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Special Economic Zones Under China-Pakistan Economic Corridor: Potentials and Challenges

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Abstract:

As part of its broader strategy for economic growth, poverty alleviation and reduction in regional disparities, Pakistan has been promoting Special Economic Zones (SEZs) for long. SEZs currently operating in Pakistan face challenges related to infrastructure, investment and governance. The establishment of nine SEZs under China-Pakistan Economic Zone (CPEC) is a promising step towards modern industrialization. However, their development process remains lagging and falls short of expectations. SEZs under CPEC hold great promise for Pakistan's economic growth as they offer opportunities for modern industrial development, increased exports and employment. To this end, addressing existing impediments by recourse to effective policies and strong governance is vital. Drawn on Rostow's model of economic development and using qualitative research approach, the study follows a cross-sectional temporal dimension as it focuses on SEZs from a contemporary perspective. This paper discerns several potentials of SEZs for economic growth as well as the challenges that undermine the promise of SEZs.

Keywords: China, Pakistan, CPEC, Rashakai Special Economic Zone, Allama Iqbal Industrial City, special economic zones, economic growth

INTRODUCTION

In 2013, Pakistan and China decided to increase mutual connectivity. In 2014, the plan for an economic corridor in Pakistan was finalized. Consequently, China started investing US$45.6 billion energy and infrastructure programs as part of China-Pakistan Economic Zone (CPEC) ("China commits US$45.6b," 2014). It is a monumental infrastructure project stretching 3,000 kilometers

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across Pakistan, aiming to revolutionize the country's economy and its connection to the wider region. Launched in 2015 as a flagship project of China's Belt and Road Initiative (BRI), CPEC encompasses a web of energy projects, transportation arteries, special economic zones, and industrial ventures. In 2015, both nations agreed on a further US$1.5 billion investment to establish an information and technology park. In 2016, both countries signed US$2 billion agreements for infrastructure, solar power and logistics.

Moreover, nine Special Economic Zones (SEZs) would come into existence under mid-term plans. All these zones would be different from each other. Certain industries would be developed as per their geographical positions and economic activities of the surrounding regions. Industrial growth is a prime step for economic development, and it demands FDI in the proposed economic zones (Ahmed, 2023). The efforts to develop SEZs in Pakistan under CPEC aim at industrialization and economic growth in the country. SEZs are known as part of an effective economic strategy for attracting investment, increasing exports, providing better public services and generating employment opportunities. These zones draw foreign and local investment and boost economic activity through incentives such as freedom in custom duties, tax breaks, modernized regulatory processes and efficient infrastructural facilities.

This research article is structured into two parts. First part examines various potentials of SEZs including drawing foreign direct investment, generating employment opportunities, realizing export diversification, improving internal and external connectivity, and resulting in economic reforms. Second part identifies the challenges to the successful development and functioning of SEZs including delays in projects, security threats, political instability, issues in power supplies and the lack of skilled labour force.

THEORETICAL FRAMEWORK

In terms of the level of economic growth and social development, states are generally categorized as developed, developing and under-developed. This idea of development is based on the western modernization or westernization. Many models and theories have been introduced by scholars and economists to study the economic growth of a country. Walt White Rostow, a US economist, introduced a model of economic development called Rostow's Model of Economic Development. This model comprises five progressive stages of economic growth and elaborates how states move from an under-developed to a modern and developed society (Rostow, 2000). A country must follow these five stages to become fully developed. This theory was introduced in 20th century and was used to guide under-developed states in economic development. The first stage of Rostow's model is called 'Traditional Society' that depicts low level of development. The second stage is known as 'Preconditions to take off' where a state begins to develop international connections and accelerate growth through foreign investment or aid. The third stage called 'Take-off' is characterized by rapid and sustainable growth. The fourth stage known as 'Drive to Maturity' witnesses further development in economic and industrial sectors. At this stage, living standards of people start improving. The last stage is the 'Age of High Mass Consumption' that is attributed to capital political economy. States at this stage have high growth rates and a dominant position in world economy (Jacobs, 2024).

Pakistan has experienced a fragile economic growth since its inception. Its economic development pattern can better be analyzed with the help of Rostow's model of development. With respect to the five stages of development model, Pakistan is passing through the second stage of development, namely 'Preconditions for Take-off.' This stage has several characteristics which are essential preconditions to take off from traditional society. The first characteristic is the high productivity in agriculture specially in the production of food and cash crops (Gyimah, 1972). As backbone of Pakistan's economy, the agricultural sector accounts for 22.7% of the country's GDP (Hassan, 2023). In addition to being the source of food supplies, agriculture makes significant contribution to exports of the country. Due to increase in crop production, Pakistan's agro-exports increased by 37% from 5.8 to 8 billion US$ ("Pakistan witness surge in exports," 2024).

The second important feature of this stage is the infrastructure development that opens ways for investment (Gyimah, 1972). Hence other nations become interested and bring foreign direct investment in a state (Rostow, 2000). Keeping international standards in view, Pakistan's infrastructural situation is considered relatively poor. According to a report of the State Bank of Pakistan (n. d.), the country loses about 4-6% of its GDP due to insufficient infrastructure. There are problems of power shortages, lack of water and sanitation provision and poor transport facilities. CPEC is viewed as a major development in addressing Pakistan's infrastructural deficiencies. It provides a network of new roads connecting small areas with larger cities, and scores of power plants diversifying the sources of energy production. Moreover, CPEC involves industrialization through development of SEZs, which are known for stimulating industrial growth, creating jobs and promoting exports. Under CPEC, nine SEZs are planned and work on four zones is already in process.

The most important aspect of the second stage of Rostow's model is the role of advanced countries in boosting economic development of a state. Specifically, foreign intervention is required for industrial development, which lays down foundations for international trade and investments. Pakistan has been recipient of foreign capital inflows through western aid and loans for long. Over the years, it has received 23 IMF bailout packages, the most in the world (Gul, 2024). However, Pakistan has failed to make productive use of these foreign inflows for industrial development and economic growth. Consequently, the country owes burgeoning foreign debt. According to the annual report of Economic Affairs Division 2021-2022, Pakistan's total external debt amounted to US$ 88.84 billion. Contrarily, the multi-billion investments under CPEC is for the industrial development though it is further piling up the foreign debt. Potentially, FDI under CPEC can help Pakistan in attaining the 'take off' stage of economic development.

Notwithstanding the preconditions that Pakistan tends to meet for take-off, it faces a number of barriers in this regard. It has to overcome several challenges to realize the true potential of infrastructure development and industrial growth under CPEC. Infrastructure development projects under CPEC, particularly SEZs, are facing serious delays in completion. Although phase-II of CPEC is in process but many projects of Phase-I are still incomplete. The projects are delayed due to a number of issues including power outages, lack of skilled labour, and delays in registration process. Another reason for less progression in projects is the security threats. The recurring terrorist acts against the Chinese working with CPEC adversely affects the conducive environment required for the timely completion of projects as well as FDI from other countries. Lack of skilled human resource is still another factor that has an adverse impact on the efficiency and timely completion of the projects. As Rostow's second stage of economic development entails constructive development in education and politics as well. Pakistan's political landscape remains divisive, unruly and destabilizing, causing compromises on matters of vital national interest such as economy, security and foreign policy. Without political stability, a country cannot progress. Therefore, Pakistan direly needs political stability, domestic economic reforms and an enabling business environment for economic development.

LITERATURE REVIEW

Ahmed and Zhou (2020) in research paper 'Special Economic Zones in Pakistan: Promises and Perils' highlight the challenges and significance of SEZs for Pakistan. The authors explain that SEZs provide strong incentives for domestic and foreign investment in Pakistan. However, there are number of challenges including political instability, resource shortfalls and regional disparities. The authors suggest immediate steps for overcoming the challenges. Measures necessary for an effective operationalization of SEZs include institutional capacity for regulation, inter-ministerial coordination, policy inconsistency and competitiveness.

McCartney (2021) in the book The dragon from the mountains: CPEC from Kashgar to Gwadar gives an in-depth analysis of China and Pakistan economic cooperation through CPEC. The author depicts CPEC in a contrasting way as the project offers FDI and prospective sustainable growth for Pakistan but, simultaneously, it will tip Pakistan into debts where, after the project completion, China will benefit more than Pakistan. The author also narrates the growth of SEZs around the world and the incentives Pakistan will offer to foreign investors in the presence of security challenges and economic instability.

The State Bank of Pakistan's report (2020-2021) Special Economic Zones in Pakistan: Isles of Excellence or Labs for Policy Reforms? states number of success stories of SEZs from around the world underlining the factors that lead to success and failure of the economic zones. The report highlights the potentials and challenges of SEZs for Pakistan using quantitative data and giving examples of SEZs from different countries. One of the challenges for industrial development in SEZs can be the process involving approvals, licenses and registration. The lack of skilled labour also brings operational delays in the projects. The report concludes with recommendations for the improvement of SEZs and the related policy framework.

Hussain and Rao (2019) in an article 'China–Pakistan Economic Cooperation: The Case of Special Economic Zones (SEZs)' point out the significance of SEZs for industrialization and economic growth in Pakistan. The authors state that establishment of SEZs led to economic growth in China. China has emerged as the world's largest economy by lifting 800 million people from poverty. There are examples from Asia where developing states like India, Bangladesh and ASEAN nations have benefited from SEZs. Similarly, a wave of industrial parks was experienced in Latin America countries such as Brazil and Mexico. With reference to these examples, the authors have critically examined the opportunities and challenges associated with SEZs. Finally, the authors discuss the possible solutions and policy recommendations.

Mahmood (2018) in research paper 'Opportunities and Challenges of Special Economic Zones under CPEC for Pakistan' asserts that Pakistan seriously lacks in economic performance despite that it is considered as one of the fast-growing global economies. The country is still far away from the potential annual growth rate of about 7.5-8.0% mainly due to inherent structural weaknesses. However, its manufacturing sector has at times experienced an average annual growth rate of around 7%. This reflects the resilience of Pakistani industries and entrepreneurs that is essential for maintaining sustainable growth. Potentially, successful implementation of SEZs can facilitate structural changes across the country paving the way for industrial development and economic growth.

RESEARCH METHODOLOGY

To analyze the potentials and challenges of SEZs under CPEC, qualitative research method has been employed. It follows a case study method taking SEZs as a case within the overall process of economic development. The study follows a descriptive and analytical technique. Here, the description involves a detailed information about the social phenomenon of study while analysis refers to the meanings of this information. Accordingly, the potential and challenges of SEZs with regard to industrial development in Pakistan, have been discussed on the basis of comprehensive information about the state of SEZs being developed under CPEC. The study follows a cross-sectional temporal dimension as it focuses on SEZs from a contemporary perspective.

Data has been collected through primary and secondary sources including books, research articles, reports and government publications. Among the secondary sources, books covering information and analysis about BRI, CPEC and SEZs have been used for data collection. Published research articles related to SEZs have also been studies for data collection. Further, newspaper reports and articles have been used as source of updated information about SEZs. Among the primary sources, data has been collected from the Ministry of Development and Planning, Ministry of Foreign Affairs and Centre of Excellence for CPEC.

POTENTIALS OF SPECIAL ECONOMIC ZONES (SEZs)

As CPEC has entered into the second phase and the development of SEZs is poised to boost industrial growth and produce increased economic opportunities. It will certainly bring economic growth and enhance regional trade and connectivity. The development of SEZ in nine regions of Pakistan is expected to yield significant potential benefits for both Pakistani state and society in several ways.

Foreign Direct Investment

Potentially, CPEC is a pivotal driver of foreign direct investment (FDI) in Pakistan. As FDI plays an important role in promoting economic development through transfer of technology, industrial innovation, and provision of financial resources. Therefore, the development of SEZs under CPEC will likely to play a significant role in promoting domestic business environment, increasing exports, and enhancing commercial attractiveness for foreign investment. With the initiation of second phase, many foreign companies have already begun investments in Pakistan. For instance, Dutch Akzo Nobel N.V, British Strong Stitch Ltd, German Alptak have made investments ("Taking Pak China relationship," n. d). Recently, South Korea, Japan and UK have expressed interest in bringing investment to Pakistan.

The FDI in Pakistan under CPEC has increased gradually. Last year, China invested US$439.3 million in Pakistan and its investment in the current year is US$177 million. Another important foreign investor is Hong Kong, which has invested about US$297.9 million. Moreover, UK and US have invested US$219 million and US$216 million respectively while both countries intend to bring in more investment ("Foreign investment rises," 2024). Moreover, Chinese iron and steel company has become the first foreign investor to develop its plant in the Rashakai SEZ with an investment of $50 million ("Chinese firm to set up," 2021). Notably, the development of SEZs is also attracting Pakistani diaspora for profitable business prospects in the country.

Employment Opportunities

The development of SEZs has potential to create thousands of jobs in Pakistan. As the country's huge unemployed population, particularly increasing educated workforce, needs to be made productive. As SEZs will have a business connection with the local markets, their successful functioning will increase demand for the domestic raw materials and create increased employment opportunities. In this context, SEZs are useful in generating direct and indirect jobs; however, it depends ultimately on how successful they are in operational terms.

As skilled human resource, domestic raw materials and other related inputs are the basic requirements for the development of SEZs, Pakistan offers cheaper raw materials and human resource to investors for the industries dealing with textiles, marbles, leather products and gemstones and so on. For instance, Allama Iqbal Industrial City economic zone is likely to develop as future industrialization hub for various sectors such as textiles, automobiles and pharmaceuticals. This expansion is expected to create more than 800,000 job opportunities, ("Allama Iqbal Industrial Zone Faisalabad," 2020) promote exports and launch joint projects with Chinese and other international firms. According to estimates, infrastructure projects can create about 17, 246 jobs at present and there are high chances for further increase in future (Rashid et al., 2018).

Trade Diversification

Pakistan remains an import intensive country with weak export regime. The official data shows that Pakistan has around US$20 billion total yearly exports, the amount that falls far below the actual potential (Nigar, & Qayyum, 2021). Pakistani companies working with the Chinese companies have learnt business and trade techniques. The global firms are already looking for the affordable locations to establish their industries for production and trade. Thus, SEZs provide a platform to local and foreign firms to invest in various sectors. This will not only enhance trade relations with China, it will also improve access to the Central Asian markets. Since Iran, Afghanistan and Russia are also interested in joining CPEC project, Pakistan will be able to build strong trade relations with them.

In 2021, Pakistan's exports increased by 32% with enriched textiles production enhanced competitiveness. The modernization of facilities and machinery has resulted in increased production capacity and rise in exports. Several international brands such as Nike, Adidas, Target, Puma, Levis and H&M are already working with local textile manufacturers in Pakistan. Foreign investors can take advantage of the favorable fiscal incentives in SEZs, skilled and cheaper labour, abundant raw materials, and less expensive shipments and get access to the European, Middle Eastern and Central Asian markets.

Connectivity

CPEC has a potential to strengthen connectivity within Pakistan and with international markets, particularly with Chinese and Central Asian markets. Pakistan can find markets for its primary products such as flour, meat, fruits, vegetables and fertilizers through regional connectivity. Within SEZs, the soft economic policies and cheap products appeal both internal and external investors to invest in SEZs. Hence, SEZs will potentially enhance local as well as international connectivity through business and trade.

For internal connectivity, CPEC has a network of highways and railways that connect Gwadar in Baluchistan to Kashgar in Western China. Three major road networks of CPEC comprising western, eastern and central alignments pass through various parts of all provinces of Pakistan. Upon completion of all projects of these alignments, Pakistan will achieve ever closer and smooth physical connectivity among its provinces, regions and cities. These projects connect KPK, Baluchistan and Gilgit-Baltistan to overall network. Through internal and external connectivity, Pakistan will be in a stronger position in the region to establish enhanced economic and trade ties with other regional countries such as Iran, Afghanistan, Russia and Central Asian states. Once all the projects under CPEC get completed, Pakistan can transform itself into a regional connectivity hub (Akhtar, 2019).

Economic Reforms

Incentives are to be provided for the successful functioning of SEZs. There is need of certain economic reforms for facilitating and incentivizing foreign investment in SEZs. For instance, as a fiscal incentive, government can provide one-time exemption from all custom duties and taxes for capital goods. It will include all the capital goods that are imported into Pakistan for maintenance and operation of SEZs. General incentives offered to export processing zones and industrial estates will involve an unhindered provision of utilities such as gas and electricity. Likewise, dry port facility and one window facility should be provided by the board of investment.

The federal and provincial governments are responsible to facilitate the foreign and domestic investors with efficient economic policies. Currently, if an international firm wants to invest in SEZs, it would take 256 days to set up and complete all the documentation (Naeem et al., 2020). CPEC offers an opportunity to Pakistan to reform its economic governance introducing measures for the ease of doing business. Though Pakistan has taken steps for regularization of taxation, it needs much more structural and managerial reforms in this regard. CPEC both compels and incentivizes to introduce comprehensive reforms in the Pakistan tax regime.

CHALLENGES TO SPECIAL ECONOMIC ZONES

SEZs are located in nine geographical regions of Pakistan earmarked in terms of need for industrial development, business promotion, internal connectivity and geoeconomic importance for regional connectivity and trade. Presently, work has been started on the development of four SEZs. SEZs will act as an economic pillar of CPEC; however, the development of SEZs in Pakistan is facing number of challenges.

CPEC and SEZs are facing difficulties with delays in the development of projects. The phase 1 of CPEC was expected to get completed in 2022 but many projects are still under construction. This slowdown is due to various reasons including COVID pandemic in 2020, lack of skilled labour force, local resistances, security issues, inadequate transportation for logistic support, and power shortfalls. The chairman of China Overseas Porting Holding Company (COPHC), Yo Bo, has expressed in a meeting with Lahore Chamber of Commerce and Industry (LCCI) that Pakistan's economic circumstances are primarily responsible for delay in CPEC development ("Pakistan's economic conditions," 2023). The unrest in Baluchistan and recurring terrorist incidents are also important factors of less progress in CPEC projects. Moreover, political polarization and lack of national consensus are hurdles on the way of stable functioning of CPEC.

Security Challenges

From completion to operationalization of CPEC projects, the factor of security holds great importance. As CPEC projects see progress and expansion, recurring incidents of terrorism in Pakistan pose challenge for the security of the project sites (Khan et al., 2019). The past few years have witnessed numerous terrorist attacks across Pakistan from different extremist groups. In April 2022, three Chinese university teachers were killed in a suicide attack in Karachi ("Pakistan attack: Chinese tutors killed," 2020). In August 2023, militants assaulted a Chinese convoy in Gwadar traveling to a development site. Similarly, in March 2024, a terrorist attack near Besham in KPK province killed five Chinese and one Pakistani national ("Terrorist attack against Chinese," 2020). The violent activities of Baloch Liberation Army across Baluchistan are another source of threat for the smooth completion of CPEC. The recent incident of multiple attacks in Baluchistan province have claimed lives of more than 70 people including security forces ("More than 70 people killed," 2024). These examples indicate the security concerns for the progress of SEZs. Such terrorist and militant attacks hinder the foreign investment important for an effective functioning of SEZs.

As stated above, many foreign companies have already started investing in SEZs (Government of Pakistan, n. d.). Dutch Akzo Nobel N.V., a producer of paints and coatings, has decided to set up a plant in Allama Iqbal industrial city Faisalabad, investing US$ 24 million. Similarly, British company Strong Stitch Ltd. will setup a textile plant in Faisalabad with an investment of US$ 8.5 million. A German company Alptak has also joined this venture with an investment of US$ 2 million to set up a plant in Faisalabad SEZ. Moreover, Chinese companies are also setting up industries in SEZs. Chinese Century Steel company is constructing a steel plant in Rashakai SEZ. Another Chinese company, Zhangbang Agriculture is investing US$ 8 million to build a plant in Faisalabad SEZ. Chinese Green Crockery and Houseware is also in process of setting up a plant in Faisalabad SEZ. This venture entails the investment of US$ 12 million.

Importantly, the local companies of Pakistan have also started investments in SEZs. For example, GEO Crete Absolute Construction CO, Gul Steel, Wah Nobel, Pak Asia Automobile, Sadiq and Sons Sporting Arms, Interlink Communication, Itemad Oil and Ghee and Gold Featherz have been allocated plots in Rashakai SEZ (Aziz, 2021). With increasing investment in SEZs, the perception of peace and stability in Pakistan is very important. The growing security concerns can lead to delays in infrastructure projects costing CPEC as well as economy. The security challenge can reduce the effectiveness of SEZs as hub for the regional trade. In a broader context, any harm inflicted upon the

Chinese nationals or projects can adversely affect the Chinese investment in Pakistan and undermine vital China-Pakistan bilateral relationship.

Power Shortfalls

Another persisting challenge for SEZs is the interrupted supply of electricity. The Rashakai Special Economic Zone serves as a prime example. The Rashakai SEZ in KPK is the second officially approved by the Board of Investment under the SEZ act of 2012 (Khan, 2024). According to this law, the federal and provincial governments are bound to supply energy to SEZs. However, power supply has not been provided to Rashakai SEZ yet. In August 2024, Rashakai Special Economic Zone Development and Operations Company (RSEZDOC) issued a warning to the government over this issue ("Power outrages threaten," 2024). Reportedly, SEZ in Faisalabad also experiences frequent power outages. Such delays in the power supply can jeopardize the development process of SEZs and, ultimately, decrease productivity, reduce operational efficiencies and undermine industrial growth under CPEC.

Lack of Human Resource

For the sustainability of CPEC, quality labour force is pivotal. Labour quality entails knowledge, soft skills, creativity and ability to adapt to changing business environment (Magsi, 2016). A well-trained workforce improves operational efficiency of industries, leading to increased productivity. The development of SEZs has opened bulk of employment opportunities in designated zones, but Pakistan's human resource is not adequately aligned with the specific needs of SEZs. According to the Labour Force Survey of Pakistan 2020-2021, conducted by Pakistan Bureau of Statistics, only 17.5% of employed persons have technical and vocational training while 82.5% employees have not received any vocational training. The survey states that the number of persons who received training from public training institutes is less than one million. It further states that 84.8% of trained persons have received an informal training and only 15% are those who had a formal training from government, public or private training institutes. Moreover, the survey shows that 4.51 million people remain unemployed in Pakistan (Government of Pakistan, 2022). These examples indicate that larger population of Pakistan lacks vocational and technical training for employment. According to the Applied Economic Research Center (AERC), CPEC has a potential to create 700,000 jobs till 2030 (Rashid et al., 2018). But Pakistani work force has a notable deficiency in proficiency with Chinese technological tools and machinery. According to the report of Centre of Excellence for CPEC, Pakistan's labour force is mostly composed of raw labourers ("Govt to impart skill training," 2019). Therefore, unskilled labour has to be hired for CPEC projects. Lack of skilled workers might compel foreign companies to hire foreign workers.

The ongoing SEZs under CPEC framework in Pakistan do not offer labour trainings unlike many SEZs in the world. Skilled and trained labour force plays pivotal role in economic development. Therefore, industrialized states give much importance to skill development of their population. According to the Human-Capital Report 2017, Norway has been ranked as the leading European country to have skilled and educated people (World Economic Forum, 2019). Human Capital index ranked 130 countries in terms of development of human capital. In this regard, the top 10 positions of best human capital were secured by the European countries. With regard to human capital development, Pakistan has been ranked at 125th position out of 130 countries. This low ranking represents lack of skilled labour force in Pakistan. Therefore, it has become a significant challenge for Pakistan to maximize the employment opportunities and economic benefits associated with SEZs. There is an immense need to establish technical and vocational training institutes across Pakistan to train maximum people for skilled employment. This will bring tremendous success in the development of SEZs and realization of higher levels of productivity. A skilled labour force can be a significant factor for attracting foreign investment by ensuring that projects are completed efficiently and timely.

Political Challenges

The main political challenge relating with SEZs is the due share of provinces and local stakeholders (Hussain & Rao, 2019). When CPEC was formally launched in 2015, the competing views of political parties regarding CPEC routes caused route controversy. Finally, the issue was resolved by holding an all-parties' conferences and giving the provinces an equitable share in CPEC. (Hussain& Rao, 2019). Similarly, some political parties have expressed concerns about the transparency and revenue generation aspects of CPEC. In November 2017, the Federal Minister for Ports and Shipping, Mir Hasil Bizenjo, informed the Senate of Pakistan that 91% of the revenues from Gwadar port would go to China while Pakistan's share would be only 9% for next 40 years (Khan, 2017). In response, various political parties criticized the terms of CPEC. This indicates that construction of SEZs would not be free from political challenges (Khan, 2017). There has been a debate on the size, location and number of SEZs in provinces. Negotiations among regional, provincial and federal stakeholders resulted in the reduction of initially proposed number of SEZs to nine, with each designated region to host one SEZ. While this arrangement represents a fair numerical distribution, potential issues may arise regarding the size and infrastructural facilities of SEZs.

Given Pakistan's political culture, where political parties and leaders often prioritize their own interests over the national interest, it is plausible that SEZs may become the focus of partisan debates. One prominent example is the postponement of the first visit of President Xi Jinping to Pakistan in 2014 due to anti-government protests staged by Imran Khan in Islamabad ("Chinese president postpones," 2014). On the other hand, Xi Jinping's visit to India took place as scheduled. Such examples of political instability highlight the lack of internal political consensus on vital national agenda. It has become a common practice on part of political parties in Pakistan to oppose partisan policies even if they serve national interest. China has expressed concerns over Pakistan's internal instability and its economic implications. In June 2024, Liu Jianchao, the Minister of the International Department of the Communist Party of China (IDCPC), urged Pakistani political leaders to prioritize political stability for national development ("Internal stability must," 2014). This concern reflected an apprehension that political disagreements and conflicts could pose challenges for the development of CPEC and SEZs. Just like the charter of democracy, there is a need to establish a charter of economy in Pakistan to develop political and national consensus on vital economic interests such as CPEC.

CONCLUSION

SEZs under CPEC carry huge potential for industrialization and economic growth in Pakistan. SEZs are designed and developed to bring abundant foreign direct investments. As the process of SEZs development assumes traction, several foreign companies have started investing millions of dollars in SEZs. This is a good omen for the promotion of industrial development and creation of employment opportunities in the country. Further, Pakistan's exports have been gaining a rise. This is an optimistic development as more investment and industrialization under CPEC will boost exports and connectivity through CPEC will enable increased access to the regional markets, particularly Chinese and Central Asian markets. Therefore, CPEC and SEZs can potentially take Pakistan to the next stage of economic development, namely 'take off.' This assumption is predicated on the argument that CPEC has already witnessed a decade of continued infrastructure development. Both China and Pakistan have strong political will and stakes in relation to its completion and operationalization. Thus, SEZs offer a promising opportunity for industrial upgradation and economic boost in Pakistan.

Although, SEZs are being viewed with optimism, they face challenges in terms of development and functioning. One among them is to ensure security of the project. Recurring terrorist incidents in different parts of Pakistan, particularly occasional attacks on CPEC sites targeting Chinese officials, pose serious security challenge for CPEC and China-Pakistan partnership in economic development. For effective security, Pakistan needs to take extraordinary measures at local as well as provincial level. Another persisting challenge is related to continued provision of power supply in SEZs for smooth functioning of operational work at the sites. Lack of skilled and trained labour force is still another challenge for an effective development and operationalization of SEZs. As CPEC tends to open employment opportunities, Pakistan needs to make arrangements for vocational trainings at a larger scale. This is important for boosting both productivity and employment through CPEC and SEZs openings. Last but not the least, Pakistan faces the challenge of persistent political instability. Chinese leadership is concerned about the state of political affairs in Pakistan. On the pattern of charter of democracy, Pakistani political parties need to agree on a charter of economy to develop national consensus on vital economic interests like CPEC.

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