BUSINESS RECORDER
Founded by M.A. Zuberi

9th February, 2019

It's time to revisit and revise SEZ law

The Economic Coordination Committee (ECC) under the chairmanship of Finance Minister Asad Umar has decided to reduce the time for approval of special economic zones (SEZs) applications from 90 days to 45 days. Additionally, changes in the SEZ Act to make it more investor-friendly were approved with the inclusion of Islamabad and Bostan SEZs in the list of priority SEZs under the China Pakistan Economic Corridor (CPEC). The ECC also directed the Board of Investment to revisit requirements for setting up tourism-, IT- and health-related entities within SEZs. These decisions are consonant with the visible policy thrust of the Pakistan Tehreek-e-Insaf (PTI) administration to promote productive sectors as the engine of economic growth. The wealth so generated would, in turn, trickle down to the poor and vulnerable. Without going into the merits or demerits of the trickle-down theory, it must be acknowledged that the PTI has extended a number of fiscal incentives and lowered utility prices to encourage productivity; and this latest measure is proof positive that the administration reckons that once production picks up, the existing economic impasse would be resolved.

Pakistani administrations, including the incumbent one, support SEZs as a way to lure investors, local and foreign. The success (or otherwise) of an SEZ requires reducing red-tapism, which was clearly the goal in the decision taken by the ECC and which must be appreciated. However, to translate a direction to reduce the days required to approve applications for SEZs by half is easier said than done for, without doubt, the existing system in place would resist such a move. In other words, translating a directive into implementation is likely to take time as it requires a change in the existing mindset. The PML-N when in government invariably and proactively supported one-stop shop in terms of getting the required approvals and the necessary infrastructure but, time and again, failed to achieve these objectives due to resistance by those wielding the red tape. One would hope that lessons have been learned from past failures in Pakistan rather than dismissing the failures as lack of intent on the part of previous administrations.

Xiaolan Fu, Founding Director of the Technology and Management Centre for Development (TMCD), Professor of Technology and International Development, appointed by the Secretary-General of the United Nations to the Ten-Member High Level Advisory Group of the UN Technology Facilitation Mechanism and to the Governing Council of the UN's Technology Bank for Least Developed Countries, contrasted SEZ's success with respect to Chinese investment in Ethiopia and Nigeria: in Ethiopia, Chinese firms sourced inputs and labour domestically, uplifting the local economy, while in Nigeria, Chinese firms largely relied on imported inputs with spillovers less frequent. It is feared that under the CPEC, the Chinese investment closely follows the Nigerian as opposed to the Ethiopian model. Prof Xiaolan emphasized using the Chinese model where SEZs played the role of 'policy labs' or as testing grounds for more liberal business policies and scaling up the ones that work while scrapping the ones that do not.

Experts also maintain that for SEZs to prove successful, governments must provide firms with productivity benefits rather than simply tax breaks as when potential investors are deciding whether to get involved in an SEZ, tax incentives are often among the least important of their considerations. High quality infrastructure and support for the most promising type of economic activity, requiring extensive stakeholder consultations, are two of the most important factors that determine investors' decision to locate in a particular SEZ in a particular country.

To conclude, a lot of initial research and consultations with the stakeholders must be carried and evaluators must be engaged to monitor and tweak the SEZ policy as and when appropriate.

RECORDER REPORT