

Navigating the role of SEZs under CPEC in Poverty Alleviation - Comparative Analyses, Challenges and Considerations in the context of Pakistan

Amna Shahid, Awais Alam, Areeba Hussain, Huma Mansoor, Laiba Tariq and Nimra Awais¹

(June, 2021)

Introduction

The China Pakistan Economic Corridor (CPEC), initiated in 2013 under the Belt and Road Initiative (BRI), is a framework of regional connectivity with its primary goals centered around proliferation of peace and development that can lead to economic growth for both China and Pakistan. While the project itself is an amalgam of many objectives, this paper seeks to explore how CPEC, through establishment of Special Economic Zones (SEZs), can contribute to alleviating poverty in Pakistan. This paper will discuss economic growth vis-a-vis its role in poverty alleviation, and specifically focus on how SEZs, termed as the backbone for economic growth under CPEC, will help Pakistan alleviate poverty. The paper initially seeks to explore how SEZs under CPEC can thrive in Pakistan where similar models have failed previously, highlighting the challenges the project faces in Pakistan. Secondly, this paper aims towards analyzing the micro dynamics of the shortlisted nine project locations as well as the people and places that are relatively at an advantage (perhaps at the cost of others). Lastly, it re-shifts the lens so as to observe and recontextualize successful SEZ models under BRI, especially those in Asia and Africa, that have successfully tapped the potential of SEZs.

Theoretical Framework

Poverty often causes a strain on the environment and a country's natural resource supply. Through poverty alleviation, greater access to food, employment opportunities and education can have a profound social impact and improve livelihoods. Poverty alleviation under CPEC is geared towards aiding Pakistan in economic development with the help of China. The SDG no.1 of "No Poverty" is also a motivation for Pakistan to follow China's route of eradicating poverty in order to build a stronger economy. One of the principal sources of poverty alleviation under CPEC is through the creation of SEZs in different parts of Pakistan. Though the impact of SEZs in bringing about development is self-evident, it goes against Pakistan's 18th Amendment which conferred autonomous power to the provinces. The creation of SEZs in these provinces limits this power by the implementation of rules that form the basis of the functioning of these SEZs.

It is argued that economic development and growth in the special economic zones under CPEC will lead to poverty alleviation in the country. For instance, while addressing the CPEC Career Summit

¹ The authors were working as interns at the Centre for Chinese Legal Studies at the time of this publication.

2018, Parliamentary Secretary for Planning, Development and Reform Ms. Kanwal Shauzab stated that, “Special Economic Zones will help the country in generating employment, reducing poverty and enhancing exports” (Shauzab, 2018). Also, Dr. Ahmed in a research brief argued that “the SEZs can potentially affect human capabilities through three broad channels: human capital formation effects, technological upgrading effects and employment effects” (Ahmed, 2020).

To understand the distributive potential of SEZs, it is important to understand the landscape of poverty in Pakistan. “One-third of Pakistan was multidimensionally poor in 2012-13, and more importantly, poverty was unequally distributed across the country, between rural and urban populations, and between and within provinces” (Ahmed, 2020). Thus, the distributive potential of SEZs depends on how effectively it integrates the underdeveloped regions into mainstream economic activity. Hence, it is crucial that the economic opportunities must be distributed equitably across the country to ensure poverty alleviation because “the extent to which growth reduces poverty depends on the degree to which the poor participate in the growth process and share in its proceeds” (Moin). Additionally, there is a need to calculate feasibility of the SEZs and their distributive potential, socio-economic outcomes, and sustainability.

Moreover, many areas that are specified for SEZs under CPEC are the least populated areas of Pakistan that in turn will make availability of the skilled labor difficult. “Economic Zones located comparatively far from inputs, consumers and trade markets are less likely to sustain in the long run” (Ahmed, 2020). However, equally important is the fact that SEZs must integrate less developed areas into mainstream economic zones.

Since the announcement of the CPEC project, many commentators have argued that CPEC has great distributive potential that can improve the socio-economic conditions of Pakistan. To understand how true this argument is, it is essential to identify that Pakistan has an uneven socio-economic development landscape. In Pakistan, poverty is not equally distributed between urban and rural regions. Most of the poor population lives in economically underdeveloped rural regions. Therefore, the real distributive potential of the CPEC project and its role in poverty alleviation can be judged by how effectively it can integrate both urban and rural regions in economic development. Hence the creation of the special economic zones is central to determining the distributive role of the project. “The SEZs can potentially affect human capabilities through three broad channels: human capital formation effects, technological upgrading effects, and employment effects. The rationale behind these Industrial Parks and SEZs is to promote a robust process of industrialization, which can be further supported through CPEC related infrastructure and road networks” (Ahmed, 2018).

Literature Review

Existing literature on Pakistan’s economic development explores how SEZs under CPEC are not the first time that the country is dealing with economic zones. In Pakistan, seven SEZs were established between the period 1983–2005 to move its economy away from import substitution industrialization

to adopt an export-oriented approach. Pakistan also has sufficient experience in establishing industrial parks and clusters, some of which include Surgical Goods Cluster in Sialkot and Readymade Garments Manufacturing cluster in Faisalabad. Unfortunately, the impact of these zones on the wider economy had been negligible owing to the lack of infrastructural facilities, structural deficiencies, and incompetent policies of the government. The zones employed only 35,000 local workforces and contributed to only 3% of the total exports of the country by 2017 (Naeem, 2020). Khan and Anwar in their report on challenges faced by SEZs, attribute the failure of Pakistan's previous economic zones to the poor organizational structure and governance of zones, lack of coherent industrial policy, political motivation behind allocation of sites, and the rent-seeking exploitative practices of business-owners (Khan and Anwar, 2016).

When the CPEC project was first launched, there were differences over the selection of its routes (Hussain, 2020). Despite there being a lack of consensus on the selection of routes, the regional distribution of these SEZs across Pakistan is fairly equal. Out of the forty zones that are expected under CPEC, twenty-eight have already been identified. These include seven zones each in Balochistan and Punjab, eight in Khyber Pakhtunkhwa, three in Sindh and one each in Islamabad, AJK and Gilgit-Baltistan (Khan, 2019). Moreover, the selection of land for these SEZs has usually been done through conversations in the meetings held between representatives. No feasibility reports have been shared on the regions so far (Ahmad, 2020). However, the creation of these zones is expected to boost the economy by creating more jobs which will help pull the poor out of poverty.

Comparative analysis of SEZs established in other countries with those in Pakistan is cardinal to understanding their specific role in alleviating poverty, despite different geographical locations. Though specific location of SEZs may affect the pace of poverty alleviation, comparative study of other countries presents few geographically neutral factors which are likely to have an equal impact in various settings. SEZs may reduce poverty alleviation through two ways: increasing Foreign Direct Investment (FDI) and exports (Zia, 2017). Increased FDI and exports accelerate commercial activities, which create more employment opportunities thereby contributing to socio-economic development (Zia, 2017). To delineate the impact of such activities, Pakistan can learn from different countries in Asia and Africa (Zia, 2017). The salient feature of success of SEZs in Cambodia has been the transfer of establishment as well as management of economic zones to private sectors (Zia, 2017). Such transfer minimized the administrative cost which usually becomes one of the major obstacles in other countries (Zia, 2017). Experience of SEZs in Bangladesh reveals that zones should be established in particular areas for specific products that offer a comparative advantage to the country (which was garments in Bangladesh's case) and a time period of 5-10 years should be kept in mind to see the actual impact of SEZs (Zia, 2017). Moreover, experience of African countries suggests taking certain actions to prevent the failure of SEZs. SEZs established in African countries so far could not produce enough employment or reduce the level of poverty, due to poor business environment, absence of or outdated legal framework, lack of infrastructure and managerial expertise and inconsistent policies due to political instability (Zia, 2017).

China's success story of SEZs, on the other hand, essentially depended upon reform models based on local appropriate methodologies, preferential policies of tax exemptions, research funding and responsive legal system, proactive participation of local governments, open door policies for labor and FDI, greater receptivity to technology and innovation, clear objectives and benchmarks and effective use of geographical locations for trade benefits (Ahmed, 2020). China had established almost 1750 SEZs at provincial and state level by 2009. Moreover, it generated an excess of 30 million jobs.

The remarkable development by China to attract workers towards SEZs was the introduction of progressive wage protection and labour laws. The Shekou wage model, adopted in 1983, restructured wages according to three elements: base pay, occupational pay, and a variable allowance. The SEZs authorities also adopted an official minimum wage and all permanent and most contract workers received a social insurance package superior to anything previously available in China (Suleri, 2018). With improving terms of employment and social protection, migrant workers soon began to gravitate to the city from many parts of China; by 1989, more than one million temporary workers had already converged on the Zone. Improvements in labor productivity followed, and the beginnings of a "free" labor market emerged by the early 1990s (Suleri, 2018). Pakistan, however, does not have a clear labour policy for the protection of labour or to encourage labour in the SEZs under CPEC. Currently, the enforcement of labour laws in Pakistan is weak, with labour courts generally considered as corrupt and ruling in favour of employers. Consequently, Pakistan, although emulating similar policies with regards to developing SEZs, has not achieved as much success as other states.

Analysis and Discussion

While SEZs under CPEC look promising in the scope of their economic growth, the perils of industrial growth in Pakistan pre-CPEC must be kept in mind to avoid repeating the same mistakes. The SEZ Act of 2012 was a step forward in providing autonomy to provincial governments to avoid the centralisation of power. The Act also encouraged a greater role of the private sector in establishing SEZs "under different modes of public private partnership or exclusively through the private sector" (Khan and Anwar, 2016). Private development of SEZs will help to ensure the quality and standards of SEZs because the private sector is concerned primarily with profit-making so only profitable areas will be developed into zones. This will also limit the role of policy makers in providing facilities and reduce instances of corruption and implementation of politically motivated policies in their own self-interest (Khan, 2019). Similarly, keeping in view the lack of proper research on the decisions behind the allocation of routes and land of SEZs in Pakistan, poverty alleviation can only be successfully achieved when these zones are created based on detailed feasibility reports of all regions. Based on current literature, decisions regarding the number and location of these zones were reached solely on the basis of discussions held in meetings (Ahmad, 2020). But discussions without proper research on the feasibility and respective characteristics of each region are very unlikely to result in uniform progress and development across the country, which includes poverty alleviation.

Since poverty levels differ starkly in different areas, the number of zones allocated need to be in accordance with these deviations. On the face of it, an equal number of zones in the share of each

region seems to imply a fair distribution but the varying degree of development in each region suggests otherwise. Lessons learnt from China in particular show how “SEZs produce a strong polarization effect on labor, capital, technology, and other factors” (Ahmed, 2020). This becomes an important consideration because if this is a non-linear process, it may become a source of polarizing wealth in some provinces and cities while ignoring others. One cannot help but notice the similarity between this model of growth and the industrialization during Ayub Khan’s regime where “although, the policy achieved higher growth rates in the manufacturing sector, a schematized interest group in the form of industrial elites” was also created which exacerbated the poverty problem and led to a polarization of wealth (Khan and Anwar, 2016). Thus, to mitigate this effect and prevent poverty levels from increasing, the number of zones being allotted to each region needs to be on an equitable rather than equal scale. This can help in producing comparable results in different areas and decreasing poverty levels across the country.

The existing literature on comparative study of SEZs is significant as far as the successful lessons obtained from the experience of other countries are concerned. It prescribes the fundamental prerequisites which no country, including Pakistan, can essentially ignore to make SEZs successful. However, it faces two major limitations. First, the scope of literature is limited to study the impact of SEZs broadly on socio-economic development. It does not specifically cover the direct impact of SEZs on poverty and its various kinds of relative and absolute dimensions. Poverty, on its own, is a dense theoretical framework which requires the targeted academic focus by academia working on CPEC. Second, there exists a dearth of knowledge regarding the current status of SEZs being established or currently functioning in Pakistan. Though some documentary knowledge exists in the form of laws such as The SEZ Act 2012 and guidelines for investment in SEZs, it is insufficient to draw comprehensive analysis of dos and don’ts with other countries.

Prescriptions

When talking about poverty alleviation, most of the research and literature fails to address and identify what is *meant* by “poverty”. In order to target poverty, it is important to come up with a robust definition that encapsulates the essence of what is meant by poverty alleviation. It is important to clarify whether poverty alleviation is merely economic development aimed towards boosting GDP or is it directed towards correcting the uneven distribution of resources aimed at fixing the Gini Index. China is an example of how poverty alleviation is targeted by identifying the different kinds of poverty, its causes and measures in order to alleviate poverty. The chart below shows one such model, where China sought to identify the different categories of people in need and the specific ways to help them for each respective category (Suleri, 2018):

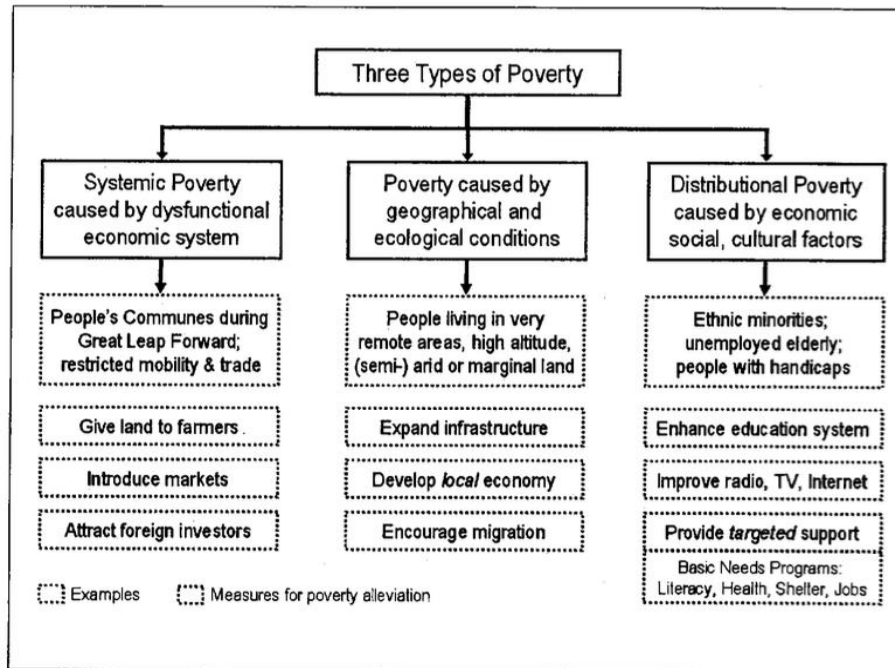


Figure 8: Types of poverty in China and measures of poverty alleviation

In addition to this, to ensure socio-economic development in Balochistan, the provincial government should make it mandatory for the mining industries to invest the surplus in “rural infrastructure development, human resource development and provision of livelihood incentives” (Ahmed, 2020). Areas specified for SEZs in Balochistan include mineral and mining related industries. Districts in Balochistan where mining industries are working are some of the poorest regions in the country. Mineral and mining related industries are also hazardous for the environment. Thus, to counter the negative impact of resource exploitation, provincial governments should make it mandatory for the mining industries to reinvest in the development processes of the region.

Establishing clear objectives and rationale is important before setting up SEZs. While SEZs can achieve numerous significant goals such as employment generation, technology transfer, and promotion of exports, it is difficult to achieve these goals simultaneously. Thus, the government should prioritize and proceed with a specific goal in mind.

Moreover, the lack of transparency and knowledge sharing with the stakeholders and the general population is one of the prime reasons why so much skepticism surrounds the CPEC, regionally and provincially down to the common man. The project’s secrecy and lack of transparency have almost shrouded it in a cloud of pessimism and alien threat harbored by the very people whose poverty the program seeks to alleviate. This also explains the gap between the policymakers and the business community and other stakeholders; “in order to make SEZ sustainable, it should be built with the support of the local community and fit the local community’s needs, constraints, aspirations, and vision of development. The distance between is the root cause of knowledge problems in policy making” (Naeem, 2020). What must also be considered is the changing nature of global SEZs that

have shifted their focus from production advantages to economic and policy factors. In such a scenario, where the digital economy has gained momentum, newer innovative measures are necessary for the host country if SEZs have to thrive.

It is also worth noting that there is a scarcity of skilled labor proficient in operating Chinese technological tools and machines and the enforcement of labor laws has also been patchy under federal law, while the provinces are in an even weaker position to regulate the labor market (Hussain and Rao, 2020). In this purview, CPEC has the potential to create employment opportunities, Pakistan must ask itself who will be able to tap into these opportunities and under what conditions will our labor be working. Most zones rely on fiscal incentives and low-cost, unskilled labour as the comparative advantage of investing. However, this is merely a one-time attraction and compromises with the sustainability of the zone which is only sustained when the labor possesses the necessary skills and vocational training (Naeem, 2020). It will be a major challenge for the government to fully benefit from employment opportunities offered by the SEZs if the required skilled labor is not present within the country.

Conclusion

It can be safely asserted that SEZs under CPEC hold huge socio-economic implications for the development of Pakistan and empowerment of its working-class. The static outcomes of SEZs are predicted to cause immediate and apparent change in the form of increased employment, trade and investment opportunities. On the other hand, dynamic outcomes of SEZs will be observed over a longer period of time in the form of technological advancement, highly skilled and trained labor, economic reforms, and a better lifestyle for the people working and living around the SEZs. However, only a consistent industrial policy, stable political climate, equitable distribution of zones, effective allocation of resources and well-planned vocational training of labor will ensure the sustainable success of SEZs and cause them to create more employment opportunities to alleviate poverty. As this project holds immense potential to accelerate the economic development of Pakistan, it is the need of the hour to think about SEZs in their role to create livelihoods for small communities and improve their quality of life. Stakeholders must learn from the successful examples of SEZs established elsewhere in the world and be vigilant in streamlining progress and making it transparent.

References

- Ahmad, Iftikhar & Zhou, Taidong. (2020). Special Economic Zones in Pakistan: Promises and Perils. *Economic Growth: the Impact on Poverty Reduction ...* www.oecd.org/derec/unitedkingdom/40700982.pdf.
- Hussain, E., Rao, M.F. China–Pakistan Economic Cooperation: The Case of Special Economic Zones (SEZs). *Fudan J. Hum. Soc. Sci.* 13, 453–472 (2020). <https://doi.org/10.1007/s40647-020-00292-5>
- The Key Success Factors of Special Economic Zones ...* surbanajurong.com/perspective/the-key-success-factors-of-special-economic-zones/.
- Khan, Karim, et al. “Special Economic Zones (SEZs) and CPEC: Background, Challenges and Strategies.” *The Pakistan Development Review*, 2016, pp. 203–216. JSTOR, www.jstor.org/stable/44986484. Accessed 6 June 2021.
- Khan, Karim. “Special Economic Zones (SEZs) and Prospects for the Domestic Economy of Pakistan.” *Munich Personal RePEc Archive*, mpra.ub.uni-muenchen.de/103337/.
- Ministry of Planning, Development & Reform 'P' block Pak-Secretariat. “Special Economic Zones Will Help the Country in Generating Employment, Reducing Poverty and Enhancing Exports.: China-Pakistan Economic Corridor (CPEC) Official Website.” *Special Economic Zones Will Help the Country in Generating Employment, Reducing Poverty and Enhancing Exports.* | *China-Pakistan Economic Corridor (CPEC) Official Website*, cpec.gov.pk/news/130.
- Moin, Rahima. “GROWTH BUILDING JOBS AND PROSPERITY IN DEVELOPING COUNTRIES.” *Academia.edu*, Department for International Development, www.academia.edu/34363473/GROWTH_BUILDING_JOBS_AND_PROSPERITY_IN_DEVELOPING_COUNTRIES.
- Naeem, S.; Waheed, A.; Khan, M.N. Drivers and Barriers for Successful Special Economic Zones (SEZs): Case of SEZs under China Pakistan Economic Corridor. *Sustainability* 2020, 12, 4675. *Pakistan Poverty Alleviation Fund*. ppaf.org.pk/policy.html.
- “Special Economic Zones: Evidence and Prerequisites for Success.” IGC, www.theigc.org/publication/special-economic-zones-evidence-and-prerequisites-for-success/.
- Suleri, Abid Q., Maaz Javed, and Shakeel Ahmad Ramay. "Poverty Alleviation Model of China: Lessons for Pakistan." (2018).

Zia, Shujaa Waqar and Beenish Afzal Malik. “Special Economic Zones (SEZs): A Comparative Analysis for CPEC SEZs in Pakistan” *The Pakistan Journal of Social Issues*, June 2018, pp. 37-60