Prime Minister's Office
Board of Investment
PMU CPEC-IC

DIALOGUE ON

INDUSTRIAL COOPERATION UNDER CPEC & SEZs FRAMEWORK

CONFERENCE REPORT

Organized By: PMU CPEC-ICDP
Board of Investment
March 10, 2020
Islamabad

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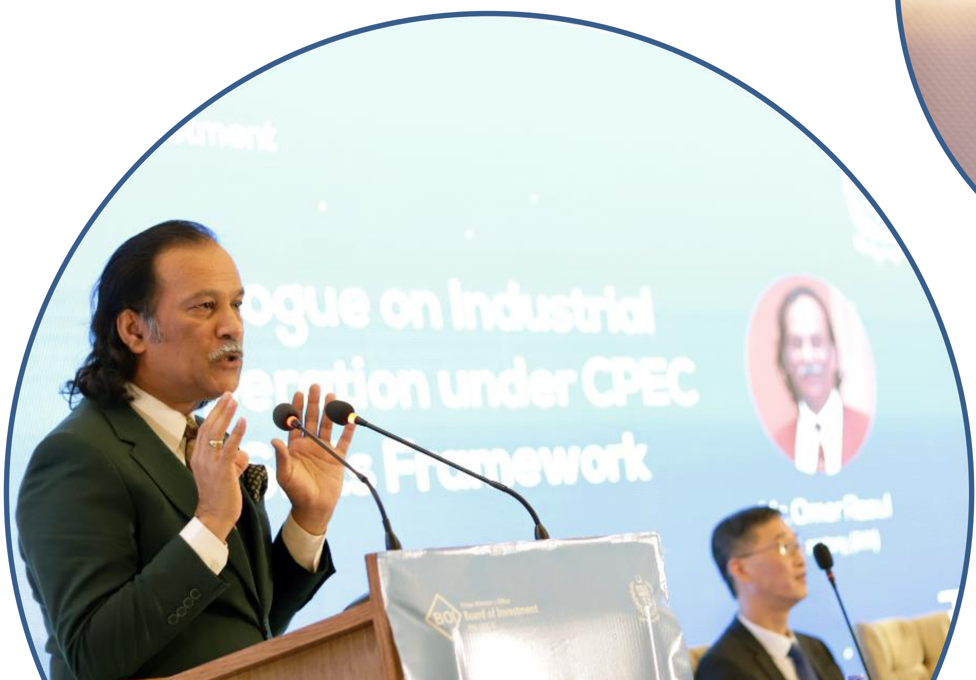
on Industrial
under CPEC
Framework

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Foreword

The Project Management Unit CPEC Industrial Cooperation (PMU-CPEC IC) of the Prime Minister's Office, Board of Investment (BOI), Islamabad, would like to present this report of the first Dialogue on Industrial Cooperation under CPEC & SEZs Framework, held on 10th March 2020 at Crystal Ball Room, Islamabad Marriott Hotel. The aim of this Dialogue was to ensure better consultation on SEZ Law Amendments, promote, populate and develop SEZs in Pakistan, evaluate IC framework under CPEC, create a favorable CPEC narrative, ensure better coordination for SEZs development and to communicate BOI reform agenda to bridge the gap between shareholders.

Over 250 Officials from different line ministries and provincial governments, SEZs developers, trade associations and chambers, foreign diplomats, Chinese Companies, and media persons attended the dialogue/ conference. This is one of the events where we have engaged the academia, specially the youth of universities to educate them better on CPEC, SEZs and their framework.

In the opening session, Ambassador of the People's Republic of China to the Islamic Republic of Pakistan H.E Yao Jing delivered his keynote address on "CPEC Phase II", while the Chief Guest, Advisor to Prime Minister on Commerce, Textile and Investment, Mr. Abdul Razak Dawood, highlighted government initiatives to stabilize Pakistan's economy. Two different sessions with two panel discussions were organized where experts from pertinent fields shared their knowledge and experience on different topics such as progress and way forward on industrial cooperation (IC) between China and Pakistan, industry relocation under CPEC, the role of academia for human resource development under CPEC-IC, SEZ's framework, incentives and reforms in the legal framework and Industrial Cooperation under CPEC as well as its Long-term framework (LTF). The participants took a keen interest in the discussions and lectures. They were provided ample time to raise their questions and submit their recommendations.

The PMU, therefore, would like to express its gratitude to the H.E Yao Jing, Ambassador of the People's Republic of China to the Islamic Republic of Pakistan, and the Chief Guest, Advisor to Prime Minister on Commerce, Textile and Investment, Mr. Abdul Razak Dawood, for their participation at the conference. We are also grateful to the worthy speakers who shared their knowledge and provided valuable guidelines on CPEC Phase-II and the way forward. We also appreciate the participants who attended the conference with keen interest and provided valuable input in the shape of questions and recommendations. Additionally, the PMU acknowledges the role of its own staff who played a due role behind the scene in making the event a success.

This is the first of many conferences that will be organized on the same lines in future. Hopefully, this consultation process will continue in the future to communicate reforms in order to bridge the gap between stakeholders and further the process of industrial cooperation under CPEC.

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Executive Summary

The "all-weather" friendship between Pakistan and China is based on shared principles and interests that form the foundation of cooperation in diverse fields. In the shape of CPEC, both governments have attempted to focus on expanding the economic dimension of the bilateral relationship and bring it up to par with the excellent cooperation the two countries enjoy at strategic and political levels.

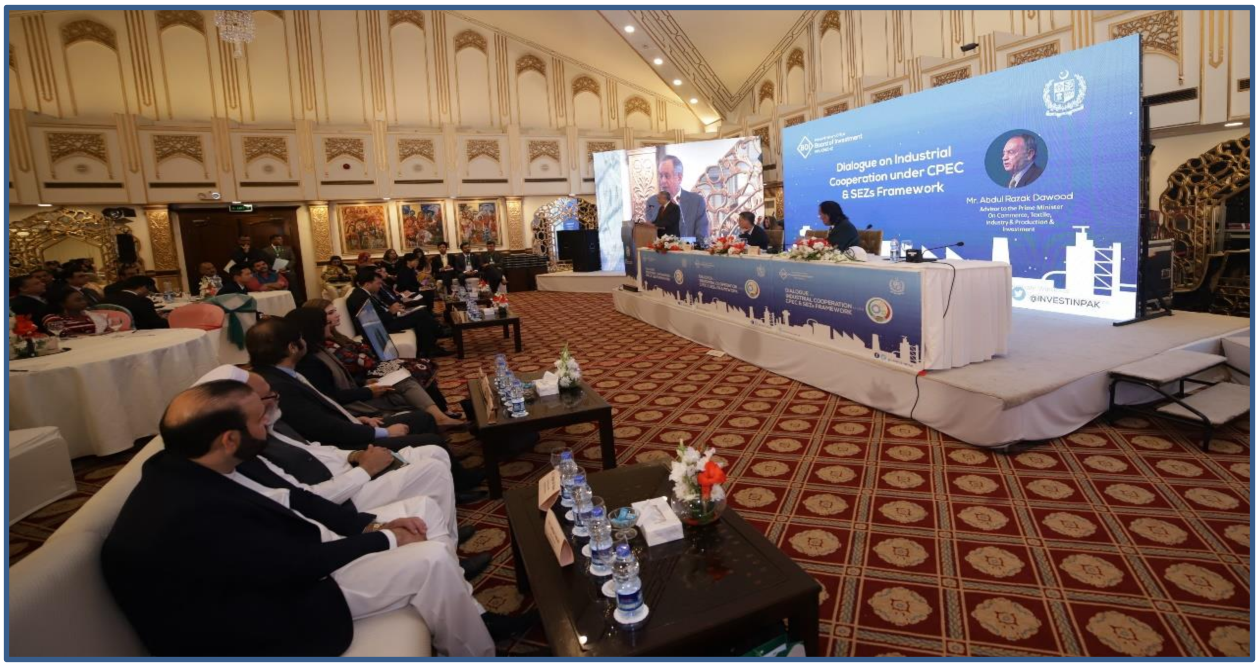
The Government of Pakistan considers CPEC a gateway for progress and prosperity. With the completion of the first phase of CPEC, all is set to start the implementation of Industrial Cooperation, which is an important aspect of CPEC; the main gain as well as a driving force for economic growth. It will take the fruits of CPEC to the lesser developed regions of Pakistan. As an icon of the Belt and Road Initiative (BRI), the fast development of CPEC has played a significant role in the overall Belt & Road cooperation.

The Board of Investment (BOI) is the lead agency from Pakistan to promote industrial cooperation and create a conducive business environment for investors from China and across the world. It is working on the development of special economic zones under CPEC, where in 03 SEZs have been developed to an advance stage, namely Rashakai in Khyber Pakhtunkhwa, Dhabeji in Sindh, and M-3 Allama Iqbal SEZ in Punjab. The Government of Pakistan has already vowed to ensure the provision of utilities at the earliest to these SEZs. Also, considering the ground economic realities of Pakistan, the SEZ Law is being amended to boost industrialization in the country.

To promote the initiative of industrial cooperation under CPEC in Pakistan, a Project Management Unit (PMU) was established in the year 2018 in BOI. The objectives of the project include but are not limited to: (a) market various investment opportunities available in Pakistan for Chinese and foreign investors; (b) organize local & International events/ conferences/ seminars etc. (c) mobilize people to people & academia exchanges. In pursuance of these objectives and to create a conducive environment besides facilitating speedy development of SEZs, the PMU planned to organize a series of one-day Roundtable Investment Conferences/Workshops to be held countrywide to highlight investment opportunities in the Special Economic Zones (SEZs) of Pakistan.

The first event titled "Dialogue on Industrial Cooperation under CPEC & SEZs Framework" was organized on 10th March 2020 at Marriott Hotel, Islamabad aiming to create an opportunity to facilitate better consultation on Amendments in SEZ Law, ensure coordination for implementation of SEZs development, communicate BOI reform agenda in order to bridge the gap between the stakeholders and build consensus for the CPEC long term framework on industrial cooperation and SEZs.

More than 250 Officials from different line ministries and provincial governments, SEZs developers, trade associations and chambers, foreign diplomats, Chinese



Companies, academia and media persons attended the conference.

In his Keynote speech **H.E Yao Jing, Ambassador of the Peoples Republic of China to the Islamic Republic of Pakistan,** highlighted the significance of CPEC and mentioned that the first area of cooperation - Industrial Cooperation is of prime focus in the CPEC phase II as it would be of great help in attracting FDI, promoting joint ventures and export led manufacturing capacity of Pakistan. Sharing his views on third party participation, he pointed out that, CPEC SEZs are not exclusive to the Chinese; rather open to the whole world. Other countries are welcome as well; as, investment has no borders, as long as, it is helpful for the development of Pakistan's economy.

Mr. Abdul Razak Dawood, Advisor to the Prime Minister on Commerce, Textile and Investment highlighted the significance of CPEC IC and emphasize that

with the development of Gwadar and rising investment, it's time to consider the integration of our economy with the Chinese economy. He mentioned that CPEC land routes leading to the Central Asian Republics (CARs) and Europe would allow Pakistan to reap the benefits of the Belt and Road Initiative (BRI).

In the first session on industrial cooperation under CPEC, the speakers reviewed the past progress and provided guidelines for a future course of action. **Mr. Omer Rasul, Secretary BOI** stated that Industrial Cooperation under CPEC is a question of "Now or Never" at this crucial point in Pakistan's economic trajectory and those people and economic entities that will stays in business NOW would be the front runners tomorrow. For this reason, it is essential to focus on mid-term rather than short term goals to fully unleash the potential embedded in this once in a life time opportunity created by the initiative of IC under CPEC, especially through the development of SEZs.

Mr. Safdar Sohail, Special Secretary, Cabinet Division suggested that up-gradation of governance capacity will enhance Pakistan's chances of optimally benefitting from CPEC. However, as CPEC cannot wait for an overhaul of the whole governance apparatus, there is a need to go for a selective institutional thickening of those entities, both at the federal and local level, which have a demonstrated capacity of being effective.

Mr. Sameer Chishty, Member Board of Director, Sino-Pak DoubleStar Tyres shared his experiences on contracting joint ventures (JVs) with foreign investors. Sharing his ideas regarding the investment potential of Pakistan, Mr. Chishty mentioned that there is huge room for relocation in the tyres, food and poly propylene sector. He believed that the current global market meltdown is the best time to invest, since some most enduring companies in the world were made during such meltdown. Furthermore, the trade war, shifting dynamics of technology and industry can facilitate moving the global supply chain to Pakistan. CPEC 2.0 is an opportunity to pursue industrialization and the country could achieve 8 to 10% GDP growth through JVs.

Mr. Iftikhar Ahmad, Assistant Professor, PIDE stressed on resolving the skill mismatch and the inclusion of extensive R&D in the local firms, which would facilitate them to collaborate with the Chinese firms. He opined that the relocation of Chinese industry to Pakistan would benefit the economy.

In the second session, the speakers deliberated upon the SEZs framework and future of CPEC industrial cooperation. **Ms. Fareena Mazhar, Executive Director General, BOI** provided an overview of the existing framework that comprises of local Special Economic Zones Authorities (SEZAs), Approvals Committee chaired by the Chairman BOI and Board of Approvals, that comprises of 25 members chaired by the Prime Minister. Ms. Mazhar presented a 14-point proposal that are being deliberated to ensure reform in the existing framework.

While chairing the first panel discussion, **Mr. Asim Saeed, Member Private Sector, Planning Commission** highlighted factors that work towards creating a successful SEZ and fulfill the aim of industrialization. These factors include infrastructure, human resources, linkages, procedures, political commitment and incentives. Therefore, incentives should not only cater to fiscal concessions but also all the other factors.

Other speakers suggested that SEZs are expensive and keeping the failure rate in mind, we need to focus on the National List created by BOI. Secondly, the role of the federation and provinces needs to be clarified. Provinces own the land, however, 93% of the functions needed to operate an SEZ are federal and cannot be devolved because of the Federal legislative list. Therefore, it is important to have a fair distribution of roles between the federation and provinces.

The second panel discussion was chaired by **Mr. Mudassir Tipu, DG China, Ministry of Foreign Affairs (MoFA).** He provided his insight on 3rd party participation in CPEC, informing that CPEC is a transformational project, wherein more countries could take part, providing Pakistan with the required financial liquidity. He apprised that MoFA is in the process of making a framework for third country participation, hoping that the neighboring regions of Central Asia and Afghanistan would bring enormous opportunities through CPEC, which in turn, would prove not only beneficial to the Pakistani economy but to the entire region.

Other speakers made it clear that Pakistan should focus on CPEC Long Term Plan (LTP) to reconsider unaddressed domains, promote third party participations, develop SEZs as per international standards, promote joint ventures for industry relocations and focus on training of the human resource.

List of Abbreviations

BOI	Board of Investment, Islamabad
BRI	Belt and Road Initiative
CARs	Central Asian Republics
CEO	Chief Executive Officer
CPEC	China Pakistan Economic Corridor
CPFTA-II	China Pakistan Free Trade Agreement – II
DG	Director General
FDI	Foreign Direct Investment
IC	Industrial Cooperation
KPBOIT	Khyber Pakhtunkhwa Board of Investment & Trade
LTF	Long Term Framework
LTP	Long Term Plan
MoFA	Ministry of Foreign Affairs, Islamabad
PIDE	Pakistan Institute for Development Economics, Islamabad
PMO	Prime Minister's Office
PMU	Project Management Unit of BOI Islamabad on CPEC-Industrial Cooperation
R&D	Research & development
SEZs	Special Economic Zones
SEZAs	Special Economic Zone Authorities
JVs	Joint Ventures

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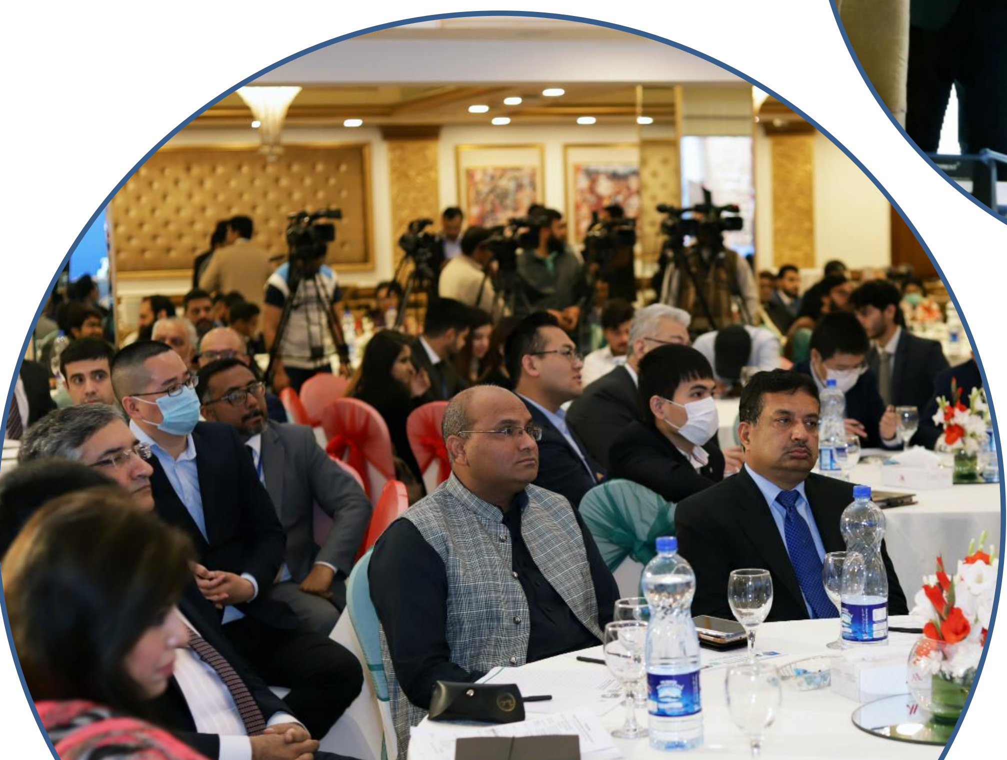
Opening Ceremony



Opening Ceremony

Speakers:

1. **His Excellency, Mr. Yao Jing Ambassador of the People's Republic of China to the Islamic Republic of Pakistan.**
   He has previously served as Chinese Ambassador to Afghanistan
2. **Mr. Abdul Razak Dawood Advisor to Prime Minister on Commerce, Textile and Investment.**
   Besides being the Chairperson, and member of Board of Directors of multiple business entities, Mr. Dawood has been a Director of Pakistan Business Council (PBC) since March 5, 2013. He has also served as a Director of the State Bank of Pakistan.

Chinese; rather open to the whole world. Other countries are welcome as well; as, investment has no borders, as long as, it is helpful for the development of Pakistan's economy."

In his keynote address **H.E Mr. Yao Jing** highlighted the significance of CPEC and its four areas of cooperation.

The first area of cooperation—Industrial Cooperation is of a prime focus in the CPEC phase II as it would help attracting Foreign Direct Investments (FDIs), promoting joint ventures and export led manufacturing capacity of Pakistan. He believed that private sector entities from both countries can join hands to promote the manufacturing industry by accruing maximum advantage of CPEC SEZs.

Keeping in view the Pakistan's potentials in agriculture sector, H.E Mr. Yao Jing classified Agri Sector as a second area of cooperation. He informed that Joint Working Group on Agriculture has been constituted where Pakistan and China are cooperating in transfer of technology, knowledge sharing as well as the commercial cooperation including joint plantation and investment in this sector.
He categorized Social Sector Cooperation as the third area that include provision of grants and assistance in the domain of education, health, water management, poverty alleviation, vocational training. In the first fast track stage, development work on 17 different projects have been already initiated.

The fourth area include cooperation in the field of Science and Technology. The first level includes establishment of the state of the art joint research, laboratories and training centers for the scientists of the two countries. The second stage would be more practical and include applied technology being used in different sectors such as agriculture, manufacturing and academic fields.

Sharing his views about SEZs, H.E Mr. Yao Jing stated that Pakistan is now entering into a promising period with a business-friendly environment. China, being the major investor globally, has the state policy to encourage FDI in Pakistan; and, this is in total harmony with the CPEC SEZs. The road show conducted for promotion of the Rashakai SEZ had received a positive response from the Chinese investors. Sharing his views on third party participation, he mentioned that, CPEC SEZs' are not exclusive to the Chinese; rather open to the whole world. Other countries are welcome as well; as, investment has no borders, as long as, it is helpful for the development of Pakistan's economy.

Mr. Abdul Razak Dawood, Advisor to the Prime Minister on Commerce, Textile and Investment highlighted the significance of CPEC Industrial Cooperation, emphasizing that with the development of Gwadar and rising investment, it's the time to consider the integration of our economy with the Chinese economy. CPEC land routes leading to the Central Asian Countries and Europe would allow Pakistan to reap the benefits of the Belt and Road Initiative (BRI).

The Advisor pointed out that the stabilization of the economy was the topmost agenda of the current Government. The trade deficit was one of the major issues that were addressed properly through squeezing imports and

"CPFTA-II as a beneficial instrument and an enabler for Pakistani businessmen to increase exports, as Pakistan could now enjoy similar benefits while exporting to China, like any other ASEAN country."

encouraging export-led growth. As a result, in February 2020, the exports had shown an increase of 13.1% as compared to February 2019, which is a clear demonstration of reasonable economic stability in Pakistan. He expected that the decrease in the global oil prices would bring even better opportunities by improving the current account deficit as well as the fiscal deficit.

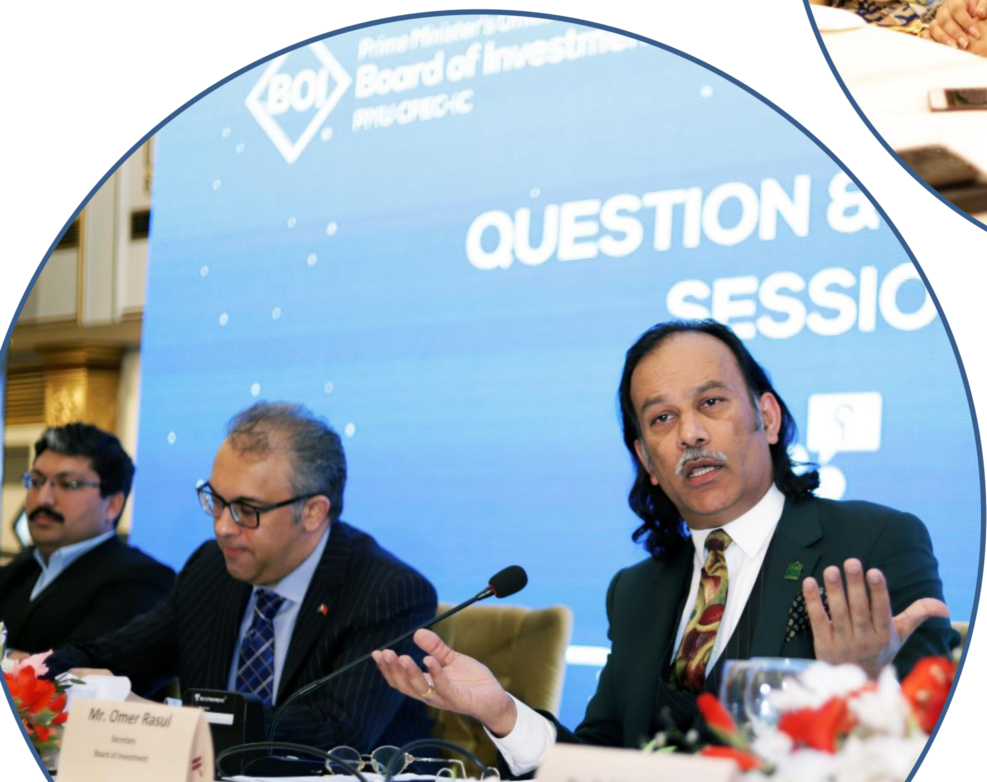
Mr. Dawood considered CPFTA-II as a beneficial instrument and an enabler for Pakistani businessmen to increase exports, as Pakistan could now enjoy similar benefits while exporting to China, like any other ASEAN country.

The Advisor endorsed the idea of H.E Mr. Yao Jing on the 3rd country participation in CPEC SEZs'. Moreover, he claimed that the biggest export industry in Pakistan, textile, is not experiencing problems in entering markets; but they are concerned about a lack of capacity to satisfy the increasing demand from the global market.

The Advisor announced the good news of the continuation of GSP+ status to Pakistan. Along with the FTA – II with China, he remarked, this would provide Pakistan better access to the two biggest markets in the world: Europe and China. He termed this a tremendous opportunity which could be enhanced with the CPEC SEZs' and certainly should not be missed.

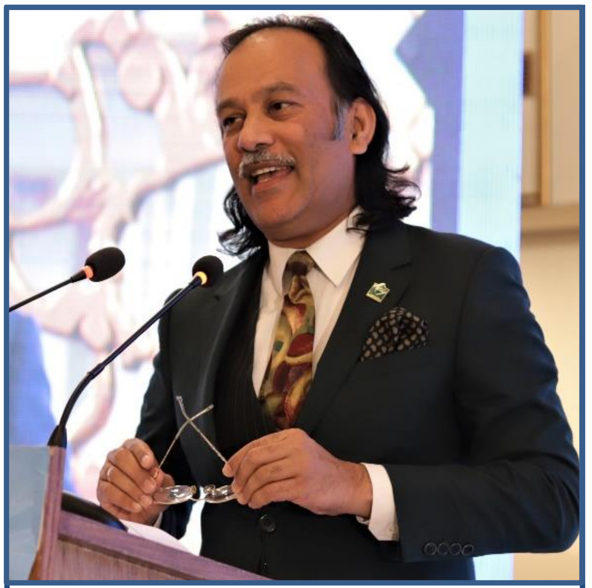
02

Session 1: Industrial Cooperation Under CPEC



Session 1: Industrial Cooperation Under CPEC

Speakers:
1. **Mr. Omer Rasul, Secretary Board of Investment** • Served as an Additional Chief Secretary, Punjab • Served as Additional Secretary Power Division
2. **Dr. Safdar Ali Sohail, Special Secretary Cabinet Division** • Served the Government of Pakistan as Executive Director, CPEC Centre of Excellence of the Planning Commission • Remained Director General Trade Policy, Ministry of Commerce • Represented the Pakistan at EU institutions in Brussels and Strasbourg as Economic Minister
3. **Mr. Sameer Chishti, Member, Board of Directors, Sino-Pak Doublestar Tyres**
4. **Dr. Iftikhar Ahmad, Assistant Professor, Pakistan Institute of Development Economics (PIDE)**



"Industrial Cooperation under CPEC is a question of "Now or Never" at this crucial point in Pakistan's economic trajectory and those people and economic entities that will stays in business NOW would be the front runners tomorrow."

Mr. Omer Rasul, Secretary BOI opened the first session by affirming that that the creation of a business-friendly environment and the completion of CPEC early harvest projects had paved the way for investments that would ultimately lead Pakistan to achieve prosperity. While expressing his views on the progress of Industrial Cooperation (IC) under CPEC, he assured the audience that Pakistan is all set to carry forward the initiative of IC during the second phase of CPEC with a renewed momentum. IC under CPEC is a question of "Now or Never" at this crucial point in Pakistan's economic trajectory and those people and economic entities that will stays in business NOW would be the front runners tomorrow. For this reason, it is essential to focus on mid-term rather than short term goals to fully unleash the potential embedded in this once in a life time opportunity created by the initiative of IC under CPEC, especially through the development of SEZs, which are the strongest and most effective tool available to accelerate industrialization in Pakistan. He signified that the process of setting up special economic zones (SEZs) in the country - the SEZs phenomenon - which dawned in Pakistan during 2008-2010, is an arduous and time-consuming task. In 2012 bilateral dialogues initiated with China led to copy paste models of SEZs, and later a legal document in the shape of an SEZ Act was legislated during the same year. Despite bearing immense criticism from towering experts and the common man alike, this piece of legislation could be loved or hated; but it cannot not be avoided. While not denying its flaws, he was of the view that the SEZ Act 2012 had united all federating units, including provinces, FATA, Azad Jammu & Kashmir (AJK) and Gilgit Baltistan (GB) together under a collaborative framework to kickstart the SEZ initiative. However, to further improve the SEZ Act 2012, the initial amendments were made in 2016 and since then the process of improvement in the Act has gradually gathered pace. Next, in 2016, the CPEC Joint Working Group (JWG) on IC was constituted.

Mr. Rasul apprised the audience of the fact the apex forum of CPEC, its Joint Coordination Committee (JCC), assigned BOI, which is the premier promotion and facilitation agency of the federal Government of Pakistan, the task to facilitate industrial cooperation under CPEC from Pakistan's side. In this context, a Project Management Unit (PMU) was established in the Board of Investment (BOI) to take forward the second phase of CPEC which includes Industrial Cooperation (IC) as BOI is also the secretariat of the Board of Approvals (BOA) and the Approval Committee for the Special Economic Zones.

He informed the audience that the rate of failure of SEZs around the world was about 80 percent, and SEZs are a nonstarter if all the relevant, interconnected sections of the Government do not walk the talk. Pakistan had approved 07 SEZs by 2019, which are still unproductive, and during the last one year many additional SEZs have been notified. Therefore, he stressed that now is the time to exhibit the resolve to revive the failed SEZs, while simultaneously developing and populating the upcoming ones. For this purpose, BOI is focusing on the provision of utilities to ensure a plug and play model of the SEZs. He further informed that in October 2019, the Prime Minister sanctioned Rs. 5.6 billion from the PSDP to be earmarked for provision of utilities for both the new and existing SEZs. BOI successfully accomplished the arduous task of getting through bureaucratic hurdles and facilitated the development of a PC-1 in collaboration with relevant public and private sector participants. Eventually, in a few months the Planning Commission approved the PC-1s and re-appropriated the funds in its present allocation.

Mr. Rasul underscored that multiple stakeholders called for decentralization of the process of developing SEZs, terming it as a rightful provincial subject, based on the argument that land and investors belong to the provinces and only utilities and incentives are to be provided by the federal government. He acknowledged that the Government of Pakistan is cognizant of the fact that decentralization and provincial autonomy is pivotal for better regulation of the SEZs. After the 18th Amendment, many of the pertinent areas are now placed within the jurisdiction of the provinces. He stressed that the required separation of power already existed. i.e. there are more than 100 industrial estates under the provincial governments and no hurdles exist in their way to successfully run these projects.

Secretary BOI assured of the potential success of the future SEZs. In terms of progress on Special Economic Zones (SEZs), he highlighted that three (03) prioritized CPEC SEZs in Pakistan, which have been developed to an advance stage include Rashakai SEZ in Khyber Pakhtunkhwa, Dhabeji SEZ in Sindh, and M-3 Allama Iqbal SEZ in Punjab. All formalities for the operation of the first CPEC SEZ, Rashakai SEZ, have been completed, and in an unprecedented move, the development agreement between KPEZDMC & CRBC for the Rashakai SEZ was endorsed during the 5th BoA meeting held under the Chairmanship of Prime Minister Imran Khan in March 2020. While quoting Mao Zedong he expressed, "Let a hundred flowers bloom" and the next flower of Pakistan's SEZs journey is Dhabeji SEZ and then it is Allama Iqbal Industrial City (M3) Faisalabad.

He dispelled the common misperception that CPEC SEZs in Pakistan were limited to the Chinese companies only and clarified that the SEZs and other industrial cooperation ventures under CPEC are open to third party participation. Furthermore, in addition to revisiting the SEZ Act 2012 to fix deficiencies, BOI is in the process of formulating a lucrative incentive package to shift industries from China and boost Pakistan's exports through the SEZs.

He was hopeful that during the upcoming visit of the President of the People's Republic of China, Mr. Xi Jinping, to Pakistan, the groundbreaking of the CPEC SEZs which have been developed to an advance stage will be carried out.

Secretary BOI concluded by urging that Pakistan cannot afford to miss the opportunities of industrialization provided under the umbrella of IC under CPEC. He expressed his contentment with the presence of a good mix of stakeholders from multifarious fields at the Dialogue and also affirmed that BOI would prepare a concept paper on the deliberations undertaken during the Dialogue to further the initiative of industrial cooperation under CPEC for export-led, labor intensive industrialization in the country. "It's a goal I know we all share - the development of the country's economy on robust foundations through technology-driven solutions", he said.

Dr. Safdar Sohail, Special Secretary Cabinet Division, shared his views on Industrial Cooperation (IC), with special reference to the Long-Term Plan of CPEC and its way forward. He was the first convener of the reconstituted Joint Working Group (JWG) on IC and was Pakistan's lead negotiator on CPEC Long-Term Plan during 2016. He was also the founding Executive Director of CPEC Centre of Excellence, a joint Planning Commission-PIDE initiative.

He emphasized that Industrial Cooperation between the two countries under CPEC, which was supposed to industrialize Pakistan and integrate the two economies, was facing problems due to a variety of factors, primarily due to an inefficient development model and poor governance on Pakistan's side and an inability or unwillingness on the Chinese side to anchor the IC in the original Vision of CPEC Long-Term Plan as envisaged by the both countries in the beginning. Dr. Sohail informed the audience that the original Vision of IC under CPEC included:

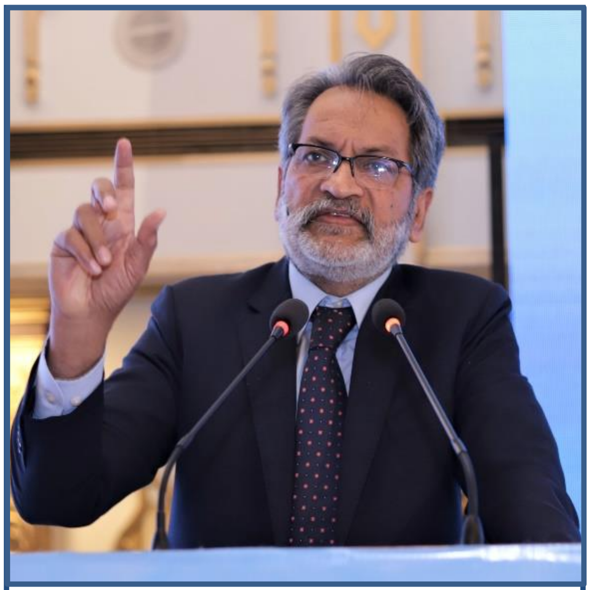
i. A big jump in Chinese FDI in manufacturing, Agriculture and Services sector in Pakistan on the one hand and a big boost to

ii. Pakistan's exports to China on the other hand in the short run.

iii. An annual average increase of 20% per annum in the growth rate of China-Pakistan trade and an average annual increase of 25 % of bilateral direct investment of during 2015-2020 period.

iv. Both the countries would give more ambitious targets to the bilateral trade and Chinese investment towards the end of the Short-Term period of CPEC [2020] after a thorough review of the performance during the short term. Both countries would make continued efforts to expand mutual investment based on an improved investment environment.

v. Active promotion of cooperative development in engineering technical services including project contracting to realize the development and advancement of China-Pakistan IC.



"The two side to reset the vision of IC under CPEC and put in place such conditions which make this reset work such as (1) Adopt new bilateral trade and investment goals; (2) setting new priorities and (3) adopt a new framework of a Long Term Strategic Economic Partnership between Pakistan and China."

vi. Both countries would adhere to the principles of equality and mutual benefit to achieve complementary advantages.

vii. China will optimize the bilateral trade structure and strive to improve trade imbalance.

viii. China would actively mobilize powerful enterprises to invest in Pakistan, to realize mutual benefits and create job opportunities for local people.

Dr. Sohail shared with the audience the Modes of Cooperation that both the countries had agreed to put in place i.e., promoting the establishment of Joint Ventures, enhancing technological cooperation, undertaking cooperative development, encouraging of Chinese firms investing in industry in Pakistan, bilateral strengthening of policy support, promoting industry development by raising funds via multiple channels, formulating effective trade and investment policies to promote trans-frontier cooperation, leveraging the China-Pakistan industry cooperation through steeper tariff concessions from China.

Dr. Sohail informed the audience that both countries were considering ambition Implementation Arrangements such as the establishment of Trade and Investment Development Commission and the establishment of a China-Pakistan Logistic Development Working Group. However, during the past three years, he lamented the fact that that the focus was reduced to the setting up of SEZs only, leading to an imbalance in achieving the overall Vision of CPEC, hurting Pakistan's chances of benefitting from CPEC greatly, in a stark contrast to the cooperation areas of Chinese interest i.e., Gwadar, Energy and Infrastructure.

Underscoring the importance of IC under CPEC, especially for Pakistan, he strongly urged the two sides to reset the vision, before the President of the People's Republic of China, Mr. Xi Jinping, visitd Pakistan and put in place such conditions which make this reset work such as (1) Adopt new bilateral trade and investment goals; (2) setting new priorities and (3) adopt a new framework of a Long Term Strategic Economic Partnership between Pakistan and China. He pointed out that such a systematic review was already provided for in the Long-Term Plan of CPEC after every two years.

He also stressed that the CPEC LTP agreed in November 2017 was too aspirational and as such does not lend itself to any kind of 'mutually constitutive' development alliance. He reminded that in 2013, both countries agreed to have their own CPEC LTPs and there were plans to merge them. So, it is time to that Pakistan formulates its own Industrial Cooperation Plan (ICP) for the next ten years, building upon the CPEC LTP approved by the NDRC in 2015, Pakistan's Perspectives on NDRC LTP shared with the Chinese on 15th July 2015 and the CPEC LTP shared by the Pakistan side with the Chinese side on 8th October 2016. In the 6th JCC, the Chinese side requested Pakistan side to accept the abridged, aspirational CPEC LTP shared with Pakistan side on 24th December 2016 and the Chinese side would be happy to use the 8th October CPEC LTP for further developments. The Chinese confirmed the same in an email in February 2017, while exhorting Pakistan to accept the aspiration LTP. Pakistan did accept the Chinese proposed LTP without major changes in November 2017 but both sides did not initiate a formal process to actualize the proposals made in the CPEC LTP approved by the NDRC in 2015 and the Pakistan LTP of October 2016. As the Pakistani document was based on extensive consultations with the Industry, it provided a robust base for both the sides to build on the future IC upon the vision and ambition already agreed by the both sides. This will also facilitate Pakistan to review the implementation of the projects more objectively.

Moreover, he said that the Chinese side initially did talk about assisting Pakistan in its process of industrialization through Policy Support and through the initiatives like the establishment of an Industrial Cooperation Fund, however, concrete proposals from the Chinese sides have been very few and far between. He also commented that mere signing of very general MoUs alone could not make much difference. Making IC work for Pakistan was now more a question of the political will on the Chinese side. For him, the existing institutional arrangements were totally inadequate to advance mutually beneficial IC between the two countries as the Joint Working Group format was more suited to the Project oriented cooperation fields whereas the IC between the two countries in the long term was strategic in nature requiring programmatic, institutional thickening and policy support from both sides over a long period of time.

Additionally, he expressed that the role of the Provinces in identifying of SEZs was not constructive and it wasted 4 years. He criticized the role of JWGs pertaining to Technological Cooperation and stated that the policy support for financing of the industrialization was the key element presently missing.

Dr. Sohail suggested that the Board of Investment (BOI), Islamabad as the lead agency on IC from Pakistan's side should direct its energies around the following actions and goals (1) enhance the governance capacity of trade and investment officers; (2) help to align Development Policies and internal policy reform agenda with CPEC by leveraging the industrial infrastructure development and help upgrade Regulatory and Policy Support Systems e.g. early establishment of already approved Exim Bank and Land Port Authority of Pakistan; (3) help adopt a strategic Industrial Policy, (4) support the champions but also defend legitimate interests of the local industry; (5) help upgrade the Business Environment; (6) prepare for bigger inflows of Chinese aid; (7) help re-socialize Pakistani firms and policy community towards China and; (8) help overcome synergy deficit among government ministries through greater collaborative efforts.

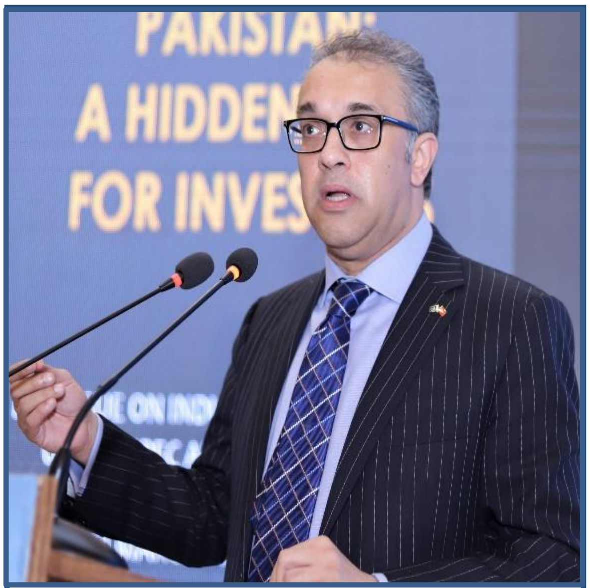
He underscored to the importance of equipping the Pakistani side to enter into effective JV agreements with China and align the FTA-II with China with the IC between the two countries to increase exports. Dr. Sohail lamented the fact that a China Pakistan Industrial Cooperation fund was put on table very early, however, it has not yet been taken up vigorously.

Mr. Sohail expressed his disappointment with the progress made by the existing Joint Working Group (JWG) on IC so far. For him, the JWG meetings, held through video conference on the Agenda becoming more and more thin with every passing year, only once a year, having excessive official representation without expert input, were producing little results. He reminded both sides that they had agreed in very clear terms that the reconstituted CPEC Joint Working Group on IC in 2016 shall play a key role in implementing the decisions made at the leadership level of the two countries, in expanding mutual industrial investment, policy formulation, coordination and implementation. For him, the performance of the JWG needed to be critically reviewed and it should be recast to take on the future challenges, if necessary.

He concluded by stating that up-gradation of Governance capacity will enhance Pakistan's chances of optimally benefitting from CPEC. However, as CPEC cannot wait for an overhaul of the whole governance apparatus, there was a need to go for a selective institutional thickening of those entities, both at the federal and local level, which had a demonstrated capacity of being effective.

Mr. Sameer Chishty, Member, Board of Director, Sino-Pak DoubleStar Tyres before commenting on his topic Joint Ventures as a Catalyst for Industry Relocation under CPEC, introduced his group DoubleStar- a Hong Kong based investment company that invested in different projects in Pakistan such as Daewoo Express, Thar Coal Power Plant and Gwadar Power Project.

He highlighted Pakistan's potential in natural and human resources, saying the women's participation as a workforce is low and it's a massive opportunity to include women in the job market. He remarked that that Pakistan possesses huge strength of technical professionals which create an opportunity to invest in tech ventures.



"CPEC 2.0 is an opportunity to massively pursue industrialization through JVs, similar to DoubleStar and MSD Tyres to achieve the 8 to 10% GDP growth."

Sharing his experiences on investment potential in Pakistan, Mr. Chisty cited that there is a huge room for relocation in the tyres, food and poly propylene sector. Current global market meltdown is the best time to invest; since, some most enduring companies in the world were made during such meltdown. The trade war, shifting dynamics of technology and industry, can facilitate in moving the global supply chain to Pakistan.

He pointed out that CPEC 2.0 is an opportunity to massively pursue industrialization through JVs, similar to DoubleStar and MSD Tyres to achieve the 8 to 10% GDP growth. DoubleStar is constructing a 70 acres facility in Karachi wherein 200 million USD FDI would be put into it for Industrial relocation during the first phase. MSD Tyres is the largest in China and has acquired the Korean manufacturer Kaunas Tyres; thus, bringing the state-of-the-art technology to Pakistan. He informed that ground-breaking is expected in summers and the plant would start producing in a years' time. DoubleStar tyres manufacturing facility would help in import substitution as 90% of tyres in Pakistan are imported. Further 40-50% of the plant's production would go into exports and would be useful due to the GSP+ status with Europe.

Mr. Chishti shared some steps for successfully attracting the Chinese investors, which are as follows:

- A persuasive business case to be developed for Pakistan

- Find the right Chinese partner: sometimes Chinese are not even thinking about Pakistan, so they must be kept informed about the benefits of doing business in Pakistan

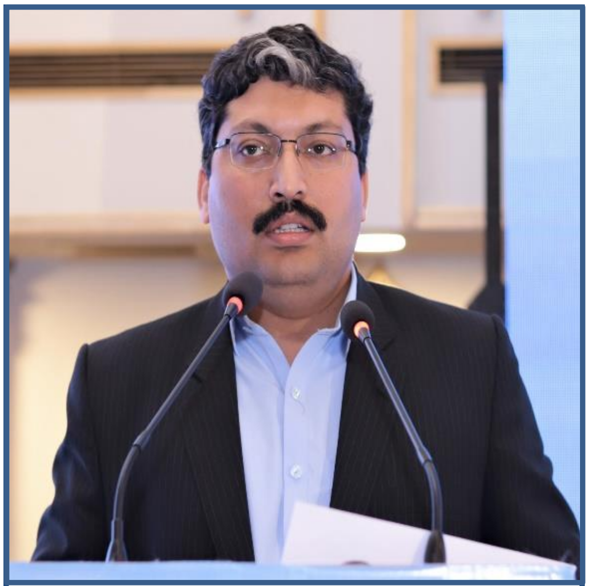
- Demonstrate the capabilities in the form of a unique offer they can't refuse

- Get familiar with customs and processes of China

- Seek Government support as in the case of Sino Pak DoubleStar Tyres, support of BOI and the guidance of H.E Mr. Yao Jing made it a success

- Manage expectations and hustle

Mr. Chishty expressed that Pakistani banks such as HBL, Alfalah & others should have China desks locally and in the major industrial hubs of China such as Beijing,



"Resolving the skill mismatch and including extensive R&D in the local firms would facilitate them to collaborate and compete with the Chinese firms."

Shanghai, Chongqing, Chengdu, Hangzhou. They should also provide risk management and consultancy for investment, besides the normal functions.

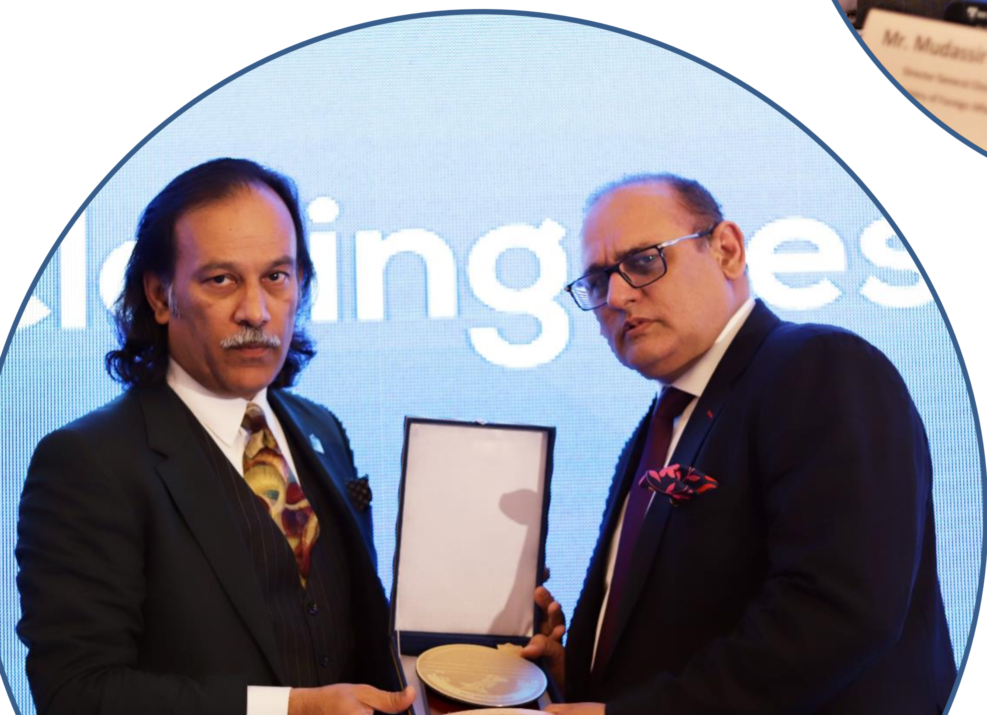
Mr. Chishty emphasized on the matchmaking role for JVs and suggested that 100s of such conferences should be held in China. He informed China has the highest pools of domestic savings in the world; thus, we should tap on Panda Bonds. He praised the role of the Board of Investment in mitigating the misconception about CPEC.

Mr. Iftikhar Ahmad, Assistant Professor, PIDE shared a study of World bank, PIDE and CDC about a detailed assessment of SEZs in Pakistan, highlighting some constraints such as political instability and competition with Chinese firms, reluctance of SMEs to register and chambers having in-sufficient information about CPEC terms and conditions. To address these issues, he suggested that a focal point should be established, and clarity should be given on financial incentives. He emphasized on the importance of an IT SEZ in Islamabad, and the need of more SEZs in the coastal areas of Pakistan; since, there is a high success rate in the coastal areas around the world.

Mr. Iftikhar stressed on resolving the skill mismatch and including extensive R&D in the local firms, which would facilitate them to collaborate and compete with the Chinese firms. In addition, he stressed to avoid the real estate activities in the SEZs and praised the Rashakai SEZs' management to take steps for avoiding such activities. He stated that relocation of Chinese industry to Pakistan would benefit the economy and concluded by stressing the need of establishing the funding windows for investment.

03

Session 2: SEZs' and Industrial Cooperation Framework



Session 2: SEZ's and Industrial Cooperation Framework

Speaker:

1. **Ms. Fareena Mazhar, Executive Director General, BOI**

SEZ's and Industrial Cooperation Framework was the second session of the dialogue. It comprised of a discourse on SEZ's Framework and its implementation in Pakistan followed by two panel discussions on 1) SEZ incentives and Reforms in Legal Framework 2) Industrial Cooperation under CPEC and its Long-term Framework.

Ms. Fareena Mazhar, Executive Director General, BOI acknowledged the initiative taken by PMU-IC BOI on organizing such a wonderful forum that brought together academia, private sector and government officials to discuss the development of the SEZs and the way forward. She shared her deep knowledge on SEZ's Framework and its Implementation in Pakistan.

She said that we cannot wait for SEZs to achieve their objectives themselves and must be vigilant to ensure that the SEZs are up and running as soon as possible. She noted that currently only 2% of the land available for SEZs has commercial operations, while only 4% is under construction, thus only 6% has been utilized so far.

She explained the current SEZ Framework as per SEZ Act 2012, wherein a zone application is submitted by a developer to

"Slow development, lack of utilities, complicated approval process, hectic procedure of availing incentives, weak regulatory & enforcement mechanism and lack of clear policy objectives are some of the flaws with the current SEZ Act 2012"

Provincial SEZA, comprising of 15 members and chaired by the respective Chief Minister. Once processed, the application is forwarded to the Approvals Committee which comprises of various public and private sector members and is chaired by the Chairman BOI. After approval the zone application is forwarded to Board of Approvals, that consists of over 25 members and is chaired by the Prime Minister. Once the Board of Approvals gives its approval, the zone is notified with an SEZ status. For the zone enterprise notification, the applicant submits a request with the SEZ Committee that is a 5-member committee. The current procedure for a zone to get notification, as evident is quite long and cumbersome.

She further elaborated the modes of SEZ development, saying that public entities or private companies, both can develop zones. Sharing her ideas about the governance structure that comprises of SEZ committee, Provincial Government and Federal Government, Ms. Fareena said that it gives rise to overlapping functions and representations. There is an ongoing territorial debate whether SEZs should be monitored by provincial government or they be administered at the federal level. Arguing in support of more federal controls, she said that most of the functions/ approvals needed for zone enterprise to get operational, are executed by the federation. Even Federal government (represented through Board of Approvals) can grant additional incentives to the developers and zone enterprises. Comparing the current SEZ framework of Pakistan with Bangladesh, she said that Bangladesh Economic Zone Authority (BEZA) operates at the federal level, and is fully empowered to grant any incentive depending on the objective of the SEZ without following the policy of one size fits all.

She shared flaws with the current SEZ Act 2012, such as slow development, lack of utilities, complicated approval process, hectic procedure of availing incentives, weak regulatory and enforcement mechanism and lack of clear policy objectives etc. She said to eliminate these flaws a fourteen -point preliminary proposal for amendments has been put forward by the BOI.

The proposal includes i) incorporation of various policy objectives e.g. export promotion, import substitution, employment generation, transfer of technologies, ii) inclusion of services sector in SEZs, iii) simplification of multi-tier SEZ approval process, iv) strengthening regulatory and monitoring enforcement mechanism by empowering the SEZ Secretariat, v) incorporation of minimum qualification criteria for SEZ Developers based on objective parameters, vi) promulgation of One-Stop Services Act, and empowering BOA to exempt zones from certain laws, vii) re-composition of BOA, viii) provision to establish a federal Developer, ix) addition of IT SEZ, integrated tourism zones, services sector and additions to definitions for clarity, x) incorporation of qualification criteria for the conversion of industrial estates into SEZs xi) provision of SEZ incentives to only those Zone Enterprises that commence commercial production after notification for conversion of the Industrial Estate into an SEZ, xii) alteration in minimum criteria of 50 acres to 100 acres, and for Tech SEZ to be 2 acres or more, xiii) inclusion of Female Entrepreneurship in SEZs through concessional rates, and xiv) establishment of independent SEZs tribunals for dispute settlement.

Ms. Fareena concluded that to bring about these much-needed amendments in the SEZ law, suggestions from the private sector are solicited. She added, BOI has shared its proposals with the private sector and is awaiting their responses. She said that the interest exhibited today by the private sector is encouraging and leads us to believe that these amendments will be achieved soon.

Panel Discussion 1: SEZs' Incentives and Reforms in Legal Framework

Panelists:
1. **Mr. Asim Saeed, Member Private Sector, Planning Commission – Chair**
2. **Dr. Liaquat Ali Shah, Executive Director, CPEC Center of Excellence, PD&SI**
3. **Mr. Aamir Zafar Durrani, Public Policy Expert**
4. **Mr. Qurban Ali, FPCCI**
5. **Mr. Abdul Samie Manzoor, Deputy Project Director, Industrial Cooperation – CPEC/ Director (SEZ) BOI**

"We need to look at the factors that work towards creating a successful SEZ to fulfill the objective of industrialization. These factors include infrastructure, human resource, linkages, procedures, political commitment and incentives. Therefore, incentives should cater for all the other factors, and just not fiscal concessions."

Mr. Asim Saeed, Member Private Sector, Planning Commission started off by recognizing the apt timing of the dialogue, given the substantial progress in IC, evident through the Development Agreement of Rashakai SEZ, reconstitution of Pak China Business and Investment forum, and SEZ Act revisions that are under consideration. He believed, the feedback from the private sector and academia could be extremely useful in devising an effective document on IC for the private sector.

He was of the view that we need to look at the factors that work towards creating a successful SEZ to fulfill the objective of industrialization. These factors include infrastructure, human resource, linkages, procedures, political commitment and incentives. Therefore, incentives should cater for all the other factors, and just not fiscal concessions.

To craft such incentives that fulfill these objectives, one needs to understand the ground realities, and as of today, there is a lack of harmony between the incentives across all the different forms of zones in Pakistan. Such fragmentation sets us at a disadvantage when competing for FDI across the globe.

He informed that the Planning Commission had done a comparative analysis of the incentives offered by other countries wherein it was found that incentives under the existing SEZ Act 2012 are lagging behind. Any incentive offered must fulfill the criteria of being efficient, so that they must align with the objectives of other line ministries, and being performance based, so that we don't subsidize uncompetitive industry, and harmonize with national objectives and be regionally competitive. He mentioned that the free trade zone developed by COPHCL could serve as a benchmark. Any incentives offered must outlast governments to instill confidence in the investors.

He concluded by stating that in order to industrialize a country of 200 million people, we would require the assistance of private sector. Mr. Asim narrated that while his visit to China with the Prime Minister, the three most solicited factors by the Chinese companies for investment were, security, infrastructure and incentives.

Dr. Liaquat Ali Shah, Executive Director, CPEC Center of Excellence, Ministry of Planning, Development & Special Initiative shared his views on the National Plan and Framework for SEZ Development' saying it is the right time to enter the next phase of CPEC that is industrialization as our counterpart China is in the process of economic transformation that would trigger industry relocation. In order to attract relocation of industry from China, Pakistan needs to judiciously plan its SEZ.

Dr. Liaqat Shah pointed out that the SEZs' incentives offered by Pakistan are along the same lines as provided by other BRI and Non-BRI countries. Moreover, infrastructure and one stop shop along with other amenities including banks, post-offices, logistics centers are now integral part of every SEZ around the world. These services have thus become generic in nature because they are ubiquitous and let's call it *Basics*. Coupled with it is the mushroom growth of SEZs globally. As of 2019, their numbers reached 5600. What it means for investors is that they have myriad of choices to go and invest. Competition among SEZs to attract investors in this scenario has become fierce. The question is then on how to approach SEZ development to get quality investors lined up for our SEZs.

To cater to this problem, Mr. Liaqat Shah suggested that we should first focus on the *Basics* such as, providing appropriate infrastructure, expediting the establishment of one window facility and offer generous incentive package.

Mr. Liaqat mentioned that SEZs should be established not only to promote exports and achieve other economic and social objectives but should be used as a tool to determine our economic structure by defining and refining our industrial mix. Allowing every industry in the SEZs will dilute our focus and cause us to spread ourselves too thin. This will affect our ability to upgrade and integrate in the global value chains (GVCs) of sectors we assume we have competitive advantage. Generous incentives should be provided to the sectors we want to excel in and preferably to business processes within a sector where we are lagging behind our competitors. BOI has highlighted five priority sectors which must be taken into consideration. This is a good step forward. He further added that spill over management from the industries in the priority sectors should also be made part of the broader SEZ framework.

Mr. Liaqat Shah pointed out that SEZ as a tool can also be used in Pakistan to bridge the regional disparities by distributing the economic activities spatially. However, with "one size fits all" policy we would not be able to achieve it. Backward and remote areas with resource endowments need special attention to attract investors. For this to happen, the Government must intervene with special incentives to create cost advantage for firms there, what should be called "Government induced locational advantage". You cannot develop and run SEZ successfully in Faisalabad or Mohamand with the same policy and incentive package. Both needs different approaches to stay competitive and sustainable in the long run.

Lastly, he expressed, SEZs no doubt can bring industrialization; but they are not the only policy tool; industrial estates should also be linked with the SEZs through establishment of backward linkages. Harmony and linkages among SEZs and Estates would benefit both and would provide the latter with the opportunity to

"It is the right time to enter the next phase of CPEC that is industrialization as our counterpart China is in the process of economic transformation through industry relocation. In order to attract relocation from China, Pakistan needs to judiciously plan its SEZ."

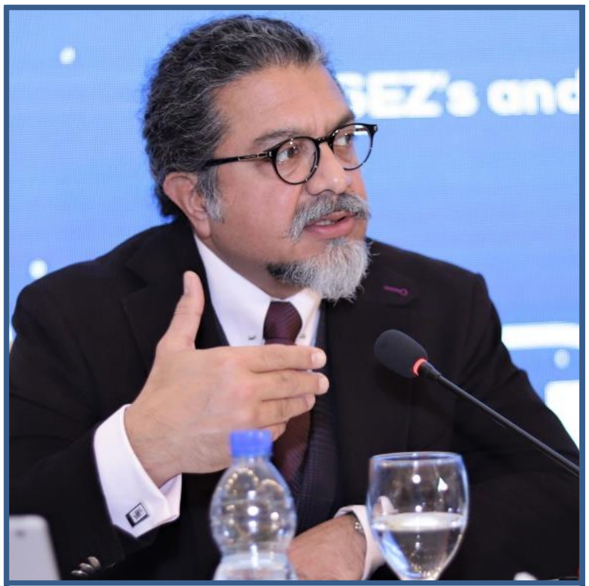
grow alongside the former in the GVC arena.

Speaking on his topic, “Role of Federal and Provincial Governments in the Development and Administration of SEZs”, **Mr. Aamir Zafar Durrani, Public Policy Expert** pointed out that there are four objectives that Government of Pakistan has adopted for the development of SEZs, i) impetus for economic reform, ii) create employment, iii) laboratories for new policies, and iv) attract investment, and investment in this case in not only FDI but also what we invest in these zone to make them worthy of foreign investment.

He said the China is approaching a recession, and Corona spread is widening that is threating the value and supply chain globally. In such a world, we need to see what incentives we are providing and whether our fixation on how to manage an SEZ detrimental to the cause of industrialization.

Furthermore, to understand how an SEZ works, he said, we need to understand four components of an SEZ, that are, planner, regulator, landlord and tenant. He said that the tenant in this case is the one generating all the economic activity and set to achieve the objectives of the SEZ. He stated that the problem of conflict of interest arises when the roles of these four components are not clear and are vertically integrated.

He suggested that SEZ development is an expensive exercise and keeping the failure rate in mind, we need to focus on the National List created by BoI. Secondly the role of the federation and provinces need to be clarified. Provinces own land, however, 93 percent of the function need to operate an SEZ are federal and cannot be devolved because of the federal legislative list. The provision for Federal SEZA must be brought about, which doesn’t dilute the role of provincial government. If the province keeps on converting the existing IEs into SEZs, in 2 years or so the fiscal revenue of the federal government will decline. Therefore, it is important to clarify these roles with an equitable distribution of roles between the federation and provinces.

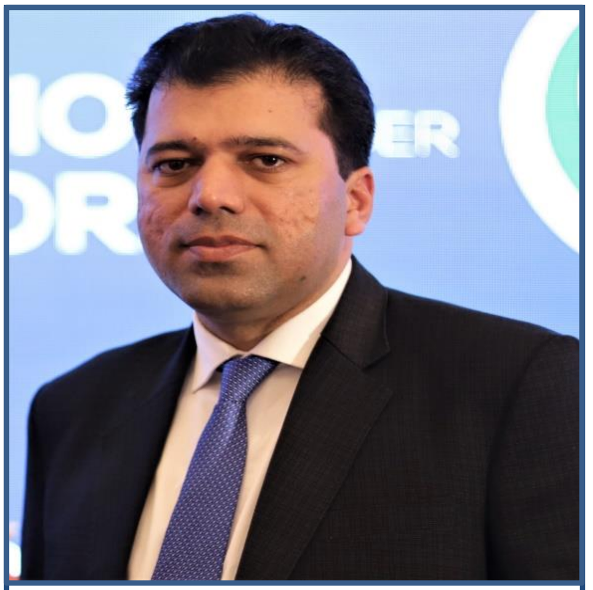


“The role of the federation and provinces need to be clarified. Provinces own land, however, 93 percent of the function need to operate an SEZ are federal and cannot be devolved because of the federal legislative list.”

He concluded by saying that given our experiences we may fail again but we cannot afford such failures as SEZs are the only hope available to the country to accelerate the process of industrialization

Mr. Abdul Samie Manzoor, Deputy Project Director, Industrial Cooperation – CPEC/ Director (SEZ), BOI while speaking on the "Proposed New Incentives in the SEZ Act 2012", briefed regarding the progress made on the identification of flaws in the current SEZ Act 2012 and the process adopted to propose amendments and incentives in the SEZ Act 2012.

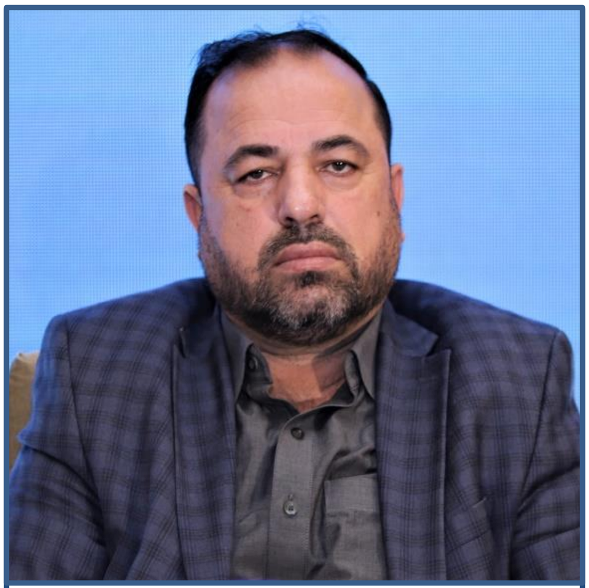
He said, "just with the initiation of Industrial Cooperation under CPEC in 2016, stakeholders and the Chinese counterparts started demanding additional incentives both for the zone developers and zone enterprises". Consequently in 2017, BOI with stakeholder's consultations, devised a detailed industrial relocation incentive package. This package got approval from the Federal Cabinet but could not be implemented due to lack of consensus over it by the provinces / federating units. Meanwhile, BOI received several proposals from NDRC China, different Chambers of Commerce and business community for additional incentives for the SEZs Developers and Zone Enterprises. Resultantly, after detailed deliberation and stakeholder's consultation, BOI, has now again devised a new incentive package that not only provides additional incentives, but also broadens the scope of the already available incentives. This package includes broadening the definition of "Plant & Machinery" for custom duty exemption; and extension in the cut-off date for ten years tax exemptions available to Zone enterprises on commencement of commercial operations from 30th June 2020 to 30th June 2030.



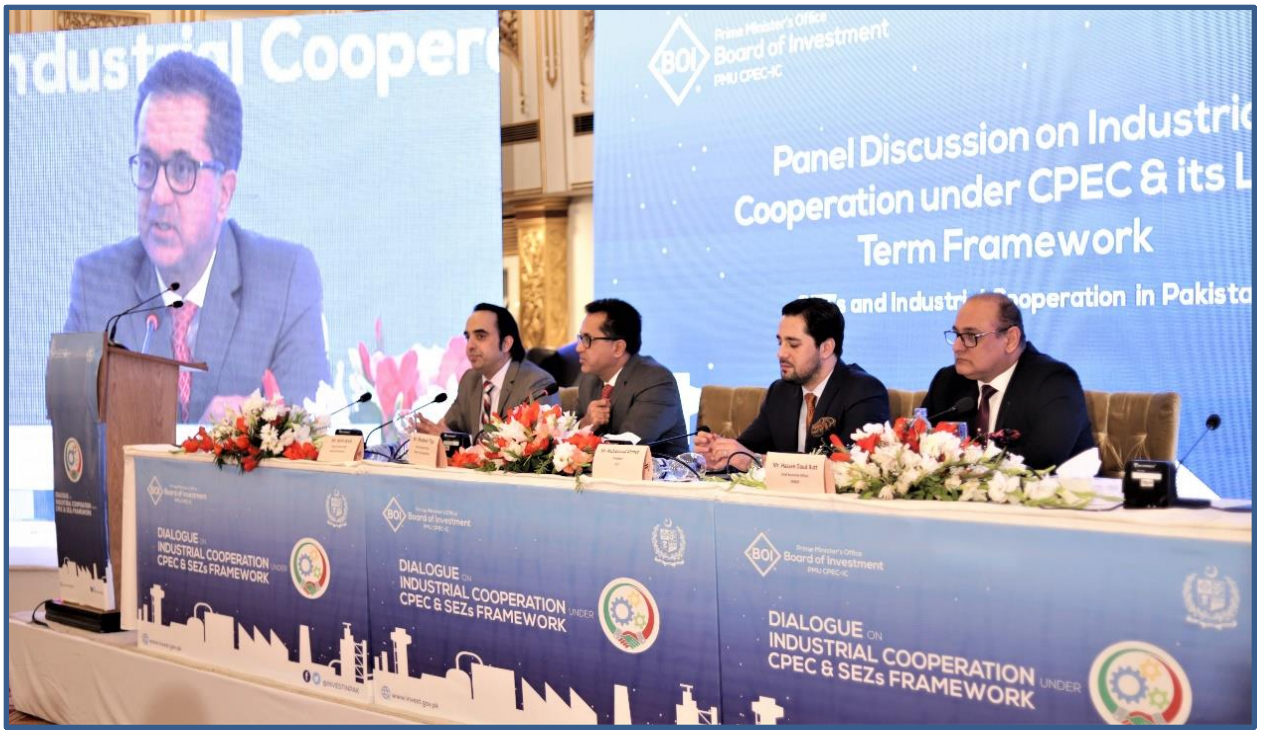
"In addition to the already available incentives in the SEZ Act 2012 and the sector incentives offered by the Federal or Provincial governments, BOI has proposed 5 more incentives."

He shared that in addition to the already available incentives in the SEZ Act 2012 and the sector specific incentives offered by the Federal or Provincial governments, BOI has proposed 5 additional incentives. The proposed incentives are i) exemption from turnover tax, ii) exemption on income tax to expatriates working on valid work visa for a period of five years from the date of award of SEZ enterprise status to the enterprises operating in the SEZs, iii) concessional project financing facility for setting up industrial units in the SEZs for which SBP has agreed in principle to provide more facilitation services to the zone developers and their enterprises, iv) relief from GST on utilities to the enterprises to the extent of their export sales, and v) provision of bonded warehousing and other customs related facilities to the zone enterprises. He shared, "BOI believes that with this incentive package; provincial governments, developers and BOI will be better positioned to attract new investments into the SEZs".

Mr. Qurban Ali, Representative of Federal Chamber of Commerce and Industries (FPCCI) spoke on behalf of the private sector and the business community. Talking about the SEZs under CPEC, Mr. Qurban pointed out that out of the 9 SEZs under the ambit of CPEC, the one marked for the Gilgit Baltistan has seen no progress at all. He proposed that a well-conceived plan for success of CPEC SEZs be made where the business community is also invited to take part. He said that the government needs to cut the interest rate, reduce energy tariffs, and instead of harassing the business community for tax collection, incentivize investment. Unless business community is considered a part of the solution nothing can be achieved. He expressed his delight that by suggesting the proposed incentive package and proposing long demanded changes in the SEZ Law; BOI is now on the right track in a timely manner and this proactive attitude of the government departments will ultimately help Pakistan to attract investments in the country, especially in SEZs to be developed under CPEC.



"A well-conceived plan for success of CPEC SEZs be made where the business community is also invited to take part."



Cooperation Under CPEC and Its Long-Term Framework

Panelists:
1. Mr. Mudassir Tipu, Director General China, Ministry of Foreign Affairs, Islamabad
2. Mr. Hassan Daud, CEO, KP-Board of Investment & Trade and Ex-PD CPEC, Ministry of Planning, Development & Reform
3. Mr. Asim Ayub, Project Director, Industrial Cooperation – CPEC, BOI
4. Mr. Mohammad Ahmed, President Islamabad Chamber of Commerce

Mr. Mudassir Tipu, DG China, Ministry of Foreign Affairs (MoFA) while initiating discussion on Industrial Cooperation under CPEC and its Long-Term Framework

"Pakistan is beaming with economic opportunities wherein CPEC is leading the scene. Gwadar has been transformed completely with execution of development projects that is creating economic hustle and bustle. This situation required leading role on the part of BOI and other government structures in order to facilitate attraction of investment."

highlighted the "Role of 3rd Country Participation in CPEC". By recalling inception, termed the CPEC as a transformational project. He was of the view that the structure of Pakistani economy is deeply related with China and CPFTA-II offers enormous opportunities for the country.

He said that CPEC the fastest project of all the BRI projects; however, it is projected in entirely different way by the naysayers. It depends on how we see the project, how disciplined we are and how we want to marshal our resources to implement this mega initiative. Counting the successes of CPEC, he highlighted that in the last 5 to 6 years, 9 energy projects up to the tune of 20 billion dollars have been completed, while 9 SEZs under CPEC are in different stages of development. The layout of the infrastructure has been transformed completely, starting from Karakoram Highway in the north to motorways in the mainland of Pakistan.

Pakistan is beaming with economic opportunities wherein CPEC is leading the scene. Gwadar has been transformed completely with execution of development projects that is creating economic hustle and bustle. This situation required leading role on the part of BOI and other government structures in order to facilitate attraction of investment and CPEC related progress.

Sharing his ideas on third country participation, he stated that more countries could participate in CPEC, providing Pakistan with the financial liquidity. He apprised that MoFA along with Chinese Government is in the process of making a legal framework for third party participation in CPEC that will ensure the mode of cooperation and nature of development projects. Some of the countries have evinced their interest and we are in process of negotiation, but as for my opinion, the neighboring regions of Central Asia and Afghanistan would bring enormous opportunity through CPEC. The private and public sector as well as media could play an important and unified role by projecting CPEC as an important project which would prove not only beneficial to the Pakistani economy but to the whole region.

Mr. Hassan Daud, CEO, KP-BOIT stressed that the success and failure of CPEC is based on industrial cooperation. He shared some important recommendations for the CPEC Industrial Cooperation as mentioned below:

- The public sector must be ready to embrace novel ideas and be less risk averse; this is the 1st time Pakistan is pragmatically working on SEZs.
- The Federal BOI must constitute a committee of all the BOIs, including other stakeholders, which should gather once a month to discuss and work on novel ideas.
- The FTA-II had to offer opportunities and we should focus on the 0 rating products to boost exports. Moreover, BOI to guide about what sort of industries serve best for the overall development plan of SEZs

- BOI, Ministry of Commerce, MOFA should hold hands to organize road shows and expos at important destinations, where the money can flow from the provincial and the federal government.
- We must reduce the clearance days on our borders, bringing optical fibers as soon as possible.

On the question raised by Mr. Nishat from Habib Bank Private Limited on collaborative framework for the financing of SEZs and enterprises, Mr. Hassan Daud, suggested that State Bank of Pakistan (SBP) should get involved as a key service provider and find opportunities for Pakistan. In addition, he suggested to set up timelines for SEZs and if someone is not able to perform within the agreed timelines they should be penalized.

Commenting on Collaborative Framework for SEZ financing, Dr. Shazia Ghani, Team Leader from the Prime Minister's Office suggested that we could consider trade financing and develop long term financial papers with China Development Bank or Exim bank, which could give us tenured debts. She added that long-term tenures could be introduced with the Chinese banks. Moreover, she suggested that if the exposure limit of the private investors are exhausted, the SBP could be requested to still allow those investors to invest, just like in the case of power projects.

Talking about how planning Commission been able to deliver in terms of ideas and vision of how Pakistan would be ten years down the lane, Mr. Hassan Daud, said that Planning Commission & Ministry of Commerce should work on the incentive

"The public sector must be ready to embrace novel ideas and be less risk averse; this is the 1st time Pakistan is pragmatically working on SEZs."

package to fulfill the capacity. He appreciated the formulation of CPEC authority as it can get all the stakeholders on one page ultimately making it a success model.

Mr. Asim Ayub, Project Director, Industrial Cooperation – CPEC, BOI mentioned that prior to the 8th JCC meeting held in 2018, BOI worked diligently to draft a Framework Agreement on Industrial Cooperation for negotiation with the Chinese side. It was hoped that the Framework Agreement would be signed during the 8th JCC, however, due to lack of consensus between both sides and time-constraints, an MoU was signed. He expressed that energy and infrastructures projects were early harvest and were accomplished in time since they are government to government (G2G), wherein guarantees and framework are involved,

"Energy and infrastructures projects were early harvest and were accomplished in time since they are government to government (G2G), wherein guarantees and framework are involved, however, the Industrial and Socio-Economic Cooperation is an arduous task as it involves the linking of the two nations."

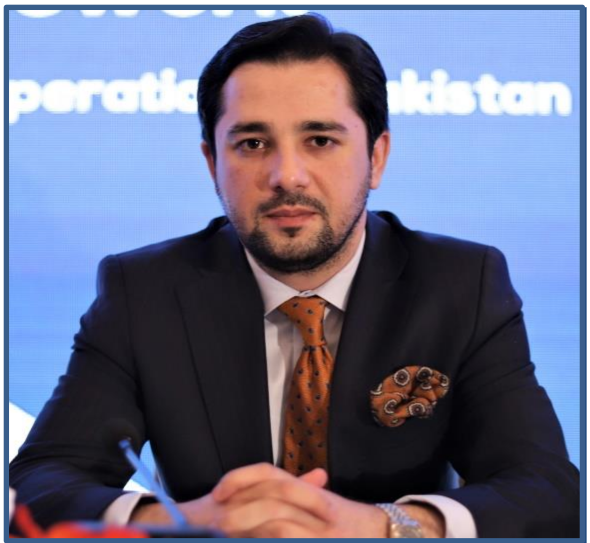
however, the Industrial and Socio-Economic Cooperation is an arduous task as it involves the linking of the two nations. He emphasized that there is a dire need for a Framework agreement or similar instrument on Industrial Cooperation in the light of CPEC Long Term Plan.

Mr. Asim cited Deng Xiao Ping, the father of opening of China, who was criticized for his policies, however, due to the political and policy consistency, China was successful with its SEZs, which are now called EDAs' (Economic Development Area). He said, we should stick to whatever we say, such as, policy, planning, rule of law, and ensure that infrastructure is ready for a plug and play SEZ model.

He stated that MOFA and all the stakeholders should be in our league so that we could come up with a policy which is popular, based on wisdom and passed through a rigorous consultation process.

While discussing China's role in IC, Mr. Asim referred to LTP and MoUs wherein China will plan, extend technical support, relocate and integrate the industrialization in Pakistan.

Mr. Mohammad Ahmed, President Islamabad Chamber of Commerce proposed that incentives must be given to the existing industrialists who are craving to invest and diversify. With the policy, we would encourage to upscale the already



"Incentives must be given to the existing industrialists who are craving to invest and diversify. With the policy, we would encourage to upscale the already existing and struggling industries by bringing the modern technology."

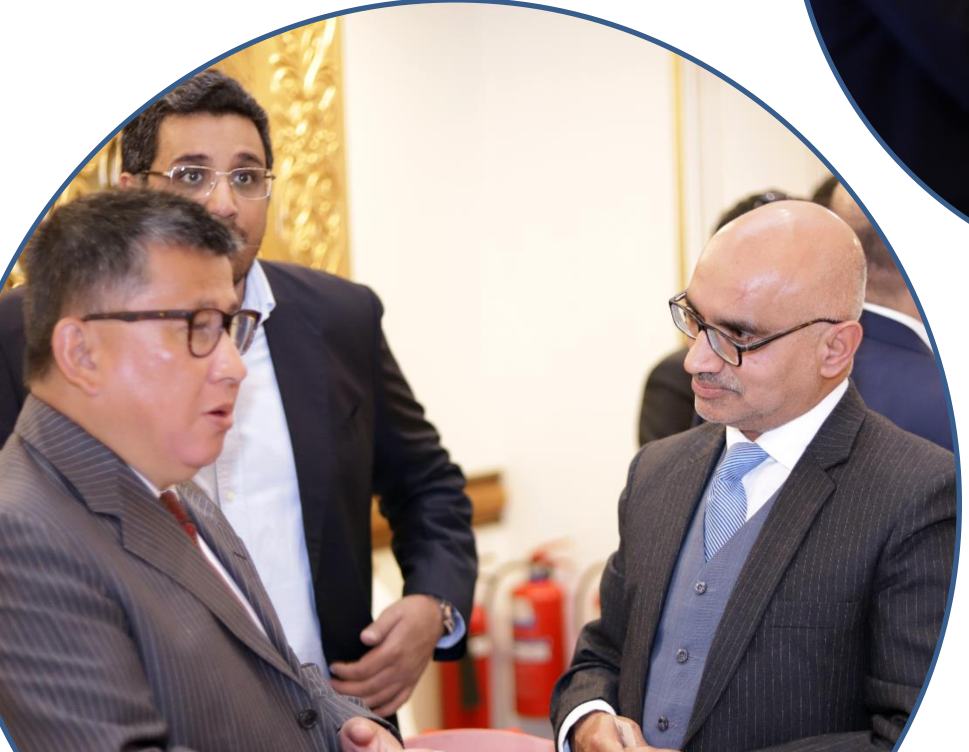
existing and struggling industries by bringing the modern technology.

Mr. Mohammad stressed that there is a need for a detailed working, highlighting and educating people to bring back the value addition to Pakistan.

He mentioned the example of Bangladesh, where textile is the major export industry, due to the value addition. He emphasized that in Bangladesh the status of export vehicles is that of ambulance, which means there is a high commitment for export, provoking the textile investors to head back to Bangladesh. He concluded that while promoting the SEZ through incentives we must consider the benefit being offered to the local business owners.

04

Recommendations



Recommendations

The below policy recommendations are being proposed based on the inputs provided by the speakers and participants during the question and answer sessions:

I. **Promotion of Third-Party Participation in CPEC**
The idea of third-party participation should be promoted as it is supported by both Pakistan and China. CPEC SEZs' are not exclusive to the Chinese; rather, open to the entire world. Other countries' investment in CPEC SEZs will boost the FDI and would be helpful for the development of Pakistan's economy.

II. **Measures Required to Address the Manufacturing Production Capacity Issues**
GSP plus status and CPFTA-II have opened a myriad of opportunities to Pakistani businessmen with access to the two biggest markets in the world, Europe and China. This has eased entering the global market. However, it is noticed that this alone would not sort the issue. For example, Textile Sector of Pakistan is not experiencing problems in entering the international markets; but the quality and capacity issues are the major obstacles. Such issues impede businesses to reach at optimal production level to compete with their global competitors. While the completion of power projects ensures the provision of smooth energy supply for enhancing the capacity utilization, there is need to establish the technical institutes as there is a positive impact of employee's skill and human capital on capacity utilization. Besides product related standards and technical regulations, system standards should be given importance. While Pakistan has set up the institutional arrangements for certification, implementation remains limited mainly because exporters are not aware of these standards. Raising their level of awareness can cause significant gains in certification and quality improvements.

III. **Focus to Develop Old SEZs Parallel to New SEZs**
SEZs can be used as an instrumental tool to uplift the export-led growth objective. While much focus is directed towards the establishment of new SEZ, there is a need to focus and improve the failed SEZs by simultaneous development and populating the upcoming SEZs.

IV. **Framework Agreement or Similar Instrument on IC is Required**
MoU on CPEC Industrial Cooperation lacks well-defined roles and responsibilities from both sides. In this regard, a framework agreement or similar instrument is required for CPEC industrial cooperation. It was also recommended that the same may be included in the forthcoming JCC & JWG.

V. **Resetting the Vision of Industrial Cooperation Under CPEC** Keeping in view the importance of Industrial Cooperation under CPEC, the two sides to reset the vision of this cooperation and put in place such conditions which make this reset work such as (1) Adopt new bilateral trade and investment goals; (2) setting new priorities and (3) adopt a new framework of a Long-Term Strategic Economic Partnership between Pakistan and China. Such a systematic review was already provided for in the Long-Term Plan of CPEC after every two years. The CPEC LTP agreed in November 2017 was too aspirational and does not lend itself to any kind of 'mutually constitutive' development alliance. So, it is a time to that Pakistan formulates its own Industrial Cooperation Plan (ICP) for the next ten years, building upon the CPEC LTP.

VI. **Banking Sector should be Included to Facilitate the CPEC IC**
Large Banks such as HBL, Alfalah etc., should establish China desks in Pakistan and simultaneously open desks in Beijing, Shanghai, Chongqing, Chengdu, Hangzhou, the major industrial hubs. Their prime focus should be on provision of risk management and investment consultancy services, besides the provision of routine banking functions.

VII. **Promotion of Joint Ventures Between Pakistan and China**
Joint venture agreements should be promoted as it will play a vital role to speed up industrialization. In this regard, roadshows, conferences and seminars need to be organized in China by Federal BOI in collaboration with the provincial stakeholders and business community to facilitate and strengthen the sectoral matchmaking.

VIII. **Extensive Focus on the Vocational Training and R&D**
To resolve the skill mismatch issue that will going to rise in coming years, there must be extensive R&D in local firms, which would facilitate them to collaborate and compete with the Chinese firms. In this regard, role of NAVTTC and provincial TEVTs may be enhanced in industrial cooperation.

IX. **Region & Sector Specific Incentive Package to be Considered**
Region specific SEZ incentive packages can be considered for the remote and backward areas as one policy fit all solution is not the most suitable solution. Similarly, specific incentives may also be awarded to promote mutually agreed sectors under industrial cooperation which will not only act as a catalyst for industrial relocation from China and other countries but also speed up the wheel of much needed industrialization.

X. **Federal Special Economic Zone Authority**

Since 93% of the functions to operate an SEZ vest with the Federal Government and cannot be devolved due to the Federal Legislative List, therefore, a fair distribution of roles between the provincial and the federal government is needed to provide quality one window facilitation services in the SEZs besides effective monitoring and regulating the zone developers and zone enterprises to ensure them provision of promised infrastructure in a timely manner in the best interest of economy. For this purpose, creation of an effective Federal SEZA or Central SEZ Regulatory Authority is the need of the time so that minimum standard of infrastructure coupled with quality facilitation services could be provided at the doorstep of every zone enterprise without comprising the interests of both developer and zone enterprise.

XI. **Promotion of Industries that Supports the Global Value Chain**

Industries that could link our local industries with the global value chain should be supported at the time of SEZs planning to maximize exports and FDI.

XII. **Need to Develop Regulatory Framework for Private SEZs**

Currently, there is no regulatory framework for private SEZs, therefore BOI being Secretariat of SEZ, should publish rules and guidelines for private SEZs. Also, the qualification criteria for developers and one window facilitation by BOI should be added in the framework.

XIII. **Policy Guidelines for Conversion of Existing Zones into SEZs**

The provision for conversion of existing zones into SEZs has mushroomed the number of SEZs in Pakistan and has set Federal Government on track for revenue losses besides encouraging the real estate activities in the zones. Instances are also found where these provincial industrial estates have approached Federal BOI to seek the status of SEZs without neither having any industrial plan nor the needed capacity to provide quality infrastructure to the zone enterprises. There is a dire need for policy guidelines that can lead the SEZ Secretariat in dealing with the zone applications that propose conversion of existing zones into SEZs using some policy measures.

XIV. **Policy Guidelines for Sole Enterprise SEZs**

The current form of SEZ Act 2012, only envisages an SEZ that has more than one tenant or Zone enterprise. There are companies that can invest in a particular SEZ and single-handedly provide the same economic output that would otherwise have been provided by a number of zone enterprises in that SEZ. Given, a sole enterprise can match the economic output of an SEZ with same characteristics, it should be allowed to get the same benefits under SEZ Act 2012. A policy guideline is needed to enable a hybrid form of sole enterprise SEZ that aims to incentivize large-scale industries and investment by simultaneously safeguarding the environment and possible revenue losses.

XV. **Curbing Mushroom Growth of SEZs**

The SEZ Law through the SEZ Rules 2013, although requires provinces to identify their SEZ needs and then evaluate each SEZ proposal on the basis of those needs; however, nothing has been done in that regard. Therefore, given scarce fiscal space available to the Federal Government to fulfill its commitment towards SEZs, and the SEZ failure rate, there is a need for a long term SEZ plan, that after looking at all the socio-economic needs of each province, provides the optimal locations for SEZs, and strategizes fulfillment of provincial SEZ needs in a tactical manner.

XVI. **Combined BOI Forum to be Constituted**

There is a need to constitute a committee of all the BOIs, including all the stakeholders, which should gather once a month to discuss and work on novel ideas on how to uplift the investments. In this regard, Federal BOI may take lead to bring all the provincial BOI's on one platform to formulate an inclusive strategy to attract the quality investments in the SEZs.

XVII. **Collaborative Framework for SEZ Financing**

Both Pakistan and China should devise a joint mechanism by creating an industrial fund under industrial cooperation to provide concessional financing for SEZ developers and zone enterprises to encourage industrial relocation as well as joint ventures. From Pakistani side, State Bank of Pakistan should also introduce new easy concessional financing schemes for the enterprises interested to invest in SEZs.

XVIII. **Revision of SEZ Law**

The SEZ Act in its current form has not been able to effectively contribute towards industrialization of Pakistan in its true spirit due to some inherent shortcomings in the law. BOI has been working towards identification of those flaws and has proposed some amendments in that regard. These amendments should not only remove the bottlenecks in the current law but also provide for a pragmatic mechanism to attract investment into the country that is at par with that in the region. For this to be realized, monitoring and regulatory regimes coupled with the incentives provided in the SEZ Act 2012, need to be expanded so as to make the SEZs marketable and regionally competitive.

XIX. **Large Scale SEZs to Attract Large-Scale Industries to Promote Exports**

The setup of large scale SEZ's that serve export markets should be encouraged. These SEZs should aim to have world-class infrastructure that combines residential and multi-use commercial and industrial activity, with power and transportation facilities, single window clearance approval and administrative processes. These large-scale SEZs can offer the much-needed industrial clustering. To realize this, policy guidelines regarding their development, operations, infrastructure and environmental impact will be needed.

XX. **Development of Low Cost SEZs to Provide Developed Plots on Plug and Play Basis**

To encourage industrialization along with SME growth in the country, we need to create low cost SEZs that provide the zone enterprises ready to use solutions in the form of plug and play. These SEZs will not only expedite the process but will also do away with the infrastructural hassles that a zone enterprise today faces in establishing its unit in any of the SEZs. In addition, of cutting costs for the SME level Zone enterprises, plug and play infrastructure in SEZs will help in attracting large foreign manufacturing companies to move their facilities to Pakistan.

XXI. **Zone Specialization**

Active support to promote clusters and linkages can prove to be the key to maximizing development impact. Enterprises operating in zones can enjoy network effects and economies of scale. Zone specialization can help promote clustering.

Enterprises operating in the same or adjacent industries have greater scope to collaborate, pool resources, and share facilities than enterprises operating in unrelated industries.

To reap these benefits, SEZs should be developed with clear specialization objectives, that should specify the industry that zone aims to target. While, the development of the zone should be done keeping the needs of that industry in mind. At the policy front, BOI to issue for the convergence of sector specific specialization in the SEZs.

XXII. **Establishment of CPEC Business Tower**

During the course of the Dialogue, it was pointed out by different speakers and during the Q & A session that a business hub needs to be established. The idea of a CPEC Business Tower was committed during the first meeting of the JWG on IC. Also, during the upcoming JWG meeting there is a commitment to include the prospect of establishing a CPEC Business Tower in coordination with the Chinese

Government and to work out the modalities. The tower would serve as a business hub and a one window in effectively carrying out CPEC activities.

XXIII. **Revisiting the commitments of the Previous JWGs**

It was also recommended by the participants that, as CPEC has entered its second phase, it is about time to move towards implementation. The following areas of cooperation were emphasized:

a. Progress Review of Industrial Cooperation (I.C) under CPEC

b. Formulation of Framework Agreement on Industrial Cooperation

c. Action Plan on Textile Industrial Diagnosis by Chinese Experts

d. Proposal to conduct Joint Diagnostic Studies of mutually agreed preferred sectors under CPEC

e. Establishment of CPEC Industrial Cooperation Tower in Islamabad

f. Firming up the earlier proposals of NAVTTC for Vocational and Technical training under CPEC (Subject to provision of working paper by NAVTTC)

g. Proposal to establish a Centre of Excellence at Mohmand Marble City (Subject to provision of Feasibility Study with financing modalities by KP-BOIT)

h. Proposal for Karachi New Pearl City Project by Ministry of Maritime Affairs (Subject to resubmission of the proposal by M/o Maritime Affairs)

Under the MoU of 2008 between China and Pakistan, it was also proposed by the audience that sectoral diagnostic studies be undertaken on priority sectors.

Appendices

Appendix 1: Conference Program

Dialogue on Industrial Cooperation under CPEC & SEZs Framework *10th March 2020 at Crystal Ball Room, Islamabad Marriott Hotel*	
Time	Event
09:30 –10:00	**Registration of participants**
	Recitation of the Holy Quran
Opening Ceremony	
10:00 – 10:10	• Welcome address by Omer Rasul, Secretary BOI
10:10 – 10:25	• Keynote address by the **Ambassador of China, H.E Yao Jing** on "*CPEC Phase II*"
10:25 – 10:40	• Address by the Chief Guest: **Advisor to PM** on Commerce, Textile, Industry & Production and Investment
SESSION 1: Industrial Cooperation Under CPEC	
10:45 – 11:00	• Progress on Industrial Cooperation Between China and Pakistan **Speaker**: Omer Rasul, Secretary, BOI
11:00 – 11:15	• Way forward on Industrial Cooperation under CPEC **Speaker**: Dr. Safdar Ali Sohail, Special Secretary Cabinet Division
11:15 – 11:30	• Joint Ventures as a Catalyst for Industry Relocation under CPEC **Speaker**: Mr. Sameer Chishti, Member, BoD, Sino-Pak Doublestar Tyres

11:30 – 11: 45	• Role of Academia for Human Resource Development under CPEC-IC **Speaker**: Mr. Iftikhar Ahmed, Representative, PIDE
11:45 – 12:00	**Q&A Session**
SESSION 2:	**SEZ's and Industrial Cooperation Framework**
13:00 – 13:30	SEZ's Framework and its Implementation in Pakistan **Speaker**: Ms. Fareena Mazhar, Executive Director General
Panel Discussion1: SEZ Incentives and Reforms in Legal Framework	
13:30 – 14:30	**Panelists**: • Mr. Asim Saeed, Member Private Sector, Planning Commission – Chair • Dr Liaqat Ali Shah, Executive Director, CPEC Centre of Excellence, Ministry of PD&SI • Mr. Amer Zafar Durrani, Public Policy Expert • Mr. Qurban Ali, Vice President FPCCI • Mr. Abdul Samie, DPD PMU, BOI
Panel Discussion 2: Industrial Cooperation under CPEC and its Long-term Framework	
14:30 – 15:30	**Panelists**: • Mr. Mudassir Tipu, DG China, MoFA • Mr. Hassan Daud Butt, CEO, KPBOIT • Mr. Muhammad Ahmed, President ICCI Mr. Asim Ayub, PD PMU, BOI
15:30 – 15:35	**Closing Session**

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