

SUSTAINABLE URBAN DEVELOPMENT AND SPECIAL ECONOMIC ZONES (SEZs): CONSIDERATIONS FOR CHINA PAKISTAN ECONOMIC CORRIDOR

BY

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Background

- Industrialisation plays a vital role in the long run economic growth of economy and considered as engines of growth, as they play their role of social-uplift through trade boost-up, widening export base, generate employment, fast-track urbanization and other social privileges.
- Hard and Soft infrastructure development policies for Industrialization. (Rapid Industrialization, Export led Growth, FDI, TFP and Innovations)
- “Hard infrastructure” refers to specify the areas for industrial development, such as Business Parks, Export Processing Zones, Industrial Estates and Special Economic Zones
- “Soft infrastructure” is to design investment promotion policies such as (Fiscal and Tax incentives, One window operation, access to finance, urbanization strategy)
- In economics literature the formation and advancement of SEZs are considered as engines of industrialization

Special Economic Zones

1. **“Special Economic Zone (SEZ) is a blanket term for various types of industrial/export processing/trading zones with enterprises operating in a well-defined geographic area where certain economic activities are promoted by a set of policy measures that are not generally applicable to the rest of the country”**
2. **Under section 3(n) of the SEZ Act, 2012; "Special Economic Zone" or "(SEZ)" means a geographically defined and delimited area which has been approved and notified by the Board of Approval (BOA)".**

Special Economic Zones

- GOP - Passed the SEZs Act in 2012 (amended in Oct. 2016)
- SEZs Act 2012 - Attracts investment & promotes better infrastructure
- SEZs - minimum 50 acres of land
- Corporate Income Tax Holiday of 10 years for Investors and 10 years for Developers of the SEZs
- Duty free import of capital goods for Developers and Zone Enterprises
- Services - Gas, electricity and other utilities, as well as security
- SEZs Establishment - Public sector, private sector, and/or public-private partnership
- BOI - Coordinates all activities pertaining to SEZs, developers and zone enterprises

Why SEZs are a dire need of the hour!

There are at least 8 good rationales:

1. **Current sub-optimal macroeconomic situation.**
2. **Bilateral Corridor: China Pakistan Economic Corridor (CPEC).**
3. **Low competitiveness and productivity in the country.**
4. **Disconnection with Global Production Networks (GPNs) & Global Value Chains (GVCs).**
5. **Need for Innovation and knowledge economy.**
6. **Sectoral, regional and exports diversification.**
7. **Vast district disparity and disconnection within Pakistan.**
8. **Well proven inclusive economic growth instrument as evident from other countries (including China and other Asian countries).**

Economic performance has improved recently, but challenges remain...

- Since 2013-14, GDP growth has been increasing to reach at **5.3% in 2016-17, but still below its aspiration level of at least 7% per annum:**
 - for a rapidly growing labour force (3 million a year); and
 - **to achieve the upper middle-income country status by 2025.**
- SEZs will facilitate a steady growth path with a higher share of investment and exports in the GDP.
- **Each dollar of investment could boost economic activity by around \$1.8. (ADB 2016)**
- Long-term benefits to productivity and incomes by enhancing the Pakistan's capital and other stocks along with boosting exports.

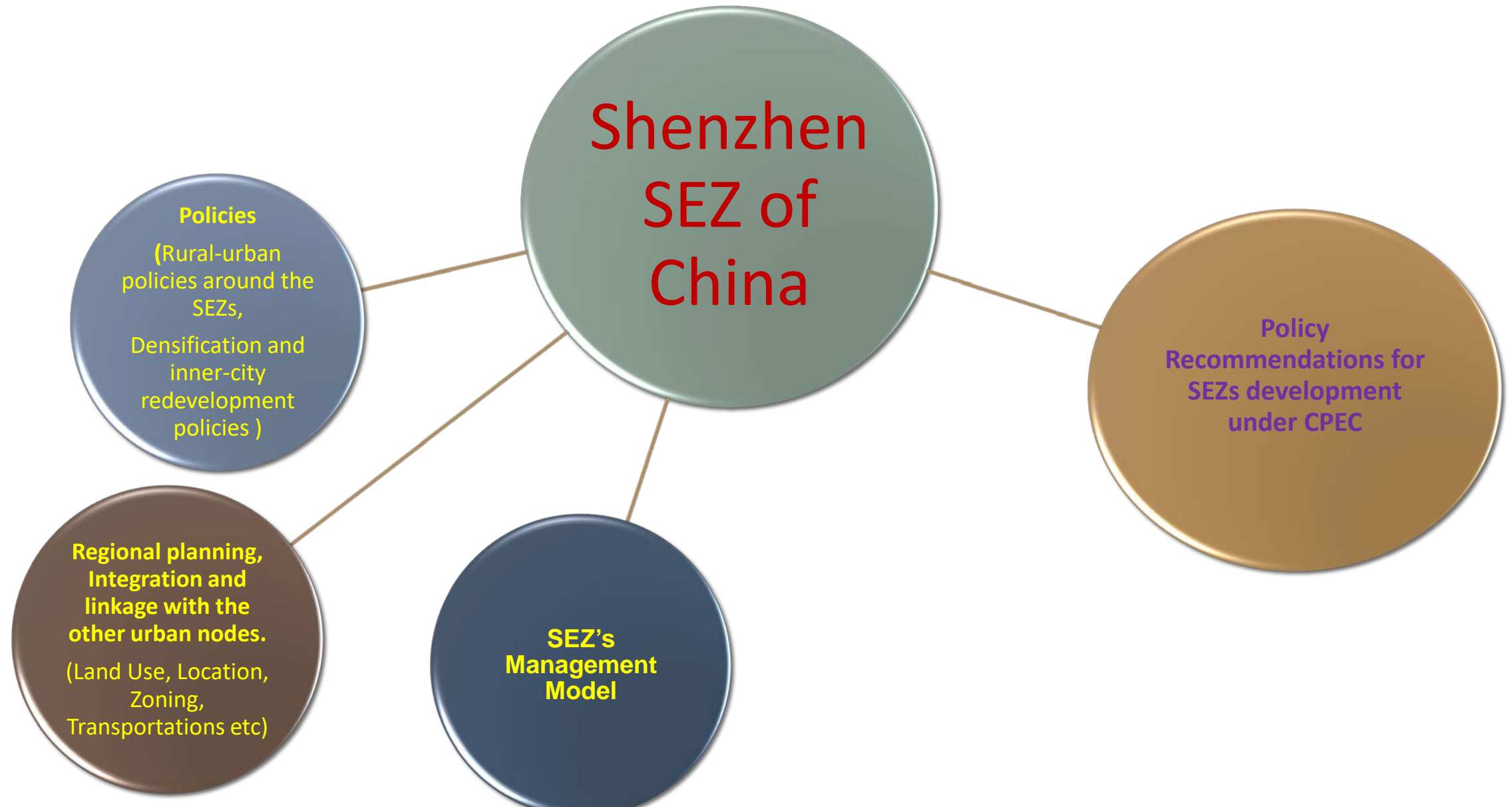
Special Economic Zones under CPEC

S.No	Name of Zone	Location
1	ICT Model Industrial Zone	Islamabad-Federal Government
2	Industrial Park- Port Qasim	Karachi- Federal Government
3	Mohmand Marble City	Federal Administrative Tribal Area (FATA)
4	Alama Iqbal Industrial City/ M-3 Industrial City (M3-IC)	M-3 Faisalabad-Punjab
5	Rashakai, Economic Zone (REZ)	M-1-Khyber Pakhtunkhwa (KPK)
6	China Special Economic Zone	Dhabeji-Thatta-Sindh
7	Boston Industrial Zone	Boston- Baluchistan
8	Moqpondass Special Economic Zone	Gilgit Baltistan (GB)
9	Mirpur Special Economic Zone	Azad-Jammu and Kashmir (AJK)

Objectives

1. Review the International best practices SEZs and urban development around the zones, with a special focus on the Shenzhen Special Economic Zone (SSEZ) of China.
2. Examine the Spatial and Land use planning, Urbanization Strategy and Management policies for the proposed SEZs under CPEC.
3. Explore the Role of Government in SEZs development and sustainability.

Methodology

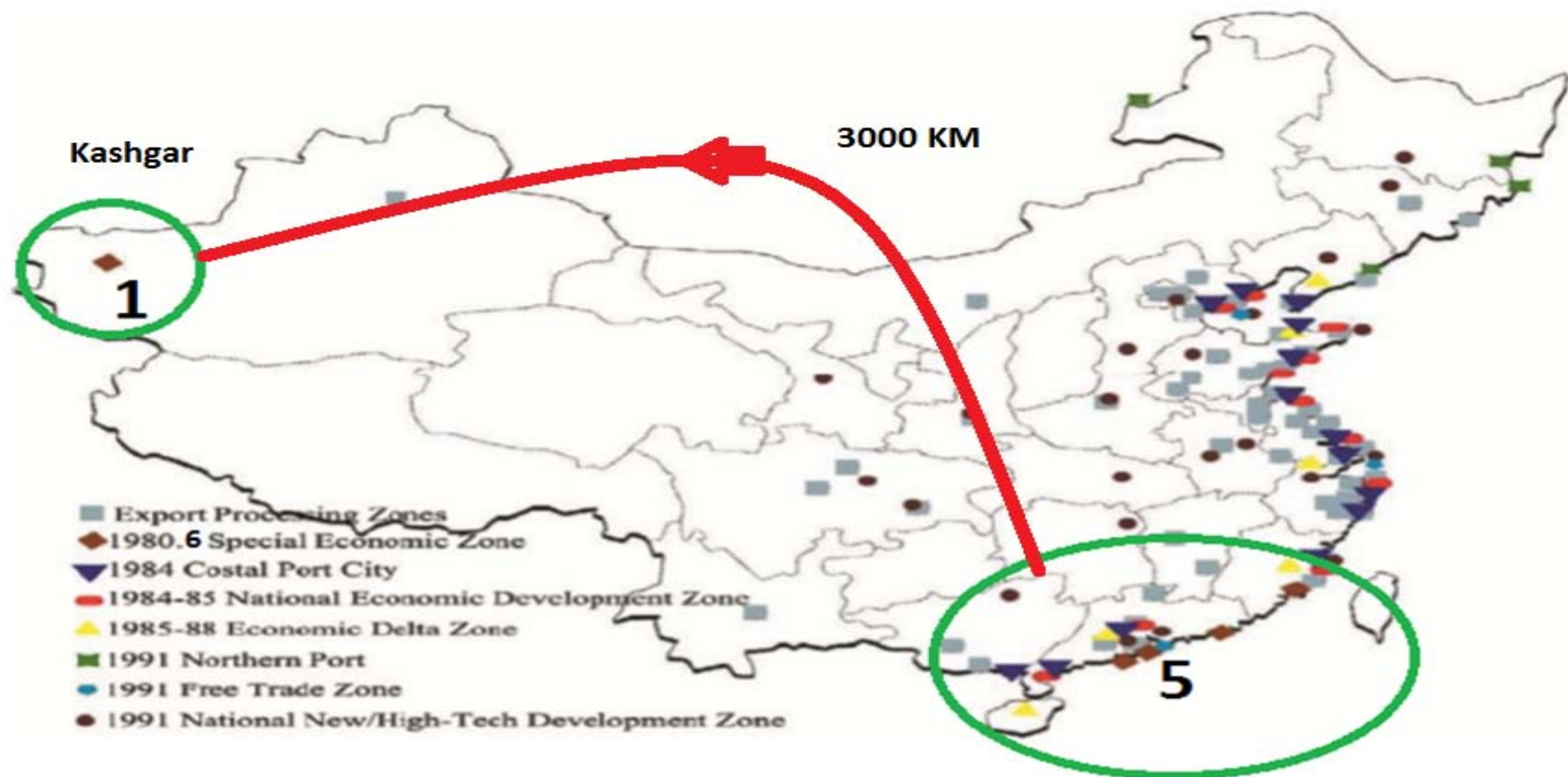


SPECIAL ECONOMIC ZONES-THE GLOBAL SCENARIO

SEZs are a well proven inclusive growth instrument.

- SEZs in China accounted for around **50% of national FDI, 44% of exports, 6.3% of employment in 2012.**
- In India created **26% of exports and 4% of employment in 2014.**
- In Bangladesh created **8% of total investment (foreign and domestic) and 17% of national exports in 2013.** This is credited to the development of garments industry.
- In developing Asia the existence of SEZs led to higher FDI level by 82.4%, compared to other developing Asian economies without SEZs.

SEZs in China



Shenzhen Special Economic Zone

- As China's most successful Special Economic Zone, Shenzhen played a unique role in the history of China's reform and opening up. It led the direction of institutional change in the entire country and created a brand new model.
- In 2016, Shenzhen's GDP reached 1949.26 billion RMB, 7219 times more than that in 1979; 10 times more than that in 2000, ranking fifth among cities in China.
- The total economic output approached that of Guangzhou and Hong Kong, surpassing those of many European countries, Such as Sweden, Romania, and Austria.
- The **GDP growth rate of Shenzhen is 9.0%** , ranking first in Guangdong Province, far **higher than the national GDP growth rate (6.7%)**.
- **Per capita GDP reached 163,688 RMB** (based on the resident population), **200 times more than that in 1980 (811 RMB)**. three times more than the national average per capita GDP, which has surpassed China Taiwan ,and is equivalent to South Korea's average per capita GDP.
- According to the 2016 Local Government Efficiency Study Report of China, **Shenzhen ranked first in the Local Government efficiency of 292 municipal governments in China**. The report establishes a government efficiency measurement model based on four levels of government public service, government scale, resident economic welfare, and open government affairs.

SEZ Outlook-People Republic of China

SEZs at national level accounted for about 22% of national GDP, 46% of FDI, and 60% of exports and generated in excess of 30 million jobs (Zeng 2010).

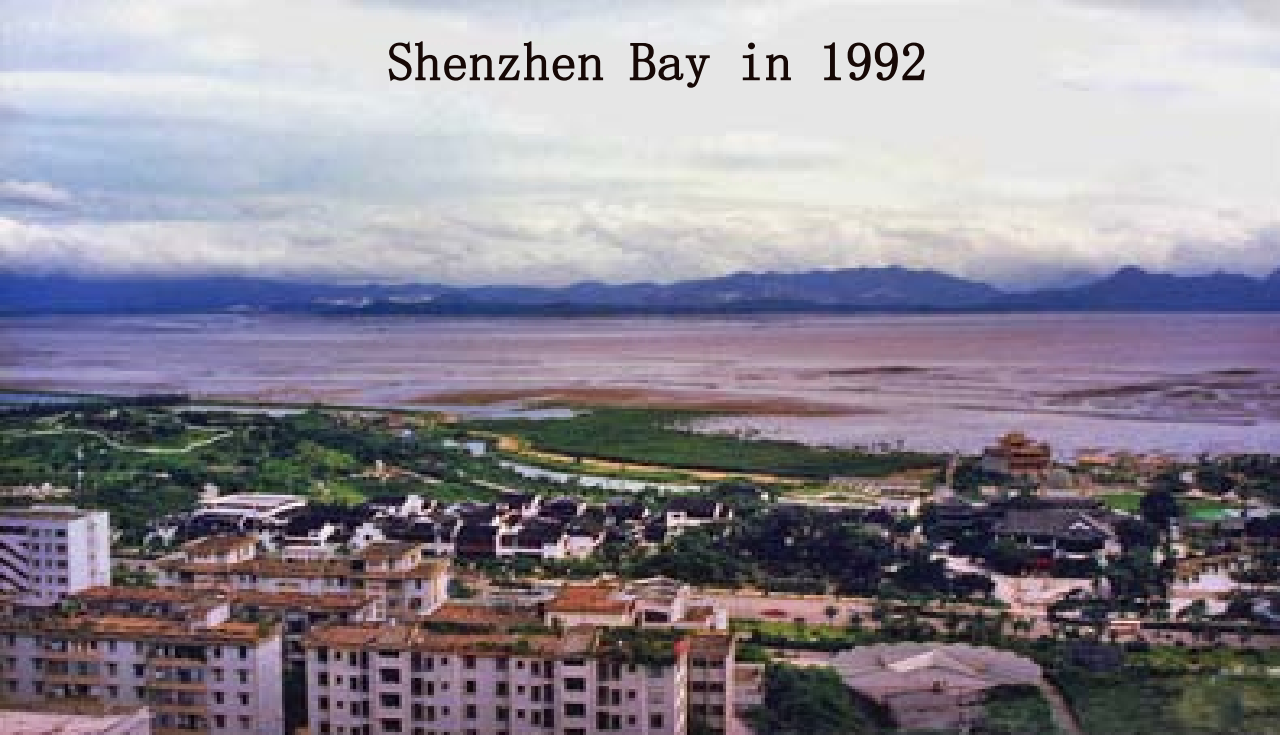
Closed Economy: 1948-78	Open Economy: Chinese Central Govt announced "Reform and Open Up Policy" in 1978	SEZs	Location	Inauguration Year	Opertional Year	GDP (\$)	Core Industries
		Shenzhen	Guangdong(Coastal)	1978	1988	>152 B	Electronics, computer manufacturing and telecommunications
		Zhuhai	Guangdong(Coastal)	1978	1988	>19.2 B	Electronics, IT, Electrical Appliances, Petrochemicals, Electric Power Supply
		Shantou	Guangdong(Coastal)	1978	1988	>19.25 B	Machinery, logistics, toy production, textiles, plastics, electric power, chemicals
		Xiamen	Fujian(Coastal)	1978	1988	>32 B	Fishing, financial services, shipbuilding, food processing, textiles, tanning, machine tool manufacturing, telecommunications, and chemical industries
		Hainan	Hainan(Coastal)	1978	1988	>32.8 B	Agriculture, rubber, tourism, fisheries, herbal medicines
		Kashgar	Xinjiang(Land Locked)	2010	2010	123 B(Xinjiang)	Development and processing of oil, natural gas & agriculture

<http://understand-china.com/province/hainan/>

<http://www.cn.undp.org/content/dam/china/docs/Publications/UNDP-CH-Comparative%20Study%20on%20SEZs%20in%20Africa%20and%20China%20-%20ENG.pdf>

<http://documents.worldbank.org/curated/en/341851467997277688/pdf/97837-WP-box391494B-PUBLIC-SEZs-experiences-background-paper-Zeng-revision-May2015.pdf>

Shenzhen Bay in 1992



1980s



Shenzhen Bay Happy Coast in 2017



www.eceetop.com

2004



Lessons learnt from SEZs in People Republic of China

1. Institutional design and approaches

- Land Usage; and
- Incentives to firms or individuals.

2. Industrial design and approaches

- Specialization vs. diversification
- Industrial chains (backward and forward linkages)
- Marketing and promoting—Management

3. Spatial design and approaches

- Sufficient and reliable provision of facilities (electricity, water, gas, heating and road connectivity)
- Integration into urban and regional plan
- Zoning approach
- Mixed land use

Guidelines for Sustainability of SEZs under CPEC

1. Policies

- Location, Sound Infrastructure.
- Rural-urban policies around the SEZs,
- Densification and inner-city redevelopment policies

2. Regional planning, integration and linkage with the other urban nodes

3. Management

- Linkage with the locality
- Provision of the basic services (housing, water, health, sanitation)
- Expanding the boundaries of local councils for extending urban services

Conclusion

Economic corridors including SEZs are: a credible **solution to overcome economic and social challenges as part of the new growth and development strategy, move a country into a higher growth trajectory to realize its full economic and social potential by enhancing investment and exports.**

Global experiences shows that successful SEZs have some common underpinning characteristics; such as **strategic location, sound infrastructure, connectivity with the nearest urban centers, upgraded transportation and connectivity network.**

SEZs can serve as an effective tool for inserting domestic economy into the global economy, if planned, developed, and managed carefully. They can be homes to knowledge and technology spill-overs, if urbanization potential is identified and efficiently managed.

To maximize the economic benefits from SEZs under CPEC, collaborative behavior and a mutual understanding among the actors/stakeholders involved is a pre requisite to the CPEC-SEZs development. **All stakeholders – Pakistani governments, public agencies, private institutions, industries, communities and academia - need to coordinate and cooperate with each other so that the SEZs overcome the environmental and social distress that may be caused by the un-planned urban and industrial developments around the SEZs.**

After the 18th amendment, development of special economic zones have become a provincial domain, however CPEC being a multi-million dollar project, Pakistani government authorities (federal/provincial) should reach a policy consensus for SEZs development under CPEC.