan 2021 – 4th May 2021)
Zone Enterprises Active	200	55
Planned Investment (Rs billion)	334.22	299.68
FDI (Rs billion)	173.08	103.45
FDI (USD million)	1,081.74	646.59

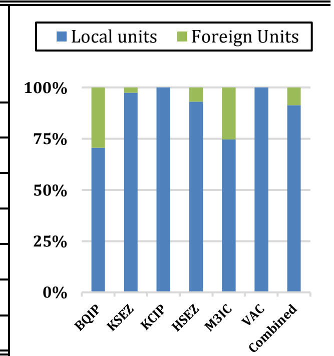
The number of zone enterprises pre-SEZ MIS launch, although significant, includes certain enterprises that could not realize their planned investments and are being tracked and phased out. The pre-launch period that spans over 8 years across 19 SEZs, due to non-availability of required infrastructure and lack of regulatory monitoring and ease could only solicit foreign investment interest of Rs173.08billion. Whereas post-launch, in a matter of just 5 months, more than half of this progress has been registered and given approval for setting up of industries.

Out of earlier notified seven SEZs by 2016, except the Quaid-e-Azam Apparel Park (which was re-notified on 8th December 2020 as Quaid-e-Azam Business Park), all 6 earlier notified SEZs are at advanced stage of colonization. These SEZs together house 285 enterprise (excluding the Industrial Estate units in M3IC and VAC). Over 84% of industrial area allotted, 46% of investment has been realized with 50% as FDI. The Federal Government has exempted Rs 49.39 billion of custom duties and taxes on the import of plant and machinery for setting up of units in these zones.

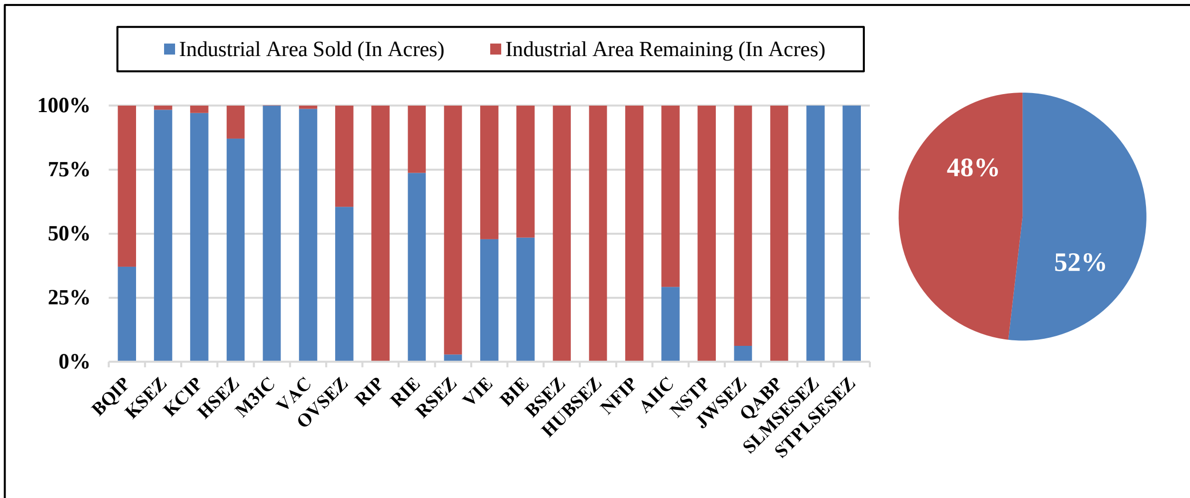
Table 2: Exemption of Custom Duties and Taxes on the Import of Plant and Machinery

SEZs (Notified FY2012-18)	% Indus. Area Sold	Total Units	Expected Invest. (Rs Bn)	% Share of FDI	% Invest. So far	CD Exempt (Rs bn)
BQIP	34%	17	47.95	64%	85%	1.10
KSEZ	81%	34	6.35	55%	2%	0.17
KCIP	96%	123	31.18	0%	31%	0.07
HSEZ	87%	43	10.07	24%	24%	0.37
M3IC	95%	63	212.10	57%	42%	47.33
VAC	99%	5	1.02	0%	71%	0.35
Total	84%	285	308.67	51%	46%	49.39

Source: Biannual reports submitted by provincial SEZ Authorities



As of May 2021, the 21 notified SEZs together account for approx. 10,029.64 acres of industrial land out of which 5,220.62 acres (52%) have been allotted to investors for setting up of industry with planned investments of Rs 633.9 billion, 43.6% of this comprises of FDI component (USD 1.73 billion). It is also significant to mention that under the SEZ Act 2012, a zone enterprise is obligated to start construction within six months and to get into commercial production/operations within 24 months of its approval, whereas title to land is to be transferred only after it has performed regular operations for six months. Unless otherwise extended, upon expiry of the 24 months or the period so extended, if a zone enterprise remains unable to fulfill its obligation the status is to be withdrawn.



Incentives

Considering incentives to be the driving force for any type of SEZ, to lure the investors, over the past two years, certain revisions in the fiscal incentive package have been made to make it further profitable as well as regionally competitive (Box-IV).

Box-IV: Revised SEZ Fiscal Incentive Package

The SEZ Act, 2012 incentivizes investment in the SEZs through provision of certain fiscal and allied benefits. The fiscal benefits provided under section 36 & 37 of the SEZ Act 2012, to zone developers and enterprises have been expanded over the past two years through various policy tools.

The scope of SEZs has been expanded by inclusion of service sector and accordingly amendments have been enacted in the Customs Act 1969, vide Finance Act 2020, through incorporation of certain key service sectors for provision of incentives. These sectors include IT, storage, communication, and infrastructure development of SEZs by zone developers. The exemption from custom duty that was earlier available on import of plant and machinery, has been expanded in scope of applicability through amendment in PCT code 9917(2) vide Finance Act 2020. It is now available on the import of a wide variety of capital goods that are used in manufacturing and service sectors as defined under the Fifth Schedule to the Customs Act 1969.

To encourage and facilitate PPP in SEZ development, concession and exemptions available to the developers of SEZs have also been extended to the co-developers of the SEZs. Similarly, the income tax holiday for the zone developers has been extended from 5 to 10 years, whereas the cut-off date applicable on zone enterprises under section 37 of the SEZ Act 2012 has been removed vide section 126E of the Income Tax Ordinance 2001, providing income tax holiday of 10-years to the zone enterprises as well. Efforts are also underway to make the *'exemption from all taxes on income'* available under the SEZ Act 2012, a reality.

Among other SEZ incentives, one of the major attractions is provision of utilities to the zero point of each SEZ. Lack of resource allocation constrained the earlier notified 7 SEZs from achieving their development milestones while making it difficult to solicit interest for CPEC SEZs. As a result of the joint efforts, funds amounting to Rs 19.9 billion were allocated from the PSDP for provision of power and gas for all the SEZs, to be released over the period of next 5 years, in a phased and prioritized manner. Out of these funds, amounting to Rs 5.6 billion were allocated in FY2019, whereas Rs 4 billion have been allocated for FY2021, out of which, Rs 3.4 billion have been earmarked for CPEC SEZs.

Provision of utilities and infrastructure are the basic components for any industrial undertaking to be successful. SEZs could not get any financial support for the provision of utilities in the past but now funds are being allocated for the purpose. The notion that provision of utilities and infrastructure must be completed in all respects to allow plug and play facilities to the enterprise before admission required re-evaluation. To this end, a mechanism for provision of utilities and infrastructure in a phased manner, aligned with the development timelines and requirements of the zone enterprises allowing the developers to admit more enterprises and rationalize the demand and supply of these facilities was implemented through the SEZ Zone Enterprise Sale, Lease and Sub-Lease of Plots Regulations 2021.

The regulations allow the developer to only open those plots for allotment that have necessary infrastructure available, while committing to meet the development timelines of the potential zone enterprise at the time of approval. This will help the developers in meeting the costs of development with the proceeds from the operations, and slowly but surely develop the whole SEZ and populate it with quality investments. The role of SEZ committees in monitoring the provision of utilities and infrastructure to the zone enterprises as per their phased requirement will be crucial.

Box-V: Major Initiatives Taken by BOI in FY2021

A. Industrial Cooperation through SEZs under CPEC – Rashakai Development Agreement

- To transform the trade corridor into a true economic corridor, BOI being the secretariat for SEZs and Industrial Cooperation under CPEC, and a party to all the SEZ development agreements on the behalf of the Federal Government, after 9 months of negotiations, on 14th September 2020, facilitated signing of the quad-partite development agreement for the development of the first CPEC SEZ, i.e. Rashakai SEZ, in KP. Rashakai SEZ is to be developed in collaboration with a state-owned Chinese enterprise, that makes this development agreement first of its kind with Chinese counterpart being one of the parties to the development agreement.

B. Provision of Utilities from Federal PSDP

- With BOI's efforts and support of line ministries Rs19.9 billion have been earmarked in the PSDP for provision of utilities for all the SEZs over the period of 5 years. Efforts are underway for more funding and use of other innovative models, such as captive power to cut the costs and release the burden of such allocation.

C. Encouraging Establishment of Hi-tech and IT zones

- BOI being the SEZ Authority for ICT, promoted the case for award of SEZ status to National Science & Technology Park, that is being developed by NUST for promotion of hi-tech industry and research and development. The park was approved by the BOA in its 6th meeting held on 7thOctober 2020, and notified on 2ndDecember 2020, as an SEZ under the purview of the SEZ Act 2012 and was allowed certain exemptions by the BOA for its unique business model. Considering the special needs of the hi-tech and IT sector on BOI's proposal, amendments were made in the Customs Act 1969 to expand the custom duty exemptions to includes IT sector.

D. Sole Enterprise SEZ Regulations 2020

- Sole Enterprise Special Economic Zone Regulations 2020 for the establishment of single unit SEZs in Pakistan under the provisions of the SEZ Act 2012 have been notified on 11th December 2020.These regulations provide clarity on procedural guidelines and also propose certain parameters, to safeguard the socio-economic interests of the country and provide passage to only serious investors for establishment of such single unit SEZ, while relaxes these parameters to induce industrialization in 67 underdeveloped areas across Pakistan and to support import substitution of top 5 importing sectors. Two SEZs have since been notified under these regulations and both these SEZs are located in backward areas.

E. SEZ Zone Enterprise Sale, Lease and Sub-Lease of Plots Regulations 2021

- In order to discourage real estate activities and simplifying the processes for dealing with and disposing off the SEZ enterprises entry applications and to ensure transparent sale, lease and sub-lease of plots in the SEZs in an efficient manner, SEZ Zone Enterprise Admission and Sale/ lease/ sub-lease of Plot Regulations 2020 were notified on 15th January 2021. These regulations aim at streamlining the sale/lease of the industrial plots in the SEZs to the prospective zone enterprises to ensure transparency and a level playing field, through use of an IT-enabled solution – the SEZ MIS Module.

F. SEZ MIS Module

- BOI has launched the "SEZ MIS Module" that is aimed to act as a one-window for SEZs. This module assists the real investors, including foreign investors, in getting admitted into the SEZs without worrying about any middleman role to arrange the transaction or of any exploitation. SEZ MIS Module features:

- Zone Application processing.
- Zone Entry Application processing.
- Streamlined and timebound processes.
- Speedy processing, application tracking& surety of case disposal.
- Transparency.
- Grievance redressal.
- Investment databases.
- SEZ Planning.
- Elimination of real estate activities.
- Removal of Red tape.
- Auditable data and access to information.