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SEZ need special attention

Special Economic Zones (SEZs) have some role to play in recent industrialization and economic development of Far Eastern economies, especially China. Distorted incentive structures, red-tapism and inadequate infrastructure problems can be dealt by having insulated environment for businesses to spur. Seeing this, in the second phase of CPEC, development of nine SEZs is at the core. The PTI government, with a clear aim to revive industrial sector, has a sense of urgency to expedite the SEZs development.

The first step taken is to revamp the SEZ Act to empower provinces more to expedite the development of SEZs, and to have better coordination between provincial SEZ authorities and Board of Investment (BOI). SEZs development, apart from one to be expedited in Islamabad, is a provincial subject; while the approval work, provisioning of energy and other utilities and fiscal and monetary incentives are a function of federal government.

There is a board of approval (BOA), chaired by the PM, to approve any SEZs and the BOI is the secretariat. At this point, there is lack of clarity on the role of various institutions in SEZs development and a change in SEZ Act is sought to expedite development. And to have a more engaging federal government (read BOI) role, within CPEC, Islamabad SEZ is added to the priority list. Apart from this, Bostan SEZ is also added to three other SEZs already in priority list- Faisalabad, Rashakai and Dhabeji. Now, five SEZs under CPEC are in priority - one each from four provinces and the capital.

The focus on SEZs is not limited to CPEC as Punjab is eager to develop its own SEZs outside the ambit of CPEC - seven SEZs are in Punjab. The flurry of SEZs needs to be dealt with caution as every three out of four SEZs developed in China has been a failure. The infrastructure development can get wasted in case an SEZ fails and can become another white elephant.

But that doesn’t mean SEZs should be ignored as over 5000 plus global SEZs demonstrate numerous success in developing economies. Shenzhen in China is a big success story of converting a small fishing village to one of the most vibrant industrial hub in the modern world.

Virtually all the SEZs envisioned in CPEC and by provinces themselves are barren land at the moment, and the first challenge is to develop the requisite infrastructure within and around the proposed SEZs. It is the provincial governments’ responsibility to provide road and other infrastructure and federal’s to provide energy.

The tricky part is development within the SEZ. The land is mostly owned by politicians and other influential people - to be SEZ developer, if not the government herself. The government does not have money to build, and the fear is that SEZ developers are seeking government’s help in building infrastructure and to have better land prices to make quick bucks.

In short, the SEZ development has a risk of to be captured by rent seekers. The land prices may become too high for businesses to invest and develop industries, and the whole exercise may end up as preemptive investment in land. Indonesia tackled that issue by having zonal valuation. In SEZs, government has the right to buy back the land. The idea is to keep general public interest over private interest.

The other problem Pakistan is facing today is the tug of war between provinces and federal agency. The BOI’s role is limited and with expected changes in law, it will be curtailed further. Bringing Islamabad SEZ in priority list is to primarily keep the federal government and BOI relent. However, the land in Islamabad is too expensive.

In China, the systems are clear where federal government provides land and all utilities within SEZs while local governments supervise. The roles are not clear In Pakistan where the provincial governments seem to wield power on SEZs. Land is owned by rich and well connected people, and the fears of elite capture arise.

The government has to closely examine this element while bringing changes to the Act with clear set of responsibilities of government agencies and SEZ developers to ensure utilization of land. The price of industrial land has to be kept low while private SEZ developer would like to make returns on real estate investment. This can work by having a cross subsidy model - industrial land and low cost housing for workers to be developed at subsidized rates and capital gains by selling commercial land within SEZ at premium at later stages. In this manner, the risk of SEZ developer remains intact and the premium is hinged upon the success of SEZ.

The other model is of public private partnership (PPP) where provincial government provides land and private party develops it and the government regulates prices after incorporating agreed profit of developer. The land should not be allowed to be resold in open market to ensure no speculative interests.

Another way is to form SEZ in existing clusters - ideally somewhere in the golden triangle in Punjab. Make laws smooth, do a pilot project in already developed industrial area and learn from there to expand later.

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