

# SEZ and EPZ assessment and rollback plan

**Final Report**

June 2025



KEARNEY

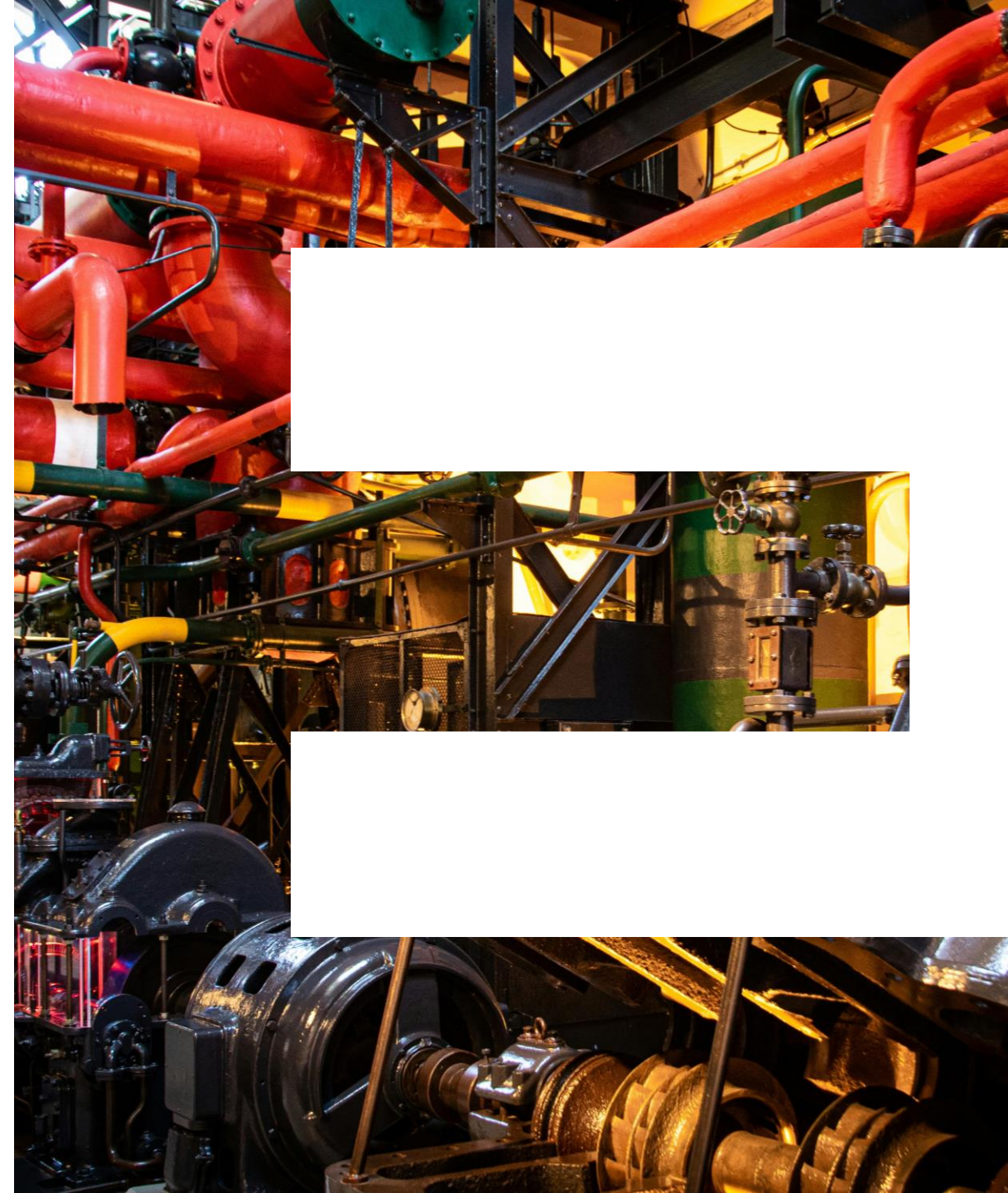


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Phase 1 Current State Assessment and Benchmarking Analysis

Phase 2 Target State Recommendations



## EXECUTIVE SUMMARY (1/2)

- In light of Pakistan's ongoing fiscal constraints, balance-of-payments crisis, and a low tax-to-GDP ratio, the IMF has requested a full rollback of profit-based incentives for SEZs and EPZs by 2035. The IMF has further advised the government to refrain from establishing new SEZs or EPZs and shift toward cost-based or performance-based incentives during the transition period. In response, the Board of Investment commissioned this feasibility study to assess the current SEZ and EPZ landscape, evaluate fiscal opportunity costs, benchmark international experiences, and define strategic options for the future.
- We find that in the backdrop of a weak investment landscape compared to global and regional peers, Pakistan is relying on SEZ and EPZ regimes to support national industrialization, FDI attraction and export promotion, with a steadily growing pipeline of economic zones.
- However, when compared to peer economic zone regimes, the incentives offered are still relatively limited despite a more challenging investment climate. In addition to which, the delivery of services and non-fiscal benefits to zones and zone enterprises is still lagging especially on the infrastructure and utilities side, delaying the progress of zones and reflected in lagging land utilization figures for SEZs.
- When assessing the economic contribution of SEZs and EPZs, we find they are actively contributing to the Pakistan GDP, Exports and employment agenda (In 2024 contributing to 0.75% of GDP in 2024 and 3% of manufacturing GDP, 10% of exports, 0.5% of employment); directional benchmarks indicate that similar programs if adequately expanded, can grow to a much more sizeable contribution to the national economy. SEZs and EPZs contribute today an estimated 0.11% of government revenues in 2024, and foregone revenues for the same year from fiscal incentives provided (Corporate Income Tax, Customs Duties) represent a very low share of overall fiscal revenues (0.14% in 2024).
- In addition, when assessing market distortions, we find that SEZs create limited market distortions as zones are still building traction but, have faced operational challenges which delayed the ramp up and full utilization and contribution of zones. Until SEZs achieve significant scale, and with the right governance and guardrails in place, market distortions are considered minimal. As for EPZs, they pay CIT on turnover and do not benefit from any benefits, in addition to being outside of the customs area of Pakistan, indicating that EPZs do not create any market distortions to the domestic economy.
- We also conducted a legal review of SEZ regulations and found that Zones are by law given the right to dispense incentives to enterprises, and cannot be revoked without legislative action, Revoking fiscal incentives from SEZs would require stripping SEZs their incentive-granting status through Parliamentary approval; Repealing the legislation through Parliament would open the government of Pakistan and BOI to significant financial burden in way of remuneration domestically and internationally.

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## EXECUTIVE SUMMARY (2/2)

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- We assessed case studies of rollbacks to understand what potential success factors should be considered to identify success factors and found that the following were to minimize damage to the economy and investor confidence including: (1) balanced policy replacing profit-based fiscal incentives with cost-based incentives, (2) tailoring the phase-out approach to specific sectors if applicable, (3) providing special transition incentives for existing investors and (4) phasing the roll-back of incentives supported by significant communication and stakeholder engagement.
- Typically, SEZ and EPZ programs have been instrumental in driving the industrialization of developing economies (i.e. China, Malaysia, Bangladesh, Taiwan, Morocco, Mauritius, others) through attracting FDI and localizing technology, growing exports and industrial output, creating employment and industrial clusters and creating industrial spillovers and diversifying the economy. Strong fiscal incentives were key to the success of EZ programs globally, eventually phased out as EZ programs achieve success and market distortions become significant.
- The time during which peers rolled back fiscal incentives was when economic zones had a robust contribution towards the economy and industrialization, large fiscal opportunity costs emerged and significant market distortions became evident, which is not the case today for Pakistan.
- For Pakistan, SEZs and EPZs have not yet achieved their potential, and removing fiscal incentives would affect the future of the national industrialization agenda; projections find that SEZ and EPZ programs can grow to contribute up to 15% or more of Pakistan's national exports if allowed to grow in the next 10-15 years for current zones in pipeline, addressing shortcomings in infrastructure and services provisioning.
- In addition, rolling back SEZ incentives would result in domestic and international litigation, creating significant financial burden through repayments to zone firms, dramatically reduce already struggling investor confidence due to policy inconsistency, and grow the "dark economy" as the SEZ regime is built on the documented economy.
- Considering limited market distortions, high future impact on industrialization and government revenues, rolling back SEZ incentives must be delayed further until zones contribute significantly to the national economy, whereas EPZs should not be considered for the rollback of incentives as they pay CIT and do not create market distortions being outside of the customs zone.
- To comply with the Fund's request, a plan was nonetheless developed to consider in the event the Government of Pakistan decides to go ahead with the rollback of SEZ and its fiscal incentives, introducing CIT within the timeframe defined and removing customs duties exemptions as well. An implementation plan was also defined to guide next steps in the event the rollback is allowed to take place.

# The SEZ and EPZ feasibility study will cover 2 main phases: current state assessment & benchmark analysis and definition of strategic options with impact and phasing approach



## Phase 1: Current State Assessment & Benchmark Analysis

A

Review **current SEZ and EPZ landscape** evolution including 4 **key implementation models**

B

Deep-dive on **IMF recommendations** for Pakistan SEZs

C

Assess **profile** of companies, **revenues and exports**

D

Assess **government revenue opportunity cost** and future projections

E

Review **global benchmarks on SEZs rollback** and derive lessons learned



## Phase 2: Strategic Options, Impact & Phasing

A

Develop **potential strategic options** for Pakistan to phase or reduce subsidies

B

Assess **qualitative impact** of the options and identify potential **mitigation levers**

C

Identify **optimal strategic option** to pursue, develop **implementation plan** and **enablers**

# IMF recommendations to Pakistan to refrain from providing new tax incentives and to start phasing out EZs to ensure a level-playing investment field are the main trigger of this study

**TRIGGER:** Pakistan's chronic fiscal deficits and a balance-of-payments crisis in 2022-23 led it back to the IMF. With public debt high and tax revenues among the lowest (about 10% of GDP), GoP has faced pressure to eliminate tax exemptions that erode its tax base

## INTERNATIONAL MONETARY FUND (IMF) RECOMMENDATIONS TO PAKISTAN SEZs

**Stop to the establishment of new EZs and to provision of fiscal incentives**



The IMF has asked Pakistan to **refrain from providing new regulatory or tax-based incentives**, or any guaranteed return that could distort the investment landscape to **any new or existing EZs**, as well as **refrain from creating new EZs** going forward

**Phasing out existing incentives to EZs for a level-playing investment field**



IMF also demanded to fully **phase out all current incentives to Economic Zones** by 2035 to create a **level-playing field for all businesses**, and **remove state distortions** (while adhering to legal commitments)

**Replacement of profit-based incentives with cost-based incentives**



IMF recommended to **substitute profit-based incentives** (e.g., tax incentives) with **cost-based incentives** (e.g., immediate expensing on tangible assets) **during the transition period** (between 2024-2035)

## GoP Commitment Under EFF

*“As part of our ongoing efforts to improve efficiency and provide a level playing field for investment, the government will refrain from providing any fiscal incentives, such as tax breaks or subsidies (including for credit). Special Economic Zones (SEZs). We have hired a consultant and agreed TORs for a review of the fiscal costs and effectiveness associated with each existing Special Economic Zone (SEZ) (including Export Processing Zones, EPZs), and will publish the results of this study in FY25. Based on the results of this study, we will formulate a comprehensive plan to fully phase out all current SEZ (and EPZ) incentives by 2035, subject to preexisting contractual obligations (end-Jun 2025 SB). We will also publish a report on fiscal costs and effectiveness of Special Technology Zones (STZs) and other industrial parks and zones, and will by end-October 2025 prepare a similar comprehensive plan to phase out these incentives by 2035, subject to preexisting contractual obligations (new end-December 2025 SB). During the transition period, we, in consultation with stakeholders, will seek to replace preexisting profit-based incentives (such as tax exemptions) with cost-based incentives (such as immediate expensing on tangible assets), while adhering to legal commitments. Where contractual provisions allow, we will, in consultation with stakeholders seek to phase out existing SEZ (and other zones) incentives through early termination or renegotiation. We remain committed to refrain from creating any new SEZs (or other zones, including by provincial governments); to refrain from providing new fiscal or other incentives to any new or existing SEZs firms, sectors or investments; and not to renew any such existing incentives.”*

We review the effectiveness of SEZ and EPZ regimes across three key areas
















# Economic Zone Regime Effectiveness Framework

1 Macro-Economic and Investment Environment					
<b>Market Environment</b>	<b>Regulatory Framework</b>	<b>Human Capital</b>	<b>Enabling Factors</b>		
<i>How attractive and stable is the Pakistan economy for investors?</i>	<i>How reliable is the regulatory environment for new ventures and investors?</i>	<i>How available is the workforce and what is the quality of workers?</i>	<i>What is the quality of transport infrastructure, utilities costs, investment and innovation ecosystem?</i>		
2 Zone Incentives, Benefits and Delivery					
<b>Zone Regimes &amp; Pipeline</b>	<b>Fiscal Incentives</b>	<b>Non-Fiscal Benefits</b>	<b>Zone Land Utilization</b>		
<i>What's the pipeline of operational and notified economic zones and how are they distributed geographically?</i>	<i>What fiscal incentives are provided to economic zones and how are they applied?</i>	<i>What non-fiscal incentives and benefits are offered to economic zone enterprises and how are they delivered?</i>	<i>How effectively is the landmass allocated to economic zones utilized?</i>		
3 Economic Zones Program Outcomes					
<b>Economic Output</b>	<b>Exports</b>	<b>Balance-of-Payment</b>	<b>Employment</b>	<b>Direct Fiscal Revenues</b>	<b>National Priorities</b>
<i>What is the contribution of EZs to GDP?</i>	<i>What is the contribution of EZs to Exports?</i>	<i>What is the contribution of EZs to the BoP?</i>	<i>What is the contribution of EZs to the workforce?</i>	<i>What is the contribution of EZs to Gov't Revenues?</i>	<i>What is the contribution of EZs to national priorities?</i>
4 Legal Considerations					
<b>Legal Assessment of SEZ Regime</b>					
<i>What is the legal standing of the SEZ act, regulations and ordinance, and what should implications should be considered in the event of a rollback of incentives?</i>					

# The macro-economic and investment landscape of Pakistan is still lagging compared to peer developing economies, limiting investor appetite into the country

## 1. Macro-Economic and Investment Environment









Illustrative, Non-Exhaustive

Dimensions	Key Factors	High-level observations
<b>a</b>  Market environment	1. Market attractiveness 	<b>Nascent GDP, limited complexity of economy and supply-chains</b> , but manufacturing plays key role in overall economic growth
	2. Regional stability 	Lagging scores on <b>global stability and safety indices</b> , significantly <b>impacting investor confidence</b>
<b>b</b>  Regulatory Framework	3. Rules and Regulations 	<b>Nascent regulatory and governance quality</b> , low <b>access to private credit</b> , <b>prevalent corruption perception</b> undermine investor confidence and private sector growth, despite significant changes implemented
	4. Foreign Investor Openness 	High trade tariffs applied to Pakistan businesses; FDI inflows in-line with some peers
<b>c</b>  Human Capital	5. Workforce availability 	<b>Availability of skilled labor</b> , but ranks <b>low in productivity, education quality</b> , and workforce skills, limiting competitiveness
	6. Workforce quality 	<b>Positive scores on brain gain and ease of hiring</b> , structural <b>gaps in education and training</b> continue to affect quality of workforce
<b>d</b>  Enabling factors	7. Transport & Logistics 	Transport infrastructure quality (air, ground, ports) and ICT development scores are <b>close to peers but still at the lower end of the spectrum</b>
	8. ICT Maturity 	
	9. Investment Ecosystem 	<b>Pakistan ranks far behind peers when it comes to Entrepreneurship and Innovation indices</b> , indicating major gaps in provisioning funding, support, enabling environment and mobility for investors and entrepreneurs.
	10. Innovation Ecosystem 	
	11. Utilities Cost 	Water and Gas Prices are at par or cheaper than peers; <b>Electricity tariffs however are the highest, affecting competitiveness</b>



# Future of the program is promising with many planned new zones, supported by competitive fiscal incentives; however, lagging access to utilities is causing major bottlenecks

## 2. Zone Incentives, Benefits and Delivery

Dimensions	Performance	High-level observations
<p>a</p>  <p>Zones Pipeline</p>		<ul style="list-style-type: none"> <li>Economic zones pipeline is growing with 30 zones operational of which 20 SEZs and 10 EPZs. 22 EZs are in pipeline with 15 notified SEZs and 7 EPZs in pre-feasibility</li> <li>Public zones are predominant in both SEZ and EPZ regimes however sole enterprise EZs are gaining traction</li> </ul>
<p>b</p>  <p>Fiscal Incentives</p>		<ul style="list-style-type: none"> <li>CIT 10-year tax holiday offered is in-line with peers, but no deductions are provided (i.e. R&amp;D, Training, etc.).</li> <li>1-time duties exemptions do not differentiate EZs from mainland incentives due to FTA advantages; on the other hand, regional peers offer full exemption on all production and CAPEX</li> <li>On both CIT and Duties exemptions Pakistan EZs are less competitive than regional peers for attracting FDI</li> <li>EPZ do not create market distortions as they are considered outside of the mainland customs zone</li> </ul>
<p>c</p>  <p>Non-Fiscal Benefits</p>		<ul style="list-style-type: none"> <li>Access to utilities is a major challenges faced by SEZs; PSDP attempts to bridge that gap:                             <ul style="list-style-type: none"> <li>34% do not have completed boundary walls, 37% have sewage systems and 17% have wastewater facilities</li> <li>34% lacking connection to the zero point and nearly 46% without internal distribution networks</li> <li>Over half of SEZs lack gas connections; water access is fully provided to only 1/3 of SEZ fully served</li> <li>Internal mobility and logistics within the zones are still under development (97% are connected to zone boundary, however internal roads still being constructed with only 46% of SEZs having fully constructed roads)</li> </ul> </li> <li>Access to business, facilitation and ancillary services offered to SEZs is limited (i.e. paper-based / manual services processing, limited no consistent and reliable one-stop-shop, limited investor servicing)</li> </ul>
<p>d</p>  <p>Zone Land Utilization</p>		<ul style="list-style-type: none"> <li>Key SEZs have low land allocation despite notification 4-5 years ago (i.e. Rashakai 6.8%, NSTP 1.3%); similarly SEZs notified in 2014 (i.e. Khairpur, BQIP, and KCIP) still have below 56% land allocation after a decade; due to delays in provisioning transport and energy infrastructure to new phases of these plot being developed</li> </ul>



Gaps in attracting Investment



Relative improvement opportunities



Strengths in attracting Investment

# Contribution of SEZ and EPZ towards national economic outcomes is positive, however there is room for improvement when compared with similar programs

## 3. Economic Zones Program Outcomes

Dimensions	Performance	High-level observations
<b>a</b>  GDP		<ul style="list-style-type: none"> <li><b>GDP contribution of economic zones is still limited</b> compared to other economies with potential to expand; EPZ contribution has slightly increased (+0.01%) in the last 3 years, whereas SEZs contribution has increased (+0.12%)</li> </ul>
<b>b</b>  Exports		<ul style="list-style-type: none"> <li><b>Limited contribution to total exports: SEZs and EPZs in Pakistan only contribute to ~9% of the total exports, Focus on low value-added activities such as manufacturing of textile and garments</b> rather than high-productivity sectors is a key drivers of this relatively low contribution</li> </ul>
<b>c</b>  Balance of Payments		<ul style="list-style-type: none"> <li><b>SEZs and EPZs have contributed to reducing the BoP deficit</b>, with contribution increasing over the past 3 years, mainly driven by EPZs exports; compared to benchmarks, <b>additional growth can be expected</b> to further reduce BoP deficits</li> </ul>
<b>d</b>  Employment		<ul style="list-style-type: none"> <li><b>Minimal overall employment impact:</b> SEZs and EPZs in Pakistan contribute <b>only 0.5% to total national employment</b> (0.4% from SEZs and 0.1% from EPZs), below regional and national benchmarks</li> </ul>
<b>e</b>  Direct Fiscal Revenues		<ul style="list-style-type: none"> <li><b>SEZs and EPZs have limited contribution to total tax revenues at 10.3B PKR or 0.11% of total gov't revenues for '24</b></li> <li>Revenues foregone for SEZs and EPZs estimated at <b>~13B PKR for 2024, reflecting 0.14% of total gov't revenues</b> for the year, <b>driven primarily by SEZs</b> benefitting from 10-year tax holidays</li> </ul>
<b>f</b>  National Priorities		<ul style="list-style-type: none"> <li><b>Limited contribution to CPEC targets;</b> some progress made on employment, exports, and industrial development</li> <li><b>Limited contribution to exports and priority sectors under URAAN:</b> SEZ and EPZs <b>exports will need to grow at a more significant rate</b> to achieve a <b>meaningful contribution to 2029 targets</b></li> </ul>
<b>g</b>  Market Distortions		<ul style="list-style-type: none"> <li><b>EPZs do not create any market distortions</b> as they are treated as a bounded customs zone outside the mainland</li> <li><b>SEZs display very minimal market distortions</b> on competition, investment, resource allocation and other dimensions</li> </ul>



# SEZ National Governance Model

The national framework model for SEZs is regulated across three levels: nationally, provincially and at the zone level



## NATIONAL-LEVEL

### Board of Approvals:

- Led by Prime Minister and representatives from all Ministries
- Approves Special Economic Zones requests
- Develops and sets SEZ policy and regulations

## PROVINCIAL-LEVEL

### Special Economic Zones Authorities:

- Plan zones within the territory
- Initiate and raise new SEZ applications
- Select SEZ developers
- Regulate and Monitor SEZs

## ZONE-LEVEL

### Zone Developers:

- Develop and manage zone infrastructure
- Admit and support zone enterprises
- Deliver services to zone enterprises

Illustrative

We have identified 5 critical insights from the legal analysis of SEZ regulations, with implications on the rollback of fiscal incentives for SEZs



Zones are **by law given the right to dispense incentives** to enterprises, and **cannot be revoked without legislative action**



Right to provide incentives for zone enterprises **extend beyond current zone enterprises**, as it is an **indefinite right granted to the zone itself**



Revoking fiscal incentives from SEZs **would require stripping SEZs their incentive-granting status** through Parliamentary approval



Revoking fiscal incentives is **counter to the spirit of the SEZ act approved by Parliament** which dictates that **similar or better incentives be provided in stead of current incentives**

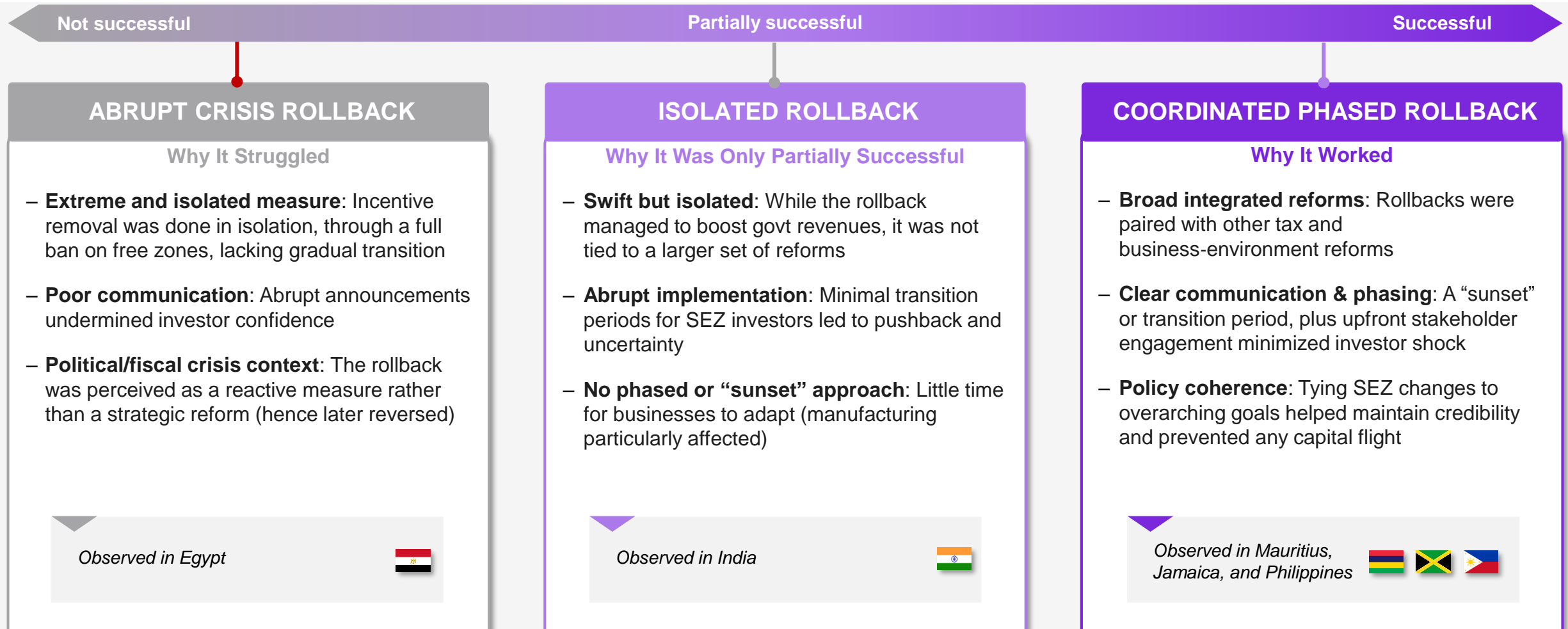


Repealing the legislation through Parliament would **open the government of Pakistan and BOI to significant financial burden** in way of remuneration domestically and internationally



# From the analysis of SEZ rollback strategies, we have identified successful and less successful models from which we can extract key learnings for Pakistan

## SEZs ROLLBACK MODELS



# From benchmark examples, the impact of SEZ rollback and reduction of incentives varies based on the sector, indicating the need to tailor policy adjustments accordingly

## SEZ Rollback Impact by Main Sector

### MANUFACTURING

Several **large manufacturing zone projects** were shelved after 2012, **undermining India's industrial growth ambitions**, especially in manufacturing where tax incentives were a key draw

Mauritius's **manufacturing had to become leaner but survived**; some low-end firms closed, but others upgraded, **shifting from competing on tax breaks to competing on fundamentals**

#### NET IMPACT

Removing incentives forces manufacturing firms to **compete on productivity**; **inefficient ones may exit, while efficient ones adapt**

### TECHNOLOGY, SERVICES & FINANCE

**IT services SEZs** (around 60% of zones) were **less deterred** as many IT firms valued other factors like infrastructure and **continued to enjoy indirect tax breaks** (e.g., zero-rated GST on SEZ supplies)

The **Philippines' IT-BPO sector continued to expand** despite the law changes, because the 5% gross tax was low to begin with; also, in **finance**, **extremely low tax zones can even be counterproductive** due to OECD/EU blacklists

#### NET IMPACT

**Tech firms** tend to be **less sensitive to profit-tax holidays** and **more sensitive to workforce quality and infrastructure**

### LOGISTICS, WAREHOUSING & PACKAGING

China's SEZ **logistics hubs** experienced **limited disruption from tax incentive rollbacks**, due to their **stronger dependence on infrastructure quality** and trade facilitation rather than on direct fiscal incentives

The **rollback of customs duty exemptions** in South Africa's IDZs led to **higher operating costs** for logistics-dependent businesses; **some firms relocated** to neighboring trade-friendly countries, **while others optimized inventory management**

#### NET IMPACT

Removing customs duty exemptions **can increase costs** and prompt relocations, while **strong infrastructure can sustain competitiveness**

### KEY TAKEAWAYS

- **Economy-Wide Competitiveness:** Curbing SEZ perks can **reduce market distortions** and spur governments to **improve business climate**
- **Sector-Specific Impact:** **Sector-specific considerations** should be applied when deciding to **end reduce incentives** to avoid major negative impact on key sectors, while also taking into account **which industries would be mostly affected**

To mitigate the potential risks of SEZ rollback, 4 mitigations levers can be used, among which substitution of income-based incentives with cost or performance-based incentives, sector-specific approach, and special transitions are key

## MAIN RISKS OF SEZs ROLLBACK

REDUCTION IN FDI*s*

CAPITAL FLIGHT & FIRMS RELOCATION

REDUCTION IN EXPORTS & TRADE COMPETITIVENESS

REDUCED INVESTOR CONFIDENCE AND MARKET UNCERTAINTY

RISKS OF ARBITRATION AND RETALIATION FROM COMPANIES PROTECTED UNDER BIT

## SUCCESSFUL MITIGATION LEVERS

### Balanced policy

Instead of standalone removal of income-based incentives, governments can **replace them with alternative incentives** such as **cost-based incentives** (e.g., infrastructure subsidies, depreciation-based deductions, training programs) or **performance-based benefits** (e.g., incentives tied to job creation, export performance, or R&D investment)

### Tailored approach for key sectors

A sector-specific strategy can help mitigate risks by **adjusting SEZ policies based on industry needs and country's priorities** (e.g., in a country where exports are key, the removal of CIT exemptions can be counterbalanced by more flexible exports requirements targets)

### Special transition incentives for existing investors

To prevent capital flight and investment losses, existing SEZ firms can receive **temporary transition incentives** to maintain stability during policy shifts; government can implement **“grandfathering” policies** to honor previous tax agreements for existing investors while implementing changes for new entrants, or provide **temporary subsidies** to businesses that commit to reinvesting in SEZ

### Phased rollback & well-planned communication

A **gradual and multi-year approach** to rolling back incentives allows businesses and investors to adjust their strategies, reducing uncertainty and capital flight. **Clear, transparent communication**, with **advance notice and industry consultations** ensures stakeholders understand the rationale and timeline of changes

# Both SEZ and EPZ programs have been instrumental in driving the industrialization of developing economies globally...

## EZ CONTRIBUTION TO INDUSTRIALIZATION

### A. Attracting FDI and Technology

- EZs often succeed in drawing multinational investors, bringing in capital, managerial know-how, and new technology. In China, **zones were influential drivers of FDI**, accounting for roughly **45–50% of national FDI inflows** in the 2000s
- Case studies find that, **controlling for location and infrastructure, the presence of an EZ itself significantly boosts FDI** – as seen in Chinese municipalities where zones led to higher FDI per capita without crowding out domestic
- By attracting **export-oriented FDI**, **EZs can integrate developing economies into global value chains**, introducing new industries (electronics, automotive, etc..) that were previously absent.



### B. Export Growth and Industrial Output

- EZs focus on manufacturing for export, and **successful zones have dramatically increased host countries' exports and industrial output**, responsible for a **large share of export growth** in many emerging economies.
- In China, the EZ program helped **raise manufactured exports from near zero to the bulk of China's trade; by the 2010s**, China's various zones were contributing about **60% of China's total exports**.
- In Malaysia, export manufacturing in free industrial zones helped **manufactured goods grow from only 12% of exports in 1970 to 81% of exports by 1997**, transforming the economy's structure.



### C. Employment Creation and Industrial Clusters

- Successful **EZ program can generate large-scale employment** and catalyze the **formation of industrial clusters**.
- **Employment impact of SEZs is significant in many developing countries**. For instance, **China's zones are estimated to have created over 30 million jobs**
- In **Bangladesh and Vietnam**, **export zones have provided tens of thousands of jobs** in garments and electronics assembly.
- By concentrating industrial activity, EZs can foster **sector-specific clusters** – e.g. an electronics hub in a **Malaysian free trade zone** or a **garment cluster in a Kenyan EPZ** – which create know-how spillovers and upstream/downstream linkages.



### D. Industrial Spillovers and Diversification

- The goal of EZ-led industrialization is to **create spillovers to the domestic economy** and diversify the national economic base.
- Taiwan's early EPZ helped **spawn local electronics firms**, and **Mauritius' EPZ catalyzed a domestic textile and apparel industry** beyond the zones.
- Africa, for instance, has relatively few manufacturing exporters, but **Kenya's EPZs enabled a pivot into apparel exports** under AGOA, and **Morocco's zones account for 60% of the country's non-oil goods exports**



... and strong fiscal incentives were key to the success of EZ programs around the world, eventually phased out as EZs achieve success and market distortions become significant...

## EZ FISCAL INCENTIVES AS A KEY PILLAR OF INDUSTRIALIZATION

### INDUSTRIALIZING NATIONS LEVERAGING EZ FISCAL INCENTIVES

- In the 1980s–90s, **China's SEZs enticed FDI with a low 15% corporate tax rate** (33% for domestic firms) and **multi-year tax holidays**. Following WTO accession China unified its corporate tax system in 2008. New Corporate Income Tax Law in 2008 set a **single 25% tax rate for both domestic and foreign enterprises**, phasing out the old SEZ tax breaks. Foreign-invested firms that had enjoyed 15% tax were given a transition period (5 years), and those in the middle of a tax-holiday were allowed to finish the term but no new holidays were granted.
- Once **China had a robust industrial base, it eliminated FDI-specific incentives** and moved to an even playing field. This policy shift did not stall investment – **by then, investors came for China's market and capabilities, not just tax breaks.**



- **Malaysia's early industrialization** (1970s–90s) was driven by **generous incentives for export manufacturers** (status tax holidays, investment allowances). In later years it gradually **refined and reduced these incentives**, especially as it **entered WTO commitments**. By the 2000s, tax holidays were more targeted – for instance, the “Multimedia Super Corridor” tech park offered incentives to ICT firms, while general manufacturing incentives were rationalized.
- **After industrializing, Malaysia's reliance on broad tax holidays diminished** – fiscal incentives became more conditional (e.g. based on technology level or training commitments) and corporate tax rate (24-25%) applied to most companies uniformly, **ensuring a stable revenue base while still encouraging high-value industries through targeted incentives.**



### CONDITIONS FOR INCENTIVE ROLLBACK



**Robust contribution** of economic zones towards **industrialization and the economy**



**Large fiscal opportunity cost** and surging tax avoidance



**Significant market distortions** across competition, investment, labor and resource allocation



**Mature industrialized economy** with an **attractive investment environment** for global investors

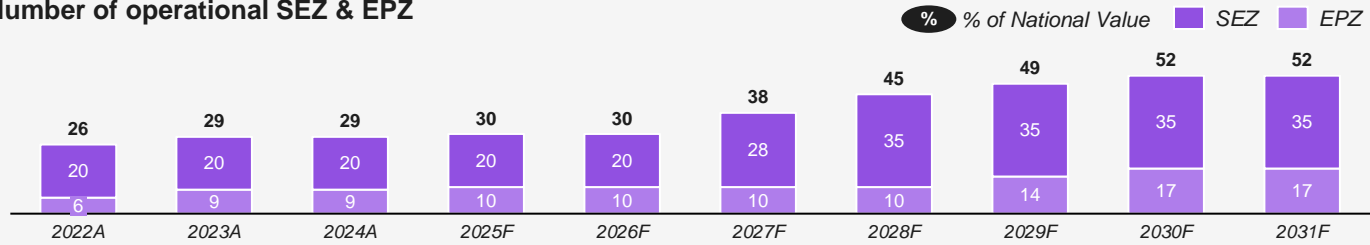
...for Pakistan, SEZ/EPZs have not yet achieved their potential, and removing fiscal incentives would affect the future of the national industrialization agenda

We modeled a conceptual ideal-case scenario for SEZ/EPZs with current policy model

**DIRECTIONAL**

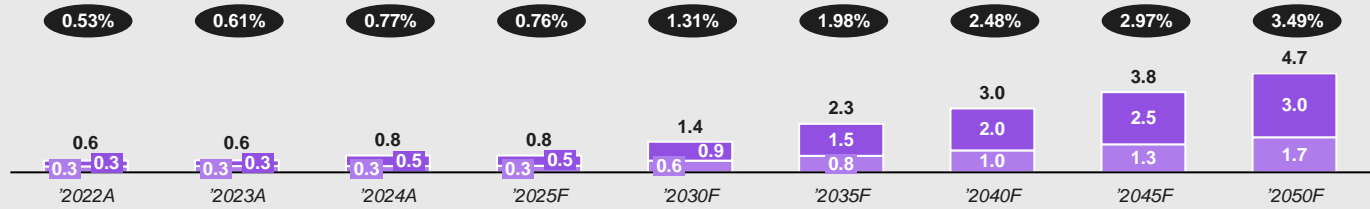
Analysis based on projected figures of SEZs and EPZs with available data with an assumed growth rate towards full land plot utilization. For non-operational zones, figures have been estimated with cross-zone average

Number of operational SEZ & EPZ



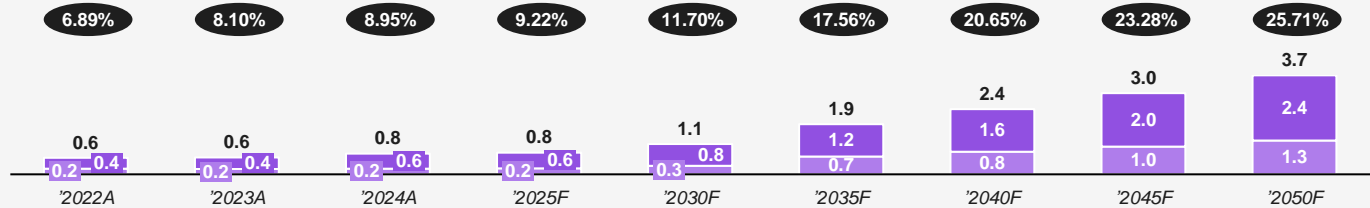
- Base-case scenario assumes activation of all SEZ and EPZ (notified/pre-feasibility) by 2030
- Total of **52 operational zones** with **35 SEZ** and **17 EPZ** by 2030

SEZ & EPZ GDP Contribution (Tn PKR, % of National GDP)



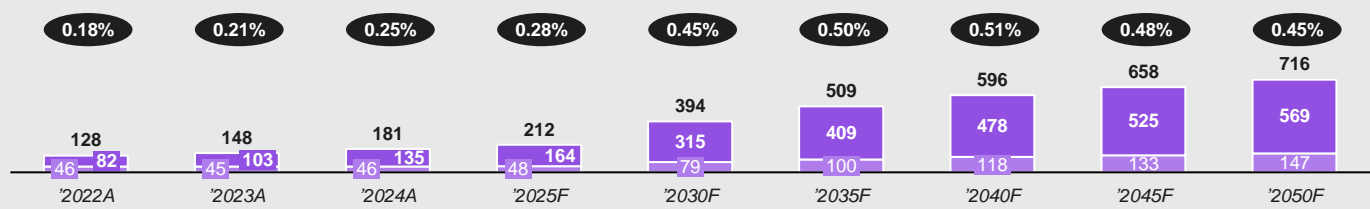
- SEZ and EPZ are expected to **grow significantly** share to **Pakistan GDP**; achieving **~1.3% of GDP** by 2030 or **1.5T PKR**
- If allowed to grow, SEZs and EPZs can achieve up to **3.5% of Pakistan GDP** by 2050

SEZ & EPZ Exports Contribution (Tn PKR, % of National Exports)



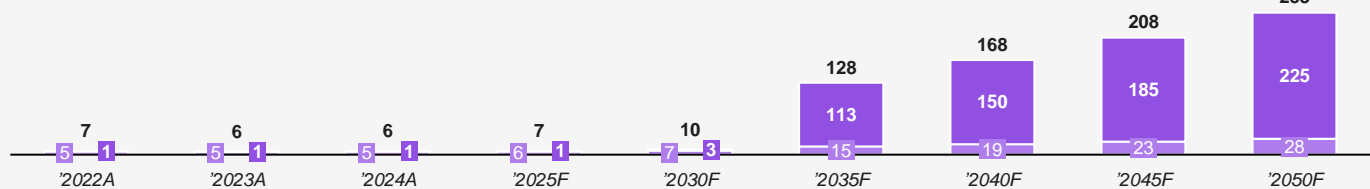
- Similarly, SEZ and EPZ exports can be **expected to grow significantly** as new planned zones are activated
- SEZ and EPZ exports expected to **grow to 12% of exports** by 2030 and **26% by 2050**

SEZ & EPZ Employment Contribution (Thousands of Jobs, % of National Workforce)



- Employment contribution of SEZ and EPZ is **expected to grow significantly** up to **~716k workers** by 2050
- Contribution of SEZ and EPZ to **employment plateaus** at **0.51% of national workforce** in 2040

SEZ & EPZ Tax Revenues Contribution (Bn PKR)



- If all SEZs/EPZs are activated with no changes to fiscal regime, tax revenues expected to grow to **10B PKR** by 2030, **eventually achieving 253B PKR** in 2050 as tax holidays expire

# Additionally, rolling-back incentives offered to SEZs will require repealing its legislation which would result in financial burden on the government and negative impact on the economy

## LEGAL IMPLICATION OF SEZ ROLLBACK

### Implications of Rollback

#### 1. Prospective Zones

##### Zones in Pipeline

*Only zones that have been notified are to be accepted*

##### New Zone Applications

*None would be accepted based on the EFF agreement*

#### 2. Existing Zones

##### Existing Zone Enterprises

*Their right to the incentives cannot be revoked based on the law of the land*

##### New Zone Enterprises

*Zones are custodians of enterprises' rights to the incentives can still provide incentives based on the law*

### Legal Implication

Only way of rolling back incentive is to **repeal the SEZ act**, which would require parliamentary review and approval and impact the Fund's timeline

Rollback **goes against the original objective of the SEZ Act**, it could be replaced with similar incentives so the originality of the act remains intact

### Repealing SEZA would...



**Open GoP for litigation** domestically and internationally, creating **significant financial burden through repayments** to zone firms



**Dramatically reduce investor confidence** and position Pakistan at a disadvantage with competitors **due to policy inconsistency**



**Grow the "dark economy"** as the SEZ regime is **built on the documented economy**, contributing to reducing tax revenues

# Considering limited market distortions, high future impact on industrialization and gov't revenues, roll-back of SEZ incentives should be delayed further, while EPZ duties exemption should be maintained

## RECOMMENDATIONS ON FISCAL INCENTIVES ROLLBACK

	Contribution to Industrialization	Fiscal Opportunity Cost	Scale of Market Distortions	Investment Environment Attractiveness	KEY RECOMMENDATIONS
SEZ	<ul style="list-style-type: none"> <li>Nascent contribution to the economy (GDP, Exports, BoP)</li> <li>High future potential for contributing to the industrialization agenda</li> </ul>	<ul style="list-style-type: none"> <li>Limited size of foregone government revenues from CIT tax holiday and 1-time customs duties exemption</li> </ul>	<ul style="list-style-type: none"> <li>Limited size of market distortions due to the nascency of SEZs</li> </ul>	<ul style="list-style-type: none"> <li>Nascent investment environment not conducive to attracting foreign investment</li> </ul>	<p><b>Roll-back of CIT tax holidays and 1-time customs duties exemption should be delayed further until SEZs achieve original mandate to contribute to the industrialization of Pakistan</b></p>
EPZ	<ul style="list-style-type: none"> <li>Nascent contribution to the economy (GDP, Exports, BoP)</li> <li>High future potential for contributing to the industrialization agenda</li> </ul>	<ul style="list-style-type: none"> <li>Low size of foregone government revenues from customs duties exemption</li> </ul>	<ul style="list-style-type: none"> <li>No market distortions effected by EPZs</li> </ul>		<p><b>Roll-back of customs duties exemption is not required as EPZs do not create market distortions and have no fiscal burden</b></p>

**However, to comply with recommendations, from the IMF, a rollback plan of fiscal incentives for SEZs was designed**

## **ADDRESSING IMF RECOMMENDATION**

To respond to the commitment made by the Government of Pakistan to the International Monetary Fund, a plan was developed alongside an implementation plan to facilitate planning in the event the decision is made to roll-back incentives

- 1 Roll-back risks and mitigation actions**
- 2 Roll-back principles and levers**
- 3 Roll-back Scenario planning and design**
- 4 Special Economic Zones economic and fiscal projections**
- 5 Scenario selection and incentive phase-out plan**







## Five categories of risks are identified for the rollback of SEZ incentives...

### SEZ & EPZ INCENTIVES ROLLBACK RISKS

Risks	Risk Details	Severity
 <b>Legal and Treaty-based Risks</b>	<ul style="list-style-type: none"> <li><b>Investor-State Disputes:</b> Altering or removing incentives may lead to claims of indirect expropriation or breaches of Bilateral Investment Treaties (BITs) specifically CPEC.</li> <li><b>Stabilization Clauses:</b> Existing contracts may contain clauses that guarantee certain tax treatments, limiting the government's ability to modify incentives</li> </ul>	
 <b>Economic and Investment Risks</b>	<ul style="list-style-type: none"> <li><b>Reduced Foreign Direct Investment (FDI):</b> The withdrawal of incentives may deter new investments or prompt existing investors to relocate.</li> <li><b>EZ Company Closures and Capital Flight:</b></li> <li><b>Reduced GDP / Exports Impact:</b></li> <li><b>Job Losses:</b> A decline in investment can lead to job reductions within SEZs.</li> </ul>	
 <b>Reputational and Political Risks</b>	<ul style="list-style-type: none"> <li><b>Investor Confidence:</b> Abrupt policy changes can damage the country's reputation as a stable investment destination.</li> <li><b>Domestic Pushback:</b> Stakeholders benefiting from current incentives may resist changes, leading to political challenges.</li> </ul>	
 <b>Operational and Administrative Risks</b>	<ul style="list-style-type: none"> <li><b>Compliance Challenges:</b> Businesses may struggle to adapt to new tax and customs procedures.</li> <li><b>Administrative Burden:</b> Tax authorities may face increased workloads, leading to potential inefficiencies.</li> </ul>	
 <b>Compliance and Enforcement Risks</b>	<ul style="list-style-type: none"> <li><b>Tax Evasion:</b> The transition period may see increased attempts to evade taxes.</li> <li><b>Regulatory Arbitrage:</b> Businesses might exploit differences between SEZs and other regions to their advantage.</li> </ul>	

# ...for each of which, mitigation actions have been identified to minimize impact on Pakistan's economy

## SEZ & EPZ INCENTIVES ROLLBACK RISK MITIGATION ACTIONS

 <b>Legal and Treaty-based Risks</b>	 <b>Economic and Investment Risks</b>	 <b>Reputational and Political Risks</b>	 <b>Operational and Administrative Risks</b>	 <b>Compliance and Enforcement Risks</b>
<p><b>Legal Review:</b> Review Bilateral Investment treaties (BITs), contractual obligations to SEZ firms and investors, review investment laws, and contracts to identify specific legal obligations.</p>	<p><b>Alternative Incentives:</b> Offer non-fiscal incentives, such as deliver on promised <i>infrastructure access</i>, streamlined <i>regulatory processes</i>, and <i>cost-based incentives</i> during transition period</p>	<p><b>Transparent Communication:</b> Clearly articulate the reasons for policy changes and the expected benefits.</p>	<p><b>Capacity Building:</b> Invest in training for tax and customs officials to handle new responsibilities effectively.</p>	<p><b>Strengthened Oversight:</b> Enhance monitoring and enforcement mechanisms within SEZs</p>
<p><b>Grandfathering Provisions:</b> Allow <i>existing investors to retain benefits</i> for a defined period, while new enterprises operate under revised terms.</p>	<p><b>Phased Implementation:</b> Gradually introduce changes to allow businesses time to adjust; best practices from case studies indicate <i>&gt;5-year transition period</i></p>	<p><b>Inclusive Dialogue:</b> Engage with all stakeholders, including businesses and civil society, to build consensus.</p>	<p><b>Simplified Procedures:</b> Develop clear guidelines and streamlined processes to facilitate compliance.</p>	<p><b>Harmonization of Regulations:</b> Align SEZ regulations with national standards to prevent arbitrage.</p>
<p><b>Stakeholder Engagement:</b> Engage with investors to negotiate mutually acceptable transition arrangements.</p>	<p><b>Targeted Support:</b> Provide support to sectors most affected by the rollback to cushion the impact.</p>	<p><b>Monitoring and Feedback:</b> Establish mechanisms to monitor the impact of changes within SEZ through working with zone developers and enablers</p>	<p><b>Digitalization:</b> Implement digital systems to manage tax and customs operations efficiently.</p>	<p><b>Public Awareness:</b> Educate businesses about new compliance requirements and the consequences of non-compliance.</p>

# As a result, we define 6 guiding principles to shape the IMF policy response for SEZs, balancing fiscal balance, IMF requests and economic growth priorities

## SEZ INCENTIVES ROLLBACK GUIDING PRINCIPLES

### ZONE SETUP



**Shut down setup of new economic zones** beyond approved or in-process zones within 10-year mark

- **Stop applications for new Economic Zones** federally or provincially
- Evaluate **rollback of incentives** to **non-notified zones**

### FISCAL BENEFITS



**Harmonize all fiscal benefits** provided to SEZs with the rest of the tariff region

- **Remove all fiscal incentives** provided exclusively to SEZs
- Ensure **SEZs and have access to the same incentives** as domestic / tariff area firms by year 10

### BALANCED TRANSITION



**Provide gradual phase out of EZ fiscal incentives** by year 10 and support zone enterprises during transition

- Balance rollback of SEZ incentives with **cost-based incentives during transition** to year 10
- Provide tax credits **on CAPEX, R&D and human capital** to counterbalance the added burden of the phase out

### DRIVE INDUSTRIALIZATION



**Protect current and future economic contribution** of zone enterprises

- **Defend economic contribution** of zones with **high share of national economy**
- **Protect future income** expected from zones with expected

### PILOT ROLLBACK



**Prioritize SEZs for phaseout and pilot rollback of incentives before scaling**

- Adopt a **pilot-and-scale model** for the rollback of incentives and phase-in of tax requirements
- Prioritize smaller and newer zones with **limited economic contribution**

### ZONES SUPPORT



**Provide zones with improved support** and service quality to achieve their economic potential

- **Uplift delivery quality of services** for zone enterprises
- **Accelerate lead time for provisioning** of infrastructure (i.e. extend PSDP to all zones)

From IMF Recommendations

From Current State Assessment & Benchmarking

# To formulate recommendations, we will investigate the 4 levers outlined by the IMF, and assess their impact on key economic and fiscal outcomes

## ECONOMIC ZONES INCENTIVES SCENARIO ANALYSIS

### A. SCENARIO LEVERS

EZ Setup	Prevent Opening of new EZs	Close Applications for all new SEZs
	Shutdown Operational SEZs	Shut Down Public SEZs and Handover to Private Developers
EZ Incentives	Phase Out Fiscal Incentives	Gradually phase out fiscal incentives (i.e. tax holidays, presumptive tax, duty exemptions, etc.) until deadline with varying schedules
	Replace with Cost-based Incentives	Replace fiscal incentives with cost-based incentives (i.e. tax deductions on CAPEX, R&D, Training, others)

### B. EZ CALCULATIONS & ANALYSES

- **Land Utilization** Growth and **Number Of Units** per EZ
- **Revenues and Profits** Per EZ
- **Profit Margins** Per EZ
- **Exports** per EZ
- **Imports** per EZ
- Rate of **Capital Flight / Company Closures**
- **Capital Expenditures** (machinery & equipment), **R&D Spend**, **Training Spend**, **FDI Spend**
- ...

### C. ECONOMIC & FISCAL OUTCOMES

#### Quantitative Outcomes

Fiscal Contribution	CIT
	Customs Duty
Economic Contribution	GDP
	Exports
	Employment

#### Qualitative Outcomes

Legal & International Relations

Implementation and Execution

# We formulated scenarios for SEZ enterprises covering different models for phasing-in CIT, and customs duties as requested by the IMF to test the tradeoff between fiscal and economic outcomes with different levers

Levers	Baseline Model <i>Reflects Current Policy Model</i>	A. Tax Holiday Phase-Out <i>Apply Phased Tax Holidays for SEZs</i>		B. Tax Rate Phase-In <i>Apply phased CIT for all SEZs</i>		
		SCENARIO A1	SCENARIO A2	SCENARIO B1	SCENARIO B2	
	<b>'Base-Case'</b> No Changes to current EZ regime (incentives, opening of zones, etc.)	<b>'Comprehensive Tax Holiday Rollback - Conservative'</b> Phase-out tax holidays for SEZs for new EZ companies prioritizing cohorts, duties exemption maintained until Y10	<b>'Comprehensive Tax Holiday Rollback - Aggressive'</b> Phase-out tax holidays for SEZs, prioritizing cohorts, duties exemption maintained until Y5	<b>'Comprehensive CIT Phase-In - Conservative'</b> Phase-in of CIT for SEZs for new EZ companies, duties exemption maintained until Y10	<b>'Comprehensive CIT Phase-In - Aggressive'</b> Phase-in of CIT for SEZs for new EZ companies, duties exemption maintained until Y5	
SEZ	<b>CIT / Tax Holidays</b>	- All companies benefit from <b>10-year tax holiday</b>	- New SEZ Enterprises get <b>7Y holiday until Year 3, 5Y until Year 5 and 3Y until Year 8</b>	- New SEZ enterprises get <b>5Y holiday until year 5, 3Y holiday until Y7, following which no holidays are provided</b>	- Phase-in <b>starts in 2030</b> - 2030 CIT <b>phased in at 5% and increase yearly by ~5%; 29% by 2035</b>	- Phase-in <b>starts in 2026</b> - 2026 CIT <b>phased in at 3% and increase yearly by ~3%; 29% by 2035</b>
	<b>Duty Exemption</b>	- All companies benefit from <b>1-time CAPEX exemption</b> during ramp-up period	- All SEZ companies benefit from the exemption <b>until Year 10</b>	- All SEZ companies benefit from the exemption <b>until Year 5</b>	- All SEZ companies benefit from the exemption until Year 10	- All SEZ companies benefit from the exemption <b>until Year 5</b>
	<b>Deductions</b>	- <b>No deductions</b> offered to SEZ companies	- <b>% of CAPEX, R&amp;D or L&amp;D Spending</b> - Rolled over for up to 2 years, expiring in Y10 ; only apply to CIT/CD	- <b>% of CAPEX, R&amp;D or L&amp;D Spending</b> - Rolled over for up to 2 years, expiring in Y10; only apply to CIT/CD	- <b>% of CAPEX, R&amp;D or L&amp;D Spending</b> - Rolled over for up to 2 years, expiring in Y10; only apply to CIT/CD	- <b>% of CAPEX, R&amp;D or L&amp;D Spending</b> - Rolled over for up to 2 years, expiring in 2035; only apply to CIT/CD

# SEZ SCENARIO ANALYSIS

Scenarios B1 balances the tradeoff between economic growth and tax revenues collected over the mid-and-long term...

Key Indicators Projections <i>Cumulative Values (10 or 25 Years)</i>		Baseline Model <i>Reflects Current Policy Model</i>	A. Tax Holiday Phase-Out <i>Apply Phased Tax Holidays for SEZs</i>		B. Tax Rate Phase-In <i>Apply phased CIT for all SEZs</i>	
			A1	A2	B1	B2
			'Comprehensive Tax Holiday Rollback - Conservative'	'Comprehensive Tax Holiday Rollback - Aggressive'	'Comprehensive CIT Phase-In - Conservative'	'Comprehensive CIT Phase-In - Aggressive'
10Yr Term	GDP <i>(Bn PKR)</i>	5,595B	5,358B	5,300B	5,358B	5,300B
	Exports <i>(Bn PKR)</i>	1,300B	1,243B	1,229B	1,243B	1,229B
	Employment <i>('000s workers)</i>	286.K	274.K	271.K	274.K	271.K
	Taxes <i>(Bn PKR)</i>	227B	271B	306B	334B	365B
25Yr Term	GDP <i>(Bn PKR)</i>	25,682B	24,831B	24,620B	24,831B	24,620B
	Exports <i>(Bn PKR)</i>	38,061B	36,477B	36,078B	36,477B	36,078B
	Employment <i>('000s workers)</i>	446.K	435.K	432.K	435.K	432.K
	Taxes <i>(Bn PKR)</i>	2,970B	2,847B	2,860B	2,910B	2,919B

Significant Positive Contribution  
 Limited Positive Contribution  
 Low Positive Contribution

**DIRECTIONAL**

Analysis based on projected figures of SEZs and EPZs with available data with an assumed growth rate towards full land plot utilization. For non-operational zones, figures have been estimated with cross-zone average

Risk-Minimizing

As such for SEZs, we recommend conservatively phasing in CIT at the same rate to ensure consistency

#### DIRECTIONAL

Analysis based on projected figures of SEZs and EPZs with available data with an assumed growth rate towards full land plot utilization. For non-operational zones, figures have been estimated with cross-zone average

1

**Roll-out CIT to SEZs following a phased schedule starting in Year 5**, giving all zone enterprises at least 5 years to prepare for the upcoming changes in tax rates

2

**Phase-in corporate income tax from Year 5 at 5% and grow ~5% each year until 2035** in which the standard rate of 29% is applied on all new zone enterprises established after start of the policy (Y0); **Existing SEZ enterprises are 'grandfathered' in** and benefit from their assigned tax holidays

3

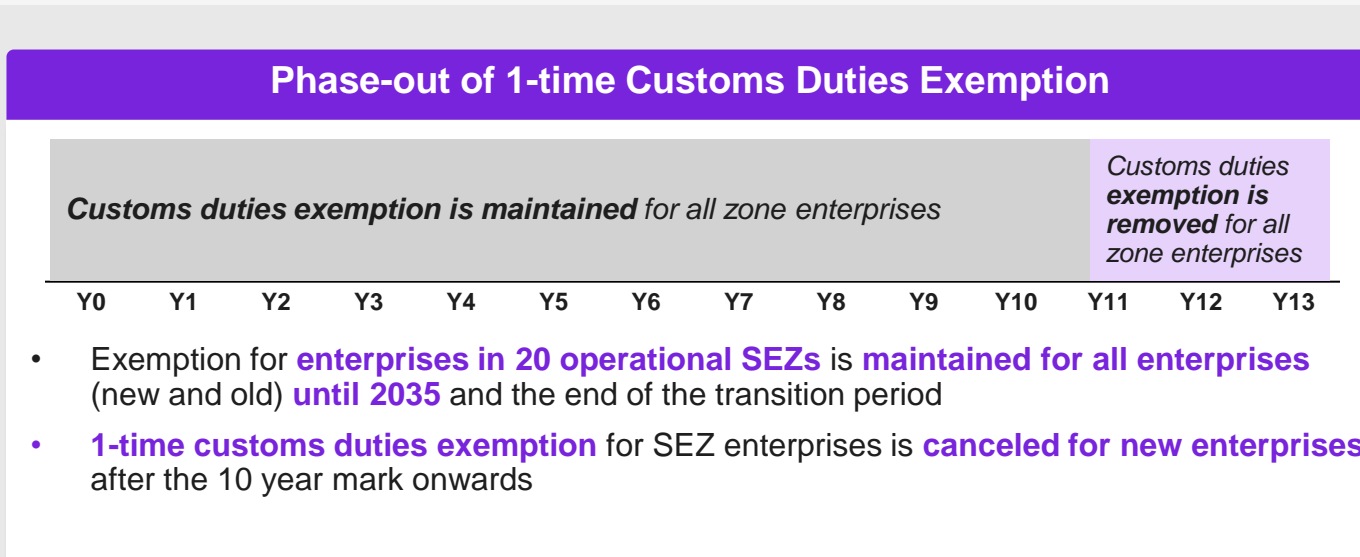
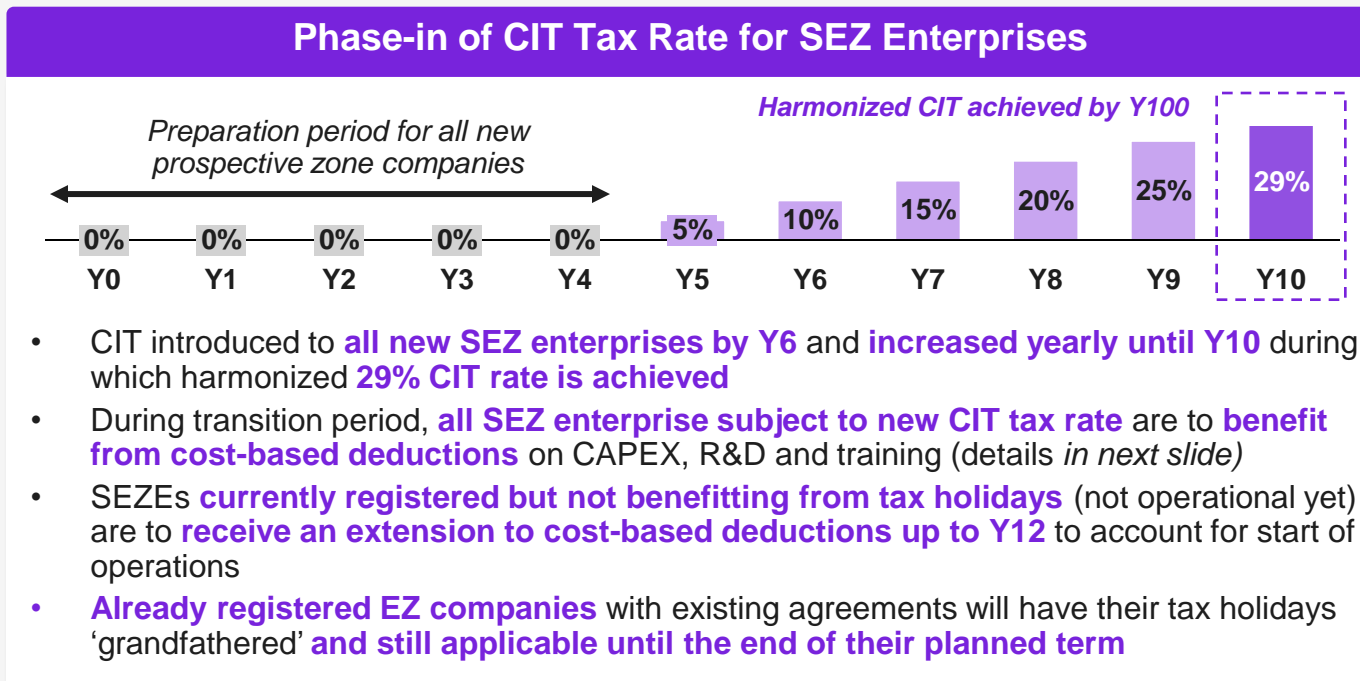
**1-time customs duty exemption** to be provided until the end of the transitory period to support their continuing growth; new zones will incur standard customs duty rates

4

**Provide CIT deductions for zone enterprises on capital expenditures (CAPEX), research and development (R&D) and training** (Learning, Development and Apprenticeship) to encourage zone companies to invest in productive business levers for the overall economy, and **support zone companies financially during the transition phase**



The selected scenario assumed a harmonized introduction of CIT to all new SEZEs, whereas duties exemption will be phased out after the 10-year mark
















Cost-based performance incentives are to be provided to zone enterprises if subject to the new tax rate; rewarding firms based on contributions to industrial buildup, R&D or training



SEZEs currently registered but not benefitting from tax holidays (not operational yet) are to receive an extension to cost-based deductions up to Y12 to account for their delayed start of operations

Cost-based Fiscal Incentives or Deductions

A. CAPEX-based Deductions	B. R&D-based Deductions	C. Training-based Deductions
<ul style="list-style-type: none"> <li>Deductions for <b>capital expenditures like machinery, buildings, and equipment</b> in SEZs, usually via depreciation or tax credits.</li> <li>Encourages <b>long-term investment</b> in infrastructure and manufacturing capacity, reducing capital costs for firms.</li> </ul> <div style="display: flex; flex-direction: column; gap: 10px;"> <div> 120% Deduction</div> <div> 10% Tax Credits</div> <div> 100% Deduction</div> <div> 150% Deduction</div> <div> 15% Tax Credit</div> </div>	<ul style="list-style-type: none"> <li>Deductions or credits for <b>eligible research and development</b> activities, as a percentage of spend</li> <li>Boosts <b>innovation, increases technological advancement</b>, and supports business <b>competitiveness</b> in high productivity industries</li> <li>Must meet <b>criteria for eligible R&amp;D activities</b>, with additional <b>benefits for strategic sectors</b>.</li> </ul> <div style="display: flex; flex-direction: column; gap: 10px;"> <div> 200% Deduction</div> <div> 200% Deduction</div> <div> 150% Deduction</div> <div> 100% Deduction</div> <div> 15% Tax Credit</div> <div> 30-50% Tax Credit</div> </div>	<ul style="list-style-type: none"> <li>Deductions or credits for <b>employee training, such as professional development and skills enhancement</b></li> <li>Improves <b>workforce skills, supports productivity</b>, and aligns with industry standards or skill development goals</li> <li>Training programs to be <b>approved by gov't agencies</b> or <b>specific to high-demand sectors</b>.</li> </ul> <div style="display: flex; flex-direction: column; gap: 10px;"> <div> 200% Deduction</div> <div> 200% Deduction</div> </div>
<p style="text-align: center;"><b>120%-150% of CAPEX spending as deductions</b></p>	<p style="text-align: center;"><b>100%-200% of R&amp;D spending as deductions</b></p>	<p style="text-align: center;"><b>~200% of training expenses as deductions</b></p>

**Most reliable to start with considering the maturity of the collections process**

# We defined the implementation timeline into three key workstreams

Preliminary

**Policy and Legal Framework Approval**



**1**

- **Socialize proposal** with key stakeholders within government and capture feedback and inputs (i.e. PMO, FBR, MOF, others)
- **Conduct scan of all companies** under SEZs and the applied provisions for specific incentives
- **Conduct review of Bilateral Investment Treaties (BITs)** and identify clauses and flag investment projects affected by regulatory rollback of SEZ incentives.
- **Develop draft policy proposal** including transitional incentives offered to SEZ companies, and **elevate proposal through formal channels to obtain sign-off and approval** from legislative and executive authorities

**Communication and Stakeholder Management**



**2**

- **Develop the communication approach and plan**, identifying key stakeholders domestically (i.e. regulators, policy-makers, federal/local authorities, others) and internationally (i.e. investor groups)
- **Notify and engage strategic partners**, zone developers and current investors and operators of the rollback implementation plan, to socialize policy changes and gather feedback, leverage media channels to drive awareness about the phase-out plan.
- **Provide support to investors and representatives from affected bilateral trade agreements** during transition period through dedicated communication channel.

**Policy Roll-back Implementation and Enablers**



**3**

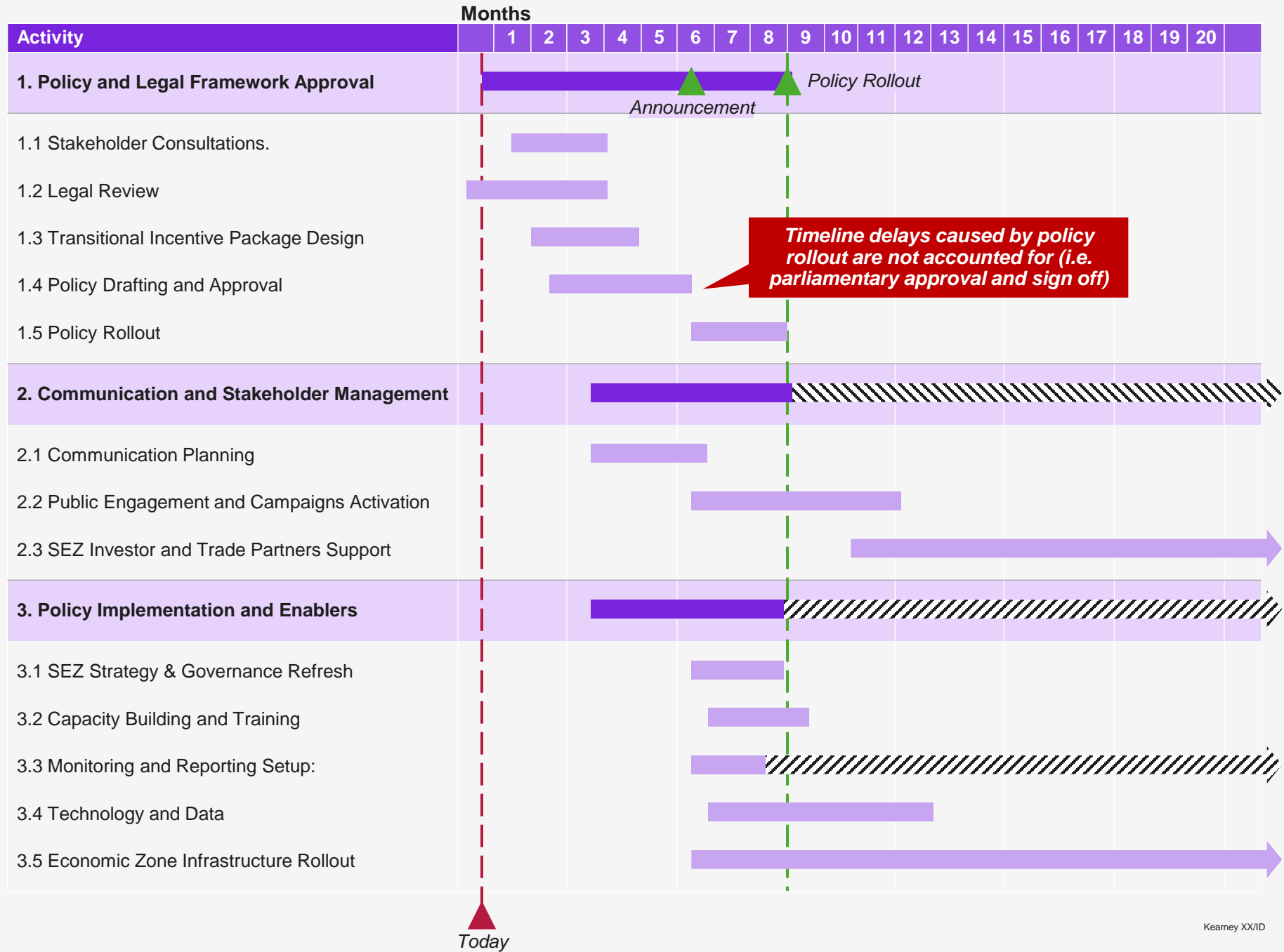
- **Set up a central working group** between regulators forming a dedicated team to oversee the rollback of SEZ incentives implementation process
- **Train relevant authorities** on the implementation of new incentives, clearly delineate tasks among federal, provincial, and local authorities.
- **Define key performance indicators**, and report on implementation progress
- **Integrate** with zone developers, government authorities to **develop a data pipeline** to support data-driven reporting
- **Accelerate delivery of committed infrastructure** to active economic zones by liaising and coordinating with other government entities

Which have been detailed into a set of activities, to deliver on the policy's activation

Preliminary



Execution of the implementation plan is subject to pre-existing contractual, legal and statutory obligations and further decisions by the Center of Government

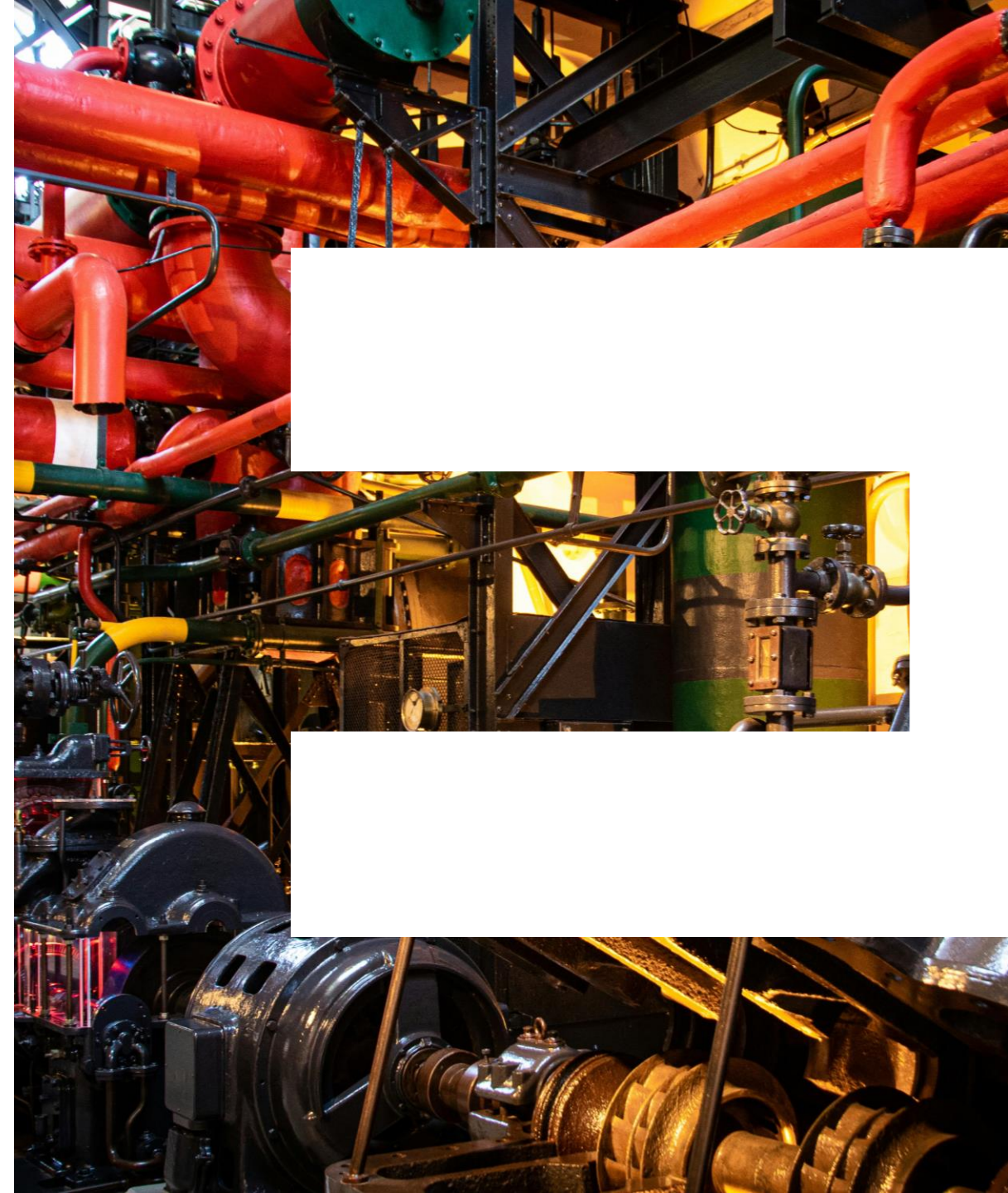


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Executive Summary

**Phase 1** Current State Assessment and Benchmarking Analysis

Phase 2 Target State Recommendations



# The SEZ and EPZ feasibility study will cover 2 main phases: current state assessment & benchmark analysis and definition of strategic options with impact and phasing approach

## Phase 1: Current State Assessment & Benchmark Analysis

- A** Review **current SEZ and EPZ landscape** evolution including 4 **key implementation models**
- B** Deep-dive on **IMF recommendations** for Pakistan SEZs
- C** Assess **profile** of companies, **revenues and exports**
- D** Assess **government revenue opportunity cost** and future projections
- E** Review **global benchmarks on SEZs rollback** and derive lessons learned

 *Focus of this section*

## Phase 2: Strategic Options, Impact & Phasing

- A** Develop **potential strategic options** for Pakistan to phase or reduce subsidies
- B** Assess **qualitative impact** of the options and identify potential **mitigation levers**
- C** Identify **optimal strategic option** to pursue, develop **implementation plan** and **enablers**

# IMF recommendations to Pakistan to refrain from providing new tax incentives and to start phasing out EZs to ensure a level-playing investment field are the main trigger of this study

**TRIGGER:** Pakistan's chronic fiscal deficits and a balance-of-payments crisis in 2022-23 led it back to the IMF. With public debt high and tax revenues among the lowest (about 10% of GDP), GoP has faced pressure to eliminate tax exemptions that erode its tax base

INTERNATIONAL MONETARY FUND (IMF) RECOMMENDATIONS TO PAKISTAN SEZs

**Stop to the establishment of new EZs and to provision of fiscal incentives**



The IMF has asked Pakistan to **refrain from providing new regulatory or tax-based incentives**, or any guaranteed return that could distort the investment landscape to **any new or existing EZs**, as well as **refrain from creating new EZs** going forward

**Phasing out existing incentives to EZs for a level-playing investment field**



IMF also demanded to fully **phase out all current incentives to Economic Zones** by 2035 to create a **level-playing field for all businesses**, and **remove state distortions** (while adhering to legal commitments)

**Replacement of profit-based incentives with cost-based incentives**



IMF recommended to **substitute profit-based incentives** (e.g., tax incentives) with **cost-based incentives** (e.g., immediate expensing on tangible assets) **during the transition period** (between 2024-2035)

### GoP Commitment Under EFF

*“As part of our ongoing efforts to improve efficiency and provide a level playing field for investment, the government will refrain from providing any fiscal incentives, such as tax breaks or subsidies (including for credit). Special Economic Zones (SEZs). We have hired a consultant and agreed TORs for a review of the fiscal costs and effectiveness associated with each existing Special Economic Zone (SEZ) (including Export Processing Zones, EPZs), and will publish the results of this study in FY25. Based on the results of this study, we will formulate a comprehensive plan to fully phase out all current SEZ (and EPZ) incentives by 2035, subject to preexisting contractual obligations (end-Jun 2025 SB). We will also publish a report on fiscal costs and effectiveness of Special Technology Zones (STZs) and other industrial parks and zones, and will by end-October 2025 prepare a similar comprehensive plan to phase out these incentives by 2035, subject to preexisting contractual obligations (new end-December 2025 SB). During the transition period, we, in consultation with stakeholders, will seek to replace preexisting profit-based incentives (such as tax exemptions) with cost-based incentives (such as immediate expensing on tangible assets), while adhering to legal commitments. Where contractual provisions allow, we will, in consultation with stakeholders seek to phase out existing SEZ (and other zones) incentives through early termination or renegotiation. We remain committed to refrain from creating any new SEZs (or other zones, including by provincial governments); to refrain from providing new fiscal or other incentives to any new or existing SEZs firms, sectors or investments; and not to renew any such existing incentives.”*

Source: IMF, BOI "Office Memorandum: Staff-Level Agreement on Economic Policies with Pakistan for 37-month Extended Fund Facility"

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A Project Context

**B Current State Assessment**

C Benchmark Analysis and Lessons Learned



# We review the effectiveness of SEZ and EPZ regimes across three key areas

## Economic Zone Regime Effectiveness Framework

### 1 Macro-Economic and Investment Environment

<b>Market Environment</b> <i>How attractive and stable is the Pakistan economy for investors?</i>	<b>Regulatory Framework</b> <i>How reliable is the regulatory environment for new ventures and investors?</i>	<b>Human Capital</b> <i>How available is the workforce and what is the quality of workers?</i>	<b>Enabling Factors</b> <i>What is the quality of transport infrastructure, utilities costs, investment and innovation ecosystem?</i>
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### 2 Zone Incentives, Benefits and Delivery

<b>Zone Regimes &amp; Pipeline</b> <i>What's the pipeline of operational and notified economic zones and how are they distributed geographically?</i>	<b>Fiscal Incentives</b> <i>What fiscal incentives are provided to economic zones and how are they applied?</i>	<b>Non-Fiscal Benefits</b> <i>What non-fiscal incentives and benefits are offered to economic zone enterprises and how are they delivered?</i>	<b>Zone Land Utilization</b> <i>How effectively is the landmass allocated to economic zones utilized?</i>
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### 3 Economic Zones Program Outcomes

<b>Economic Output</b> <i>What is the contribution of EZs to GDP?</i>	<b>Exports</b> <i>What is the contribution of EZs to Exports?</i>	<b>Balance-of-Payment</b> <i>What is the contribution of EZs to the BoP?</i>	<b>Employment</b> <i>What is the contribution of EZs to the workforce?</i>	<b>Direct Fiscal Revenues</b> <i>What is the contribution of EZs to Gov't Revenues?</i>	<b>National Priorities</b> <i>What is the contribution of EZs to national priorities?</i>
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### 4 Legal Considerations

#### Legal Assessment of SEZ Regime

*What is the legal standing of the SEZ act, regulations and ordinance, and what should implications should be considered in the event of a rollback of incentives?*

# We assess the macro-economic and investment environment in Pakistan across 4 dimensions

## Economic Zone Regime Effectiveness Framework

### 1 Macro-Economic and Investment Environment

Market Environment	Regulatory Framework	Human Capital	Enabling Factors
<i>How attractive and stable is the Pakistan economy for investors?</i>	<i>How reliable is the regulatory environment for new ventures and investors?</i>	<i>How available is the workforce and what is the quality of workers?</i>	<i>What is the quality of transport infrastructure, utilities costs, investment and innovation ecosystem?</i>

### 2 Zone Incentives, Benefits and Delivery

Zone Regimes & Pipeline	Fiscal Incentives	Non-Fiscal Benefits	Zone Land Utilization
<i>What's the pipeline of operational and notified economic zones and how are they distributed geographically?</i>	<i>What fiscal incentives are provided to economic zones and how are they applied?</i>	<i>What non-fiscal incentives and benefits are offered to economic zone enterprises and how are they delivered?</i>	<i>How effectively is the landmass allocated to economic zones utilized?</i>

### 3 Economic Zones Program Outcomes

Economic Output	Exports	Balance-of-Payment	Employment	Direct Fiscal Revenues	National Priorities
<i>What is the contribution of EZs to GDP?</i>	<i>What is the contribution of EZs to Exports?</i>	<i>What is the contribution of EZs to the BoP?</i>	<i>What is the contribution of EZs to the workforce?</i>	<i>What is the contribution of EZs to Gov't Revenues?</i>	<i>What is the contribution of EZs to national priorities?</i>

### 4 Legal Considerations
















#### Legal Assessment of SEZ Regime

*What is the legal standing of the SEZ act, regulations and ordinance, and what should implications should be considered in the event of a rollback of incentives?*

# The macro-economic and investment landscape of Pakistan is still lagging compared to peer developing economies, limiting investor appetite into the country

## 1. Macro-Economic and Investment Environment


Illustrative, Non-Exhaustive

Dimensions	Key Factors	High-level observations
<p><b>a</b></p>  <p>Market environment</p>	<p>1. Market attractiveness </p> <p>2. Regional stability </p>	<p><b>Nascent GDP, limited complexity of economy and supply-chains</b>, but manufacturing plays key role in overall economic growth</p> <p>Lagging scores on <b>global stability and safety indices</b>, significantly <b>impacting investor confidence</b></p>
<p><b>b</b></p>  <p>Regulatory Framework</p>	<p>3. Rules and Regulations </p> <p>4. Foreign Investor Openness </p>	<p><b>Nascent regulatory and governance quality</b>, low <b>access to private credit</b>, <b>prevalent corruption perception</b> undermine investor confidence and private sector growth, despite significant changes implemented</p> <p>High trade tariffs applied to Pakistan businesses; FDI inflows in-line with some peers</p>
<p><b>c</b></p>  <p>Human Capital</p>	<p>5. Workforce availability </p> <p>6. Workforce quality </p>	<p><b>Availability of skilled labor</b>, but ranks <b>low in productivity, education quality</b>, and workforce skills, limiting competitiveness</p> <p><b>Positive scores on brain gain and ease of hiring</b>, structural <b>gaps in education and training</b> continue to affect quality of workforce</p>
<p><b>d</b></p>  <p>Enabling factors</p>	<p>7. Transport &amp; Logistics </p> <p>8. ICT Maturity </p> <p>9. Investment Ecosystem </p> <p>10. Innovation Ecosystem </p> <p>11. Utilities Cost </p>	<p>Transport infrastructure quality (air, ground, ports) and ICT development scores are <b>close to peers but still at the lower end of the spectrum</b></p> <p><b>Pakistan ranks far behind peers when it comes to Entrepreneurship and Innovation indices</b>, indicating major gaps in provisioning funding, support, enabling environment and mobility for investors and entrepreneurs.</p> <p>Water and Gas Prices are at par or cheaper than peers; <b>Electricity tariffs however are the highest, affecting competitiveness</b></p>

Pakistan is at early stages of industrialization, ranking 110<sup>th</sup> /141<sup>st</sup> on competitiveness; there is a strong need to focus on manufacturing sector growth and SEZs/EPZs can play a key role to drive this agenda

Illustrative, Non-Exhaustive

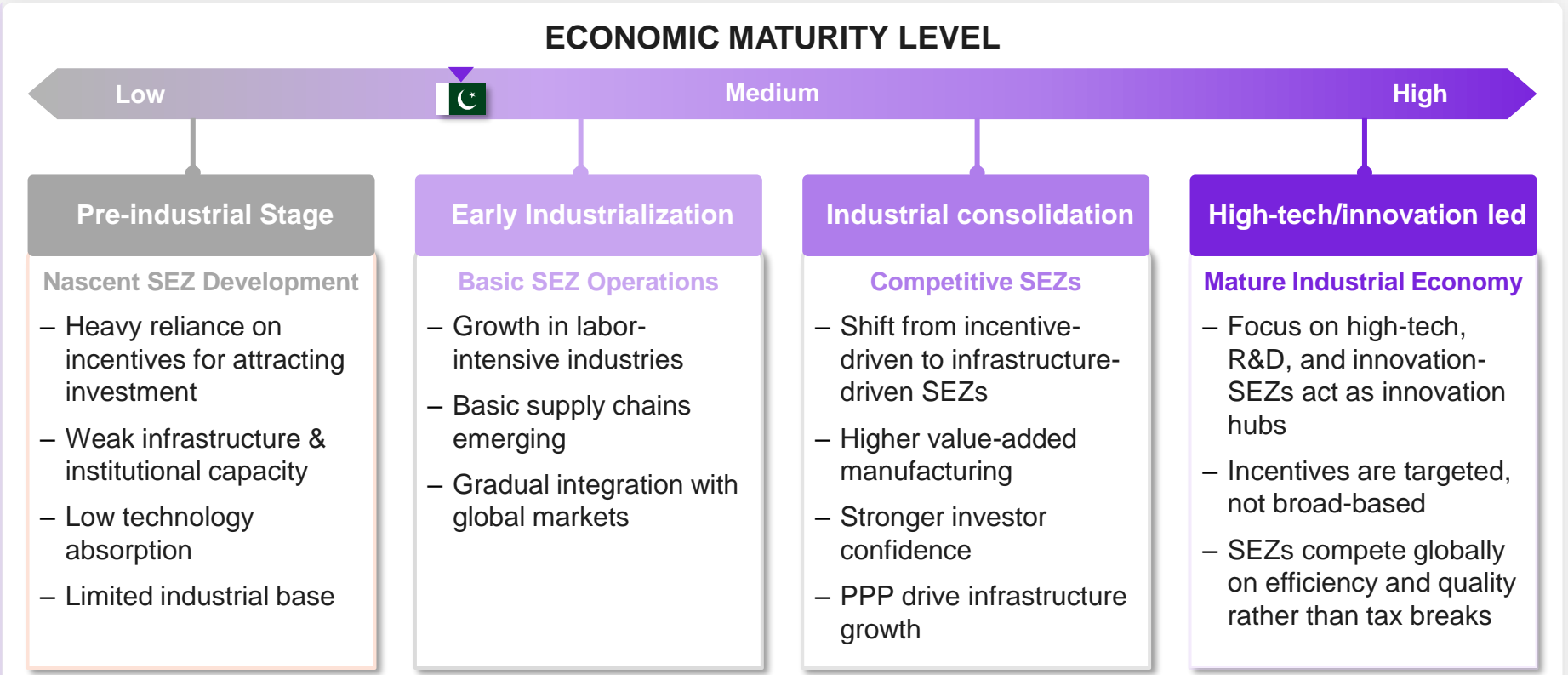
**WEF GLOBAL COMPETITIVENESS INDEX**



**110<sup>th</sup> / 141<sup>st</sup>**

Low rank driven by 5 main components of the index:

1. **ICT adoption**
2. **Product market** (incl. domestic competition and trade openness)
3. **Skills**
4. **Labor market**
5. **Macro-economy stability**



**KEY TAKEAWAYS**

- SEZs are operating in a **low-competitiveness ecosystem**, which **constrains the effectiveness of SEZs**
- Pakistan is still in the **nascent/ early SEZ development phase**, relying on **tax holidays, limited infrastructure**, and mostly focused on **low-end, labor-intensive industries** with **minimal technology transfer**, as SEZs have not yet evolved into catalyst for high-value exports, industrial diversification, and technology innovation, reflecting maturity of overall country's economy

# Pakistan is still nascent when it comes to attractiveness to investors due to lagging economic output, complexity and stability scores on global indices

## 1a. Market Environment

Illustrative, Non-Exhaustive

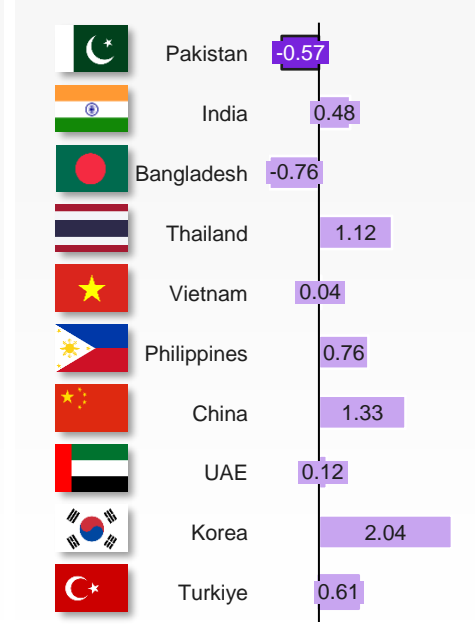
### 1. Market Attractiveness

### 2. Regional Stability

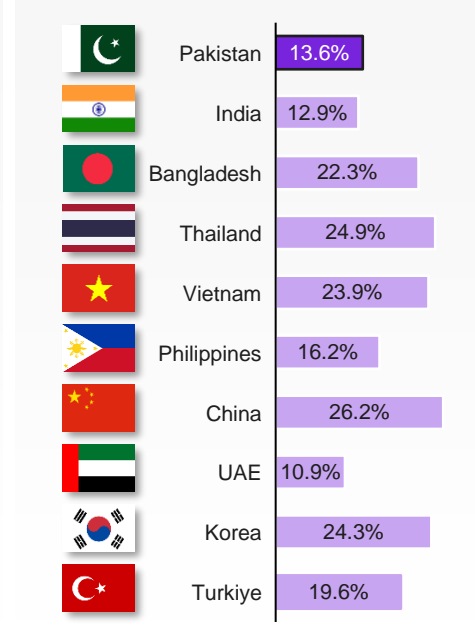
#### GDP IN USD (Bn), 2025



#### Economic Complexity Index Score, 2025



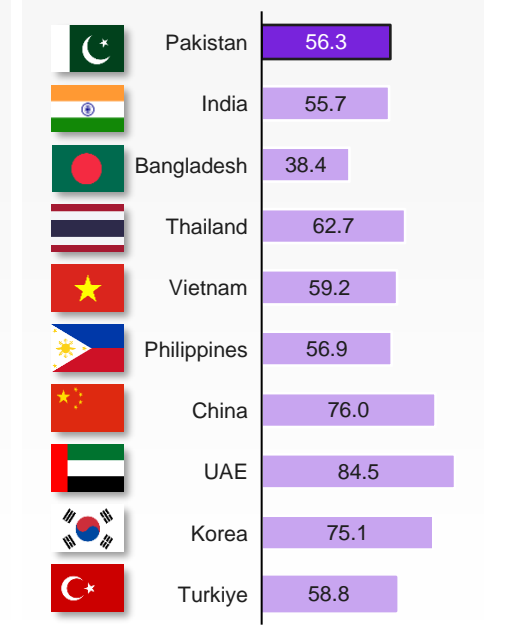
#### Manufacturing share of GDP, 2025



#### Political Stability Index Score, 2023



#### Safety Index Score, 2025



### KEY TAKEAWAYS

- Pakistan's GDP lags peers due to **limited economic complexity** and **weak industrial contribution**
- Despite moderate safety scores, **low political stability** and **weak investor fundamentals** hinder its market attractiveness.

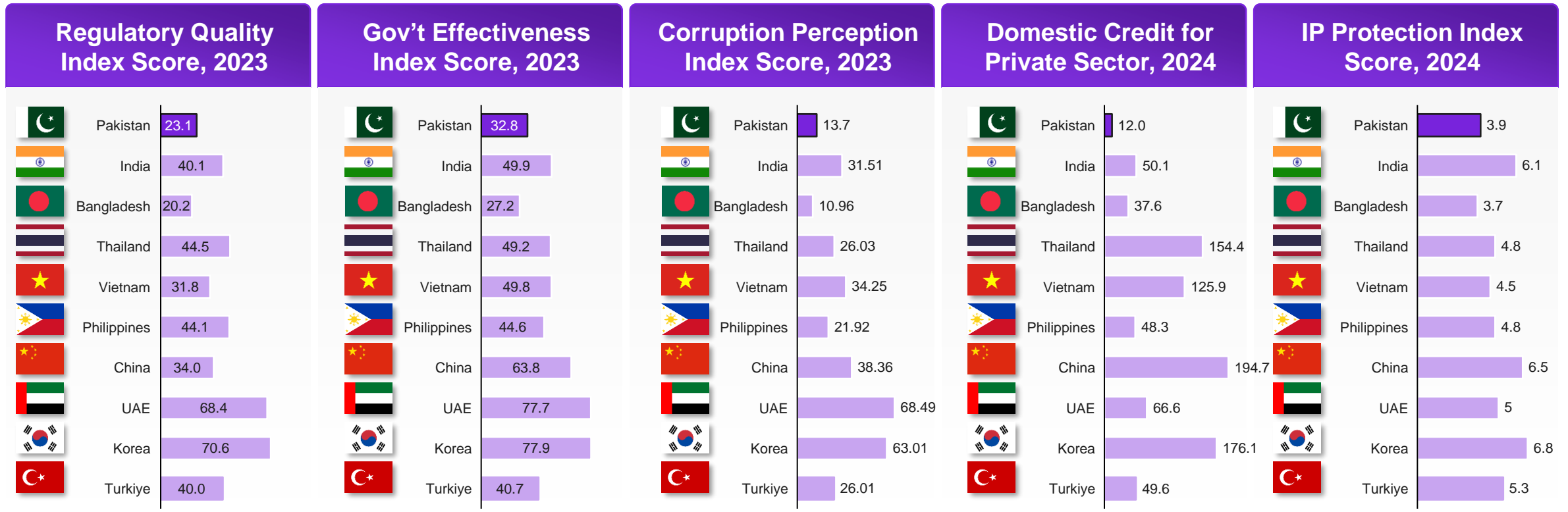
1. Source: countrycassette.com, World Population Review, theGlobalEconomy.com, NUMBEO

# Pakistan’s regulatory framework continues to evolve, though challenges in governance, credit access, and IP protection still limit its full investment potential

## 1b. Regulatory Framework (1/2)

Illustrative, Non-Exhaustive

### 3. Rules and Regulations



#### KEY TAKEAWAYS

- Pakistan faces nascent regulatory and governance quality, with particularly low access to private credit and limited IP protection
- High corruption perception and poor regulatory scores continue to undermine investor confidence and private sector growth

1. Source: The Global Talent Competitiveness Index 2023(INSEAD), data.worldbank.com, International Property Rights Index 2024(cedice.org.ve)

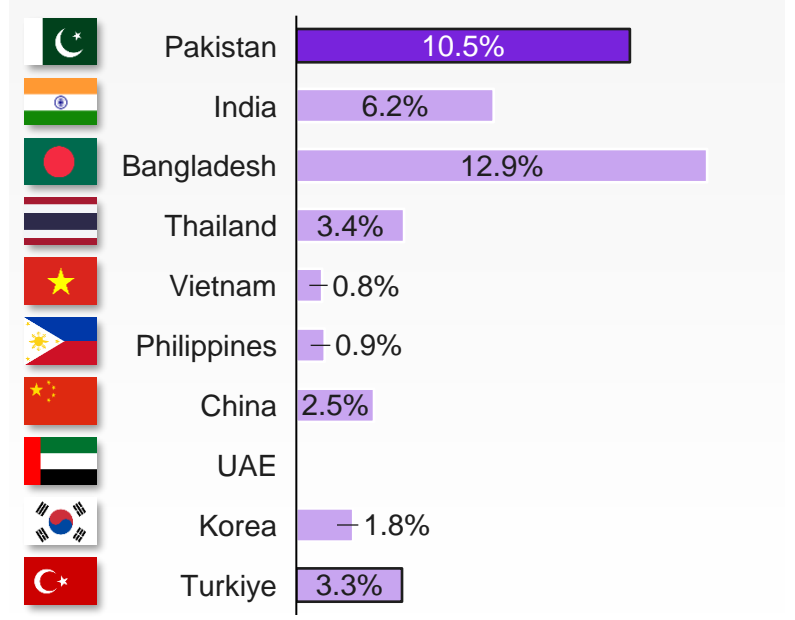
# Trade tariffs incurred by businesses in Pakistan are among the highest compared to peers, with minimal FDI

## 1b. Regulatory Framework (2/2)

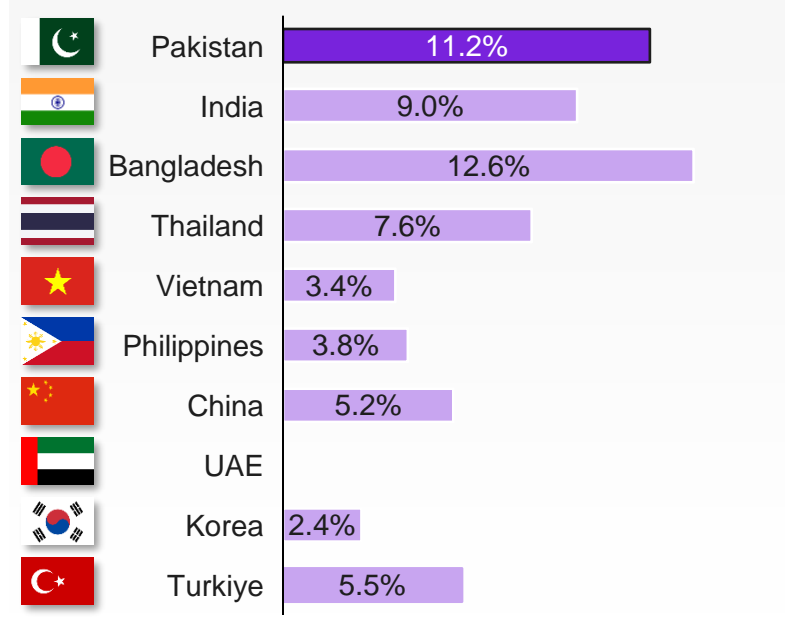
Illustrative, Non-Exhaustive

### 4. Foreign Investor Openness

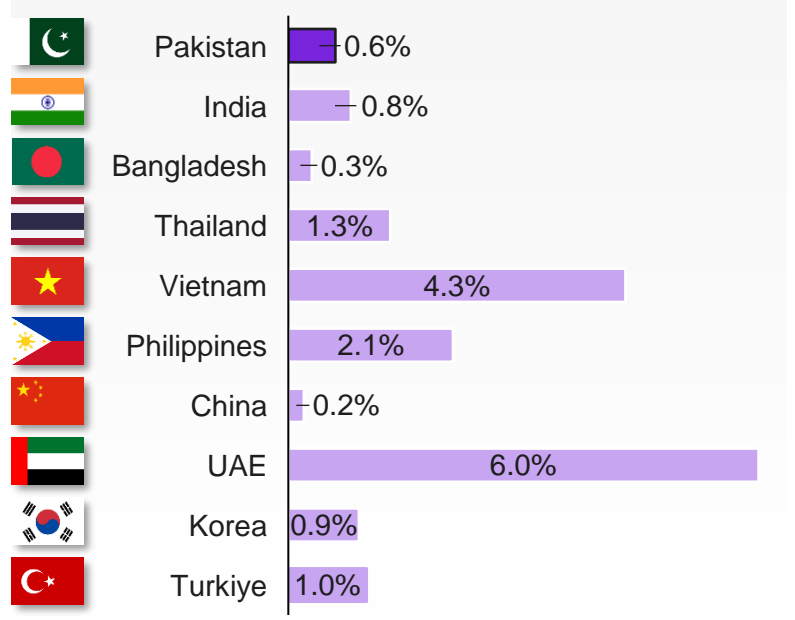
#### Simple Average Tariff, 2022



#### Trade-Weighted Average Tariff, 2022



#### FDI Net Inflows as % of GDP, 2025



#### KEY TAKEAWAYS

- Pakistan imposes some of the **highest trade tariffs** among peers, increasing business costs and reducing competitiveness.
- **FDI inflows remain minimal at 0.6% of GDP**, indicating low investor confidence despite regional openness elsewhere.

1. Source: data.worldbank.com

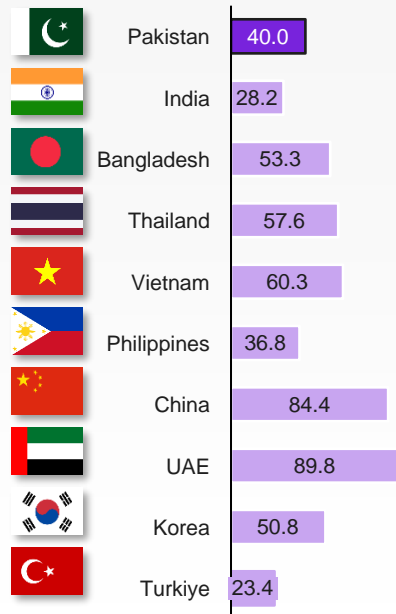
# When it comes to Human Capital, Pakistan still lags amongst economies

## 1c. Human Capital

Illustrative, Non-Exhaustive

### 5. Workforce Availability

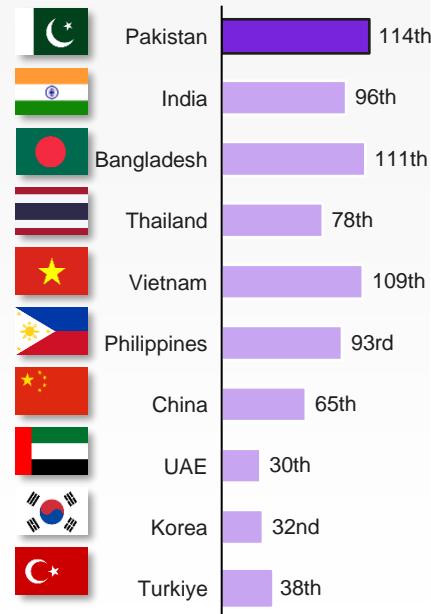
#### Brain Gain Scale Score, 2023



#### Ease of Hiring Skilled Labor Score, 2023



#### Labor Productivity Index Ranking, 2024



### 6. Workforce Quality

#### Workforce Skills Index Score, 2023



#### Education Quality Index Ranking, 2025



### KEY TAKEAWAYS

- Pakistan shows **moderate availability of skilled labor**, but ranks **low in productivity, education quality, and workforce skills**, limiting competitiveness
- Despite positive scores in **brain gain and ease of hiring**, **structural gaps in education and training systems** continue to hold back human capital development

1. Source: The Global Talent Competitiveness Index 2023(INSEAD), mydatajungle.com

# Pakistan faces persistent gaps in infrastructure, digital readiness, and innovation capacity, which continue to limit its attractiveness to investors

## 1d. Enabling Factors (1/2)

Illustrative, Non-Exhaustive



### KEY TAKEAWAYS

- Pakistan ranks **lowest or near the bottom** across transport infrastructure, ICT maturity, entrepreneurship, and innovation indices.
- **Limited digital readiness and weak innovation capacity** hinder its competitiveness and investment appeal.

1. Source: worldpopulationreview.com, wipo.int, Travel & Tourism Development Index 2024 (World Economic Forum)

# High cost of electricity relative to other economies is reducing national competitiveness alongside putting pressure on SEZ/EPZ firms' margins

## 1d. Enabling Factors (2/2)

Ⓢ Direct or indirect subsidies applied

Illustrative, Non-Exhaustive

### UTILITIES TARIFFS BENCHMARKING

#### Electricity Tariffs

*\$/KWh, for Commercial Industrial Users*

#### Water Tariffs

*\$/m<sup>3</sup>, for Commercial Industrial Users*

#### Gas Tariffs

*\$/KWh, for Commercial Industrial Users*



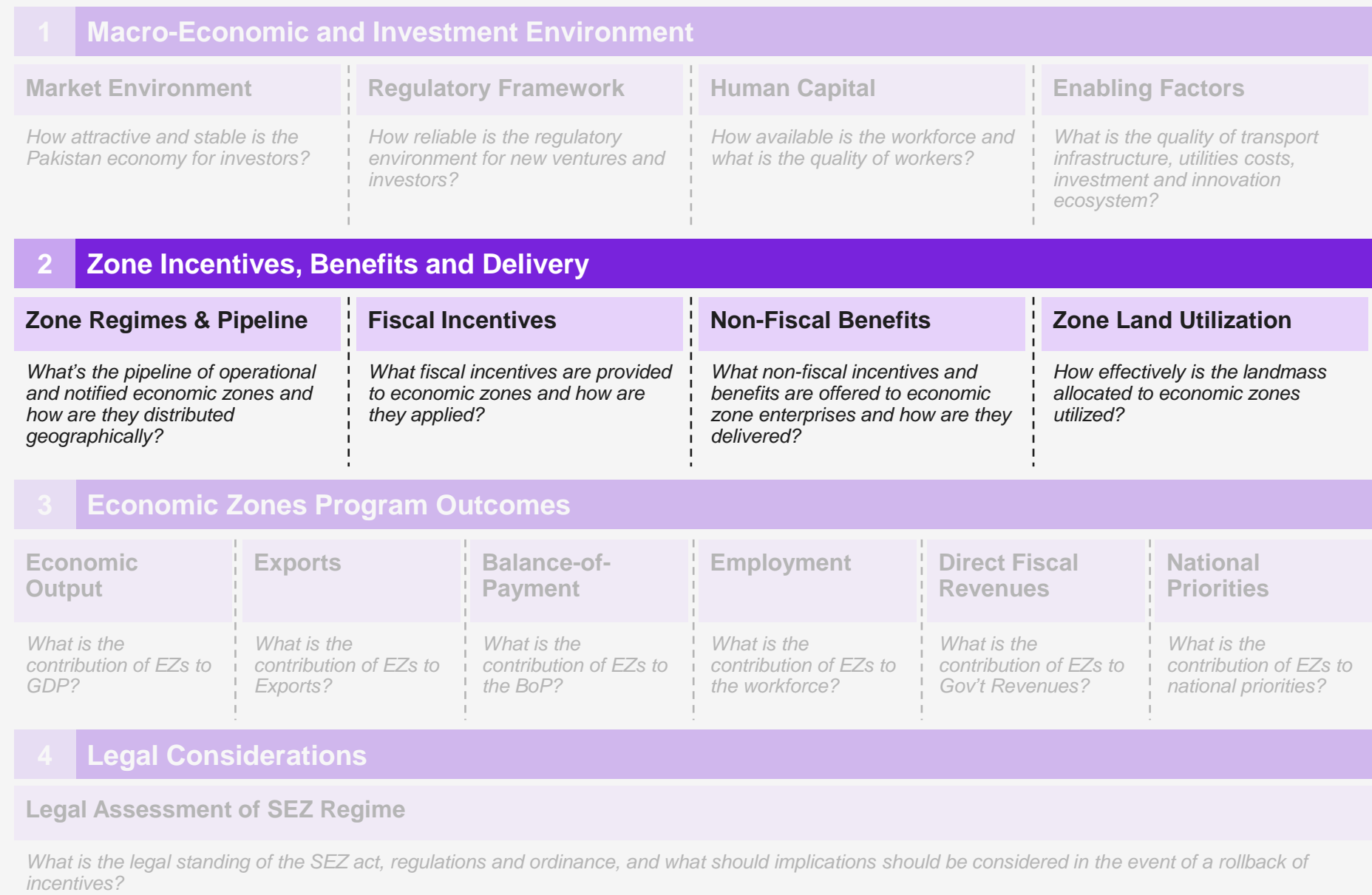
### KEY TAKEAWAYS

- **Pakistan electricity consumption tariffs is among the highest** compared to peer geographies, putting national industry and **SEZs/EPZs under significant financial pressure**; Gas and Water utility prices are in-line or lower than peers.
- Peer countries (i.e. India, Bangladesh, Vietnam) **subsidize electricity tariffs to support national industrial competitiveness**, providing SEZs and EPZs with **cushioning from substantial increases in energy costs**

Source: IESCO/NEPRA, OGRA/IMF, Spglobal.com, WASA Lahore, BESCO, GAIL/IGL, World Bank/OECD, BERG/DPDC, Dhaka WASA, ERC Thailand, PWA, EVN, Vietnam Ministry of Finance, DOE/MERALCO, Manila Water, NDRC, Energynews.pro, NDRC, China-briefing.com, ADDC/DEWA, Globalpetrolprices.com, KEPCO, KOGAS, Seoul City pulse.mk.co.kr, EPDK/TEDAŞ, BOTAŞ, Istanbul Municipality, invest.gov.tr









**We assess SEZ EPZ landscape, incentives and delivery across four dimensions**

# Economic Zone Regime Effectiveness Framework



# Future of the program is promising with many planned new zones, supported by competitive fiscal incentives; however, lagging access to utilities is causing major bottlenecks

## 2. Zone Incentives, Benefits and Delivery

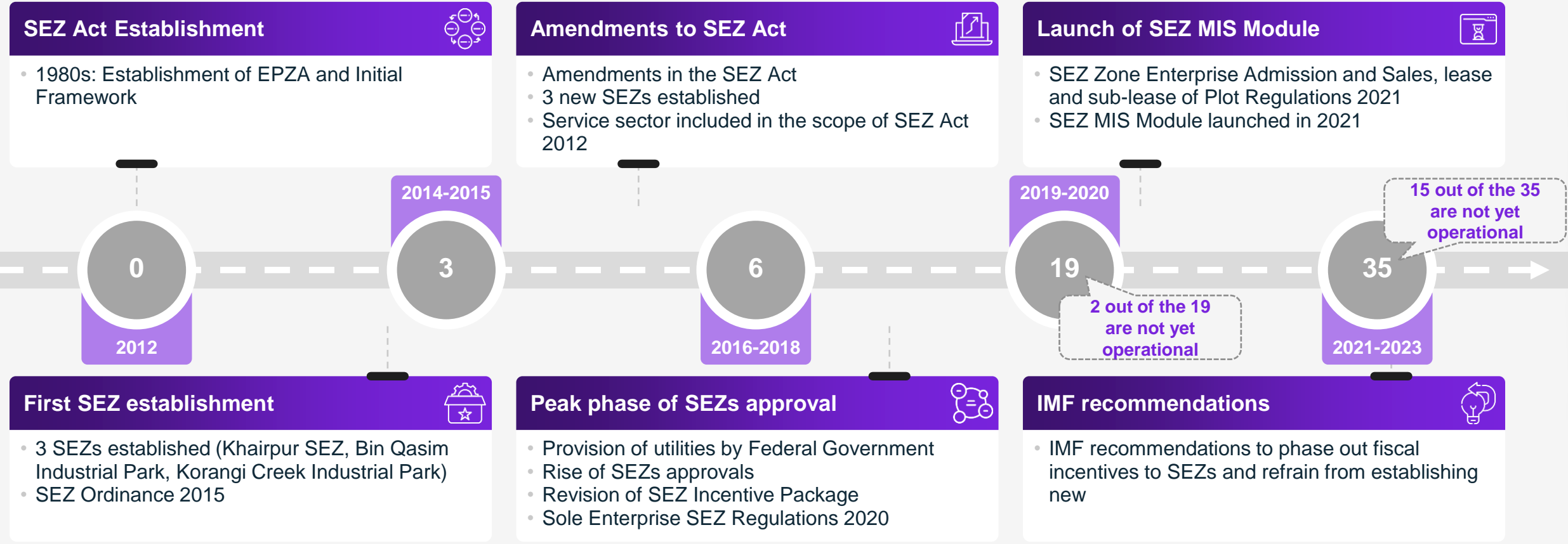
Dimensions	Performance	High-level observations
<p><b>a</b></p>  <p>Zones Pipeline</p>		<ul style="list-style-type: none"> <li>Economic zones pipeline is growing with 30 zones operational of which 20 SEZs and 10 EPZs. 22 EZs are in pipeline with 15 notified SEZs and 7 EPZs in pre-feasibility</li> <li>Public zones are predominant in both SEZ and EPZ regimes however sole enterprise EZs are gaining traction</li> </ul>
<p><b>b</b></p>  <p>Fiscal Incentives</p>		<ul style="list-style-type: none"> <li>CIT 10-year tax holiday offered is in-line with peers, but no deductions are provided (i.e. R&amp;D, Training, etc.).</li> <li>1-time duties exemptions do not differentiate EZs from mainland incentives due to FTA advantages; on the other hand, regional peers offer full exemption on all production and CAPEX</li> <li>On both CIT and Duties exemptions Pakistan EZs are less competitive than regional peers for attracting FDI</li> <li>EPZ do not create market distortions as they are considered outside of the mainland customs zone</li> </ul>
<p><b>c</b></p>  <p>Non-Fiscal Benefits</p>		<ul style="list-style-type: none"> <li>Access to utilities is a major challenges faced by SEZs; PSDP attempts to bridge that gap:                             <ul style="list-style-type: none"> <li>34% do not have completed boundary walls, 37% have sewage systems and 17% have wastewater facilities</li> <li>34% lacking connection to the zero point and nearly 46% without internal distribution networks</li> <li>Over half of SEZs lack gas connections; water access is fully provided to only 1/3 of SEZ fully served</li> <li>Internal mobility and logistics within the zones are still under development (97% are connected to zone boundary, however internal roads still being constructed with only 46% of SEZs having fully constructed roads)</li> </ul> </li> <li>Access to business, facilitation and ancillary services offered to SEZs is limited (i.e. paper-based / manual services processing, limited no consistent and reliable one-stop-shop, limited investor servicing)</li> </ul>
<p><b>d</b></p>  <p>Zone Land Utilization</p>		<ul style="list-style-type: none"> <li>Key SEZs have low land allocation despite notification 4-5 years ago (i.e. Rashakai 6.8%, NSTP 1.3%); similarly SEZs notified in 2014 (i.e. Khairpur, BQIP, and KCIP) still have below 56% land allocation after a decade; due to delays in provisioning transport and energy infrastructure to new phases of these plot being developed</li> </ul>

# Since the SEZ Act in 2012 and several regulatory updates, the SEZ landscape in Pakistan has evolved, and today requires an assessment following IMF recommendations

Illustrative

## a. Zones Regime and Pipeline

Cumulative number of SEZs




# EPZs on the hand date back to the 1980 EPZA ordinance and have slowly ramped up the pipeline and regulatory enablement throughout the years

Illustrative


- Cumulative number of EPZs

**EPZA Establishment** 


- Export Processing Zones Authority (EPZA) was created by the Export Processing Zones Authority Ordinance, 1980 (Ordinance IV of 1980)

**Amendments to EPZ Act** 


- Export Processing Zones (Control of Entry and Exit of Persons and Goods) Regulations, 1994 (notified via S.R.O. 214(KE)/94 on 21 Nov 1994)

**Launch of Private and PP Zones** 


- EPZA (Amendment) Bill 2023 was introduced to update the EPZA Ordinance 1980
- Private and Public Participated zones models have been introduced

**KEPZ establishment** 

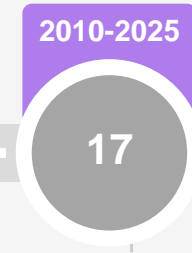
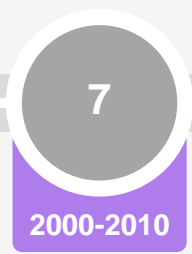
- Karachi EPZ (Korangi) was the pilot zone set up in 1980, with formal commencement noted around 1989

**New EPZs establishment** 

- Establishment of Risalpur and Sialkot EPZs (REPZ and SEPZ) in the 1990s
- 4 other EPZs have been introduced since then

**Ramp-Up of EPZ Pipeline** 

- 3 EPZ introduced from 2020 to 2025 and 7 EPZs are in the pipeline for notification



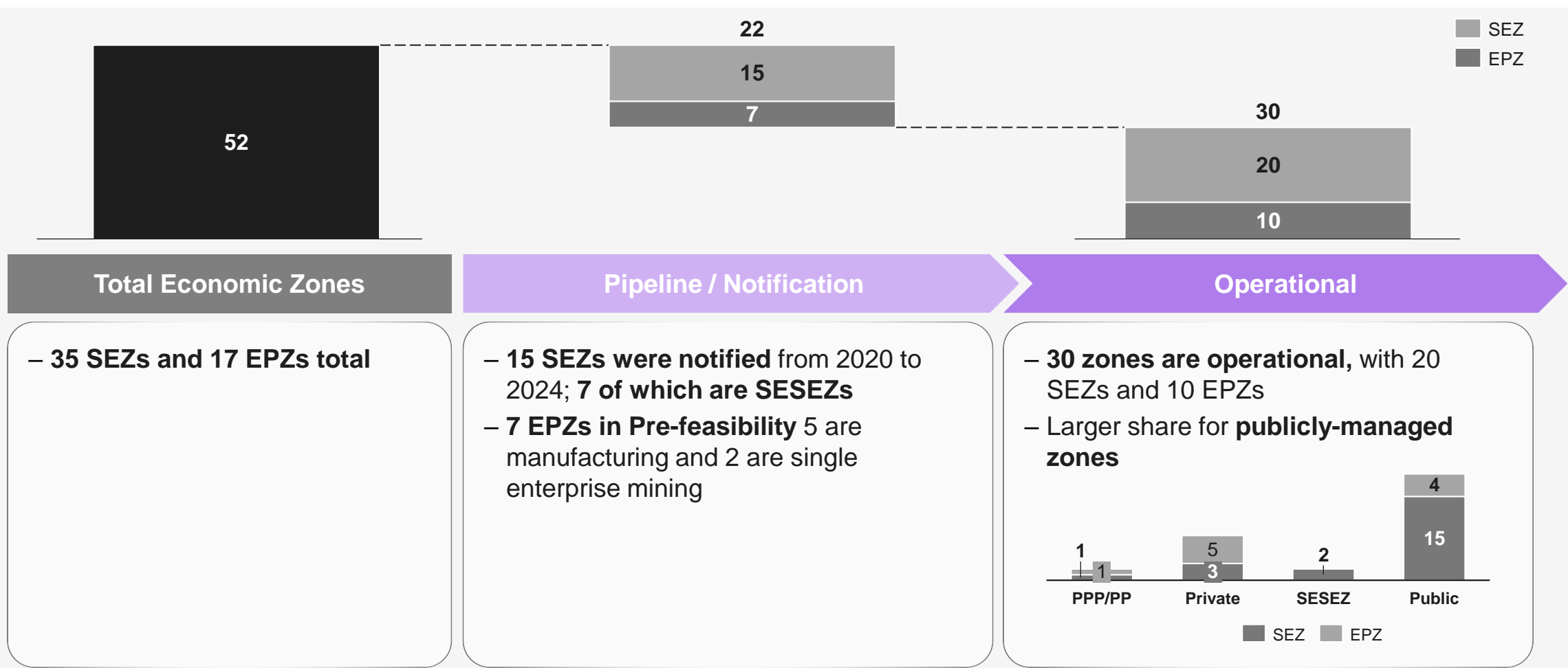
# Out of the 10 operational EPZs, 4 are public, 5 private and 1 public-private; in addition to the 5 private and 2 sole enterprise EPZs in pipeline

## a. Zones Regime and Pipeline

	#	EPZs	Location	YoE	Year of Operation	Area (Acre)	Operational
Public	1	KEPZ	Karachi, Sindh	1981	1982	305	Yes
	2	SEPZ	Sialkot, Punjab	1998	2002	238	Yes
	3	REPZ	Risalpur, KPK	1996	2002	92	Yes
	4	GEPZ	Gujranwala, Punjab	2004	2013	113	Yes
Private	5	Saindak	Saindak, Balochistan	2001	2002	1,248	Yes
	6	Duddar	Duddar, Balochistan	2004	2005	1,500	Yes
	7	National Steel Complex Limited	Karachi, Sindh	2005	2008	220	Yes
	8	Reko Diq	District Chaghi, Balochistan	2023	2023	3,707	Yes
	9	North Waziristan	North Waziristan District, KPK	2023	2023	32,371	Yes
PP	10	Siah Diq	District Chaghi, Balochistan	2025	2025	4,295	Yes
Private	11	Pakistan Car and Machinery Zones Pvt Ltd	n/a	n/a	n/a	1,000	No
	12	Pakistan Chemical Manufacturers Association	n/a	n/a	n/a	211	
	13	Spark Developers Pvt Ltd	n/a	n/a	n/a	56	
	14	M4 Corporation	n/a	n/a	n/a	888	
	15	Abid Danish Builders & Developers	n/a	n/a	n/a	1,000	
SESEZ	16	Degan Exploration Works (DEW) - Dasht-e-Kain	n/a	n/a	n/a	79,074	
	17	Degan Exploration Works (DEW) - Dalbadin Baluchistan	n/a	n/a	n/a	51,151	

# Going forward, there is a strong pipeline of zones with 15 notified SEZs and 7 EPZs in the pipeline

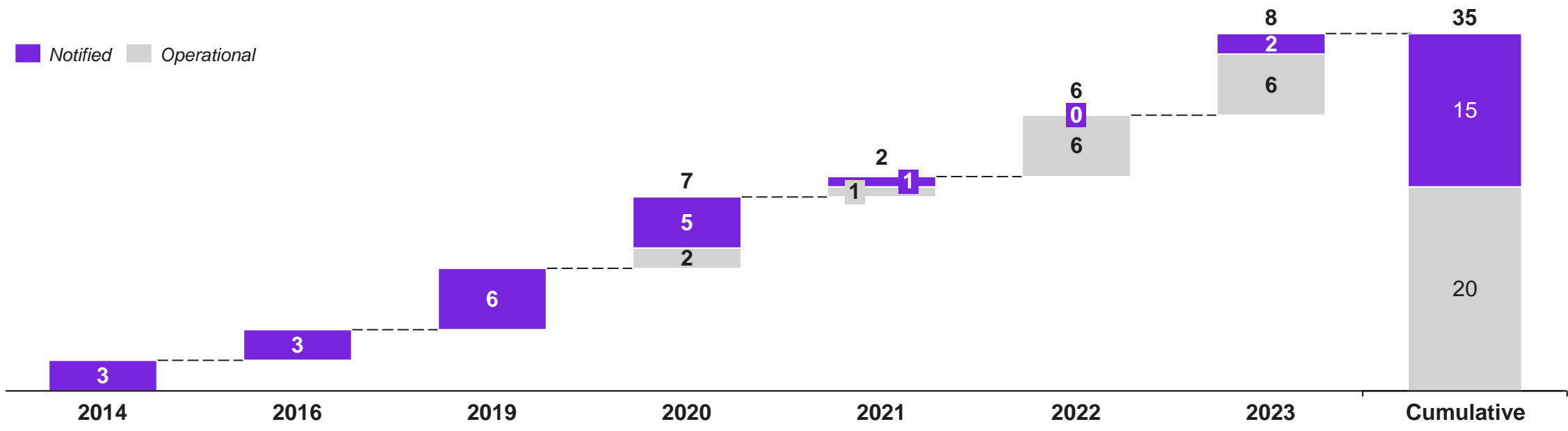
## a. Zones Regime and Pipeline



# Specifically, the number of SEZs has grown in the past 10 years, with 20 operational and the rest in the pipeline

## a. Zones Regime and Pipeline

### SEZs EVOLUTION

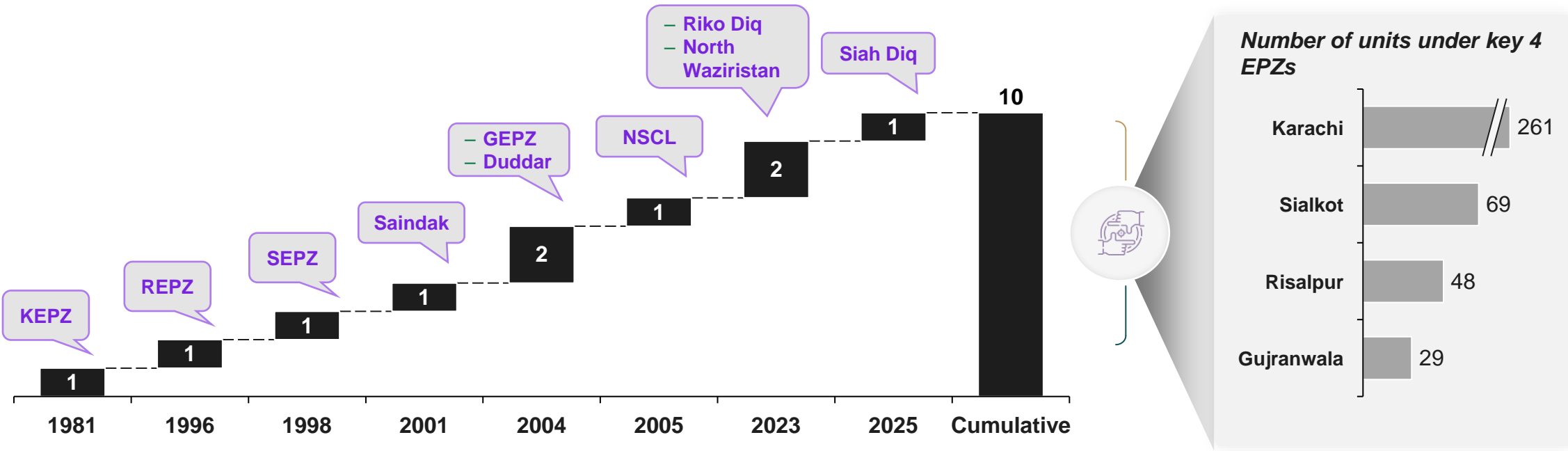


- The number of approved SEZs in Pakistan **has grown** over the past **10 years**, with a **significant peak** in **years 2019-2020** and **2022-2023**
- **20 SEZs** so far are **operational**, with the **notified zones set up** the **past years** pending approval

# EPZs which have been instated since the 1980s have reached 10 EPZ by 2025

## a. Zones Regime and Pipeline

### EPZs EVOLUTION



- EPZs has grown gradually, reaching 10 in total today; most EPZ development occurred in small phases, with only 1-2 zones added per phase
- Karachi EPZ is the most successful and active zone with 261 operational units; higher suspension/closure rates has been observed in Risalpur and Sialkot EPZs

# In Pakistan, there are 5 main implementations models for SEZs and EPZs: public, private, public-private partnerships, public participated and sole enterprise

## a. Zones Regime and Pipeline

**1 PUBLIC (SEZ/EPZ)**

An **SEZ established and managed** entirely by a **public-sector entity**, such as a provincial gov't, a gov't-owned company, or a federal agency

*Key features*

- **Funding & Infrastructure** land acquisition, internal infrastructure, utilities, and zone administration are typically funded by the govt
- **Government-led management**: the zone is managed by a government department or a state-owned SEZ development authority
- **Incentives**: developer incentives accrue to the government entity acting as the developer

SEZ	3	14	17
EPZ	0	4	4

**2 PRIVATE (SEZ/EPZ)**

**Private developers** (local or foreign investor, or consortium) **acquire and manage the SEZ**, after obtaining approval from the regulatory authorities

*Key features*

- **Privately financed**: a private company acquires land and invests in internal infrastructure
- **Developer autonomy**: the private developer sets lease rates, maintains infrastructure, and controls day-to-day operations, within the SEZ Act's regulations
- **Same statutory incentives**: private developers enjoy the same incentives

SEZ	4	3	7
EPZ	5	5	10

**3 PUBLIC PRIVATE PARTNERSHIPS (SEZ)**

**Joint ventures or partnerships** where the **government and private sector share responsibilities and benefits**

*Key features*

- **Risk-Sharing Arrangement**: the government provides land and external infrastructure, while the private partner invests in internal zone development
- **Flexible structures**: a variety of PPP models exist, from BOT (Build-Operate-Transfer) to joint ventures
- **Co-developers incentives**: the SEZ Act explicitly extends developer benefits to co-developers in PPP projects

SEZ	1	1	2
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**4 PUBLIC PARTICIPATED (EPZ)**

**Partnership in which government sets up zone land and infrastructure** and hands **over operations to a private sector partner**

*Key features*

- **Joint-Venture agreement**: developers enter in joint venture with government to own or lease publicly-owned land and co-invest
- **Infrastructure development**: Infrastructure is built up by public sector entities and then handed over to a private developer
- **Concession model**: zones may also bring in private operators under concession agreements for services (e.g., warehousing, IT).

EPZ	0	1	1
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**5 SOLE ENTERPRISE (SEZ/EPZ)**

**A single entity** (domestic or foreign investor) **develops an SEZ exclusively for its own industrial or commercial use**, rather than hosting multiple enterprises

*Key features*

- **Single user model**: the developer and occupant are effectively the same company (or group), using the zone solely for their own production facilities
- **Tailored size and infrastructure**: smaller in scale compared to multi-user SEZs; infrastructure is purpose-built for that enterprise's operations
- **Direct incentives**: the investor enjoys the standard developer incentives and also operates as a zone enterprise

SEZ	7	2	9
EPZ	2	0	2

Operational Non-Operational

# There are 17 public SEZs in Pakistan established between 2014 and 2023, of which 14 are operational

## a. Zones Regime and Pipeline

#	SEZ <sup>1</sup>	Location	YoE	Sectors covered	Operational
1	Khairpur SEZ	Khairpur, Sindh	2014	Agro-based industries, agro non-food, light engineering	Yes
2	Bin Qasim Industrial Park	Karachi, Sindh	2014	Light engineering, automotive & allied industries, foundry & steel fabrication, warehousing/logistics, mixed manufacturing	Yes
3	Korangi Creek Industrial Park	Karachi, Sindh	2014	Light engineering, food processing, pharmaceuticals, garments/textiles, packaging & printing, warehousing/logistics, IT, gems & jewelry, commercial business	Yes
4	M3-IC	Faisalabad, Punjab	2016	General manufacturing and export-oriented industries – textiles, engineering, chemicals, plastics, automotive parts, etc..	Yes
5	Value Addition City	Faisalabad, Punjab	2016	Textile and apparel finishing, value-added manufacturing, light industry	Yes
6	Hattar SEZ	Haripur, KP	2016	Multi-industry manufacturing (e.g. chemicals, steel, textiles, food processing, engineering goods)	Yes
7	Rahim Yar Khan Industrial Estate	Rahim Yar Khan, Punjab	2019	Mixed manufacturing (textiles, agro-processing, consumer goods, etc..)	Yes
8	Vehari Industrial Estate	Vehari, Punjab	2019	Agro-processing, textiles, general manufacturing	Yes
9	Bhalwal Industrial Estate	Sargodha, Punjab	2019	Agro-processing, beverages, light engineering and other manufacturing	Yes
10	Rachna Industrial Park	Sheikhupura, Punjab	2019	Auto parts manufacturing, leather products, packaging, food processing, and other light industries.	Yes
11	Allama Iqbal Industrial City [CPEC]	Faisalabad, Punjab	2020	Textiles and garments, engineering goods, chemicals, plastics, automotive assembly, electronics, etc..	Yes
12	National Science & Technology Park	H-12, Islamabad	2020	Information technology (software, IT services), high-tech R&D, biotech, defense tech, and other innovation-driven sectors	Yes
13	Hub SEZ	Hub, Balochistan	2020	Manufacturing and minerals, automotive assembly/parts, marble and granite cutting, and metals	No
14	Naushahro Feroze Industrial Park	Naushahro Feroze, Sindh	2020	Agro-processing (food and non-food), light engineering, mixed industries	No
15	Bostan SEZ [CPEC]	Pishin, Balochistan	2020	Fruit processing, agriculture machinery, pharmaceuticals, motorcycle assembly, mineral processing, ceramics, cold storage, electrical appliances, halal food production	Yes
16	Quaid-e-Azam Business Park	Sheikhupura, Punjab	2020	Textiles and garments, agro-industry, engineering goods, warehousing	Yes
17	SITE Larkana SEZ	Larkana, Sindh	2023	Agro-based industries, such as food processing and packaging, and light engineering	No

Public

## Setup of 7 private, 9 sole enterprise, and 2 PPP SEZs dates to more recent years (2019 to 2023), with only 6 of them respectively being operational

### a. Zones Regime and Pipeline

	#	SEZ <sup>1</sup>	Location	YoE	Sectors covered	Operational
Private	1	Oil Village SEZ	Rawalpindi, Punjab	2019	Petroleum-related industries and logistics (likely oil refining, storage, lubricants).	Yes
	2	JW- SEZ China Pakistan SEZ	Lahore, Punjab	2020	Automobile assembly and allied industries, light engineering, electronics manufacturing.	Yes
	3	Challenge Fashion SEZ	Lahore, Punjab	2022	Textile and apparel	No
	4	IVI Junction SEZ	Rajanpur, Punjab	2022	<i>Data not available</i>	No
	5	Smart SEZ	Sheikhupura, Punjab	2023	<i>Data not available</i>	No
	6	Sundar Green SEZ	Lahore, Punjab	2023	Electronics assembly, textiles/garments, chemicals, light engineering, automotive parts, food processing	Yes
	7	DWP Innovation Park SEZ	Kasur, Punjab	2023	<i>Data not available</i>	No
SESEZ	1	Service Long March SESEZ	Jamshoro, Sindh	2021	Tire manufacturing (automotive sector)	Yes
	2	Siddiqsons Tin Plate SESEZ	Hub, Balochistan	2021	Metal industry – tinplate manufacturing (steel sheets/coils for packaging).	No
	3	Premier Cement Limited SESEZ	D.I. Khan, KP	2022	Cement	No
	4	PFB (Pvt) Limited SESEZ	Thatta, Sindh	2022	MDF (Medium Density Fiberboards)	No
	5	Fatima Cement Limited SESEZ	D.I. Khan, KP	2022	Cement	No
	6	Roshan Sun Tao Paper Mill SESEZ	Sheikhupura, Punjab	2022	Paper and packaging	No
	7	Sapphire Value Addition SESEZ	Khushab, Punjab	2023	Chemical Plant - Soda Ash plant	No
	8	Armstrong ZE (Private) Ltd SESEZ	Thatta, Sindh	2023	Tire manufacturing plant	No
	9	Ombre Industrial & Investment SESEZ	Lahore, Punjab	2023	Garment manufacturing, textile processing, and related vertical integration	Yes
PPP	1	Rashakai SEZ [CPEC]	Nowshera, KP	2019	Diversified industries incl. steel manufacturing, pharmaceuticals, surgical goods, electronics, chemicals, electric vehicle assembly	Yes
	2	Dhabeji SEZ [CPEC]	Thatta, Sindh	2023	Heavy and medium industries: steel foundries, automotive & auto parts, chemicals and pharmaceuticals, consumer electronics, textiles & garments, logistics/warehousing, building materials	No

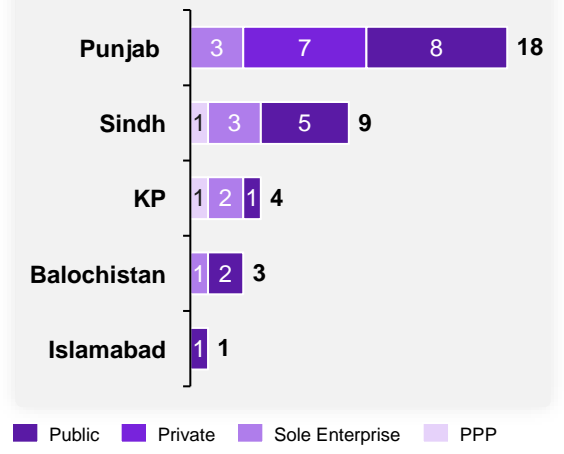
# Out of the 10 operational EPZs, 4 are public, 5 private and 1 public-private; in addition to the 5 private and 2 sole enterprise EPZs in pipeline

## a. Zones Regime and Pipeline

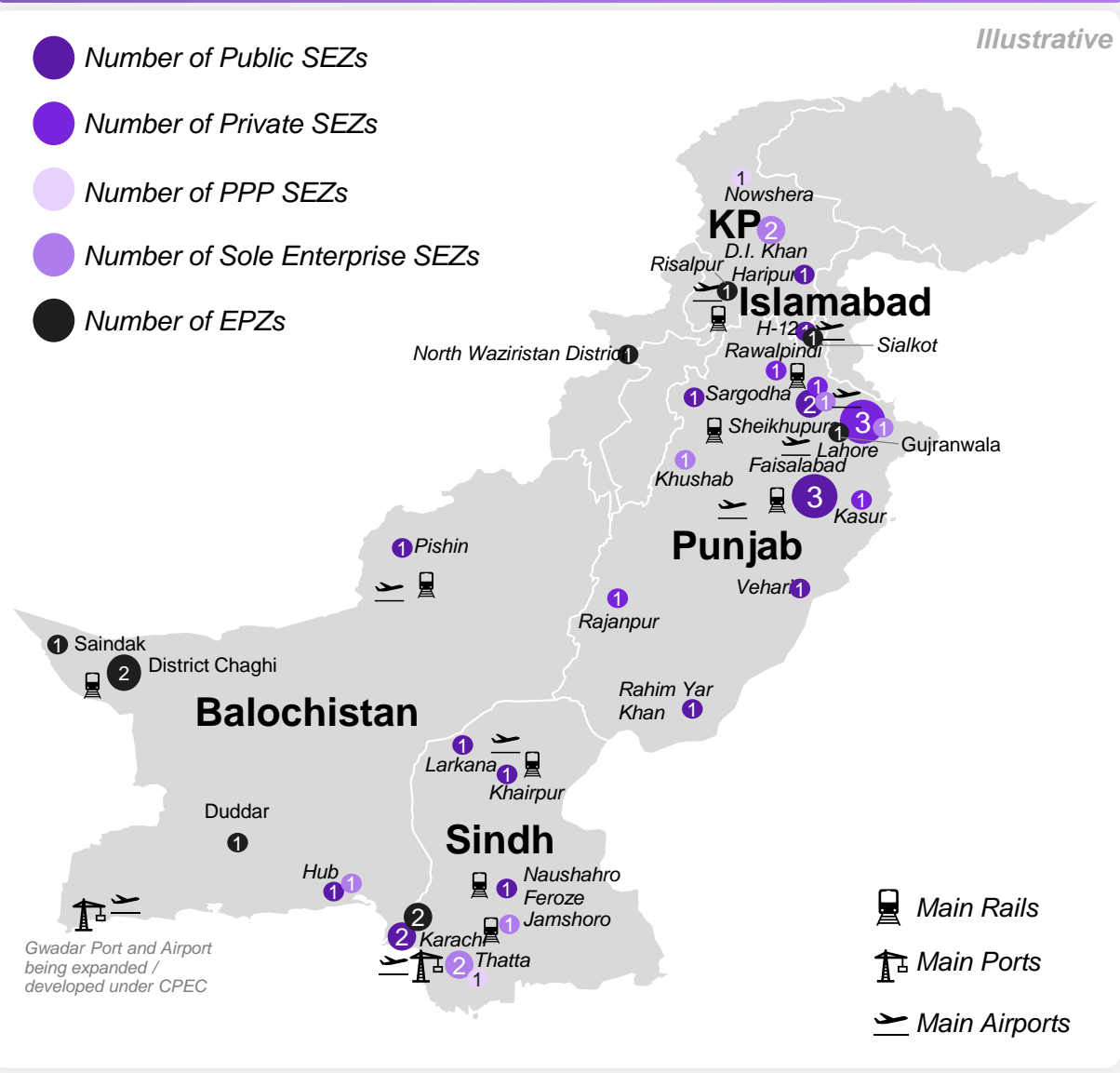
	#	EPZs	Location	YoE	Year of Operation	Area (Acre)	Operational
Public	1	KEPZ	Karachi, Sindh	1981	1982	305	Yes
	2	SEPZ	Sialkot, Punjab	1998	2002	238	Yes
	3	REPZ	Risalpur, KPK	1996	2002	92	Yes
	4	GEPZ	Gujranwala, Punjab	2004	2013	113	Yes
Private	5	Saindak	Saindak, Balochistan	2001	2002	1,248	Yes
	6	Duddar	Duddar, Balochistan	2004	2005	1,500	Yes
	7	National Steel Complex Limited	Karachi, Sindh	2005	2008	220	Yes
	8	Reko Diq	District Chaghi, Balochistan	2023	2023	3,707	Yes
	9	North Waziristan	North Waziristan District, KPK	2023	2023	32,371	Yes
PP	10	Siah Diq	District Chaghi, Balochistan	2025	2025	4,295	Yes
Private	11	Pakistan Car and Machinery Zones Pvt Ltd	n/a	n/a	n/a	1,000	No
	12	Pakistan Chemical Manufacturers Association	n/a	n/a	n/a	211	
	13	Spark Developers Pvt Ltd	n/a	n/a	n/a	56	
	14	M4 Corporation	n/a	n/a	n/a	888	
	15	Abid Danish Builders & Developers	n/a	n/a	n/a	1,000	
SEEPZ	16	Degan Exploration Works (DEW) - Dasht-e-Kain	n/a	n/a	n/a	79,074	
	17	Degan Exploration Works (DEW) - Dalbadin Baluchistan	n/a	n/a	n/a	51,151	

The province with the highest geographic concentration of EZs is Punjab, while in terms of models, public private, and sole enterprise SEZs are significantly more common than PPPs

SEZs distribution by province and model



GEOGRAPHIC DISTRIBUTION BY PROVINCE AND BY MODEL



Key Insights

- Public, sole enterprise, and private SEZs are the preferred model across all provinces, while PPP SEZs remain limited
- Punjab province dominates in terms of overall SEZs, particularly for public and private SEZs, supported by several transport routes
- Sindh has the 2<sup>nd</sup> strongest presence of public SEZs, and it is the only area where SEZs have access to sea (i.e., ports), with port in Gwadar (Balochistan) developed under CPEC
- KP, Balochistan, and Islamabad have a lower concentration of SEZs; despite its large surface, Balochistan's contribution to GDP is significant lower and its transport infrastructure less developed than Punjab and Sindh, however it has 4 out of 10 EPZs

# Among operational SEZs, there is a clear strong focus on manufacturing; one SEZ focused on ICT would fit under the purview of the STZA; EPZs focus on manufacturing and mining

## a. Zones Regime and Pipeline




- The majority of the SEZs in Pakistan are oriented toward manufacturing, with only a single zone specifically focused on ICT, despite the country's growing prominence in the tech/ICT sector
- The predominance of the manufacturing sectors among SEZs can be explained by the fact that historically these sectors have been regarded as major drivers for export expansion, employment, and industrial modernization, and they heavily rely on physical infrastructure
- ICT-focused SEZs are under STZA's mandate, with a wider set of benefits offered to ICT firms than manufacturing
- EPZs are instead equally split between 5 focused mainly on manufacturing and 5 focused on mining & quarrying

🔍 Deep-dives on operational SEZs in next slides

# Public SEZs tend to have a very strong focus on the wide range of manufacturing industries and transport & storage, with ICT and other service industries less covered

## a. Zones Regime and Pipeline

 Main sector covered, deep-dive on specific manufacturing sub-sectors coverage in next slides

# of companies under SEZ by sector <sup>1</sup>	MANUFACTURING	CONSTRUCTION	MINING & QUARRYING	WHOLESALE & RETAIL TRADE	TRANSPORT & STORAGE	EDUCATION	ACCOMODATION & FOOD SERVICE	HUMAN HEALTH & SOCIAL WORK	ELECTICITY, GAS SUPPLY	WATER SUPPLY, SEWAGE & WASTE	INFORMATION & COMMS
Khairpur SEZ	19				3		1		1		
Bin Qasim Industrial Park	39			2							
Korangi Creek Industrial Park	62			8	1	1					
M3-IC	345	10			20			1		5	1
Value Addition City	83				2						
Hattar SEZ	103				2						
Rahim Yar Khan Industrial Estate	66			1	3						
Vehari Industrial Estate	28				6						
Bhalwal Industrial Estate	35			1	9						
Rachna Industrial Park	10										
Allama Iqbal Industrial City [CPEC]	72	3									
National Science & Technology Park											28
Bostan SEZ [CPEC]	17		2								
Quaid-e-Azam Business Park	106	1									
<b>Subtotals</b>	<b>985</b>	<b>14</b>	<b>2</b>	<b>12</b>	<b>46</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>5</b>	<b>29</b>

Public SEZs


### KEY TAKEAWAYS

- **Public SEZs focus heavily on manufacturing** (with 985 companies under this sector), followed by **transport and storage** as the second most representative sector (with 46 companies)
- **Only one of the public SEZ** (National Science & Technology Park) is specifically focused on **ICT**, and other sectors are scattered and minorly covered, showing a **significant discrepancy vs. manufacturing**

1. Number of companies under each SEZ by sector covers companies for which information was available, hence not in all cases represent the total number of companies  
 Source: BOI "35 Notified SEZs across Pakistan", SEZs official websites

# Private, Sole Enterprise, and PPP SEZs tend to almost entirely focused on manufacturing, with a lower number of companies under these SEZs vs. public SEZs

## a. Zones Regime and Pipeline

 Main sector covered, deep-dive on specific manufacturing sub-sectors coverage in next slides

# of companies under SEZ by sector <sup>1</sup>	MANUFACTURING	CONSTRUCTION	MINING & QUARRYING	WHOLESALE & RETAIL TRADE	TRANSPORT & STORAGE	EDUCATION	ACCOMODATION & FOOD SERVICE	HUMAN HEALTH & SOCIAL WORK	ELECTICITY, GAS SUPPLY	WATER SUPPLY, SEWAGE & WASTE	INFORMATION & COMMS
<b>Private SEZs</b>											
Oil Village SEZ				4							
JW- SEZ China Pakistan SEZ	3										
Sundar Green SEZ	1										
<b>Sole Enterprises</b>											
Service Long March SESEZ	1										
Ombre Industrial & Investment SESEZ	1										
<b>PPP</b>											
Rashakai SEZ [CPEC]	19										
<b>Subtotals</b>	<b>25</b>	0	0	4	0	0	0	0	0	0	0

### KEY TAKEAWAYS

- Similarly to public SEZs, also **private, sole enterprise, and PPP SEZs** are **mainly focused on the manufacturing sector**
- **None** of the private, sole enterprise, and PPP SEZs is **focused on ICT or logistics**, and other sectors showcasing a **potential missed opportunity**

Source: BOI "35 Notified SEZs across Pakistan", SEZs official websites

# Deep-diving on the manufacturing sector, we observe a wide coverage of all sub-sectors by the SEZs, with textile, pharma, F&B and chemicals being the most represented sub-sectors

## a. Zones Regime and Pipeline

		MANUFACTURING																		
# of companies under SEZ by sub-sector <sup>1</sup>		Auto-motive	Basic Metals	Chemicals	Coke & Refined Petroleum	Constr. Materials	Electric. Equip.	Electronics	Fabricated Metal Products	Food & Bever.	Furniture	Garment, Textiles Apparel	Machinery & Equip.	Other manufacturing	Paper Products	Pharma	Repair/installation	Rubber & Plastics Products	Wood Products	
SEZs	AIIC	1	2	13		6	2		1	5		25		1	5	6		5		
	Bhalwal SEZ					1				8	1	2			4	11		7	1	
	Bostan SEZ		2	1		2	3			4					1			4		
	BQIP	6	7	2		2			1	11		1	3		3	1		2		
	Hattar SEZ	1	11	7	2	21	3		1	18		1	6		12	12		6	1	
	JW SEZ	2					1													
	KCIP	2		5	4	1	2	2	1	4	2	9	3	2	7	15			3	
	Khairpur								1	13		1			1	2			1	
	M3IC	7	1	50	1	13	13	3	2	33	2	124	22	2	21	36			15	
	Ombre SESEZ											1								
	QABP	4	3	12	1	1	7		1	13		15	4	4	7	15	1		18	
	Rachna SEZ		1	2			2		1		1			1		1				1
	Rahim Yar Khan SEZ		1	14			1			17	1	7	1		3	5			15	1
	Rashakai SEZ		2	3		1	3	1	1	2			1	1		3			1	
	Service Long March SESEZ																		1	
	Siddiqsons Tin Plate SESEZ		1																	
	Sundar Green SEZ									1										
VAC			6			1			4		37	6		8	21					
Vehari SEZ		2	5		1				1			1		8	9			1		
Subtotals		23	33	120	8	49	38	6	10	134	7	223	47	11	80	137	1	79	4	


### KEY TAKEAWAYS

– SEZs have a wide coverage of all manufacturing sub-sectors; the 4 most represented sub-sectors with more 100+ companies each are (i) garment, textile, and apparel; (ii) pharmaceuticals; (iii) food & beverage; (iv) chemicals

1. Number of companies under each SEZ by sector covers companies for which information was available, hence not in all cases represent the total number of companies  
 Source: BOI "35 Notified SEZs across Pakistan", SEZs official websites

# Similarly, the main 4 EPZs in Pakistan focus mostly on manufacturing, while private EPZs are focused on the mining sector

## a. Zones Regime and Pipeline

 Main sector covered, deep-dive on specific manufacturing sub-sectors coverage in next slides

# of companies under EPZ by sector <sup>1</sup>		MANU-FACTURING	PROCESSING / RECYCLING	MINING & QUARRYING	TRADING / WAREHOUSING	SUB-TOTALS
EPZs	KEPZ	134	85		42	261
	SEPZ	66			3	69
	REPZ	45			3	48
	GEPZ	29				29
	Saindak			1		1
	Duddar			1		1
	National Steel Complex Limited	1				1
	Reko Diq			1		1
	North Waziristan			1		1
	Siah Diq			1		1
<i>Subtotals</i>		275	85	5	48	

### KEY TAKEAWAYS

- Similarly to SEZs, also EPZs are mostly focused on manufacturing, followed by processing/ recycling, trading / warehousing and mining & quarrying
- More recently established EPZs (e.g., Saindak, Duddar, Reko Diq, North Waziristan, Siah Diq) have instead a dedicated focus on mining & quarrying

# Manufacturing EPZs also cover a broad range of manufacturing sub-sectors, but there is a clear dominance of the textile & apparel manufacturing exports among the 4 main EPZs

## a. Zones Regime and Pipeline

		MANUFACTURING																	
# of companies under EPZ by sub-sector <sup>1</sup>		Auto-motive	Basic Metals	Chemicals	Coke & Refined Petroleum	Constr. Materials	Electric. Equip.	Electronics	Fabricated Metal Products	Food & Bever.	Furniture	Garment, Textiles Apparel	Machinery & Equip.	Other manufacturing	Paper Products	Pharma	Repair/ installation	Rubber & Plastics Products	Wood Products
EPZs	GEPZ		6	3	1			1	5	1		6		1				5	
	REPZ					1				8	1	2			4	11		7	1
	KEPZ	1	4	17	2	5	7	4	4	13	1	165	7	8	8	1	3	31	
	SEPZ		7	2		2			1	11		1	3		3	1		2	
Subtotals		3	21	23	4	10	8	6	13	24	2	200	10	29	11	4	6	40	1

### KEY TAKEAWAYS

– EPZs, similarly to SEZs, tend to cover the **broad range of the manufacturing sub-sectors**, yet there is a **more pronounced predominance** (200 companies) of the **textile & apparel industries** compared to SEZs, which can be also partially due to the availability of the sub-sector split by company only for the 4 main EPZs

# Under current regulatory framework, there are two series of benefits that can be offered to SEZs in Pakistan, of which only fiscal incentives are operationalized

## b. Fiscal Incentives

SEZs INCENTIVES	
FISCAL INCENTIVES	INFRASTRUCTURE DEVELOPMENT & SUPPORT
<p><b>TO DEVELOPERS/CO-DEVELOPERS:</b></p> <ul style="list-style-type: none"> <li>– One-time Custom Duty exemption on import of Capital Goods</li> <li>– Income Tax exemption for 10 years from the date of signing of Development Agreement</li> </ul>	<p><b>AVAILABILITY OF:</b></p> <ul style="list-style-type: none"> <li>– Utilities (electricity, gas, water), boundary wall, roads, internet</li> <li>– Plug-n-Play Model for Garments Manufacturing</li> <li>– Dedicated Amenity Areas i.e. warehousing, recreational areas, filling stations, residential colonies etc..</li> <li>– Effluent Treatment Plant</li> <li>– Security</li> <li>– Emergency Response Unit</li> <li>– Technical Institutes</li> <li>– One Window Operations</li> <li>– Medical Facilities</li> <li>– Skilled Labor</li> </ul>
<p><b>TO NEW ZONE ENTERPRISES:</b></p> <ul style="list-style-type: none"> <li>– One-time Custom Duty exemption on import of Capital Goods</li> <li>– Income Tax exemption for 10 years from the date of commencement of Commercial Operation</li> </ul>	

**CHALLENGES IDENTIFIED BY SEZs DEVELOPERS**

**FISCAL INCENTIVES**

- **One-time custom duty exemption limits the growth of companies** that need new machinery and technology as **restricts the incentive** only to machinery initially required by the business plan

**INFRASTRUCTURE & SUPPORT**

- **Lack of provision of subsidized utilities and subsidized land** (high cost of land, electricity & gas increases the cost of doing business)
- **No plug-n-play model** in place
- **Lack of automated one-window** service to streamline operations
- **High security cost** creates additional burden on enterprises/developers' costs

*Deep-dives on SEZ infrastructure assessment in next slides*

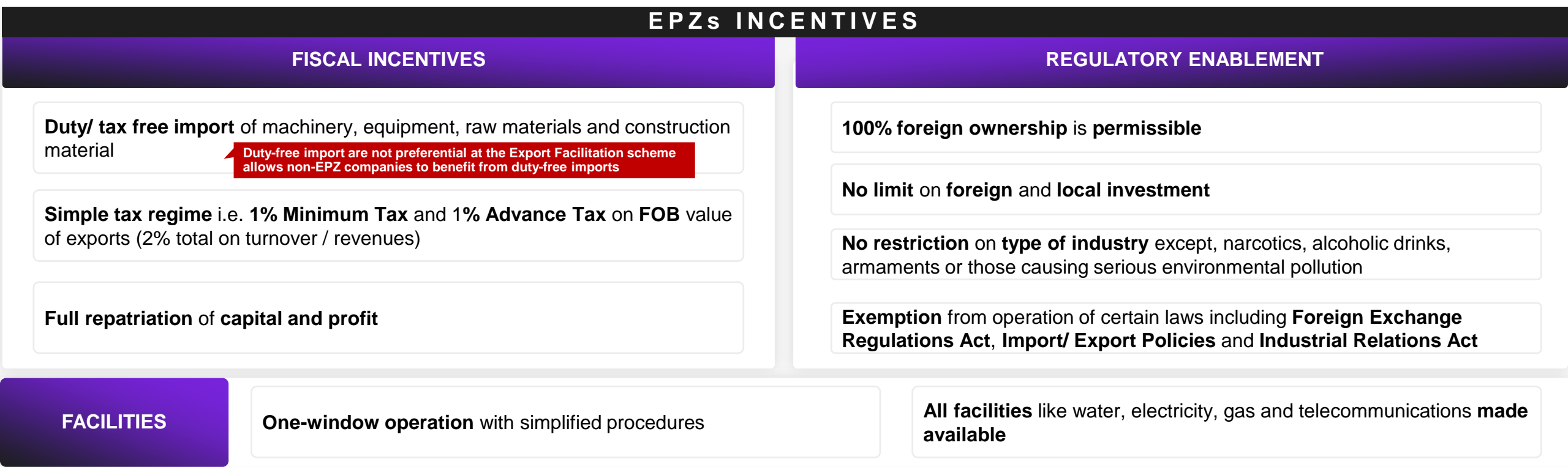
**KEY TAKEAWAYS**

- **Limited operationalized incentives to SEZ:** Public, private, sole enterprise, and PPP SEZs receive the **same fiscal incentives**; yet the actual incentives package offered to SEZs is **limited to fiscal incentives** as **infrastructure development support** and **utilities provision** are **not subsidized by the government**
- **Variability by SEZ and lack of sector-specific incentives:** This **variability in benefits each SEZ receives** could be among the reasons behind the slow growth of the SEZs, and the **lack of sector-specific incentives limits the growth of SEZs**

Source: BOI "Incentives in Special Economic Zones"; Punjab Board of Investment and Trade

# Similarly, also EPZs receive 9 main types of incentives, covering fiscal incentives, regulatory enablement, and facilities support

## b. Fiscal Incentives











! However, the **EPZA** in the brief on IMF conditionalities on EPZs in Pakistan highlighted that after the Finance Act, 2024, all industrial undertakings in EPZs are required to pay minimum tax @ 1% of FOB value of exports and advance tax @ 1% of FOB value of exports which is approx. **18-50% as against 29% standard rate**, which indicates that as of now they do **not enjoy any corporate tax holiday**

# Although SEZs provide strong incentives, they are behind peers on key areas

## b. Fiscal Incentives for Special Economic Zones (SEZs)

**Legend**

- Not Applicable / Not Available
- Provided but issues with delivery
- Low Value vs. Peers
- Mild Value vs. Peers
- High Value vs. Peers

ECONOMIC ZONES OFFERINGS		 Pakistan	 India	 Bangladesh	 Thailand	 China	 UAE	 Korea	 Turkiye
FISCAL	Corporate Income Tax	10yr exemption, 5yr for developers; 1-2% presumptive tax or ~29% CIT on profit	15yr holiday on export income (On Export Income 100% 5yr, 50% 5yr, 50% of reinvested export profits for 5yr)	Tax Holiday for 3yr and Gradual Increase over 10yr; Zone Developers get 12yr Tax Exemption	Tax Holiday 8-13 yrs, 10% CIT for 10 years; 50% for 5 years after 8-years tax holiday	Tax Holiday 2yr then Tax reduction of 3yr of 50% reduced rate	Tax Rate only applied to domestic income	Tax holiday of 5yr, followed by 50% reduction for 2yr	Manufacturing companies in free zones pay 0% corporate tax on income from zone operation
	Deductions	n/a	n/a	n/a	200-300% deductions for logistics, power and water for 10yrs, 25% deduction on facility construction	Tax credits for R&D or accelerated depreciation to encourage technology investment	n/a	Tax credits for R&D, Workforce Training	Reduced/Exempt Corporate Tax for R&D or tech development until 2028
	Personal Income Tax	n/a	n/a	n/a	Personal Tax Reduction at 17% flat rate	n/a	n/a	n/a	Exemption of personal income tax If exports ≥85% of production
	Land & Property Tax	n/a	n/a	n/a	n/a	n/a	n/a	Full exemption of property acquisition tax and reductions of property tax for up to 15 years	Property tax & municipal tax exemptions
	Customs Duties	1-time exemption on CAPEX import for SEZ; Full for EPZs	Zones can trade without customs duties, incl. machinery, raw materials, & consumables	Duty-free import of capital machinery, raw materials, and inputs for production in zones	Duty-free import of Machinery, Equipment and Raw materials. Raw Materials duty-free entry for 5 years	Duty-free import of raw materials, parts, and capital equipment for re-export	Duty-free import of raw materials, components, machinery, and office equipment. No export customs duties	Duty-free import for capital goods (e.g. machinery, equipment) for 5 years	Exemption of Goods (machinery, raw materials) enter free zones duty-free.
	VAT / Sales Tax	EPZ firms exempt from sales tax on inputs	Supplies to SEZs are treated as zero-rated and exempt from Sales tax	Avoidance of double taxation and entitlement to Generalized System of Preferences for exports	Full VAT exemption on exports	imports exempt from VAT until entering domestic market. Some zones even exempt or refund VAT	n/a	n/a	No VAT, stamp duty, or special consumption tax on transactions within the zone

### KEY TAKEAWAYS

- **CIT 10-year tax holiday offered is competitive**; however, no additional deductions are provided (i.e. R&D, Training, Utilities, others).
- **1-time import duties exemptions on CAPEX for SEZs is prohibitive**, as it does not incentivize companies to **reinvest in technology or expansion**, whereas most peers provide full exemption on all production and CAPEX costs for export promotion.

# Fiscal incentives offered by EPZs are in-line with peers except for income tax; Pakistan and Egypt are the only ones not offering any forms of exemption from CIT

## b. Fiscal Incentives for Export Processing Zones (EPZs)

**Legend**

Not Applicable / Not Available
Provided but issues with delivery
Low Value vs. Peers
Mild Value vs. Peers
High Value vs. Peers

ECONOMIC ZONES OFFERINGS		 Pakistan	 Bangladesh	 Vietnam	 Philippines	 Kenya	 Dominican Republic	 Egypt
FISCAL	Corporate Income Tax	1% Minimum Tax and 1% Advance Tax on FOB value of exports (2% total on turnover / revenues)	Tax holiday for 5–10 years (duration varies by zone)	4–7 year Income Tax Holiday, then 5% Gross Income Tax in lieu of all taxes	0% CIT for 10 years; 25% reduced rate for next 10 years	100% exemption from income taxes (renewable 15-year periods)	Full CIT exemption for free-zone activities (zero corporate tax)	n/a
	Deductions	Indefinite loss carry-forward for EPZ companies	Interest on borrowed capital tax-exempt; accelerated depreciation on EPZ plant/equipment	Option for enhanced deductions (additional allowable expenses) for 10 years instead of 5% SCIT	100% investment deduction on new EPZ buildings and machinery (amortized over 20 years)	Exempt from taxes on loan contracts, capital increases, and asset/equity value	n/a	n/a
	Personal Income Tax	n/a	Foreign technicians' salaries tax-free for 3 years in EPZs (conditions apply)	n/a	n/a	n/a	n/a	n/a
	Land & Property Tax	Exempt from provincial/municipal taxes, including property taxes	50% reduction in stamp duty on EPZ land transfers	Exempt from local taxes (incl. real property tax) under 5% gross income regime	Perpetual exemption from stamp duty on legal instruments and property transfers	Exempt from construction, real estate transfer and registration taxes	Exempt from stamp duties and real estate registration fees in free zones	Reduced land lease rates in EPZs (discounted rentals for zone investors)
	Customs Duties	Duty-free import of machinery, equipment, and materials for EPZ firms	Duty-free import of machinery, raw materials, construction materials; duty-free export of finished goods	Tax- and duty-free importation of machinery, equipment, spare parts, and raw materials	Perpetual exemption from import duties on all inputs (raw materials, machinery, etc..)	100% exemption from import duties on machinery, equipment, and raw materials	All imports into free zones exempt from customs duties (exports likewise duty-free)	Import duties exempt on inputs (raw materials, capital goods) for EPEs
	VAT / Sales Tax	No sales tax (VAT) on input goods, including electricity & gas for EPZ units	VAT-free on imports; 0% VAT on exports (EPZ companies effectively outside VAT net)	VAT exemption on importation and zero-rating on local purchases of goods/services	Perpetual exemption from VAT on inputs; local purchases by EPZ firms are zero-rated	100% exemption from VAT (ITBIS) on all purchases and sales under free zone regime	No VAT on goods or services in free zones (treated as outside domestic market)	VAT exempt on inputs and outputs for EPZ enterprises (no VAT declarations required)

**KEY TAKEAWAYS**









- No CIT incentives are offered to EPZ in both Pakistan and Egypt, all other programs offer tax holidays or reduced rates
- Duties, Land, personal income, deductions and VAT incentives are all aligned with peers

# Delivery of services and facilitation is not effectively implemented across SEZs (1/2)

## c. Non-Fiscal Benefits for Special Economic Zones (SEZs)

**Legend**

- Not Applicable / Not Available
- Provided but issues with delivery
- Low Value vs. Peers
- Mild Value vs. Peers
- High Value vs. Peers

ECONOMIC ZONES OFFERINGS		 Pakistan	 India	 Bangladesh	 Thailand	 China	 UAE	 Korea	 Turkiye
NON-FISCAL	Land Access	SEZ developers facilitated by gov't in acquiring land; Land in EPZs can be leased up to 30yr at competitive rates	State gov't provide land for SEZs at concessional rates	Long-term land leases (up to 50 years, extendable) are offered in economic zone	100% foreign land ownership or long-term lease (up to 50 years, renewable) is allowed for business use	Authorities provide industrial land at discounted rates or with rent-free periods	n/a	n/a	Authorities provide land or ready-built facilities at lower rates; Investors receive discounted land prices
	Visa Incentives	n/a	n/a	n/a	Smart Visas for investors and skilled employees in advanced industries	n/a	Golden visa for investors and specialized talent visa schemes offered throughout the country	n/a	n/a
	Labor Incentives	n/a	Reimbursements for training costs	n/a	Set up vocational training centers around SEZ areas, Wage subsidies for trainees	n/a	n/a	Partial reimbursement of training costs	Gov't subsidizes portion of employers' social security contributions for R&D personnel until 2028
	Funding & Grants	n/a	n/a	n/a	Access to government innovation funds, R&D incentives, and matching grants for technology development	Companies with R&D centers in zones get subsidies, housing allowances for staff, or cash rewards	n/a	Cash grants to large FDI SEZ projects >5% of FDI amount as a subsidy to support factory buildup, hiring or R&D	n/a
	Utilities Subsidies	n/a	Discounted power tariffs offered to zone companies	n/a	Free or subsidized connectivity to utilities in industrial parks	Subsidized utilities or relocation grants to attract projects.	n/a	Fund up to 50% of required infra for projects in the zone, or even 100% upon special approval	Lower priced utilities, government-subsidized electricity, water, or natural gas rates.

**KEY TAKEAWAYS**









- Access to utilities is a major challenges faced by Pakistan zone companies; PSDP and similar programs are attempting to bridge that gap
- Access to business, facilitation and ancillary services offered to SEZs is limited

# Delivery of services and facilitation is not effectively implemented across SEZs (2/2)

## c. Services Offered for Special Economic Zones (SEZs)

**Legend**

- Not Applicable / Not Available
- Provided but issues with delivery
- Low Value vs. Peers
- Mild Value vs. Peers
- High Value vs. Peers

ECONOMIC ZONES OFFERINGS		 Pakistan	 India	 Bangladesh	 Thailand	 China	 UAE	 Korea	 Turkiye
SERVICES	Utilities & Transport Infra.	Off-site infrastructure to zone boundaries (PSDP), only for select SEZs	n/a	Government ensures off-site infrastructure (roads, power, water, telecom) for new zones	New highways, U-Tapao airport expansion, seaport upgrades, and high-speed rail linking industrial sites	Heavy investment in zone infrastructure (transport links, utilities) to lower investor costs	Modern infrastructure, high-quality offices, warehouses, industrial land, utilities, and telecoms	n/a	n/a
	One-Stop-Shop	Single-window facilitation for licensing, permits, and customs (not digitized)	Each SEZ offers one-stop for central and state approvals, simplifying setup and operational clearances	Single-window facilitation – they handle registrations, licensing, work permits, and customs clearance on-site	One Stop Service Centers for visas and work permits (e.g. in Bangkok and in EEC) for BOI-promoted and investors.	One-stop administrative service centers to handle registration, licensing, customs, and tax matters	One-stop admin. service by zone authority for streamlined procedures incl. licensing, visas, and registrations	One-stop service center assisting with investment registration, permits, tax, with dedicated gov't liaisons	Single-window support for licensing, building permits, customs, and workforce approvals
	Customs Facilitation	Dedicated customs posts (EPZ), SEZ get expedited customs	Customs stations in SEZs handle documents, clearances and 24/7 ops; licensing waived for SEZ-based firms		Imports bypass customs duty and inspections and instead are tracked under a special system until export	Single window system for trade – companies can lodge all import/export documentation through e-platform	Facilitated customs clearance with dedicated services – e.g. inspection and clearance of goods directly in-zone	Expedited customs clearance procedures in-zone	Free zones have dedicated customs points, easing procedures with minimal formalities
	Access to Ancillary Services	SEZs/EPZs offer dedicated security, site management, government liaisons and investor support	Authorities and developers support on local sourcing, expansions, dispute resolution, and compliance	Zone mgt. offers security and logistics support, and assist foreign investors with residency permits/citizenship	n/a	Investors assigned account managers by authorities to assist on compliance, expansion applications, issues	Banking, auditing, and logistics are readily available within many larger free zones, simplifying operations	Established international schools, foreign-language services, and hospitals in FEZ areas	Authorities help with site selection, legal, and aftercare and coordinate with gov't for issue resolution

**KEY TAKEAWAYS**








- Access to utilities is a major challenges faced by Pakistan zone companies; PSDP and similar programs are attempting to bridge that gap
- Access to business, facilitation and ancillary services offered to SEZs is limited

# EPZ non-fiscal benefits offered are minimal compared to peers except for land leasing; more can be done when it comes to visas, funding/financing, and utilities subsidies

## c. Non-Fiscal Benefits for Export Processing Zones (EPZs)

**Legend**

- Not Applicable / Not Available
- Provided but issues with delivery
- Low Value vs. Peers
- Mild Value vs. Peers
- High Value vs. Peers

ECONOMIC ZONES OFFERINGS		 Pakistan	 Bangladesh	 Vietnam	 Philippines	 Kenya	 Dominican Republic	 Egypt
NON-FISCAL	Land Access	SEZ developers facilitated by gov't in acquiring land; Land in EPZs can be leased up to 30yr at competitive rates	Land and standard factory buildings available on long-term rent inside EPZs	90+ industrial parks nationwide with modern facilities available for free zone companies	Multiple public free zones (at ports and cities) offer serviced land/warehousing for investors	Serviced land and ready-built factory space for lease to EPZ investors	Low-cost land leases in export processing zones; EPZs offer discounted rental terms	Able to locate in PEZA economic parks with ready infrastructure and factory shells
	Visa Incentives	n/a	Expedited work permit issuance for foreign employees via BEPZA one-stop service	n/a	n/a	n/a	n/a	Special multiple-entry PEZA visa and visa assistance for foreign executives and family
	Labor Incentives	n/a	n/a	Sector-specific lower minimum wage in free zones (reduced labor costs for companies)	n/a	n/a	n/a	Foreign nationals allowed in key positions (liberalized hiring of expats in zones)
	Funding & Grants	n/a	n/a	Training support via national program (INFOTEV) for employee skill development	n/a	EPZ SME program offers reduced rent and business development support	Regular financing options (including foreign loans) available	Firms rely on general investment finance schemes
	Utilities Subsidies	n/a	n/a	No utility subsidies; zones provide necessary infrastructure (power, water, waste) at cost	n/a	n/a	n/a	n/a

### KEY TAKEAWAYS

- EPZ offer **competitive leasing and land costs** for investors and zone companies, **in-line with generous peer incentives**
- **Limited non-fiscal incentives** offered otherwise on visa, labor, funding, financing and utilities subsidies

# EPZ services offered are somewhat in-line with offerings by global peers however additional amenities and ancillary services can be offered

## c. Non-Fiscal Benefits for Export Processing Zones (EPZs)

**Legend**

- Not Applicable / Not Available
- Provided but issues with delivery
- Low Value vs. Peers
- Mild Value vs. Peers
- High Value vs. Peers

ECONOMIC ZONES OFFERINGS		 Pakistan	 Bangladesh	 Vietnam	 Philippines	 Kenya	 Dominican Republic	 Egypt
SERVICES	Utilities & Transport Infra.	Basic industrial infrastructure provided (power, water, roads in EPZ; near port access for some zones)	Zone provides electricity, water, gas, telecom on-site; secure and pollution-free area	Modern infrastructure in ecozones (roads, power, telecom); exemptions on port wharfage fees	International-standard parks with on-site utilities; many zones close to port or airport	State-of-the-art facilities in 90+ parks; proximity to 9 airports & 13 seaports for exports	Free zones at strategic locations (e.g. Alexandria, Suez) with full utility and transport links (port access)	EPZs located near seaports/airports; on-site power, waste treatment, telecom facilities
	One-Stop-Shop	EPZA one-window operation with simplified procedures for all investor needs	BEPZA "One Window, Same Day" service (fast project approval, import/export permits)	PEZA as one-stop shop handles all permits and registrations, simplifying compliance	EPZA One-Stop Shop for facilitation and aftercare (streamlined approvals and support)	CNZFE and zone operators coordinate to streamline free zone licensing and oversight (centralized facilitation)	GAFI handles free zone licensing/operations under one umbrella, offering one-stop investor services	HEPZA provides one-stop service for EPZ enterprises (single authority for licenses)
	Customs Facilitation	Freedom from national import regulations; on-site customs facilitation for EPZ exports	All customs formalities handled at factory gate by on-site customs officers (fast clearance)	Simplified import-export procedures and on-site customs office in economic zones	Resident customs officers in each zone for on-site documentation and inspections	In-zone customs offices expedite imports/exports; free zone shipments bypass regular customs processes	Exclusive customs directorate for free zones with simplified procedures for trade	Fenced EPZs with dedicated customs oversight at gates ensure smooth duty-free import/export
	Access to Ancillary Services	Standard business services accessible (e.g., banking, insurance) – no special services offered	On-site facilities: customs office, post office, medical center, fire and police stations	Key services (banks, telecom, logistics) readily available in PEZA zones for investors	24/7 security, waste management, etc., provided; banks, catering, other services allowed on-site	Training programs (INFOTEP) available to zone firms; robust support infrastructure in parks	Free zones permit on-site service providers (e.g. banks, logistics); full basic amenities provided	Zones include utilities and amenities (power, water treatment, clinic, firefighting, etc..)

**KEY TAKEAWAYS**

- Access to utilities, transportation infrastructure in-line with peers
- Potential to improve amenities offered to EPZs such as training, logistics, telecom, medical, fire / police / other municipal services

# Finally, to assess the SEZs infrastructure, both in terms of availability of utilities and availability of inside and outside infra, 10 dimensions have been observed

## c. Non-Fiscal Benefits

**ASSESS AVAILABILITY OF UTILITIES INSIDE THE ZONES**

- Electricity to zero point
- Electricity distribution within the zone
- Gas to zero point
- Gas distribution within the zone
- Water availability

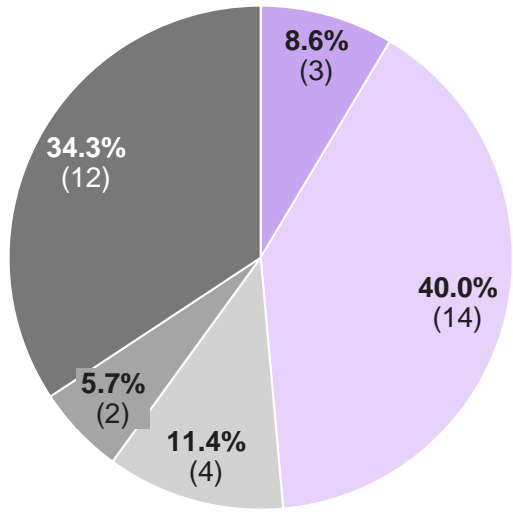
**ASSESS AVAILABILITY OF INSIDE AND OUTSIDE INFRASTRUCTURE**

- Access road availability
- Internal road availability
- Boundary wall availability
- Sewage availability
- Wastewater treatment

# Electricity infrastructure in SEZs shows significant gaps, with 34% lacking connection to the zero point and nearly 46% without internal distribution networks

## c. Non-Fiscal Benefits

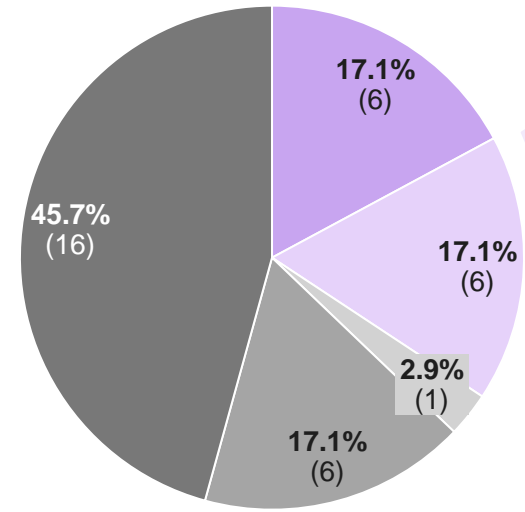
### ELECTRICITY TO ZERO POINT



- More than one third of the 35 SEZs (of which only 20 are active) still lack reliable electricity at entry, which may affect industrial uptake
- Low PSDP coverage (8.6%) highlights limited role of federal support in providing electricity, with most connections (40%) arranged by developers

■ Available (PSDP)      ■ Work in Progress (Developers own arrangement)  
■ Available (Developers own arrangement)      ■ Not Available  
■ Work in Progress (PSDP)

### ELECTRICITY DISTRIBUTION WITHIN THE ZONE



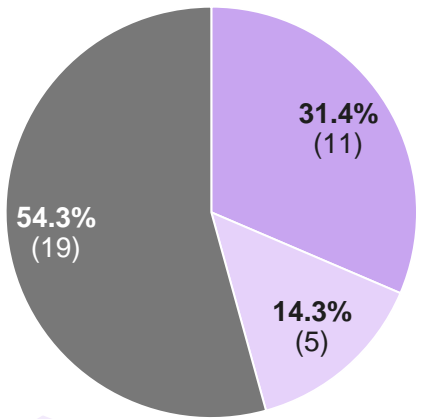
- Complete distribution is in place in only 34.2% of SEZs (17.1% by developers and 17.1% by DISCOs/KE)
- However, 45.7% of SEZs (16 zones) have no electricity distribution network inside the zone, mainly reflecting the not yet operational SEZs

■ Complete Distribution by Developer      ■ Partial Distribution by Concerned DISCO/KE  
■ Complete Distribution by Concerned DISCO/KE      ■ Not Available  
■ Partial Distribution by KE (ZEs own arrangement)

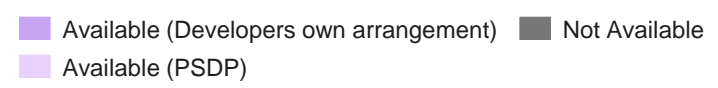
# Gas and water remain critical gaps, with over half lacking gas connections and 60% without internal distribution; water access is similarly uneven, with only a 1/3 fully served

## c. Non-Fiscal Benefits

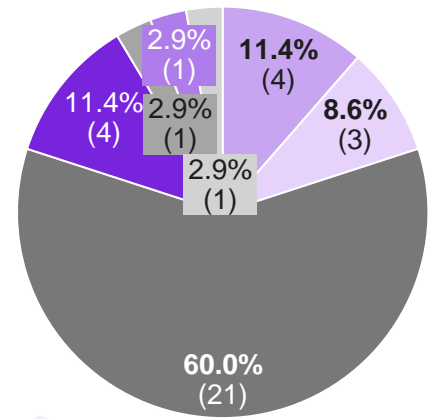
### GAS TO ZERO POINT



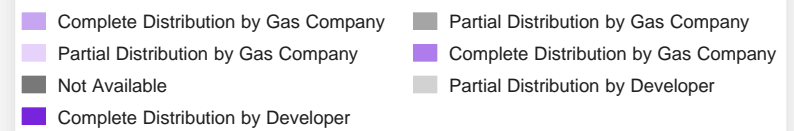
- Only 45.7% of SEZs have gas access at the entry point (31.4% via developers, 14.3% via PSDP); a **majority (54.3%) remain unconnected**



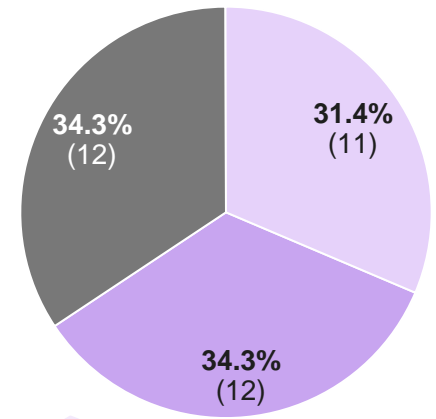
### GAS DISTRIBUTION WITHIN THE ZONE



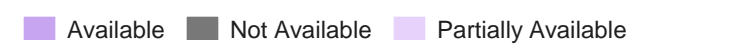
- Internal gas networks are largely missing: **60%** of SEZs have **no internal distribution**
- **Only 11.4% are fully served by gas companies**; others rely on **partial setups** or **developer-driven efforts**



### WATER AVAILABILITY



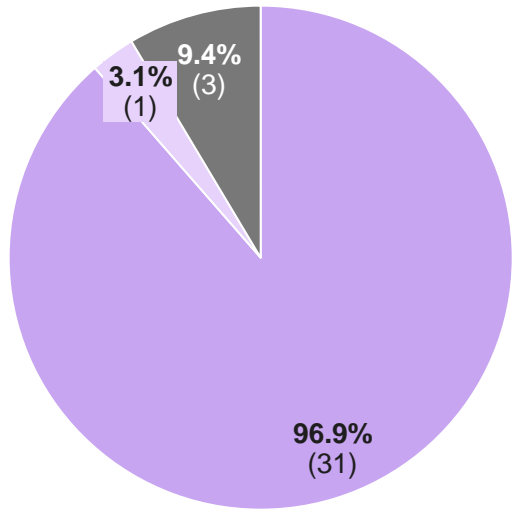
- Water is **available in 34.3% of zones**, while 31.4% lack access entirely, and another 34.3% have only partial availability



# While entry to SEZs is largely ensured, internal mobility and logistics within the zones are still under development

## c. Non-Fiscal Benefits

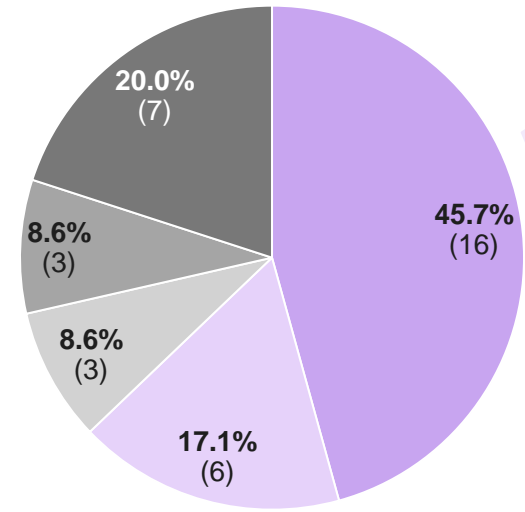
### ACCESS ROAD AVAILABILITY



– Access roads are **nearly universal, with 97% of SEZs connected**, indicating strong external connectivity and prioritization of SEZ integration with national road networks

Available Under Construction Not Available

### INTERNAL ROAD AVAILABILITY



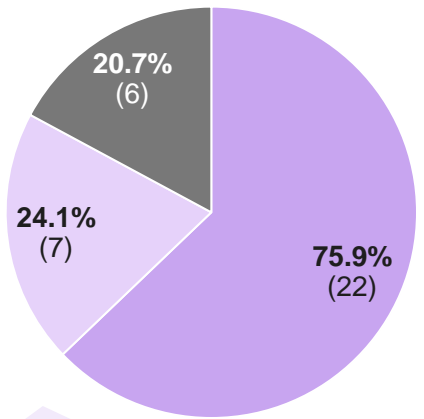
– Only **46% of SEZs have fully completed internal roads**, while 20% still have no internal roads at all  
– The remaining zones rely on **temporary or partially completed roads**, suggesting incomplete infrastructure within SEZ boundaries, which could hinder on-ground operations

Construction Completed Construction Partially Completed Temporary Roads Available Temporary Roads Partially Available Not Available

# Basic infrastructure remains uneven across SEZs: while 76% have completed boundary walls, sewage systems are available in only 37%, and 83% lack wastewater facilities

## c. Non-Fiscal Benefits

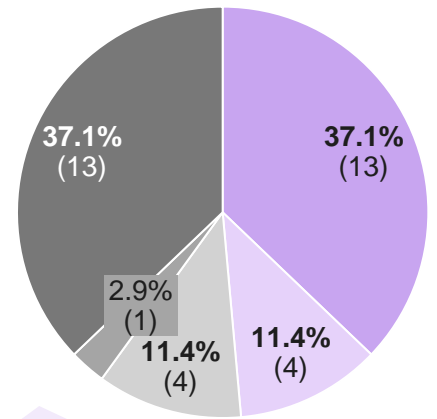
### BOUNDARY WALL AVAILABILITY



- 76% of SEZs have **completely built boundary walls**, ensuring perimeter security
- However, 21% still lack a boundary wall, which may **impact physical control and safety** - especially for non-operational zones or early-stage developments.

■ Completely Built 
 ■ Partially Built 
 ■ Not Built

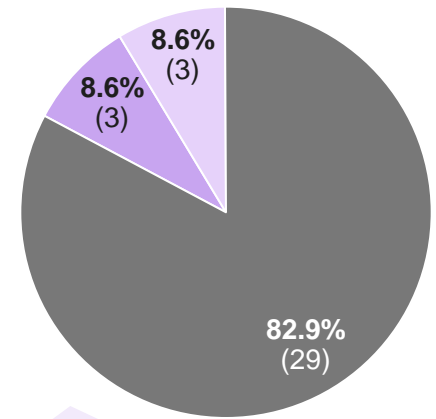
### SEWAGE AVAILABILITY



- Only 37% of SEZs have **functioning sewage systems**, while another 37% **lack any sewage infrastructure**
- The rest have either partial availability or systems still under construction, reflecting a **fragmented approach** to essential services within the zones

■ Available 
 ■ Partially Available 
 ■ Not Available and Under Construction 
 ■ Not Available 
 ■ Partially Available and Under Construction

### WASTEWATER TREATMENT



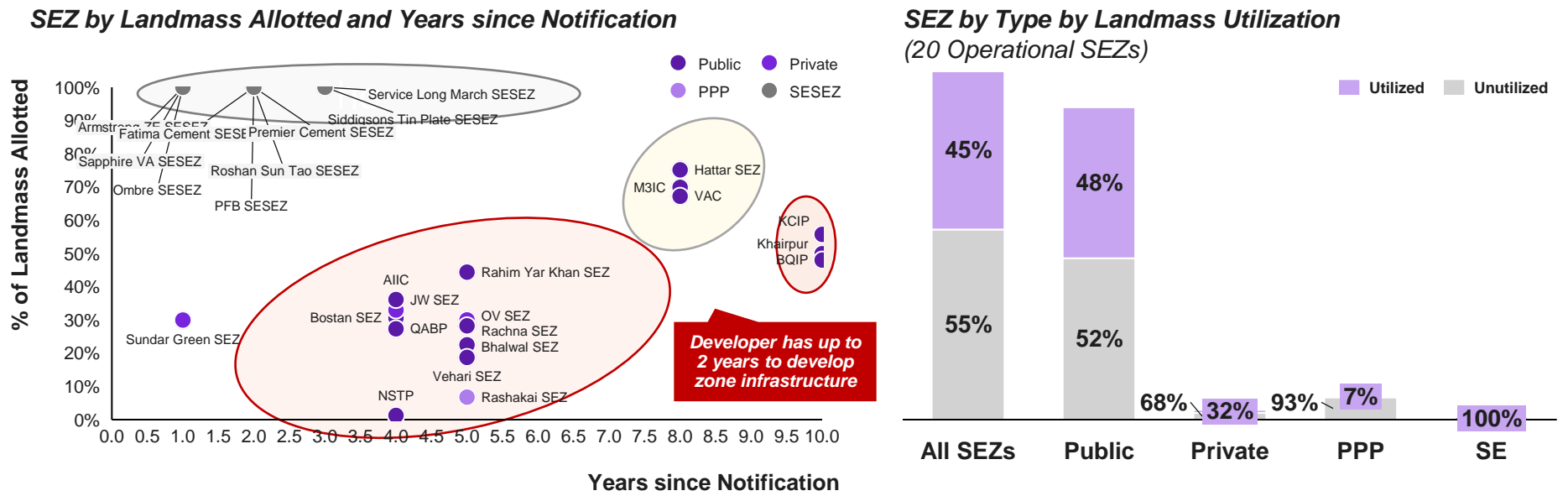
- A **significant 83% of SEZs lack wastewater treatment facilities**, with only 9% having them operational and another 9% under construction
- This indicates a **major environmental and operational gap**, particularly critical for zones attracting manufacturing or processing industries

■ Available 
 ■ Under Construction 
 ■ Not Available

**SEZs are not achieving high plot utilization, due to challenges in activation of zone, due to delays in infrastructure build up, specifically electricity connectivity**

**d. Zone Land Utilization**

**LANDMASS PLOT UTILIZATION ASSESSMENT**



- Among public, private and PPP multi-companies SEZs, most hover at <60% utilization, showing partial uptake with limited momentum for full activation; observed in 3 oldest SEZs that despite notified ~10 years ago (KCP, Khairpur, BQIP) have not yet achieved full land utilization
- Delays in achieving full plot utilization are due to delays in operationalizing zones trigger by delays in making critical infrastructure readily available such as road, energy connectivity to zone boundaries; this contributed to delays in getting zones notified years ago to operationalize (i.e. Rashakai SEZ has been inaugurated in 2024)
- 9 SESEZs are considered fully allotted as they are provided to a sole enterprise

**KEY TAKEAWAYS**

- **Low landmass utilization:** Several strategic SEZs like **Rashakai SEZ (6.8%)**, **NSTP (1.3%)** have **low land allocation** despite being notified 4-6 years ago, due to the time required to deliver critical infrastructure
- **Inefficiencies in Infrastructure Provisioning:** Older SEZs such as **Khairpur, BQIP, and KCIP** — all notified in **2014** — still have **below 56% land allocation** after a decade; also due to **delays in provisioning transport and energy infrastructure** to new phases of these plot being developed

We assess the contribution of EZs to outcomes across six dimensions

# Economic Zone Regime Effectiveness Framework

## 1 Macro-Economic and Investment Environment

Market Environment	Regulatory Framework	Human Capital	Enabling Factors
<i>How attractive and stable is the Pakistan economy for investors?</i>	<i>How reliable is the regulatory environment for new ventures and investors?</i>	<i>How available is the workforce and what is the quality of workers?</i>	<i>What is the quality of transport infrastructure, utilities costs, investment and innovation ecosystem?</i>

## 2 Zone Incentives, Benefits and Delivery

Zone Regimes & Pipeline	Fiscal Incentives	Non-Fiscal Benefits	Zone Land Utilization
<i>What's the pipeline of operational and notified economic zones and how are they distributed geographically?</i>	<i>What fiscal incentives are provided to economic zones and how are they applied?</i>	<i>What non-fiscal incentives and benefits are offered to economic zone enterprises and how are they delivered?</i>	<i>How effectively is the landmass allocated to economic zones utilized?</i>

## 3 Economic Zones Program Outcomes

Economic Output	Exports	Balance-of-Payment	Employment	Direct Fiscal Revenues	National Priorities
<i>What is the contribution of EZs to GDP?</i>	<i>What is the contribution of EZs to Exports?</i>	<i>What is the contribution of EZs to the BoP?</i>	<i>What is the contribution of EZs to the workforce?</i>	<i>What is the contribution of EZs to Gov't Revenues?</i>	<i>What is the contribution of EZs to national priorities?</i>

## 4 Legal Considerations

**Legal Assessment of SEZ Regime**

*What is the legal standing of the SEZ act, regulations and ordinance, and what should implications should be considered in the event of a rollback of incentives?*

# Contribution of SEZ and EPZ towards national economic outcomes is positive, however there is room for improvement when compared with similar programs

## 3. Economic Zones Program Outcomes

Dimensions	Performance	High-level observations
<p>a</p> <p>GDP</p>		<ul style="list-style-type: none"> <li><b>GDP contribution of economic zones is still limited</b> compared to other economies with potential to expand; EPZ contribution has slightly increased (+0.01%) in the last 3 years, whereas SEZs contribution has increased (+0.12%)</li> </ul>
<p>b</p> <p>Exports</p>		<ul style="list-style-type: none"> <li><b>Limited contribution to total exports: SEZs and EPZs in Pakistan only contribute to ~9% of the total exports, Focus on low value-added activities such as manufacturing of textile and garments</b> rather than high-productivity sectors is a key drivers of this relatively low contribution</li> </ul>
<p>c</p> <p>Balance of Payments</p>		<ul style="list-style-type: none"> <li><b>SEZs and EPZs have contributed to reducing the BoP deficit</b>, with contribution increasing over the past 3 years, mainly driven by EPZs exports; compared to benchmarks, <b>additional growth can be expected</b> to further reduce BoP deficits</li> </ul>
<p>d</p> <p>Employment</p>		<ul style="list-style-type: none"> <li><b>Minimal overall employment impact:</b> SEZs and EPZs in Pakistan contribute <b>only 0.5% to total national employment</b> (0.4% from SEZs and 0.1% from EPZs), below regional and national benchmarks</li> </ul>
<p>e</p> <p>Direct Fiscal Revenues</p>		<ul style="list-style-type: none"> <li><b>SEZs and EPZs have limited contribution to total tax revenues at 10.3B PKR or 0.11% of total gov't revenues for '24</b></li> <li>Revenues foregone for SEZs and EPZs estimated at <b>~13B PKR for 2024, reflecting 0.14% of total gov't revenues</b> for the year, <b>driven primarily by SEZs</b> benefitting from 10-year tax holidays</li> </ul>
<p>f</p> <p>National Priorities</p>		<ul style="list-style-type: none"> <li><b>Limited contribution to CPEC targets;</b> some progress made on employment, exports, and industrial development</li> <li><b>Limited contribution to exports and priority sectors under URAAN:</b> SEZ and EPZs <b>exports will need to grow at a more significant rate</b> to achieve a <b>meaningful contribution to 2029 targets</b></li> </ul>
<p>g</p> <p>Market Distortions</p>		<ul style="list-style-type: none"> <li><b>EPZs do not create any market distortions</b> as they are treated as a bounded customs zone outside the mainland</li> <li><b>SEZs display very minimal market distortions</b> on competition, investment, resource allocation and other dimensions</li> </ul>



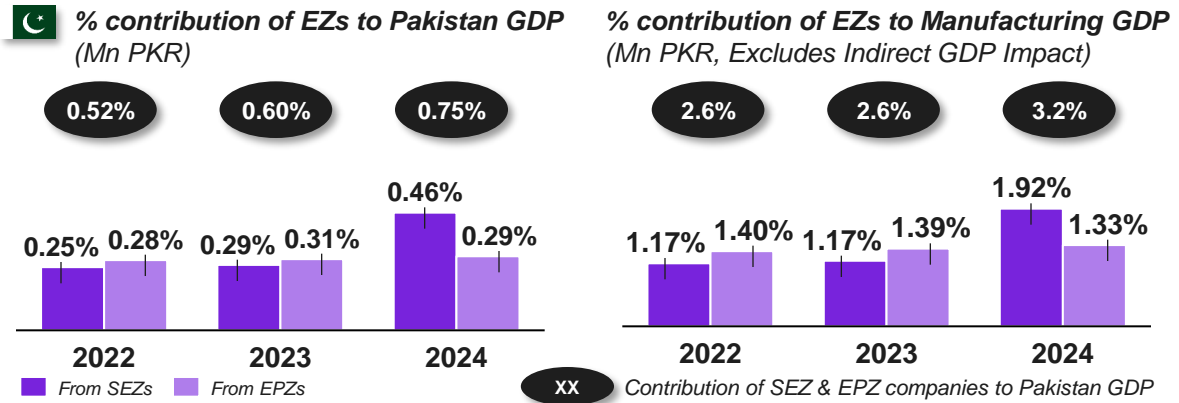
3. Economic Zones Program Outcomes

# To-date, output of zones still represents a limited share of national output compared to peers and leading economies with similar programs...

Analysis based on partial financial data for **13 out of 20 operational SEZs** and **9 EPZs**; considered to represent >80-90% of economic output and contribution from EPZ/SEZ programs

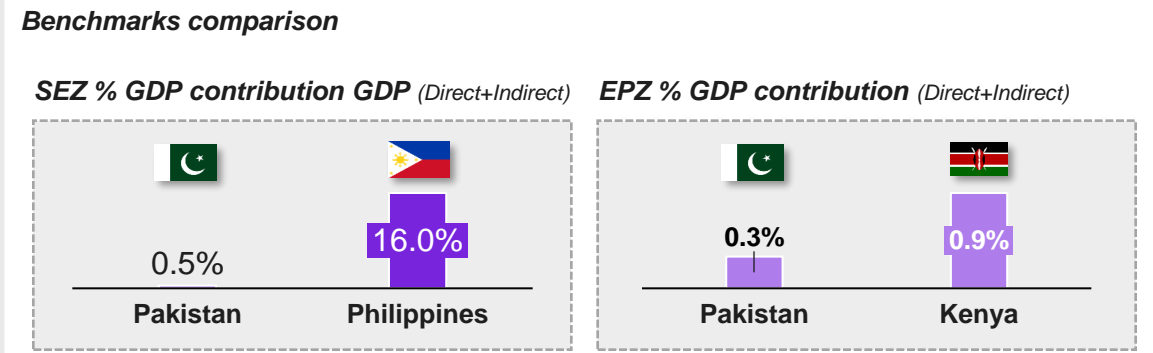
a. GDP

## SEZs & EPZs GDP CONTRIBUTION (DIRECT + INDIRECT)



- **13 SEZs<sup>3</sup> and 9 EPZs<sup>3</sup> contribute ~0.75% of Pakistan's GDP; EPZ contribution to GDP is stable at ~0.3% in the last 3 years while SEZ contribution to GDP has increased from 0.2% to 0.5% in 2024, explained by increased growth of revenue or spending from key SEZs (i.e. QABP and M3IC SEZs and Saindak)**
- Contribution of EZs to manufacturing sector GDP is significant at **3.2% in 2024**, with SEZ contributing ~2% and EPZs 1.3%

## BENCHMARK COMPARISON



- Pakistan's **SEZs contribution to GDP is significantly lower than benchmark countries (0.46% vs. 16% in Philippines)**
- When compared to **benchmark countries (e.g., Kenya)**, also the **EPZs contribution to GDP is lower**, indicating relevant potential to expand its contribution to GDP

### KEY TAKEAWAYS

- **GDP contribution** of economic zones is **still limited compared to other economies** with potential to expand; **EPZ contribution** has slightly increased (+0.01%) in the last 3 years, whereas **SEZs contribution** has increased (+0.12%)

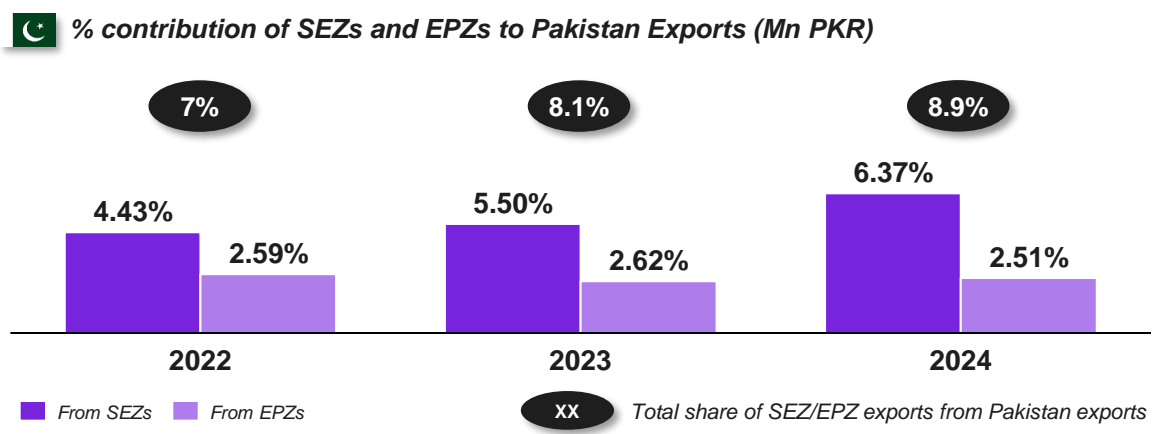
1. GDP Contribution per Zone is calculated as Direct + Indirect GDP Contribution. Direct GDP Contribution is calculated as: Absolute Value of [Revenue - (Domestic Costs) + Labor Compensation + Depreciation & Amortization]; Labor Costs are calculated as SEZ / EPZ Workforce x Average Manufacturing Wages; Average Manufacturing Wage was identified to be 21,978 PKR Monthly or 263,736 PKR Annually from PBS data; Domestic Costs = Total Costs - Imports; Absolute Value of Revenue - Domestic Costs is used since the contribution to the economy and value added could also be negative, especially during the ramp up phase. Indirect GDP is calculated using Backward Linkage Multipliers for Manufacturing and Mining sectors from the Ministry of Finance (1.77x for Manufacturing, 1.22x for Mining)  
 2. EPZ Companies' GDP contribution has been estimated by neglecting revenues from domestic sources (allowed to up to 20% of revenues) due to data availability constraints  
 3. SEZs included : Rashakai SEZ [CPEC], Bostan SEZ, JW SEZ, Quaid-e-Azam Business Park, Korangi Creek Industrial Park, Bin Qasim Industrial Park, Bhalwal Industrial Estate, M3-IC, Allama Iqbal Industrial City [CPEC], Value Addition City, Hattar SEZ, Rahim Yar Khan Industrial Estate, Vehari Industrial Estate. EPZs included: KEPZ, SEPZ, REPZ, GEPZ, Saindak, Duddar, National Steel Complex Limited, Reko Diq, North Waziristan  
 Source: IMF, Pakistan Bureau of Statistics, Ministry of Finance

...also reflected in share of exports by SEZs and EPZs to total exports (respectively 6.4% and 2.5%), which is lower than peer benchmarks...

Analysis based on partial financial data for 13 out of 20 operational SEZs and 9 EPZs; considered to represent >80-90% of economic output and contribution from EPZ/SEZ programs

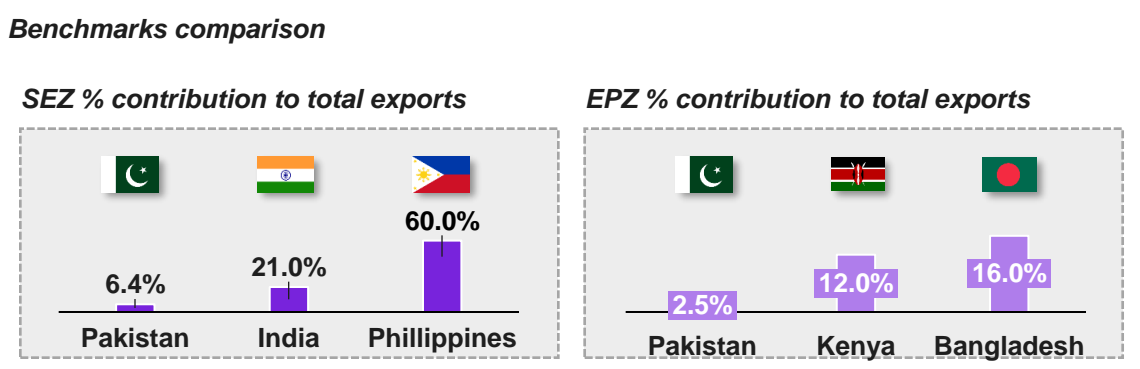
b. Exports

SEZs & EPZs EXPORTS CONTRIBUTION



- Share of Economic Zones of Pakistan exports has been consistently growing for the last three years (7% in 2022 to ~9% in 2024)
- EPZ share of exports<sup>1</sup> has been stagnating around 2.5%, however SEZs have been growing year-over-year from 4% to 6% from 2022 to 2024

BENCHMARK COMPARISON



- Pakistan SEZs and EPZs have a low contribution to national exports (respectively 6.4% and 2.5%; total of ~9.6%), suggesting potential for improvement compared to peers, where SEZs exports alone can range between 20-60% of total exports, and EPZs alone between 12 and 16%
- One driver of low contribution to exports is the high share of low value-add/productivity activities (e.g., textile & garments) especially if compared to other sectors (i.e. ICT, Pharma manufacturing, others)

KEY TAKEAWAYS

- Limited contribution to total exports: SEZs and EPZs in Pakistan only contribute to ~9% of the total exports, suggesting a large margin of improvement when compared to benchmark countries
- Focus on low-value activities: the focus on low-value activities such as manufacturing of textile and garments rather than ICT and services is also identified as one of the drivers of this relatively low contribution

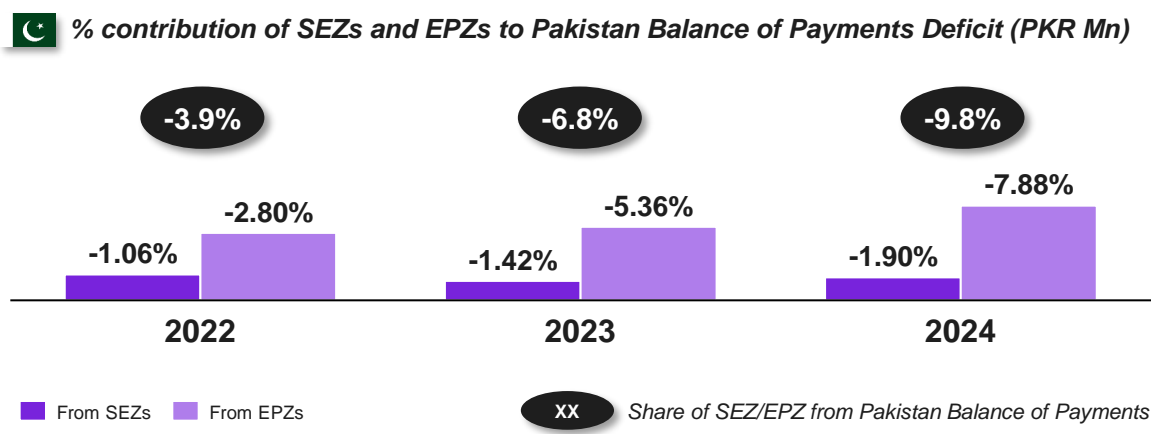
Note: Data refers to following 13 SEZs: Bostan SEZ, Rashakai SEZ, JW SEZ, QABP, KCIP, BOIP, Bhalwal SEZ, M3IC, AIIC, VAC, Hattar SEZ, Rahim Yar Khan SEZ, Vehari SEZ, and 8 EPZs: KEPZ, SEPZ, REPZ, GEZ, Saindak, Duddar, National Steel Complex Limited, North Waziristan; 1. Based on % split between international and domestic sales received for 3 EPZs (KEPZ, SEPZ, GEZ), the average of 82% of total sales as exports has been assumed across all 9 EPZs Source: FBR, Pakistan EPZA, Export Processing Zone Authority Kenya (EPZA), Bangladesh Export Processing Zone Authority (BEPZA), India Ministry of Commerce and Trade, UNCTAD "World Investment Report"

...also underscored by the positive contribution towards lowering the national balance of payments deficits; further growth can be expected from EZs

Analysis based on partial financial data for 13 out of 20 operational SEZs and 9 EPZs; considered to represent >80-90% of economic output and contribution from EPZ/SEZ programs

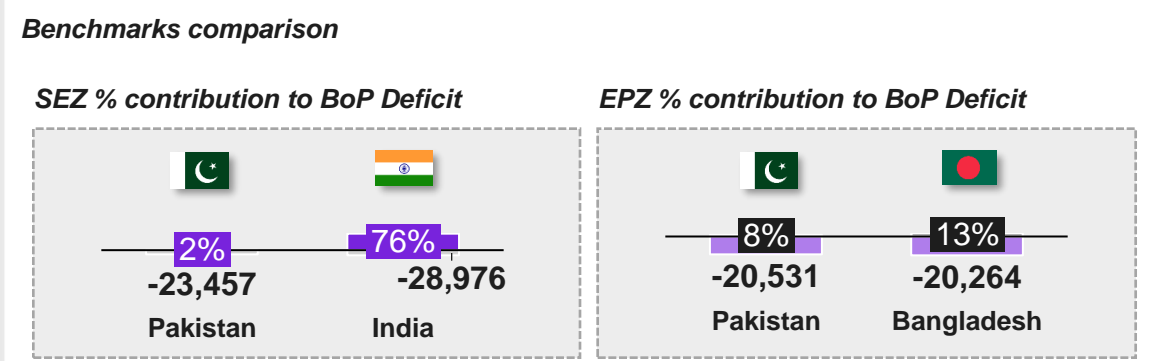
c. Balance of Payments

SEZs & EPZs BOP CONTRIBUTION



- Contribution of SEZs and EPZs to **reducing BoP deficit has increased** in the last 3 years from 3.9% in 2022 to 9.8% in 2024
- **This has been mainly driven** by the **contribution of EPZ**, that has increased over the past 3 years more significantly than SEZ's

BENCHMARK COMPARISON



- Pakistan **SEZs and EPZs' contribution to reducing national BoP deficit is lower than peers** with India SEZs contributing to 76% of BoP deficit<sup>1</sup> due to the maturity of their SEZ/ EZ program (as seen in their higher % contribution to exports)
- Similarly, although in less large scale, **Pakistan EPZs contribution to BoP deficit (~8%) is lower than benchmarks** (i.e., Bangladesh ~13%)

KEY TAKEAWAYS

- **SEZs and EPZs in particular have contributed to reducing Pakistan Balance of Payments Deficit, with contribution increasing over the past 3 years, mainly driven by EPZs exports; yet compared to benchmarks, additional growth can be expected to further contribute to reduce BoP deficits**

Note: Data refers to following 13 SEZs: Bostan SEZ, Rashakai SEZ, JW SEZ, QABP, KCIP, BQIP, Bhalwal SEZ, M3IC, AIIC, VAC, Hattar SEZ, Rahim Yar Khan SEZ, Vehari SEZ, and 8 EPZs: KEPZ, SEPZ, REPZ, GEPZ, Saindak, Duddar, National Steel Complex Limited, North Waziristan; 1. BoP data for India refer to Year 2023, most recent year where both imports and exports data of SEZs were available  
Source: FBR, Pakistan EPZA, Export Processing Zone Authority Kenya (EPZA), Bangladesh Export Processing Zone Authority (BEPZA), India Ministry of Commerce and Trade, UNCTAD "World Investment Report"

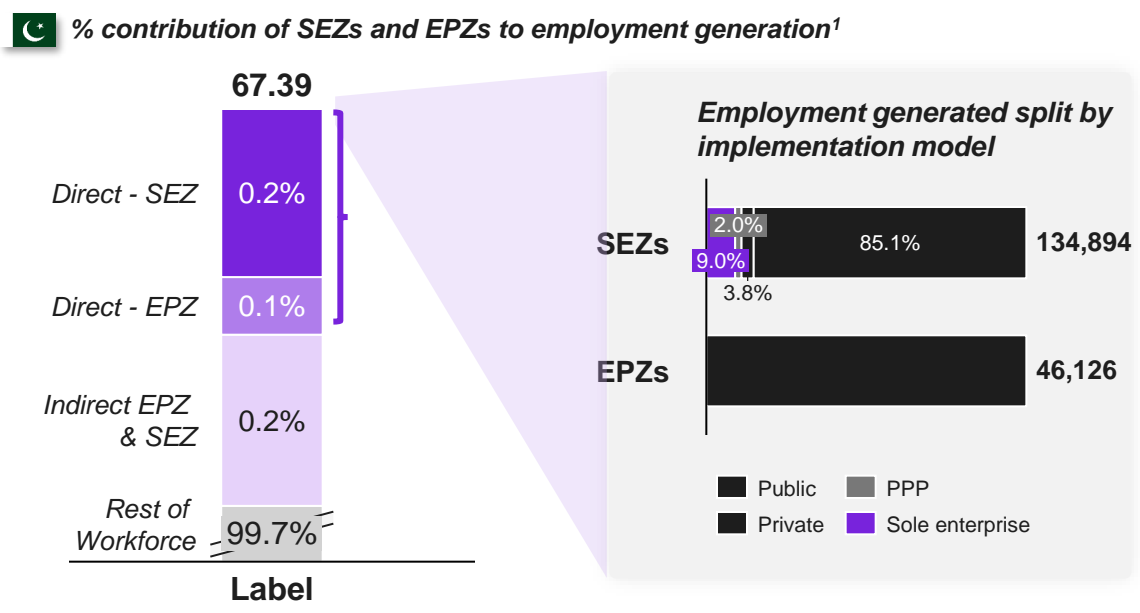
3. Economic Zones Program Outcomes

# Operational SEZs/EPZs in Pakistan created ~181k direct jobs and ~137k estimated indirect jobs representing ~0.5% to overall national employment

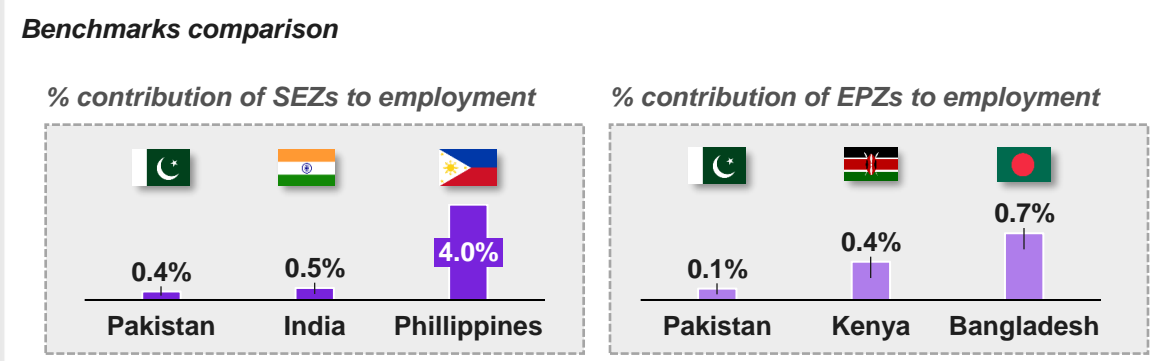
Analysis based on partial financial data for 13 out of 20 operational SEZs and 9 EPZs; considered to represent >80-90% of economic output and contribution from EPZ/SEZ programs

## d. Employment

### SEZs & EPZs EMPLOYMENT CONTRIBUTION



### BENCHMARK COMPARISON



- Pakistan SEZs and EPZs have contributed to a **cumulative 0.5% in employment generation, in line with peers, with the potential to grow in the future.**
- Analysis of the **split by implementation model** for employment generated in Pakistan SEZs and EPZs shows that **the majority of the employment (85%) is still reliant on public SEZs**

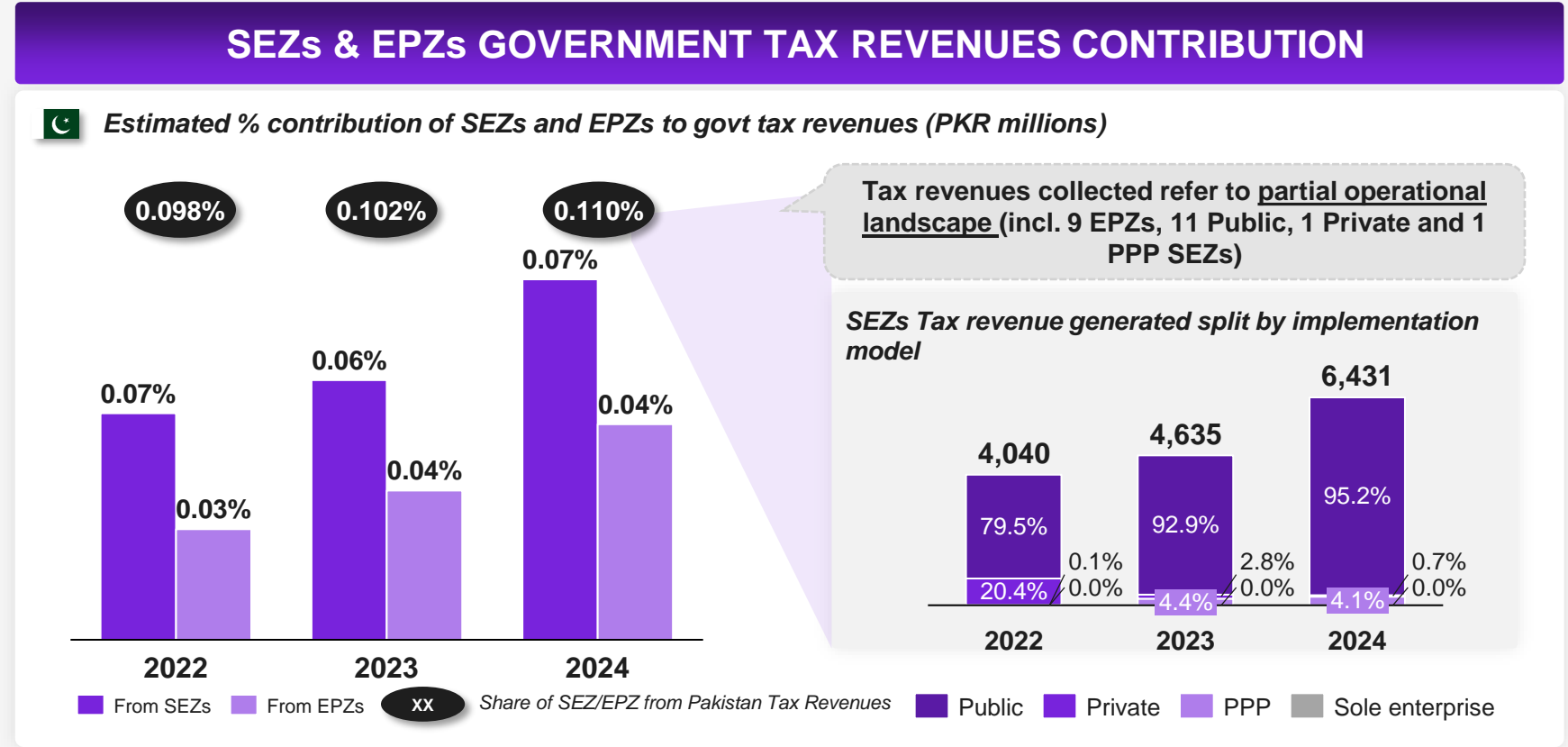
### KEY TAKEAWAYS

– **Minimal overall employment impact:** SEZs and EPZs in Pakistan contribute only 0.5% to total national employment (0.4% from SEZs and 0.1% from EPZs), **below** regional and national benchmarks

1. Most recent employment data in Pakistan refer to year 2021-22, while employment data of SEZs and EPZs date to 2024. Source: Pakistan Bureau of Statistics "Labor Force Survey 2021-22"; FBR, Pakistan EPZA, Bangladesh Bureau of Statistics, Bangladesh Export Processing Zone Authority (BEPZA), India Ministry of Commerce and Industry, Export Processing Zone Authority Kenya (EPZA), Philippines Statistics Authority, Philippine Economic Zone Authority (PEZA)

3. Economic Zones Program Outcomes

The contribution of SEZs and EPZs to the government tax revenues is minimal, due to broad tax holidays offered to SEZs, the majority of which are still in the window of benefiting from fiscal incentives



e. Government Revenues

DIRECTIONAL

Analysis based on partial financial data for 13 out of 20 operational SEZs and 9 EPZs; considered to represent >80-90% of economic output and contribution from EPZ/SEZ programs

KEY TAKEAWAYS

- **Minimal contribution to govt tax revenues:** Pakistan SEZs and EPZs have a **limited contribution to total government tax revenues (~0.9%-0.11%)**, with SEZs having a stronger contribution among the 2, given the larger share of companies under SEZs. **Particularly low contribution in 2022** could be partially **attributed to currency crisis** faced with significant depreciation of the Rs
- **Reliance on public-led SEZs:** The **majority of the tax collected** comes from **public-led SEZs**, indicating a still not mature private SEZs landscape

Note: Data for tax revenue collected refers to following 13 SEZs: Bostan SEZ, Rashakai SEZ, JW SEZ, QABP, KCIP, BQIP, Bhalwal SEZ, M3IC, AIC, VAC, Hattar SEZ, Rahim Yar Khan SEZ, Vehari SEZ, and 9 EPZs: KEPZ, SEPZ, REPZ, GEPZ, Saindak, Duddar, National Steel Complex Limited, Reko Diq, North Waziristan  
Source: FBR, EPZA

To assess the government revenue opportunity cost and future projections, we reviewed all the different sources of government revenues to identify the ones impacted

e. Government Revenues

GOVERNMENT OF PAKISTAN REVENUES STREAMS

TAX REVENUES SOURCES

NON-TAX REVENUES SOURCES


Federal taxes	<b>Direct Taxes</b> (41.9%)	Individual income tax Corporate income tax
	<b>Custom Duties</b> (12%)	Import duties/tariffs on international trade
	<b>Federal Excise Duties</b> (4.7%)	Excise taxes on specific goods/services
	<b>Sales Taxes</b> (33.2%)	Consumption tax on goods (federal GST)
		Consumption services (provincial GST on services)
Provincial taxes	<b>Stamp Duties</b> (0.8%)	Taxes on legal documents and property transactions
	<b>Motor Vehicle Tax</b> (0.4%)	Registration and token taxes on motor vehicles
	<b>Provincial Excise</b> (0.1%)	Excise duties levied by provinces
	<b>Agricultural Income Tax</b>	Tax on agricultural income/earnings
	<b>Property Tax &amp; Land R</b> (1.6%)	Taxes on property ownership
	<b>Miscellaneous provincial taxes</b>	Other provincial taxes such as professional tax, entertainment duty, electricity duty, capital value tax on property, etc..

<b>Petroleum Development Levy (PDL)</b>	Levy on petroleum products
<b>Natural Gas Development Surcharge</b>	Surcharge on natural gas production/distribution
<b>Gas Infrastructure Development levy (GIDC)</b>	Levy on gas companies for gas infrastructure development
<b>Petroleum Levy on LPG</b>	Levy on liquefied petroleum gas
<b>Royalties on Oil and Gas</b>	Royalties from the extraction of oil and natural gas resources
<b>Windfall Levy on Crude Oil</b>	Special levy on above-normal ("windfall") profits from crude oil sales
<b>State-Owned Enterprise Profits (Incl. SBP Surplus)</b>	Profits/dividends from state-owned enterprises, including the surplus profit of the State Bank of Pakistan
<b>Mark-up (Interest) Receipts</b>	Interest income received by government (e.g. interest on loans to PSEs or provinces)
<b>Telecom License/Spectrum Fees</b>	Receipts from telecom licenses and spectrum auctions
<b>Other Miscellaneous Non-Tax</b>	E.g., defense service receipts, passport & visa fees, regulatory fees, fines, and other administrative fees

○ % of total tax revenues (FY2022-23)    □ Sources of income that will be modeled to estimate revenue forgone and future projections

# More specifically, we reviewed the main taxes companies incur, and compared the standard rates to any exemptions/ tax holiday provided to SEZs and EPZs

## e. Government Revenues

 Tax rates that will be modeled to estimate revenue forgone as subject to fiscal incentives

Tax	Administering Authority	Standard Rate / Structure	SEZ Treatment	EPZ Treatment
<b>Corporate Income Tax</b>	FBR	<ul style="list-style-type: none"> <li>– <b>29%</b> standard corporate rate (public/unlisted companies)</li> <li>– <b>39%</b> banks</li> <li>– <b>20%</b> small companies</li> </ul>	<ul style="list-style-type: none"> <li>– <b>10-year income tax holiday</b> from start of production</li> <li>– After holiday, <b>standard rate</b> applies</li> </ul>	<ul style="list-style-type: none"> <li>– <b>1%</b> is treated as <b>minimum tax</b> (not final) – if the 1% WHT is lower than tax computed on such taxable income the incremental tax will have to be paid</li> </ul>
<b>Super Tax</b> (on high earnings)	FBR	<ul style="list-style-type: none"> <li>– Additional income tax on companies with high profits - slabs up to 10% on income above PKR 500 million</li> </ul>	<ul style="list-style-type: none"> <li>– <b>Exempt</b> during tax-holiday period</li> </ul>	<ul style="list-style-type: none"> <li>– <b>Applicable</b> if income <b>threshold met</b> (EPZ companies now subject to normal tax regime for exports)</li> </ul>
<b>Minimum Turnover Tax<sup>1</sup></b>	FBR	<ul style="list-style-type: none"> <li>– <b>1.25%</b> of turnover (gross revenue) as minimum tax on companies with low/no profit</li> </ul>	<ul style="list-style-type: none"> <li>– <b>1.25%</b> of turnover (gross revenue) as minimum tax on companies with low/no profit</li> </ul>	<ul style="list-style-type: none"> <li>– <b>1% on export receipts</b> (collected as advance) serves as a minimum tax for EPZ firms</li> </ul>
<b>Sales Tax on Goods</b> (Federal VAT)	FBR	<ul style="list-style-type: none"> <li>– <b>18%</b> standard VAT on sale/supply of goods<sup>2</sup></li> </ul>	<ul style="list-style-type: none"> <li>– <b>No general exemption:</b> Sales of goods in SEZs to domestic market subject to standard 18% sales tax</li> </ul>	<ul style="list-style-type: none"> <li>– <b>Exempt on input goods:</b> No sales tax on input goods (including electricity/gas) for EPZ companies<sup>3</sup></li> </ul>
<b>Sales Tax on Services</b>	Provincial	<ul style="list-style-type: none"> <li>– <b>15–16% VAT on services</b>, varying by province</li> </ul>	<ul style="list-style-type: none"> <li>– <b>No general exemption.</b> Services provided to or by SEZ enterprises are taxed per provincial law (standard rate)</li> </ul>	<ul style="list-style-type: none"> <li>– <b>No special exemption.</b> Services consumed by EPZ companies</li> </ul>
<b>Customs/Import Duty</b>	FBR	<ul style="list-style-type: none"> <li>– Varies by item (HS Code) – typically <b>0% to 20%</b> on most imports</li> </ul>	<ul style="list-style-type: none"> <li>– <b>One-time off exemptions on capital goods:</b> Import of plant, machinery &amp; eq. for SEZ enterprises/developers is duty-free</li> </ul>	<ul style="list-style-type: none"> <li>– <b>Exempt for exports:</b> Duty-free import of machinery, equipment and raw materials for use in EPZ production</li> </ul>
<b>Federal Excise Duty (FED)</b>	FBR	<ul style="list-style-type: none"> <li>– <b>Levied on specified goods</b> and services at <b>various rates</b></li> </ul>	<ul style="list-style-type: none"> <li>– <b>Standard</b> – No general SEZ exemption</li> </ul>	<ul style="list-style-type: none"> <li>– <b>Exempt on exports:</b> Goods produced in EPZ and exported are not charged FED<sup>4</sup></li> </ul>

1. Applicable if the normal income tax on profits falls below this amount. Certain sectors have reduced rates (e.g. 0.25% for small traders); 2. Some goods zero-rated or exempt; certain sectors/goods have reduced or fixed rates; 3. Sales from EPZ to domestic market (up to 20% of output allowed) are treated as imports and subject to normal sales tax/duties on that portion; 4. If any excisable goods from EPZ enter domestic market, they incur FED as per normal law. Source: Government of Pakistan Ministry of Finance Fiscal Reports, Federal Board of Revenue

# We estimated tax revenues for SEZs and EPZs if standard rates were to apply, and compared estimates with revenues collected to extract revenues forgone

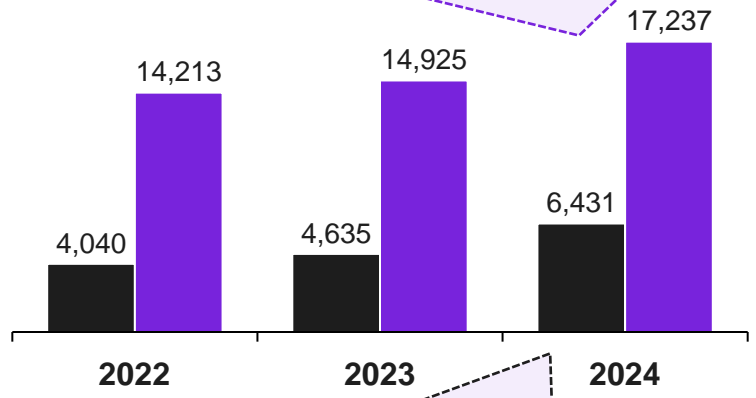
Analysis based on partial financial data for 13 out of 20 operational SEZs and 9 EPZs; considered to represent >80-90% of economic output and contribution from EPZ/SEZ programs

## e. Government Revenues

### STANDARD SCENARIOS VS. ACTUALS

SEZ actuals vs. standard rate tax revenues collection (mn PKR)

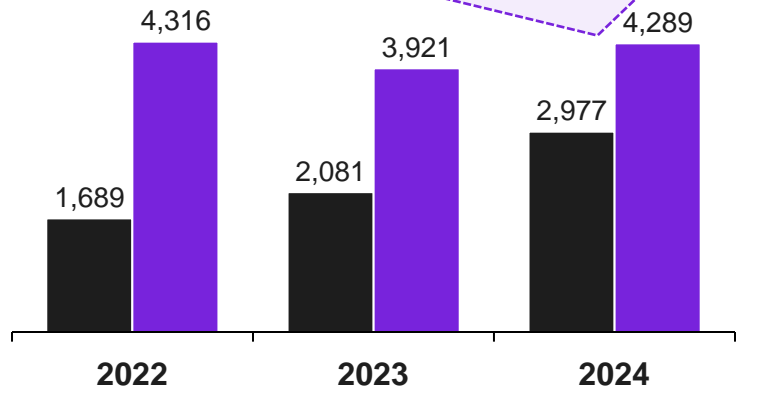
The standard scenarios consider an average custom duty on the imports of machinery at 1.27%, since SEZs machinery rely mostly on imports from China (which grants a 0% custom duty)



Minimum turnover tax was wrongfully collected in the SEZs actuals, but it will not be applicable in 2025

EPZ actuals vs. standard rate tax revenues collection (mn PKR)

The standard scenarios consider that EPZs imports of inputs goods, machinery, and equipment would fall under the Exports Facilitation Scheme 2021, hence custom duty free



Actuals Standard rate scenario

#### Assumptions for estimates

- CIT standard rate: 29%
- Minimum Turnover tax in case of low/ no profit: 1.25%
- Custom duty rate on machinery & equipment: average 1.27% applied for imports of machinery<sup>1</sup>
- % of CAPEX of SEZs investment assumes different typical rates by sector
- Average profit of EPZs companies: 5-7%

#### Key drivers

- For both SEZs and EPZs tax on turnover and presumptive tax are the key drivers of the actuals tax collected
- For SEZs standard tax rate estimates, CIT component account for between 97%-99%, while for EPZs, CIT is the sole driver, based on EFS 2021

#### KEY TAKEAWAYS

- There is a not very significant gap between actuals revenues collected from SEZs and EPZs and standard rate scenario, which is even less significant for EPZs as they would enjoy in the standard scenario of the custom duty free on the import of inputs goods and machinery and equipment as per the Exports Facilitation Scheme 2021; in addition, since the establishment of Finance Act 2024, the tax on FOB Exports and minimum tax (actuals) could lead to higher CIT than standards rate potentially increasing the actuals revenue collected in the upcoming years

1. Considering weighted average from main countries of imports (China, Germany, US, Japan, Italy, and other), with China being ~80% and having 0% custom duty on machinery  
Source: BOI, Federal Board of Revenue, EPZA

# Estimated revenue forgone from SEZs and EPZs over past 3 years amounts to ~40 bn PKRs, ~0.2% of total tax revenues, suggesting a minor opportunity cost

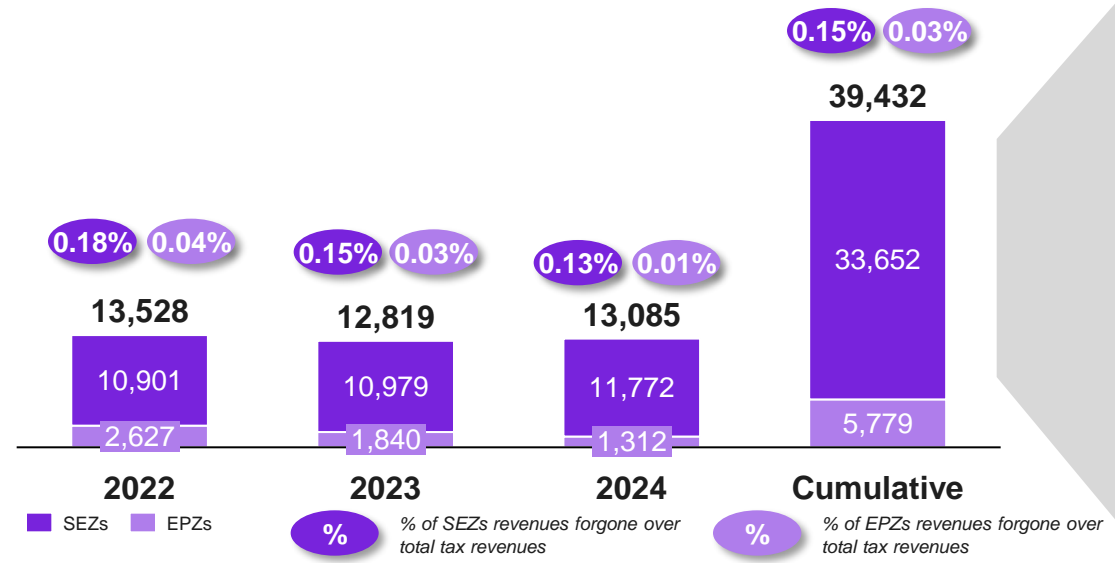
Analysis based on partial financial data for 13 out of 20 operational SEZs and 9 EPZs; considered to represent >80-90% of economic output and contribution from EPZ/SEZ programs

## e. Government Revenues

### FOREGONE GOVERNMENT REVENUE STREAMS

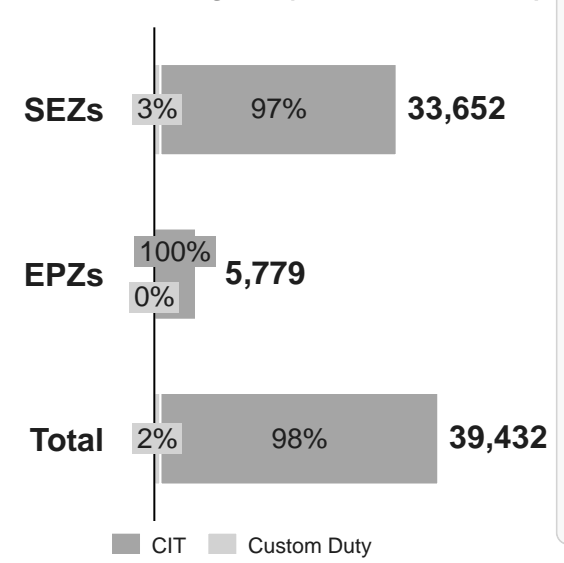
#### REVENUE FORGONE ESTIMATES

Estimated government tax revenue forgone in the past 3 years (mn PKR)  
Standard Scenario Revenues – Actual Revenues Collected



#### SPLIT OF REVENUE FORGONE BY TAX STREAM

Split by tax stream for cumulative revenues forgone (2022-24; mn PKR)



- For **SEZs**, **97%** of the **forgone revenue** refer to the **missed corporate income tax** due to the **10 years tax holiday**, while the custom duties cover a less significant portion (being only a one-time exemption on machinery and being mostly reliant on imports from China at favorable rates)
- **EPZs composition of forgone revenues is solely driven by CIT** since in the standard scenario they would benefit from free custom duty based on EFS 2021
- The **combined composition of the revenue forgone** indicates that the **majority of the forgone revenues** comes from **CIT (~98%)** vs. Custom Duty (2%)

#### KEY TAKEAWAYS

- The **total government revenues forgone** from **SEZs and EPZs** amounts to **~40 bn PKRs** over the past **3 years**, mostly driven by SEZs
- However, if **compared to total government tax revenues**, the forgone revenues from SEZs and EPZs represent **only the 0.15% and the 0.03%** respectively of the **cumulative govt revenues** of the past 3 years, suggesting a **minor opportunity cost** borne by the government

Source: BOI, Federal Board of Revenue, EPZA

3. Economic Zones Program Outcomes

To estimate the forgone revenues, we followed a clearly structure methodology with well-defined assumptions to extract the estimates

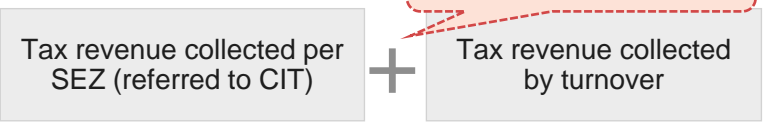
Analysis based on partial financial data for 13 out of 20 operational SEZs and 9 EPZs; considered to represent >80-90% of economic output and contribution from EPZ/SEZ programs

e. Government Revenues

**ACTUALS**

**SEZs**

**a. CIT component**



**b. Custom duty component on machinery and equip.**

Assumed 0

**EPZs**

**a. CIT component**



Only presumptive tax considered, as others refer to EPZA

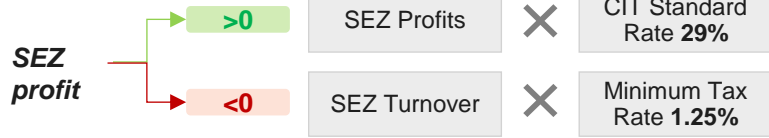
**b. Custom duty component**

0 due to custom duty exemption

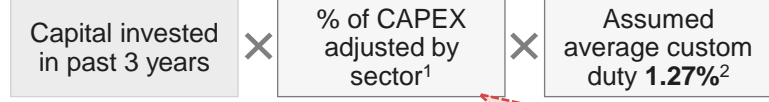
**STANDARD SCENARIO**

**SEZs**

**a. CIT component**

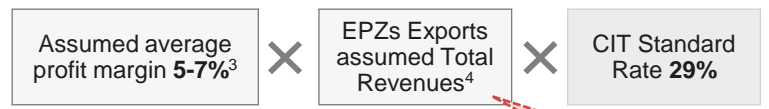


**b. Custom duty component on machinery and equip.**

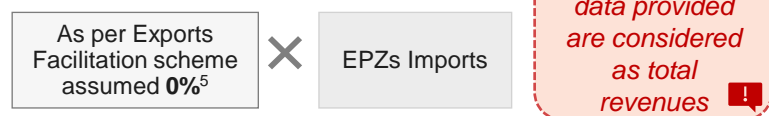


**EPZs**

**a. CIT component**



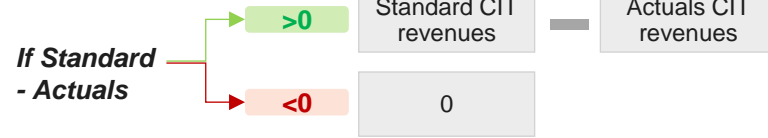
**b. Custom duty component**



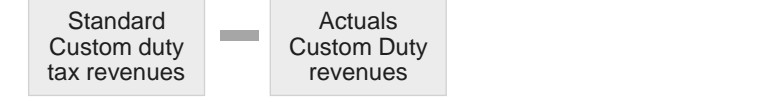
**REVENUE FORGONE**

**SEZs**

**a. CIT component**

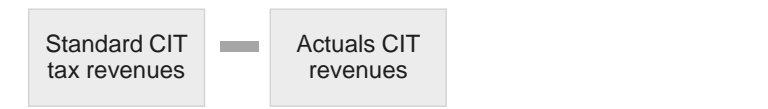


**b. Custom duty component on machinery and equip.**

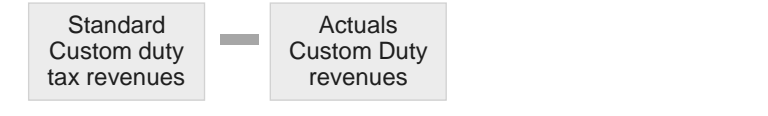


**EPZs**

**a. CIT component**



**b. Custom duty component**



1. % split between CAPEX and OPEX adapted to different sectors based on industry standards; 2. Assumed average custom duty of 1.27% based on the weighted average from main countries of imports (China, Germany, US, Japan, Italy, and other), with China being ~80% and having 0% custom duty on machinery imports; 3. In absence of actual profit margins of EPZs, 5-7% has been assumed as reasonable assumptions and discussed with EPZA; 4. Exports are assumed as the total revenues of the companies in absence of specific information of any domestic sales allowed within the 20% threshold, domestic vs. international sales split was provided for 3 EPZs (KEPZ, SEPZ, GEPZ averaging ~82% of exports); 5. As per the Exports Facilitation Scheme manufacturers companies focused on exports/ re-exports can import inputs goods, machinery, and equipment free of custom duty Source: BOI, Federal Board of Revenue, EPZA

SEZs and EPZs have a key role to play in enabling Uraan strategic priorities; Additional support

f. National Priorities

Illustrative

SEZs and EPZs contribution

✓ Full ~ Partial ✗ Limited



URAAN Pakistan strategy was launched in 2024, since SEZs and EPZs pre-date it, their contribution is only observed indirectly through national economic and developmental indicators

URAAN PAKISTAN – 5Es NATIONAL ECONOMIC PLAN

MAIN PILLARS IMPACTED	SELECTION OF TARGETS BY 2029	SEZs AND EPZs CONTRIBUTION TO TARGETS								
Exports	<p><b>\$60 BN</b> Exports target across 8 priority sectors</p> <table border="1"> <tr> <td>Manu- facturing</td> <td>Agriculture <b>\$13 bn</b></td> <td>IT <b>\$25 bn</b></td> <td>Services</td> </tr> <tr> <td>Manpower</td> <td>Minerals <b>\$1.5 bn</b></td> <td>Creative Industries</td> <td>Blue economy <b>\$0.5 bn</b></td> </tr> </table>	Manu- facturing	Agriculture <b>\$13 bn</b>	IT <b>\$25 bn</b>	Services	Manpower	Minerals <b>\$1.5 bn</b>	Creative Industries	Blue economy <b>\$0.5 bn</b>	<p><b>~\$2.9 BN</b> Exports from SEZs/EPZs 2024 <b>4.8%</b> Portion of 2029 targets</p> <p>✗ – SEZs and EPZs focus <b>mostly on manufacturing</b>, - not well diversified to cover 8 priority sectors</p> <p>– <b>Only 1 SEZ focused on ICT</b> (which has the highest export target)</p>
Manu- facturing	Agriculture <b>\$13 bn</b>	IT <b>\$25 bn</b>	Services							
Manpower	Minerals <b>\$1.5 bn</b>	Creative Industries	Blue economy <b>\$0.5 bn</b>							
E-Pakistan	<p><b>\$5 BN</b> Target size of the ICT freelancing industry</p>	<p>n/a</p> <p>– <b>Driving ICT sector</b> in Pakistan is directly under STZA for setup of ICT-focused zones;</p> <p>– <b>Manufacturing tech. modernization</b> and production systems uplift <b>supports this pillar</b></p>								
Environment & Climate Change	<p>Implement sustainable practices to mitigate environmental impact</p>	<p>✗ A portion of the SEZs such as <b>Sundar Green SEZ</b> emphasizes <b>eco-friendly industrial practices</b>, yet not integrated systematically</p>								
Energy & Infrastructure	<p>Enhance 3 key areas</p> <table border="1"> <tr> <td>Energy</td> <td>Infrastructure</td> <td>Mining</td> </tr> </table>	Energy	Infrastructure	Mining	<p>~ – <b>SEZs &amp; EPZs, drive energy demand</b> and <b>build up</b> of energy, transport and utilities <b>infrastructure</b> to service EZ enterprise</p> <p>– Saindak, Duddar, Reko Diq EPZs are <b>mineral-resource-linked zones</b>, partially contributing to mining infra development</p>					
Energy	Infrastructure	Mining								
Equity, Ethics & Empowerment	<p><b>1.5 MN</b> Jobs created per year</p>	<p><b>~181 K</b> Cumulative jobs created by 2024</p> <p>~ Partial contribution of SEZ/EPZs to job creation</p>								

**KEY TAKEAWAYS**

- **Limited contribution to exports and priority sectors:** SEZ and EPZs exports **will need to grow at a more significant rate** compared to current share of exports to **increase contribution to 2029 targets**; very **limited focus** of SEZ/EPZ on **ICT does not match priority** given to **IT exports**
- **Partial contribution to job creation and infra development:** SEZs and EPZs infra development is partially contributing to **infrastructure and mining objectives** and to **job creation** set by Uraan

**SEZs under the CPEC have only partially achieved the expected targets, with one SEZ (AIIC) mainly driving the impact achieved so far**

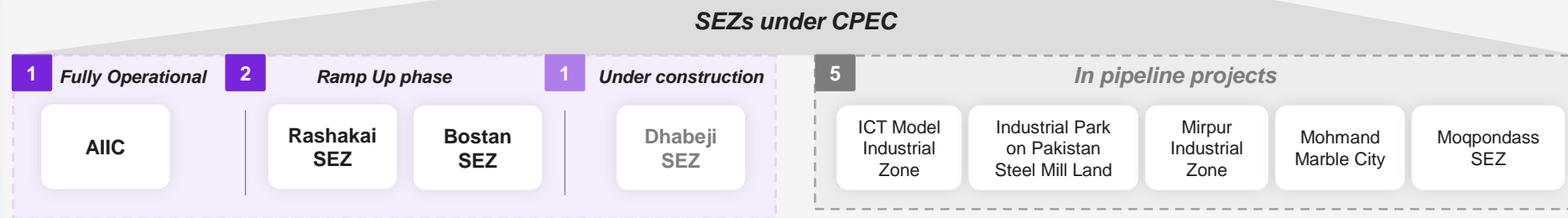
**f. National Priorities**

Directional

**China Pakistan Economic Corridor (CPEC)**



CPEC has been established as a **framework of regional connectivity**, aiming to **improve the lives of people of Pakistan and China** by **building an economic corridor** promoting **bilateral connectivity, construction**, explore **potential bilateral investment**, economic and trade, logistics and people to people contact



**CPEC SEZs Progress Assessment**      ✓ Full    ~ Partial    ✗ Limited

Objectives	Assessment
<b>Industrial Development</b>	~ <b>Foundational steps have been taken, yet 5 projects in pipeline and 1 under construction</b>
<b>FDIs</b>	✗ The investment in the <b>3 operational SEZs</b> amounts to ~ <b>3bn PKR</b> , with a significant portion coming from local investors, hence <b>ambitions of attracting over \$8 billion in FDIs still not fulfilled</b>
<b>Employment Generation</b>	~ The <b>3 operational SEZs</b> have generated ~ <b>15k jobs</b> (small portion of the expected <b>500k jobs</b> from 9 CPEC SEZs)
<b>Export Enhancement</b>	~ <b>AIIC</b> alone contributed to <b>12.5% of total SEZs exports</b> ( <b>3<sup>rd</sup> strongest contribution</b> among the 20 operational SEZs), yet projected targets of having the <b>9 CPEC SEZs reach 15% of total Pakistan exports</b> are still <b>far behind</b>
<b>Technology Transfer</b>	✗ <b>Collaborations with international firms</b> are anticipated, however <b>tangible outcomes</b> are <b>yet to be realized</b>
<b>Regional Development</b>	~ SEZs are <b>strategically located across various provinces</b> , yet full <b>impact on regional development</b> will be more evident when full operations are achieved

**KEY TAKEAWAYS**

- **Partial development of CPEC SEZs:** Out of the 9 planned SEZs under the CPEC, **only 3 are operational**, 1 under construction, and 5 in the pipeline
- **Partial/ minimal achievement of CPEC objectives:** while **some progress** have been made in terms of **employment generation, exports, and industrial development**, results are **still significantly behind expected targets**, and mostly **driven by one SEZ (AIIC)**

Following a review of literature, we identify 8 criteria to assess market distortions from SEZs and EPZs

g. Market Distortions

Directional

Market Distortion Dimensions and Criteria









DIMENSION	DESCRIPTION	CRITERIA
Fiscal and Tax Distortions	<ul style="list-style-type: none"> <li>Unequal tax treatment can <b>induce relocation of existing firms</b> to SEZs to exploit tax breaks rather than to <b>undertake genuinely new investments</b>.</li> <li>EZ tax incentives can impose costs like <b>revenue loss, rent-seeking, and even opportunities for tax evasion</b> straining public finances, if firms use EZ for tax planning purposes without commensurate economic benefits.</li> </ul>	<ol style="list-style-type: none"> <li>ZEs Relocating</li> <li>Revenue Foregone</li> </ol>
Investment Allocation and Regional Imbalances	<ul style="list-style-type: none"> <li>Concentrating incentives and infrastructure in specific zones can lead to <b>overconcentration of investment in the zones</b> at expense of other regions.</li> <li><b>Capital and FDI flow disproportionately into SEZ enclaves</b>, while non-zone areas receive relatively less. This can widen regional disparities and distort the geographic distribution of economic activity.</li> </ul>	<ol style="list-style-type: none"> <li>EZ Investment Flow</li> <li>Distribution of EZs</li> </ol>
Competitive Distortions and Enclave Effects	<ul style="list-style-type: none"> <li>EZ firms enjoy regulatory and cost advantages which can <b>distort competition shielding EZ firms from market pressures</b>.</li> <li>This can foster rent-seeking behavior and inefficiencies, as seen <b>prioritizing profits over gains in productivity</b>, while zones remained <b>economically isolated with minimal local integration and no supply-chain linkages</b>.</li> </ul>	<ol style="list-style-type: none"> <li>Exports % of Sales</li> <li>Imports as % of Costs</li> </ol>
Labor Market Distortions	<ul style="list-style-type: none"> <li>EZ can disrupt labor markets through <b>both displacement and regulatory arbitrage</b>. <b>Large zones may pull workers from other areas or sectors</b>, leading to labor shortages or higher wages outside the zone.</li> <li>In some cases, <b>wages inside SEZs are higher than national averages, reflecting the presence of multinational firms</b> or lighter labor regulations</li> </ul>	<ol style="list-style-type: none"> <li>Labor Incentives Offered</li> </ol>
Land and Resource Misallocation	<ul style="list-style-type: none"> <li>EZ programs involve <b>dedicated land acquisition (at low cost) and infra. development in zones</b>, distorting land markets and inefficient land use</li> <li>This can lead to speculative real-estate development rather than productive industry as well as <b>overlooking infrastructure development elsewhere</b></li> </ul>	<ol style="list-style-type: none"> <li>Process for Zone Selection</li> </ol>

Source: Kearney, Farole, T., & Akinci, G. (2011). Special Economic Zones: Progress, Emerging Challenges, and Future Directions. World Bank, Narayan, S. (2006). The Special Economic Zones in India – An Update. Institute of South Asian Studies. Rajan, R. (2006). Comments on India's SEZ Policy. (cited in Narayan 2006) Moberg, L. (2015). The Political Economy of Special Economic Zones. Journal of Institutional Economics, 11(1), 167-190. World Bank (2008). Special Economic Zones: Performance, Lessons Learned, and Implications for Zone Development. documents1.worldbank.orgdocuments1.worldbank.orgUNCTAD (2019). World Investment Report 2019: Special Economic Zones. United Nations. OECD (2009). Guidelines on SEZs (cited in World Bank 2017 analysis). World Bank (2017). Special Economic Zones – An Evidence Base and Policy Framework. ILO (2017). Labor Issues in Export Processing Zones. Warr, P. (1990). Export Processing Zones. (Cost-benefit analysis of zones, cited in World Bank 2008) Jayanthakumaran, K. (2003). Benefit–Cost Appraisals of Export Processing Zones: A Survey of the Literature. A. (2001). Export Processing Zones: Free Market IslandsWorld Bank (2019). Economic Premise Note; Special Economic Zones

# EPZs have no distortive effects on the economy, whereas impact of SEZs is minimal as the program has not achieved significant impact on the economy to cause any distortions

Directional









## Market Distortion Assessment of SEZs and EPZs (1/2)

	Fiscal and Tax Distortions		Investment Allocation and Regional Imbalances	
	1 Zone Enterprises Relocating from Mainland	2 Government Revenue Foregone from Fiscal Incentives	3 EZ Investment Flow	4 Geographic Distribution of EZs
SEZ	<ul style="list-style-type: none"> <li>New zones being developed are focused on attracting FDI with major export focus (i.e. Sole Enterprise SEZs)</li> <li>Enterprise approval process is stringent and looks at the cost-benefit of each applicant</li> </ul> 	<ul style="list-style-type: none"> <li>Foregone revenue from SEZs is only 0.15% of total government revenues (CIT tax holiday, duties exemption) demonstrating limited opportunity cost and fiscal burden</li> </ul> 	<ul style="list-style-type: none"> <li>27 SEZ (including 7 non-operational) have deployed 1,290 Bn PKR over the years (many zones established ~20 years ago)</li> <li>This represents only 5% of 2022-2024 private investment in Pakistan, demonstrating that SEZ are not distorting flows of investment due to incentives</li> </ul> 	<ul style="list-style-type: none"> <li>Geographic selection of special economic zone is conducted jointly with investors, zone developers and considers cost-benefit to the region</li> <li>Criteria for allocating zones is guided by existing industrial cluster to support supply-chain integration</li> </ul> 
EPZ	<ul style="list-style-type: none"> <li>EPZ are not benefitting from income tax incentives (2% tax on revenues) and are therefore not creating any distortive effects</li> </ul> 	<ul style="list-style-type: none"> <li>Foregone revenue from EPZs is only 0.03% of total government revenues (duties exemptions), demonstrating limited opportunity cost and fiscal burden</li> </ul> 	<ul style="list-style-type: none"> <li>9 operational EPZs deployed 483 Bn PKR over the years (most zones set up over 20 years ago)</li> <li>This represents only ~2% of 2022-2024 private investments in Pakistan, demonstrating that EPZs are not distorting flows of investment due to incentives</li> </ul> 	<ul style="list-style-type: none"> <li>Geographic selection of export processing zones is conducted jointly with investors, zone developers and considers cost-benefit to the region</li> <li>Criteria for allocating zones is guided by proximity to ports and/or to the availability of mining resources</li> </ul> 

# EPZs have no distortive effects on the economy, whereas impact of SEZs is minimal as the program has not achieved significant impact on the economy to cause any distortions

Directional

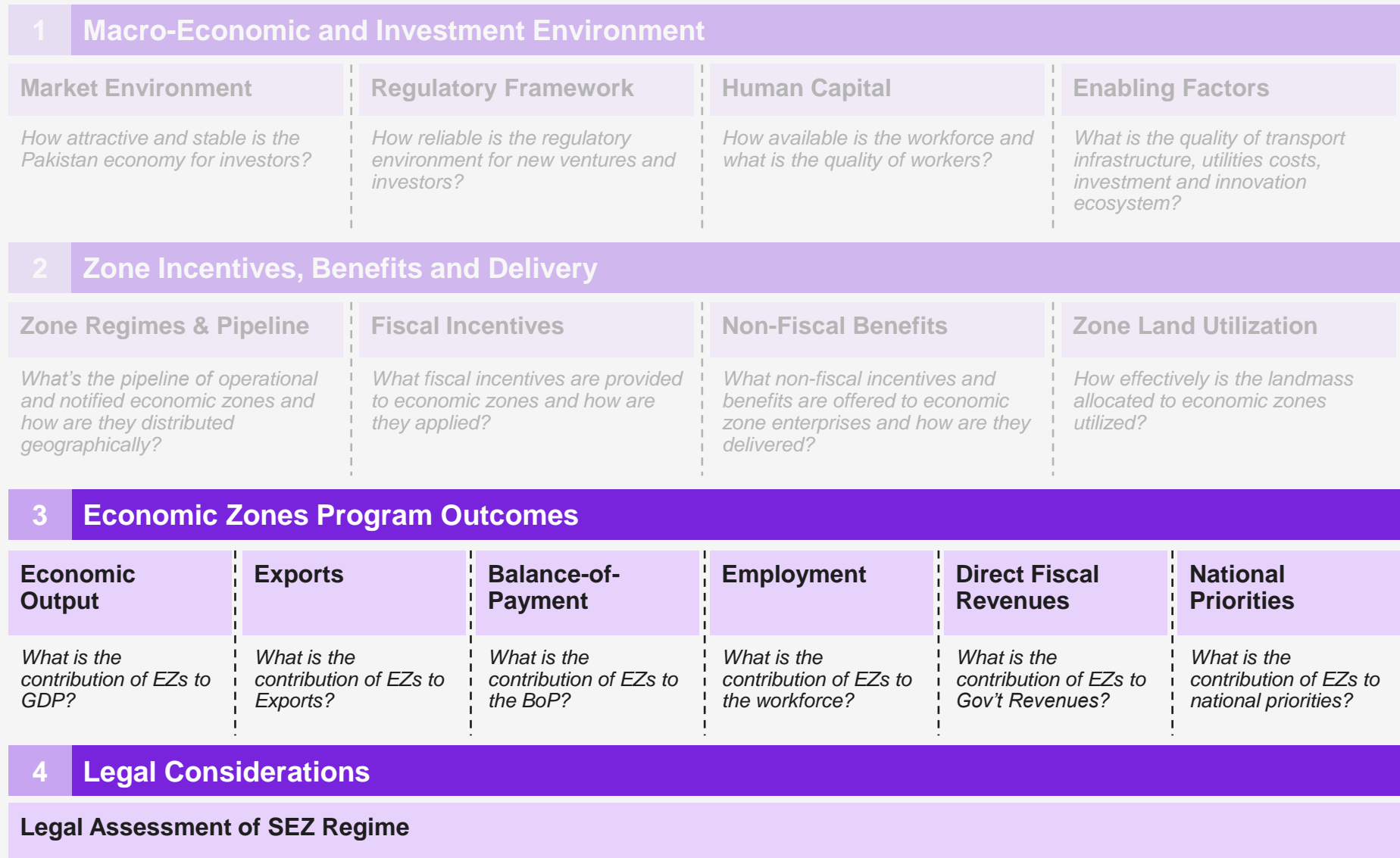
## Market Distortion Assessment of SEZs and EPZs (2/2)

	Competitive Distortions and Enclave Effects		Labor Market Distortions	Resource Misallocation
	1 Exports as Share of Zone Enterprise Sales	2 Imports as % of Costs	3 Labor Incentives Offered	4 Process for Zone Selection
SEZ	<ul style="list-style-type: none"> <li>Cumulative Exports for 2022-2024 reflect ~30% of the total revenue generated by SEZ enterprises</li> <li>New zones being developed are focused on major export focus (i.e. Sole Enterprise SEZs)</li> </ul> 	<ul style="list-style-type: none"> <li>SEZ share of imports of the total cost base for zone enterprises is &lt;1%; integration of SEZs with the local economy is significant</li> <li>This is partly due to the strong focus on labor intensive industries established in SEZs</li> </ul> 	<ul style="list-style-type: none"> <li>No labor incentives are currently being offered; no labor market distortions exist</li> </ul> 	<ul style="list-style-type: none"> <li>Process for zone selection is conducted jointly with provincial authorities, investors, zone developers and considers cost-benefit to the region</li> <li>Process for allocating zones is guided by existing industrial cluster to support supply-chain integration</li> </ul> 
EPZ	<ul style="list-style-type: none"> <li>Exports represent 80% of sales from EPZs with 20% sold domestically in 2024</li> <li>However, EPZ are considered bounded zones and domestic sales are subject to taxes and customs duties and treated as imports</li> </ul> 	<ul style="list-style-type: none"> <li>Imports represent a significant share of the cost base of EPZs at ~56% from 2022-2024</li> <li>EPZs are by design set up for re-export and process either primary or intermediary goods to consumption markets</li> </ul> 	<ul style="list-style-type: none"> <li>No labor incentives are currently being offered; no labor market distortions exist</li> </ul> 	<ul style="list-style-type: none"> <li>Process for zone selection is conducted jointly with provincial authorities, investors, zone developers and considers cost-benefit to the region</li> <li>Process for allocating zones is guided by proximity to transport infrastructure</li> </ul> 

1. Analysis of Revenues, Exports, Imports and Costs based on 13 SEZs and 9 EPZs with available data shared by BOI and EPZA/MOIP  
Source: Kearney

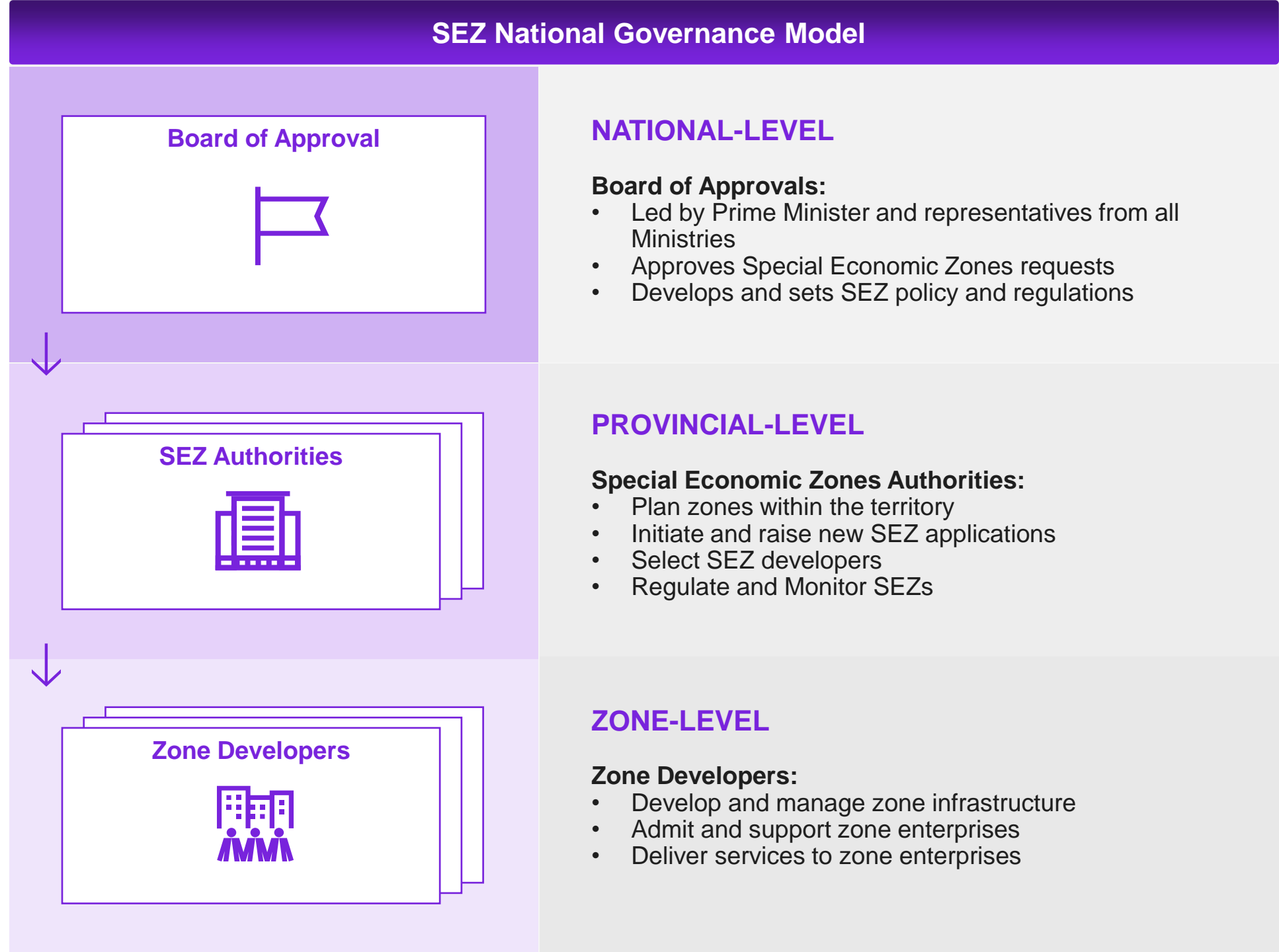
# We have assessed legal & regulatory considerations for the SEZ regime

## Economic Zone Regime Effectiveness Framework



The national framework model for SEZs is regulated across three levels: nationally, provincially and at the zone level

Illustrative





# Legal analysis of Special Economic Zones legislation was conducted, with implications and key considerations for reform highlighted (1/6)

## Special Economic Zones Act, 2012 (Act No. XX of 2012)

The Special Economic Zones Act, 2012 (hereinafter the, “SEZ Act”) was published in the official gazette on 12th August 2012. The SEZ Act aims to provide a law regulating the creation, development, and efficient operation of special economic zones through legal and regulatory framework thereby encouraging domestic and international investors for promotion and establishment of industrial infrastructure and matters that are incidental, ancillary, or connected thereto.

§2 of the SEZ Act has an overriding effect thus superseding any other law for the time being in force. This is an important aspect and should be taken as a mental note for the correct understanding of the exact import and extent of the SEZ Act in its application for development and regulation of economic zones.

The SEZ Act has a special feature with reference to the fact that it is Federal enactment but it extends to all provinces allowing the provinces to establish provincial SEZ authorities. The statutory language of §10(1) suggests the mandatory establishment of provincial SEZ authorities.

## Board of Approvals

The Board of Approvals is constituted pursuant to §5 of the SEZ Act prescribing a high-level board constitution. Without going into the further details thereto, our purpose is to determine the incentives and approvals that are being granted to by the BOA to the SEZ authorities and SEZ enterprises.

For the purposes of this paper, under §6 the BOA is empowered to: (a) examine and decide upon policy issues submitted to it by SEZ authorities or by developers, (b) notify with approval of relevant authorities’ additional benefits, (c) cancel development agreement.

## Overarching functions of Board of Investment

Pursuant to provisions of §8 the Board of Investment (hereinafter, the “BOI”) has an overarching regulatory function being the secretariat of BOA and Approvals Committee established under §7 of the SEZ Act. The key functions, inter-alia, include responsibility for coordination of all activities, including preparation of documentations, pertaining to SEZs development and zone enterprises for consideration by the BOA, ensuring implementation of all decisions of the BOA, processing all applications for additional incentives in accordance with sub-section (2) of §34, be responsible for the review of all development agreements proposed by SEZ authorities and responsibility for the international and domestic promotion of investments into SEZs, and facilitate the interaction of developers and zone enterprises with all Federal, Provincial and other government authorities as well as international financial and developmental institutions.



# Legal analysis of Special Economic Zones legislation was conducted, with implications and key considerations for reform highlighted (2/6)

## Responsibilities of Provincial Investment promotion authorities

§9 of the SEZ Act lays down the responsibilities of the provincial entities established and as has been defined in §3(k) of the SEZ Act. The responsibility matrix as postulated in §9 is more akin to the operational level which includes operations of Provincial SEZs, acting as focal entities in assisting acquisition of land and easement issues, infrastructure development and facilitating developers and zone enterprises for smooth and systematic resolution of issues etc..

## Functions and powers of SEZ Authorities

§17 enlists the functions and powers of the SEZ authorities, including but not limited to, preparation of zone applications, select developers, negotiate development agreements, assist developers upon award of development in acquiring land and accessing public utilities, preparing zone regulations, coordinating with Federal and Provincial authorities and ensure building of infrastructure outside the boundaries of SEZ, monitor implementation of streamlined administrative procedures in SEZs under §28, and monitor compliance of developers with zone regulations and obligations under development agreements with powers to suspend development agreements in cases of violations pending decisions of BOA

## Nature and extent of Development Agreements

§21 lays down the exact nature, extent, and scope of Development Agreements. §21(2) specifically state that the Development Agreement shall include (emphasis added), rights, protections and entitlements of the developer, rights, protections, and entitlements of zone enterprises in the SEZ and provisions for the settlement of disputes etc..



# Legal analysis of Special Economic Zones legislation was conducted, with implications and key considerations for reform highlighted (3/6)

## Incentive Regime under SEZ Act

§34 of the SEZ Act lays down in the legislative drafting perspective, that, ‘on execution of development agreements, the developer of the particular SEZ as well as all the zone enterprises in that SEZ shall be entitled to benefits set out in sections 36 and 37 respectively.’ §34(3) postulates that ‘any additional benefits granted by the BOA shall be deemed to be included in the relevant development agreements, and shall become effective on such conditions as the BOA may stipulate.’

The key determining factors that apart from the incentives granted under §36 and §37, the additional incentives granted shall be deemed to have been included in the development agreements, subject however, to the fulfilment of certain conditionalities by the SEZ enterprises and zone developers.

These are the incentives which are over and above the incentives granted under §36 and §37 of the SEZ Act and once granted are deemed to have been granted under the development agreements pursuant to §34 of the SEZ Act. §34(4) of the SEZ Act is a protective statutory clause laying down that, ‘nothing in this Act shall be deemed to limit the authority of any Federal, Provincial or Local Government authority to grant such additional benefits to developers and zone enterprises as are within the scope of their respective statutory powers.’

The key point drawn here reflects that any additional incentives granted are also protected under the provisions of this SEZ Act.

## Linkage between §34 and §35

§35 needs to be read in conjunction with §34 wherein all incentives under this Act shall be additional to all incentives and protections which may be applicable to developers and zone enterprises under generally applicable legislation and international agreements of Pakistan. It also lays down a legislative restriction that these benefits shall not be withdrawn prematurely and any change therein shall be to the advantage of the developer of the SEZ or the enterprise.

The key point drawn hereunder suggests that once additional incentives granted cannot be withdrawn prematurely and any change in the already granted benefits must act or provide advantage to the developer of the SEZ or the enterprise. Therefore, disadvantageous changes are not permissible.



# Legal analysis of Special Economic Zones legislation was conducted, with implications and key considerations for reform highlighted (4/6)

## Benefits granted under SEZ Act

The most relevant section of the SEZ Act is §36 and §37. Both these legal provisions need to be read and interpreted in juxtaposition as both are defining the incentives over and above the additional incentives under §34. It is considered appropriate to reproduce both the provisions for greater clarity and understanding, which are as under:

**“36. Benefits for the developers.**- Unless otherwise provided in a development agreement, developers shall be entitled to the following benefits, namely:-  
(a) one time exemption from all custom duties and taxes on plant and machinery imported into Pakistan except the items listed under Chapter 87 of the Pakistan Customs Tariff, for the setting up of any SEZ subject to verification by the BOI; and  
(b) exemption from all taxes on income accruable in relation to the development and operation of the SEZ for a period of five years, starting from the date of signing of the development agreement.”

**“37. Benefits for zone enterprises.**- All zone enterprises shall be entitled to the following benefits, namely:-  
(a) one time exemption from custom duties and taxes on import of plant, machinery into SEZ except items listed under Chapter 87 of the Pakistan Customs Tariff, for installation in that zone enterprise subject to verification by the BOI; and  
(b) exemption from all taxes on income for enterprises commencing commercial production by the thirteenth June 2020, in the SEZs for the next ten years:  
Provided that exemption from all taxes on income for those zone enterprises or firms which commence commercial production after the aforesaid date shall be for the next five years.”

Interpretation of the above both provisions, transpires that subject to the express contractual terms certain benefits provided to the SEZ developers and zone enterprises within the ambit of development agreements under §36 of the SEZ Act are not only statutory benefits but contractual commitments and obligations. Thus, once provided within the development agreements and thereafter an attempt is made to withdraw them subsequently shall ensue legal proceedings which may include arbitrations, damages for violating express contractual terms, alternate dispute resolutions, and specific performance of contracts in accordance with the applicable laws of Pakistan. Therefore, these contractually granted benefits are protected with respect to all those entities which are the beneficiaries of such benefits within their relevant development agreements executed within the parameters of §36 and §37 of the SEZ Act.

However, since §36 as drafted makes it subject to the development agreement by a phrase, “unless otherwise provided in a development agreement .....", therefore, for future development agreements, BOI or other relevant authority is entitled under the §36 to refuse the incentives that can be granted pursuant to §36 for any future endeavors pursuant to SEZ Act.

# Legal analysis of Special Economic Zones legislation was conducted, with implications and key considerations for reform highlighted (5/6)



## Provisions of Income Tax Ordinance, 2000

§36 and §37 of the SEZ Act originally established exemption periods of five (5) years and ten (10) years, however, subsequently amendments to §126E and §126EA of the Income Tax Ordinance, 2000 were introduced through the Finance Act, 2000 and Finance Act, 2001. The amendments in the Income Ordinance, 2000 have effectively modified the timelines of these incentives granted under §36 and §37 of the SEZ Act. The cumulative effect of these legislative changes is the ten-year exemption period, calculated from the date of execution of the development agreement, now applies uniformly to both zone developers and zone enterprises.

It is underscored that the analysis provided herein is confined to the legal interpretation of the provisions of the SEZ Act and the possibility of the exemption withdrawals. Within this perspective, any potential shortfalls in government revenue arising from tax exemptions thus, fall beyond the purview of legal examination. The assessment of tax receipts, including their correlation with export earnings, remains within the exclusive domain of financial advisors.

It is our view that Income Tax Ordinance, 2000 has given effect to the provisions of the SEZ Act through Finance Act, 2020 and Finance Act, 2021 by creating a more conducive environment in the development of special zones.

Though, economic implications of exemptions under the SEZ Act fall outside the scope of legal analysis, however it is considered appropriate that financial advisors should consider while evaluating broader developmental impacts, including fiscal tradeoffs, by conducting cost-benefit assessment before tendering any definite advice to withdraw the statutory exemptions.

# Legal analysis of Special Economic Zones legislation was conducted, with implications and key considerations for reform highlighted (6/6)



## Provisions of Income Tax Ordinance, 2000

Since, this paper has been drawn by legal department of Public Private Partnership Authority strictly following the applicable laws therefore, no financial impacts are either assessed or determined in cases where such benefits or incentives are continued or terminated by BOI.

One thing is, however, certain that incentives or benefits granted once under the statutory enactments followed by contractual arrangements cannot be withdrawn unilaterally unless the provisions of the SEZ Act are modified and amended or contractual arrangements are re-negotiated.

It should also be noted that in case of amendment of SEZ Act, the benefits accrued and incentives granted and availed cannot be taken away under the §6 of the General Clauses Act, 1897. The upshot of the above discussion is summarized as under:

- a) the incentives granted have been backed up by multiple approving entities under the provisions of the SEZ Act, thus cannot be taken away under the terms of the SEZ Act.
- b) the incentives and benefits granted under the provisions of the SEZ Act shall continue to be operative till the completion of the statutory timelines as identified and prescribed under the SEZ Act and reflected in the development agreements.
- c) if it is considered by BOI to withdraw the statutory incentives and benefits then BOI needs to repeal through amendments certain operative provisions of the present SEZ Act. Till amendment is passed and made an Act of parliament, the BOI, or any entity other than BOI cannot disagree or refuse to grant the incentives and benefits which have been allowed under the SEZ Act by a mandatory incentive regime for development and operations of SEZs under §37 of the SEZ Act.
- d) cancellation of development agreements or the contractual terms granting exemptions will entail legal consequences of damages reflecting into huge financial impact for the BOI or the government along with the consequential effect of defeating the very core of the SEZ Act.

We have identified 5 critical insights from the legal analysis of SEZ regulations, with implications on the rollback of fiscal incentives for SEZs

# SEZ Legal Considerations



Zones are **by law given the right to dispense incentives** to enterprises, and **cannot be revoked without legislative action**



Right to provide incentives for zone enterprises **extend beyond current zone enterprises**, as it is an **indefinite right granted to the zone itself**



Revoking fiscal incentives from SEZs **would require stripping SEZs their incentive-granting status** through Parliamentary approval



Revoking fiscal incentives is **counter to the spirit of the SEZ act approved by Parliament** which dictates that **similar or better incentives be provided in stead of current incentives**



Repealing the legislation through Parliament would **open the government of Pakistan and BOI to significant financial burden** in way of remuneration domestically and internationally



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Executive Summary

A Project Context

B Current State Assessment

**C Benchmarking Analysis and Lessons Learned**



We defined a framework for the benchmark analysis that focus on 2 main areas: analyzing the SEZ national models, and analyzing the SEZ rollback specific cases

SEZ National Model

## FRAMEWORK DIMENSIONS



SEZ Rollback



## QUESTIONS TO ADDRESS



- What are the main objectives SEZs aim to achieve?
- Which models of SEZs are typically used?
- What are the sectors they mostly focus on? Are there key geographical differences?
- What are the categories of incentives and benefits typically offered to SEZs?
- What was the context, and which were the main triggers that led to SEZ rollback (e.g., fiscal pressure, public debt, external entities like IMF, etc..)?
- What were the key measures taken and which policy changes were implemented to rollback SEZs?
- How were these measures implemented? In which timeline? And how they were communicated? Which mitigations strategies were adopted?
- What were the key outcomes of the rollback in terms of government revenues, GDP, exports, FDIs?

By conducting the benchmark analysis across these key dimensions, we aim to extract insights and considerations that can help inform the strategic directions of Pakistan SEZs and EPZs rationalization

# We leveraged a diverse set of benchmark examples to extract key lessons and considerations for Pakistan on SEZs models and rollback policies

## BENCHMARKED COUNTRIES

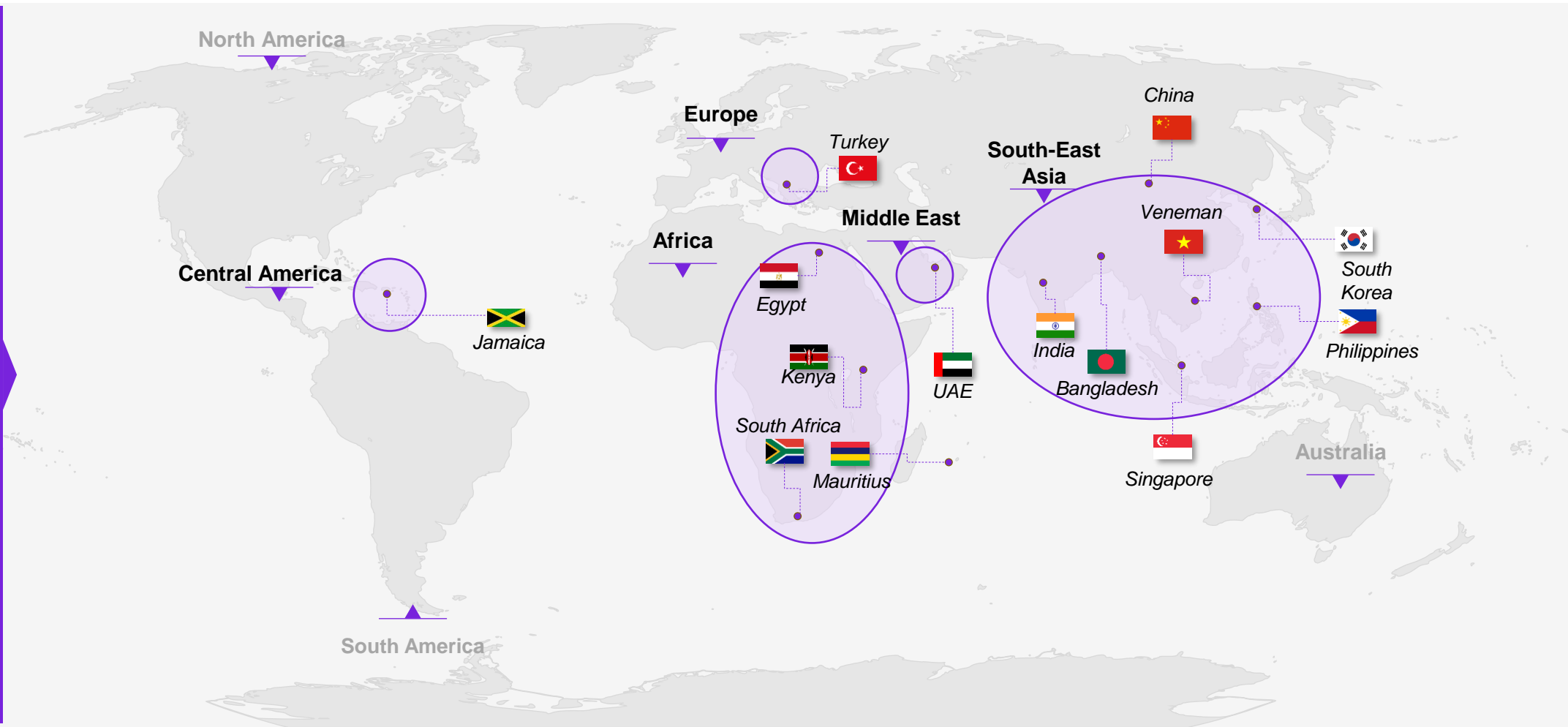
14 countries



Including two sets of comparators:

Countries that have implemented SEZs rollback strategies

Countries that have successfully maintained incentives to SEZs



# From benchmark countries, we have extracted 7 key strategic objectives that countries aim to achieve with the establishment of SEZs



Illustrative



## KEY STRATEGIC OBJECTIVES



### Attract Foreign Direct Investment (FDI)

Creating an enabling environment (tax breaks, streamlined customs, relaxed regulations) to draw in international capital and multinational enterprises

Observed in



### Boost Exports

Fostering export-oriented production (manufacturing or services) to earn foreign exchange and integrate into global value chains

Observed in



### Generate Employment

Expanding and enhancing job prospects by supporting industries that can absorb large segments of the workforce and strengthen skill development

Observed in



### Promote Industrialization

Building or upgrading a domestic industrial base by clustering manufacturers, providing shared infrastructure, and simplifying regulations

Observed in



### Stimulate Technology Transfer & Innovation

Bringing in advanced technology, R&D capabilities, and encouraging knowledge spillovers to local firms and talent

Observed in



### Diversify the Economy

Reducing reliance on a narrow set of industries (e.g., agriculture, single commodities, or tourism) by fostering new manufacturing, services, or knowledge sectors in SEZs

Observed in



### Enhance Infrastructure

Using SEZs as focal points for building modern infrastructure (roads, ports, power), spurring broader development,

Observed in



# 7 main models of SEZs are common across benchmark countries, each with key characteristics and tailored package of incentives

III IV

-  **Model**
- Export Processing Zones (EPZs)**
- Free Trade Zones (FTZs) / Freeports**
- Comprehensive/ Multifunctional SEZs**
- Single-factory SEZs**
- Industrial Parks / IDZs**
- Bonded areas / "warehouses"**
- Specialized / Sector-Specific SEZs**

## Key characteristics

Areas dedicated to **export-oriented manufacturing** where companies benefit from duty-free imports and simplified customs, **common in developing countries**  
 Designed around **logistics, warehousing, and transshipment activities**, usually located **near major ports or airports** to simplify customs requirements for re-export of goods

Zones of a **large size** with a **mix of different industrial, service, and urban-amenity operations**; in some cases, these zones can encompass a whole city or jurisdiction

Offer incentives to **individual enterprises** regardless of location, providing flexibility while offering the **fiscal and trade related benefits** of the SEZ regime

**Group manufacturing and assembly operations** in areas with **shared infrastructure** and **regulatory facilitation**, for **both exports** and the **domestic market**

**Secured areas** in which **goods** may be **stored, manipulated, or manufactured without payment of duties**, while remaining subject to customs laws and regulations

**Target distinct industries**, offering **dedicated infrastructure and incentives** for high-tech, finance, petrochemicals, or other specialized clusters

Fiscal exemptions	Extra-territoriality	One-stop shop	Multiple operating firms	Trade focus	Pre-built factories	Domestic linkages
✓	✓	✓	✓		✓	✓
✓	✓		✓	✓	✓	
✓	✓	✓	✓		✓	✓
✓						
			✓			✓
✓						
✓		✓	✓		✓	✓

### KEY TAKEAWAYS

- **SEZ models can vary based on their focus:** manufacturing or assembling goods for export (EPZs), trade facilitation (FTZs), manufacturing, processing, and sometimes services both for export and domestic markets (IDZs), or Single-industry/ specialized cluster
- **Incentives packages can be tailored to the specific model** (e.g., EPZs could have stricter rules on exports requirement but receive CIT and custom duties exemptions, while IDZs have higher CIT while receive stronger support on infrastructure development)

Source: World Bank, Desktop research, Benchmark analysis

V From the analysis of the different SEZs in the benchmarked countries, we extracted 7 main sectors mostly covered, with manufacturing being the most represented sector

MAIN SECTORS	SUB-SECTORS	Mainly covered by benchmark countries													
MANUFACTURING <i>Most covered sector</i>	Automotive	✓		✓		✓	✓	✓	✓						
	Electronics	✓		✓	✓	✓	✓			✓	✓				✓
	Textile & Apparel			✓			✓	✓	✓		✓	✓		✓	✓
	Pharmaceuticals	✓	✓	✓	✓		✓		✓						
	Chemicals	✓	✓	✓		✓	✓	✓							
	Food processing	✓		✓			✓	✓	✓	✓	✓			✓	
	Construction Materials	✓	✓	✓			✓	✓	✓						
LOGISTICS, WAREHOUSING, PACKAGING	Shipping & Ports	✓	✓		✓		✓	✓					✓		
	Warehousing & Distribution	✓	✓				✓	✓	✓						
	Re-exports & Transshipment	✓	✓		✓		✓						✓		
ICT	Software & IT Services		✓	✓	✓	✓				✓					
	High-tech R&D & Innovation	✓	✓	✓	✓	✓									
FINANCIAL SERVICES	Banking & FinTech	✓	✓		✓	✓							✓		
	Insurance & Asset Management	✓	✓		✓								✓		
CREATIVE INDUSTRIES & TOURISM	Media & Entertainment		✓	✓	✓	✓									
	Design & Fashion		✓	✓		✓				✓		✓			
	Resorts & Hospitality		✓							✓		✓	✓		
	MICE	✓	✓		✓	✓									
ENERGY & SUSTAINABILITY	Renewable Energy	✓	✓	✓					✓						
	Oil & Gas	✓	✓			✓		✓							
AGRIBUSINESS & FOOD	Aquaculture	✓						✓		✓	✓				
	Organic farming			✓					✓		✓			✓	

– Manufacturing is the most covered sectors by SEZ worldwide, followed by logistics, warehousing and packaging  
 – China, UAE, and India SEZs tend to have the most varied coverage across the main 7 sectors, while other countries tend to have more sector-specific coverage

# Benchmark countries offer a broad range of incentives and benefits, spanning from fiscal and regulatory enablement, access to capital, to infrastructure, utilities and services facilitation

VI

Offered in Pakistan      Lack or limited implementation

### FISCAL INCENTIVES

**Profit-based**

- Corporate Tax **Exemptions or Reductions**<sup>1</sup>
- Tax holidays<sup>2</sup>      VAT/ Sales Tax Exemptions
- Customs Duty Exemptions
- Repatriation of Profits with Minimal Restrictions
- Withholding Tax Reductions or Exemptions

**Cost-based**      **Performance-based**

- Depreciation-based deductions<sup>3</sup>
- Performance-based incentives<sup>4</sup> (Exports, job creation, FDIs, R&D)

### REGULATORY ENABLMENT

- Single-Window Clearance for Permits and Licensing
- Relaxed Foreign Ownership Rules
- Simplified Customs Procedures
- Special Labor Regulations
  - 100% foreign workforce allowed
  - Flexible work contracts (short-term; project based)
  - Special visa sponsorship rules

### ACCESS TO CAPITAL

- Equity financing
- Debt financing<sup>5</sup>
- Grants & subsidies
- Investment Promotion

### INFRASTRUCTURE & UTILITIES

- Dedicated Industrial Infrastructure (Roads, Power, Water, Smart City Development)
- Highly available and subsidized utilities (Electricity, Water, Internet, Waste Management)
- Preferential Land Lease Rates
- Proximity to Logistics Facilities (Ports, Airports, Rail)

### INNOVATION & HUMAN CAPITAL DEVELOPMENT

- R&D Incentives and Grants for R&D investments
- Technology Transfer Programs
- Training and Workforce Development Programs
- Universities and Research Centers Linked to SEZs

## KEY TAKEAWAYS

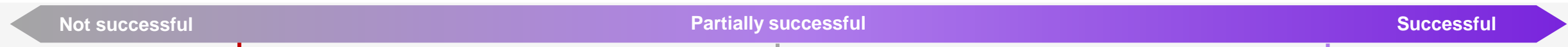
- There is a **wide range of benefits and incentives** that countries can offer to SEZs, with an observed **global shift from income-based fiscal incentives** towards **cost and performance-based incentives**
- Pakistan currently provides **some** of the key benefits, yet there is **potential to expand/ change the composition** of its incentives package

1. Permanent or long-term reduction on CIT; 2. Temporary, time-bound tax exemption (that can include CIT, VAT, or custom duties), typically between 5 to 20 years; 3. Faster asset depreciation, reducing taxable income; 4. Performance-based incentives are tax rebates, credits, or deductions tied to the achievement of specific economic targets such as exports, job creation, FDIs, technology development, etc.; 5. Govt loans for SEZ development, through access to preferential credit and low-interest loans – in Pakistan Provincial governments may offer support covering 50% of the markup (up to a maximum of 5%) on loans taken in Pakistani currency for financing projects; Source: World Bank, Desktop research, Benchmark analysis

# From the analysis of SEZ rollback strategies, we have identified successful and less successful models from which we can extract key learnings for Pakistan

X


## SEZs ROLLBACK MODELS



### ABRUPT CRISIS ROLLBACK

**Why It Struggled**

- **Extreme and isolated measure:** Incentive removal was done in isolation, through a full ban on free zones, lacking gradual transition
- **Poor communication:** Abrupt announcements undermined investor confidence
- **Political/fiscal crisis context:** The rollback was perceived as a reactive measure rather than a strategic reform (hence later reversed)

Observed in Egypt 

### ISOLATED ROLLBACK

**Why It Was Only Partially Successful**


- **Swift but isolated:** While the rollback managed to boost govt revenues, it was not tied to a larger set of reforms
- **Abrupt implementation:** Minimal transition periods for SEZ investors led to pushback and uncertainty
- **No phased or “sunset” approach:** Little time for businesses to adapt (manufacturing particularly affected)

Observed in India 

### COORDINATED PHASED ROLLBACK

**Why It Worked**

- **Broad integrated reforms:** Rollbacks were paired with other tax and business-environment reforms
- **Clear communication & phasing:** A “sunset” or transition period, plus upfront stakeholder engagement minimized investor shock
- **Policy coherence:** Tying SEZ changes to overarching goals helped maintain credibility and prevented any capital flight

Observed in Mauritius, Jamaica, and Philippines 

# Specifically, among the successful coordinated phased rollback strategies, there are 3 main archetypes depending on the level of maturity of the economy


X

Benchmark case studies in appendix

## SUCCESSFUL COORDINATED PHASED ROLLBACK


### A Rationalized SEZ Benefits for Fiscal Stability

- **Phased Reduction of Incentives:** Gradual removal of excessive tax breaks to ensure minimal investor shock
- **Diversification & Business Environment Reforms:** Focus on improving logistics, infrastructure, and reducing bureaucratic barriers to compensate for reduced tax advantages
- **Sustainability & Competitiveness Focus:** Encouraging businesses to stay by improving cost-efficiency and ease of doing business

Observed in Mauritius and Jamaica 


### B Privatization-Led SEZ Reform

- **Shift from Public to Private Ownership:** Gradual divestment of government-run SEZs to private sector operators
- **Enhanced Market Competitiveness:** Allowed for improved efficiency, innovation, and cost-effectiveness
- **Regulatory Transition:** New governance frameworks to ensure transparency and continued investor confidence
- **Fiscal Sustainability:** Reduced reliance on tax breaks while maintaining business-friendly policies

Observed in Philippines and Turkey 

### C High-Tech & Innovation-Led SEZ Transition

- **Gradual Removal of Broad-Based Tax Breaks:** Shifted from blanket incentives to sector-specific benefits once reached economy maturity
- **Strategic Industry Focus:** Prioritized high-tech, R&D, and advanced manufacturing
- **Investment in Human Capital & Innovation Ecosystems:** Established tech parks, incubators, and R&D grants
- **Integration with National Industrial Policy:** SEZs with broader innovation and digital transformation agendas

Observed in China and South Korea 








Increasing level of maturity of economy / Industrial complexity


- B.1 Context & trigger
- B.2 Key measures taken
- B.3 Implementation process

# SEZ rollback strategies proved to be more successful when part of a broader set of reforms and phased gradually to avoid abrupt undermining of investors confidence

VII XI

 IMF led rollback cases

Country	Context and trigger	Key measures taken (incentives removed)	Implementation process	Successful
 India	Facing a <b>large fiscal deficit</b> and <b>criticism of “revenue forgone”</b> in SEZs, India’s 2011-12 budget ended key tax concessions	<ul style="list-style-type: none"> <li>- Introduced <b>18.5% MAT and DDT on SEZ units</b>, ending income tax holiday</li> </ul>	<ul style="list-style-type: none"> <li>- Removed tax incentives <b>in isolation</b></li> <li>- <b>Used abrupt executive/legislative actions</b> – quickly boosting revenues but startling businesses</li> </ul>	Partially
 Mauritius	Due to <b>looming fiscal and economic challenges</b> and backed by Endorsed by IMF, Mauritius undertook bold reform to broaden the tax base 	<ul style="list-style-type: none"> <li>- <b>Abolished</b> virtually all <b>tax holidays/exemptions</b> (over 20 types of exemptions / deductions)</li> <li>- <b>Unified 15% CIT/VAT</b></li> </ul>	<ul style="list-style-type: none"> <li>- Incentives rollback was <b>coupled with broader reforms</b> (i.e., beyond income tax, government removed also indirect tax perks on VAT and import duties)</li> </ul>	Yes
 Jamaica	<b>Decades of low growth</b> and <b>mounting debt</b> led to an <b>IMF rescue</b> focused on tax reform to raise revenue and equity 	<ul style="list-style-type: none"> <li>- <b>Repealed Free Zone 0%</b> tax regime</li> <li>- New SEZ <b>12.5% CIT cap</b></li> <li>- <b>Ended sector-specific holidays</b> via Omnibus Act</li> </ul>	<ul style="list-style-type: none"> <li>- Rollback part of <b>broader efforts</b> to boost competitiveness + intro of <b>performance-based</b> credits</li> <li>- A <b>“sunset date”</b> was set to ensure <b>gradual phasing out</b></li> <li>- <b>Good communication</b> of the changes</li> </ul>	Yes
 Egypt	During Egypt’s 2011 revolution, the government was under <b>fiscal stress</b> , trying to <b>combat economic abuses</b> and <b>currency fluctuations</b>	<ul style="list-style-type: none"> <li>- <b>Banned new private free zones</b> (no more tax/customs exemptions for privately-run zones)</li> </ul>	<ul style="list-style-type: none"> <li>- Removed tax incentives <b>in isolation and amid crisis</b></li> <li>- <b>Communication</b> was <b>abrupt</b> and <b>uncoordinated</b></li> <li>- <b>Reversed rollback</b> when negative impacts observed</li> </ul>	No
 Philippines	By late 2010s, <b>fiscal incentives</b> provided to SEZs were <b>foregoing enormous revenue</b> while <b>not necessarily delivering commensurate benefits</b>	<ul style="list-style-type: none"> <li>- <b>Ended perpetual 5% GIE</b> incentive</li> <li>- Set <b>fixed terms for holidays</b></li> <li>- <b>Lowered corporate tax</b> to 25%</li> <li>- <b>Removed VAT exemption</b> on local purchases</li> </ul>	<ul style="list-style-type: none"> <li>- Incentives rollback was <b>coupled with broader reforms</b></li> <li>Pursued a more <b>phased, negotiated approach</b> (grandfathering some firms for a <b>transition period</b>)</li> </ul>	Yes

 **KEY TAKEAWAYS**

- **3 main triggers to SEZs rollback:** (i) severe **government fiscal deficit** and increasing public debt; (ii) **IMF/ World Bank interventions** to broaden the tax base; (iii) evidence of **revenue loss** or **misuse** of tax incentives
- **Policy sequencing and communication are key:** in crafting SEZ policies changes, strategies that have **phased out the rollback of SEZs incentives** have proven to be more successful, since **abrupt or uncoordinated rollbacks** can **undermine investor confidence**
- **Non-isolated rollback:** countries that **coupled incentive rollback with broader reforms** and **tailored their measures** to the different sectors and introduced **performance-based benefits** had more positive outcomes






Note: MAT (Minimum Alternate Tax); DDT (Dividend Distribution Tax); CIT (Corporate Income Tax), GIE (Gross Income Earnings)  
 Source: Desktop research, Benchmark analysis, Experts inputs

# GLOBAL EXAMPLES OF SEZs ROLLBACK OUTCOMES

**XIII** SEZs rollback strategies can have different impact on GDP, balance of payment, FDIs, and sector response depending on how implemented and on the specific country's economic context

**B. SEZ Rollback:**

- B.4 Key outcomes

Country	Change in tax revenues	GDP and exports impact	FDI impact and sector response
 India	<ul style="list-style-type: none"> <li>- Slight increase in tax collection from SEZ firms</li> <li>- Overall revenue foregone reduced</li> </ul>	<ul style="list-style-type: none"> <li>- SEZ exports slowed; ~50+ planned zones cancelled</li> <li>- Manufacturing output growth dampened</li> <li>- IT services largely unaffected</li> </ul>	<ul style="list-style-type: none"> <li>- FDI in SEZs fell (zones saw net ₹9.3B disinvestment in 2011-12)</li> <li>- Many manufacturing investors pulled out</li> <li>- IT/BPO continued investing due to skill advantages</li> </ul>
 Mauritius	<ul style="list-style-type: none"> <li>- Significant increase in CIT revenue</li> <li>- Tax-exemption cost fell from 3.2% to 1.3% of GDP</li> </ul>	<ul style="list-style-type: none"> <li>- Sustained ~5% GDP growth</li> <li>- Exports diversified (less sugar/textiles, more services)</li> <li>- No export crash with services exports up</li> </ul>	<ul style="list-style-type: none"> <li>- FDI surged (inflows +53% by 2012 vs 2006)</li> <li>- Manufacturing adapted</li> <li>- Finance/ICT boomed, attracted by stable low-tax regime</li> </ul>
 Jamaica	<ul style="list-style-type: none"> <li>- Tax base broadened</li> <li>- Enabled 7% GDP primary surpluses, helping debt reduction</li> </ul>	<ul style="list-style-type: none"> <li>- Little immediate GDP growth</li> <li>- Exports of goods continued decline, but services (tourism, BPO) grew</li> <li>- Overall export earnings stable with tourism recovery</li> </ul>	<ul style="list-style-type: none"> <li>- FDI steady (~\$500M/year)</li> <li>- Investors stayed due to improved macro stability and still-moderate tax</li> <li>- Some low-margin factories closed; logistics and BPO investments grew under new regime</li> </ul>
 Egypt	<ul style="list-style-type: none"> <li>- Prevention of some revenue leakage</li> <li>- Not a large effect on budget due to short duration</li> </ul>	<ul style="list-style-type: none"> <li>- Negligible macro-GDP impact</li> <li>- Possibly forgone growth in export manufacturing that didn't materialize</li> </ul>	<ul style="list-style-type: none"> <li>- FDI potentially deterred: several export projects stalled</li> <li>- Policy reversed in 2 years due to fear of losing FDI</li> <li>- Competitiveness temporarily hit for manufacturing</li> </ul>
 Philippines	<ul style="list-style-type: none"> <li>- Neutral in short-term (tax cut offset incentive removal)</li> <li>- Long-term increase expected: fewer tax holidays will reduce foregone revenue</li> </ul>	<ul style="list-style-type: none"> <li>- No major GDP shock</li> <li>- Export zone output rebounded after pandemic</li> </ul>	<ul style="list-style-type: none"> <li>- FDI stable to slightly up</li> <li>- Investors welcomed the 5% tax cut</li> <li>- BPO sector remained competitive</li> <li>- Manufacturing FDI interest (e.g. electronics) continued</li> </ul>



**KEY TAKEAWAYS**

- **Economic Growth and GDP:** the impact on GDP varies; SEZ rollbacks alone are not usually the prime determinant of GDP trends, yet sectors previously propelled by SEZs can experience a growth slowdown
- **Exports & Imports:** if tax breaks are key to export competitiveness, phasing them out might slow export growth; import leakage can be reduced rolling back customs exemptions, but the net effect can be neutral if it also discourages export-oriented production
- **FDI:** FDI often dips if incentives are removed suddenly

# To extract key strategic directions for the potential SEZs rollback in Pakistan, we mapped out the typical outcomes when different measures are implemented

VIII IX XIII

↑ Increase ~ Stable ↓ Slight Decrease ↓ Decrease

Measures taken		First-Order Impact				
		Govt' tax revenues	GDP	Exports	FDIs	Market structure
CIT	<b>Abolishment of tax holidays</b>	↑ Previously exempt businesses contribute to tax revenues	↓ Slightly decreased due to reduction in corporate reinvestment	↓ Export-driven SEZ firms face higher costs, reducing competitiveness	↓ Investors can reallocate to countries offering better tax incentives	<b>Consolidation</b> smaller SEZ firms might merge or exit due to higher tax burdens
	<b>Removal of CIT exemptions/reduced rates</b>	↑ Higher effective tax collection from SEZ firms	↓ Slightly decreased as higher tax burdens can reduce reinvestment	↓ Decrease in SEZ competitiveness due to higher corporate tax costs	↓ Investors can reallocate to countries offering better tax incentives	<b>Stable / potential consolidation</b> of firms with thin margins
	<b>Introduction of a reduced rate for CIT</b>	↑ Previously exempt businesses contribute to tax revenues	~ Impact typically milder than a full removal of incentives	↓ Slightly increases the cost structure of export-driven firms	↓ Investors can reallocate but negative impact is less strong	<b>Stable / potential consolidation</b> of firms with thin margins
Sales tax	<b>Removal of VAT/ Sales tax exemptions/reductions</b>	↑ Higher VAT / sales tax base boost revenue collection	↓ Slightly decreased due to higher VAT / sales tax passed onto businesses/consumers	↓ Slightly increases the cost structure of export-driven firms	↓ Foreign investors might consider alternative SEZs with better VAT policies	<b>Stable:</b> no major impact on market structure
Custom duty	<b>Removal of custom duties exemptions</b>	↑ Import duties generate more fiscal revenue	↓ Higher costs for SEZ manufacturing and assembly operations	↓ Production costs rise, reducing global price competitiveness	↓ SEZs could become less attractive for manufacturing-focused investments	<b>Stable/ slight fragmentation:</b> potentially encouraging more local entrants
Other tax	<b>Reduction or elimination of other tax incentives<sup>1</sup></b>	↑ Companies pay higher taxes due to loss of exemptions	~ Impact typically smaller than removing major CIT/VAT exemptions	~ Export-oriented firms' margins may narrow marginally	~ Could slightly decrease – but their removal alone is less decisive than changes to CIT	<b>Stable:</b> no major impact on market structure

## KEY TAKEAWAYS

- **Government tax revenues generally increases** when incentives are rolled back, with varying level of increase based on the measure(s) **GDP impact varies**, a decrease in the short term is observed but impact **tends to be minimal**
- **Exports tend to decline** with the **removal of direct and indirect tax incentives**, particularly in **manufacturing-heavy SEZs**
- **FDIs decline**, as investors favor locations with better incentives; yet a more stable and tax regime **can also attract higher-quality FDIs**;
- **M&A activity may rise** due to firm consolidation under **higher CIT burdens**, but is not directly affected from changes other taxes

1. E.g., accelerated depreciation, withholding tax exemptions; Source: Desktop research, Benchmark analysis, Experts inputs

# The outcomes of the SEZ rollback strategies need to be assessed looking at the short-, and long-term impact to measure effectiveness of policy changes

XIII

↑ Increase   ~ Stable   ↓ Decrease   ✗ Not impacted

SEZ Rollback Models	Benchmark countries	Govt' tax revenues		GDP		Exports		FDIs		Market structure (e.g., M&A activities)	
		Short term	Long term	Short term	Long term	Short term	Long term	Short term	Long term	Short term	Long term
<b>ABRUPT CRISIS ROLLOBACK</b>	<b>Egypt</b>	↑ Prevention of tax leakage	~ Minimal budgetary impact due to short duration	~ Negligible macro-GDP impact	~ Negligible macro-GDP impact	↓ Some reduction in export-driven manufacturing	~ Minimal impact on total trade	↓ FDI deterred: several export projects stalled	~ Policy reversed in 2 years, leading to Restabilized FDIs climate	✗ No major industry shifts	✗ No major industry shifts
<b>ISOLATED ROLLOBACK</b>	<b>India</b>	↑ Slight increase	↑ Higher overall tax revenues	↓ SEZ exports slow (manufacturing)	~ Non SEZ sectors absorb impact	↓ SEZ exports contract (~50+ zones canceled)	~ Stabilized exports	↓ Immediate decline of more than \$9 bn	~ Investors shift to alternative business models	↑ Increased consolidation as SEZ firms struggle	~ Industry stabilizes with adaptation
<b>COORDINATED PHASED ROLLOBACK</b>	<b>Jamaica</b>	↑ Higher tax base	↑ 7% GDP primary surplus achieved	~ No immediate GDP growth	↑ Tourism and BPO sector expansion offsets SEZ impact	↓ Decline in SEZ-based goods exports	↑ Tourism & services gain momentum	~ FDI remains steady (\$500M/y)	↑ Increased BPO investments	↑ Low-margin firms close, high-value firms emerge	~ Service industries replace manufacturing - Stronger industry mix

## KEY TAKEAWAYS

- **Short-Term Effects:** SEZ rollbacks mostly led to **higher tax revenues, declining exports, and FDI deterrence risks**
- **Long/ Medium-Term Adjustments:** Countries with **diverse economic bases** (Mauritius, Jamaica, Philippines) managed to **offset negative impacts** better than manufacturing-heavy SEZ economies
- **Long-Term Sustainability:** SEZ tax rollbacks were **fiscally beneficial**, but **long-term GDP and export growth** depended on how well economies **diversified** and whether **investor confidence** was **retained**

# From benchmark examples, the impact of SEZ rollback and reduction of incentives varies based on the sector, indicating the need to tailor policy adjustments accordingly



## SEZ Rollback Impact by Main Sector

### MANUFACTURING

Several **large manufacturing zone projects** were shelved after 2012, **undermining India's industrial growth ambitions**, especially in manufacturing where tax incentives were a key draw

Mauritius's **manufacturing had to become leaner but survived**; some low-end firms closed, but others upgraded, **shifting from competing on tax breaks to competing on fundamentals**

**NET IMPACT** Removing incentives forces manufacturing firms to **compete on productivity**; inefficient ones may exit, while efficient ones adapt

### TECHNOLOGY, SERVICES & FINANCE

**IT services SEZs** (around 60% of zones) were **less deterred** as many IT firms valued other factors like infrastructure and **continued to enjoy indirect tax breaks** (e.g., zero-rated GST on SEZ supplies)

The **Philippines' IT-BPO sector continued to expand** despite the law changes, because the 5% gross tax was low to begin with; also, in **finance**, extremely **low tax zones can even be counterproductive** due to OECD/EU blacklists

**NET IMPACT** Tech firms tend to be **less sensitive to profit-tax holidays** and more sensitive to workforce quality and infrastructure

### LOGISTICS, WAREHOUSING & PACKAGING

China's SEZ **logistics hubs** experienced **limited disruption from tax incentive rollbacks**, due to their **stronger dependence on infrastructure quality** and trade facilitation rather than on direct fiscal incentives

The **rollback of customs duty exemptions** in South Africa's IDZs led to **higher operating costs** for logistics-dependent businesses; **some firms relocated** to neighboring trade-friendly countries, **while others optimized inventory management**

**NET IMPACT** Removing customs duty exemptions **can increase costs** and prompt relocations, while **strong infrastructure can sustain competitiveness**

### KEY TAKEAWAYS

- **Economy-Wide Competitiveness:** Curbing SEZ perks can **reduce market distortions** and spur governments to **improve business climate**
- **Sector-Specific Impact:** **Sector-specific considerations** should be applied when deciding to **end reduce incentives** to avoid major negative impact on key sectors, while also taking into account **which industries would be mostly affected**

# MAIN RISKS OF SEZs ROLLBACK



## SUCCESSFUL MITIGATION LEVERS



(XII) To mitigate the potential risks of SEZ rollback, 4 mitigations levers can be used, among which substitution of income-based incentives with cost or performance-based incentives, sector-specific approach, and special transitions are key

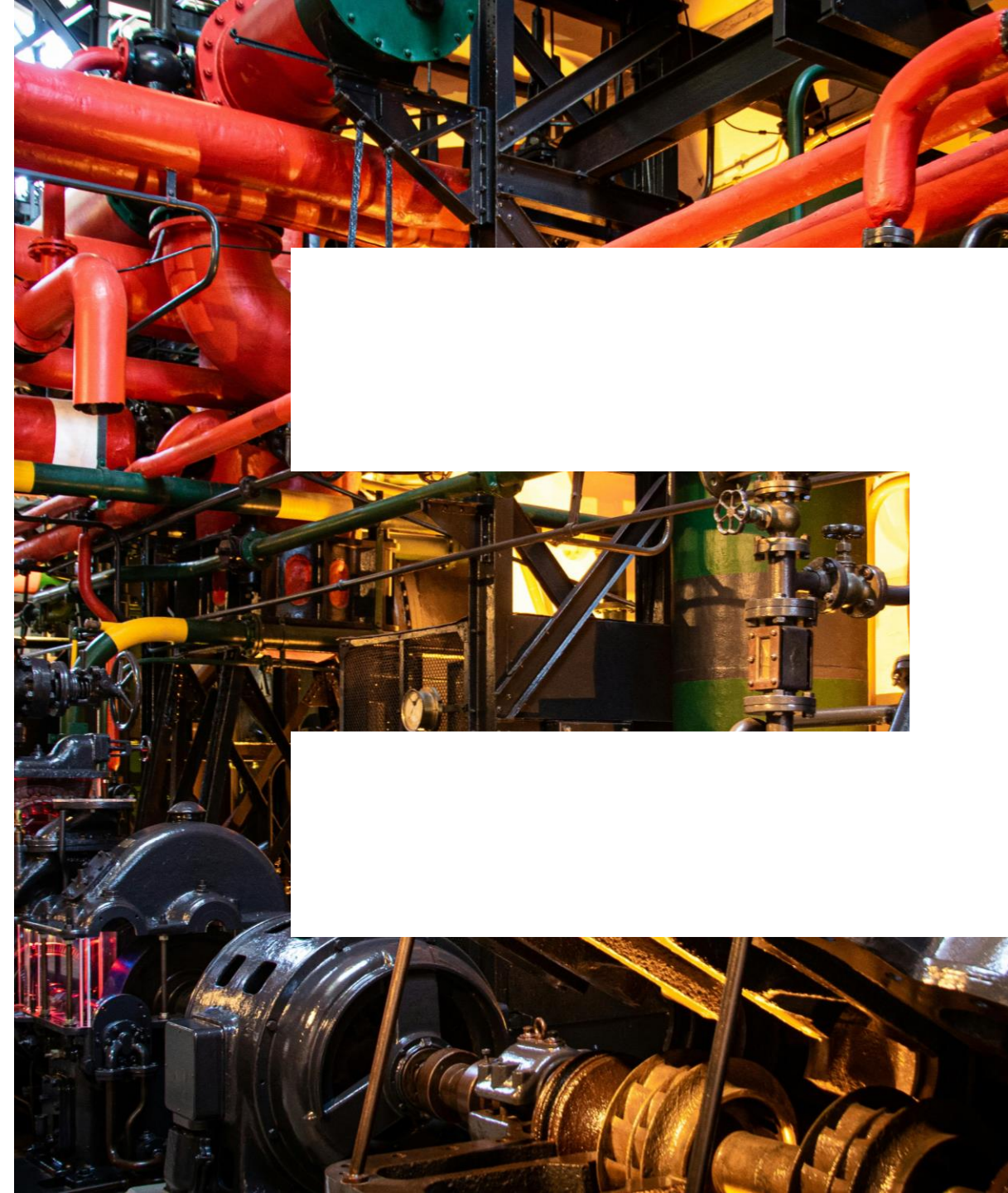
B. SEZ Rollback:

# Table of Contents

Executive Summary

Phase 1 Current State Assessment and Benchmarking Analysis

Phase 2 Target State Recommendations



# The SEZ and EPZ feasibility study will cover 2 main phases: current state assessment & benchmark analysis and definition of strategic options with impact and phasing approach



## Phase 1: Current State Assessment & Benchmark Analysis

A

Review **current SEZ and EPZ landscape** evolution including 4 **key implementation models**

B

Deep-dive on **IMF recommendations** for Pakistan SEZs

C

Assess **profile** of companies, **revenues and exports**

D

Assess **government revenue opportunity cost** and future projections

E

Review **global benchmarks on SEZs rollback** and derive lessons learned



## Phase 2: Strategic Options, Impact & Phasing

A

Develop **potential strategic options** for Pakistan to phase or reduce subsidies

B

Assess **qualitative impact** of the options and identify potential **mitigation levers**

C

Identify **optimal strategic option** to pursue, develop **implementation plan** and **enablers**



*Focus of this section*

# Table of Contents

**A Strategic Options and Impact Assessment**

**B Implementation Planning**



# Both SEZ and EPZ programs have been instrumental in driving the industrialization of developing economies globally...

## EZ CONTRIBUTION TO INDUSTRIALIZATION

### A. Attracting FDI and Technology

- EZs often succeed in drawing multinational investors, bringing in capital, managerial know-how, and new technology. In China, **zones were influential drivers of FDI**, accounting for roughly **45–50% of national FDI inflows** in the 2000s
- Case studies find that, **controlling for location and infrastructure, the presence of an EZ itself significantly boosts FDI** – as seen in Chinese municipalities where zones led to higher FDI per capita without crowding out domestic
- By attracting **export-oriented FDI**, **EZs can integrate developing economies into global value chains**, introducing new industries (electronics, automotive, etc..) that were previously absent.



### B. Export Growth and Industrial Output

- EZs focus on manufacturing for export, and **successful zones have dramatically increased host countries' exports and industrial output**, responsible for a **large share of export growth** in many emerging economies.
- In China, the EZ program helped **raise manufactured exports from near zero to the bulk of China's trade; by the 2010s**, China's various zones were contributing about **60% of China's total exports**.
- In Malaysia, export manufacturing in free industrial zones helped **manufactured goods grow from only 12% of exports in 1970 to 81% of exports by 1997**, transforming the economy's structure.



### C. Employment Creation and Industrial Clusters

- Successful **EZ program can generate large-scale employment** and catalyze the **formation of industrial clusters**.
- **Employment impact of SEZs is significant in many developing countries**. For instance, **China's zones are estimated to have created over 30 million jobs**
- In **Bangladesh and Vietnam**, **export zones have provided tens of thousands of jobs** in garments and electronics assembly.
- By concentrating industrial activity, EZs can foster **sector-specific clusters** – e.g. an electronics hub in a **Malaysian free trade zone** or a **garment cluster in a Kenyan EPZ** – which create know-how spillovers and upstream/downstream linkages.



### D. Industrial Spillovers and Diversification

- The goal of EZ-led industrialization is to **create spillovers to the domestic economy** and diversify the national economic base.
- Taiwan's early EPZ helped **spawn local electronics firms**, and **Mauritius' EPZ catalyzed a domestic textile and apparel industry** beyond the zones.
- Africa, for instance, has relatively few manufacturing exporters, but **Kenya's EPZs enabled a pivot into apparel exports** under AGOA, and **Morocco's zones account for 60% of the country's non-oil goods exports**



... and strong fiscal incentives were key to the success of EZ programs around the world, eventually phased out as EZs achieve success and market distortions become significant...

## EZ FISCAL INCENTIVES AS A KEY PILLAR OF INDUSTRIALIZATION

### INDUSTRIALIZING NATIONS LEVERAGING EZ FISCAL INCENTIVES

- In the 1980s–90s, **China’s SEZs enticed FDI with a low 15% corporate tax rate** (33% for domestic firms) and **multi-year tax holidays**. Following WTO accession China unified its corporate tax system in 2008. New Corporate Income Tax Law in 2008 set a **single 25% tax rate for both domestic and foreign enterprises**, phasing out the old SEZ tax breaks. Foreign-invested firms that had enjoyed 15% tax were given a transition period (5 years), and those in the middle of a tax-holiday were allowed to finish the term but no new holidays were granted.
- Once **China had a robust industrial base, it eliminated FDI-specific incentives** and moved to an even playing field. This policy shift did not stall investment – **by then, investors came for China’s market and capabilities, not just tax breaks.**



- **Malaysia’s early industrialization** (1970s–90s) was driven by **generous incentives for export manufacturers** (status tax holidays, investment allowances). In later years it gradually **refined and reduced these incentives**, especially as it **entered WTO commitments**. By the 2000s, tax holidays were more targeted – for instance, the “Multimedia Super Corridor” tech park offered incentives to ICT firms, while general manufacturing incentives were rationalized.
- **After industrializing, Malaysia’s reliance on broad tax holidays diminished** – fiscal incentives became more conditional (e.g. based on technology level or training commitments) and corporate tax rate (24-25%) applied to most companies uniformly, **ensuring a stable revenue base while still encouraging high-value industries through targeted incentives.**



### CONDITIONS FOR INCENTIVE ROLLBACK



**Robust contribution** of economic zones towards **industrialization and the economy**



**Large fiscal opportunity cost** and surging tax avoidance



**Significant market distortions** across competition, investment, labor and resource allocation



**Mature industrialized economy** with an **attractive investment environment** for global investors

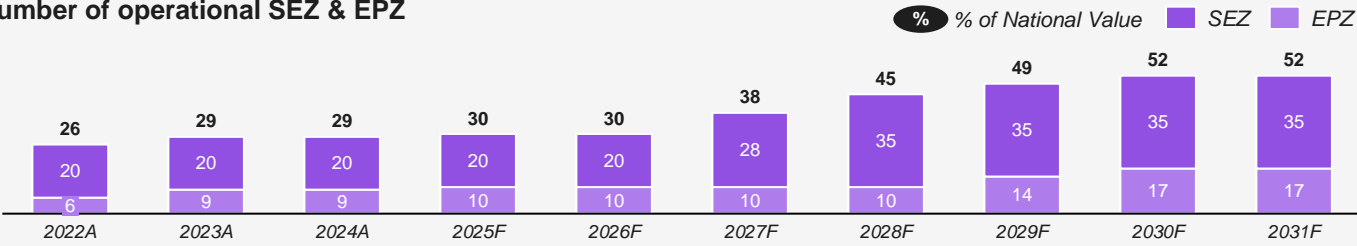
...for Pakistan, SEZ/EPZs have not yet achieved their potential, and removing fiscal incentives would affect the future of the national industrialization agenda

We modeled a conceptual ideal-case scenario for SEZ/EPZs with current policy model

**DIRECTIONAL**

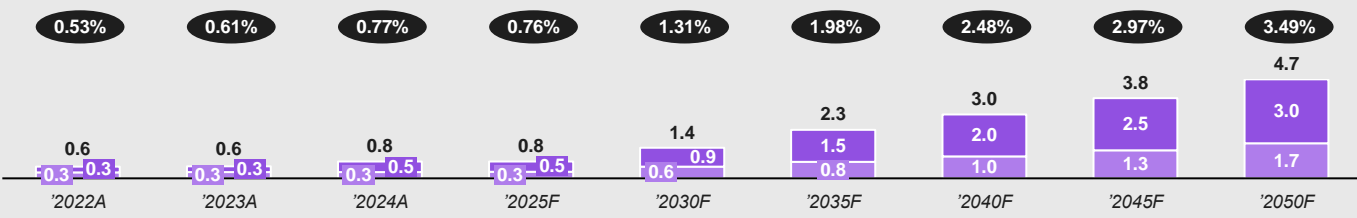
Analysis based on projected figures of SEZs and EPZs with available data with an assumed growth rate towards full land plot utilization. For non-operational zones, figures have been estimated with cross-zone average

Number of operational SEZ & EPZ



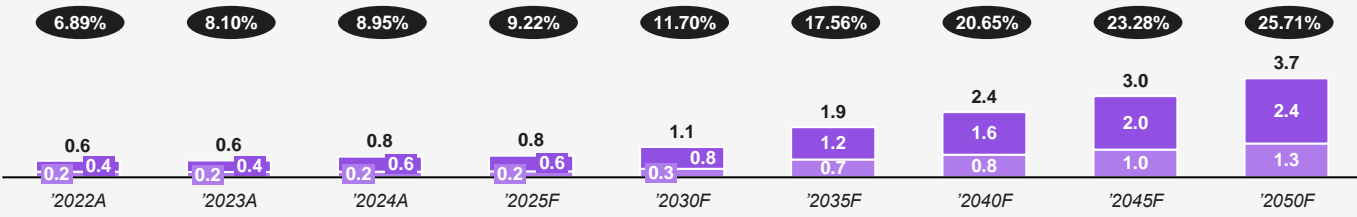
- Base-case scenario assumes activation of all SEZ and EPZ (notified/pre-feasibility) by 2030
- Total of **52 operational zones with 35 SEZ and 17 EPZ by 2030**

SEZ & EPZ GDP Contribution (Tn PKR, % of National GDP)



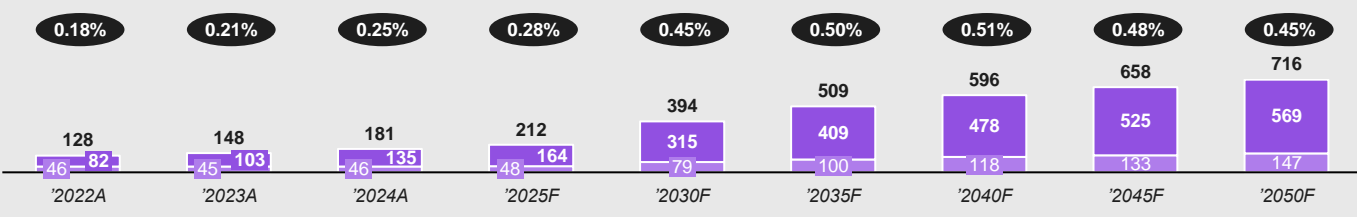
- SEZ and EPZ are expected to **grow significantly share to Pakistan GDP**; achieving ~1.3% of GDP by 2030 or 1.5T PKR
- If allowed to grow, SEZs and EPZs can achieve up to **3.5% of Pakistan GDP by 2050**

SEZ & EPZ Exports Contribution (Tn PKR, % of National Exports)



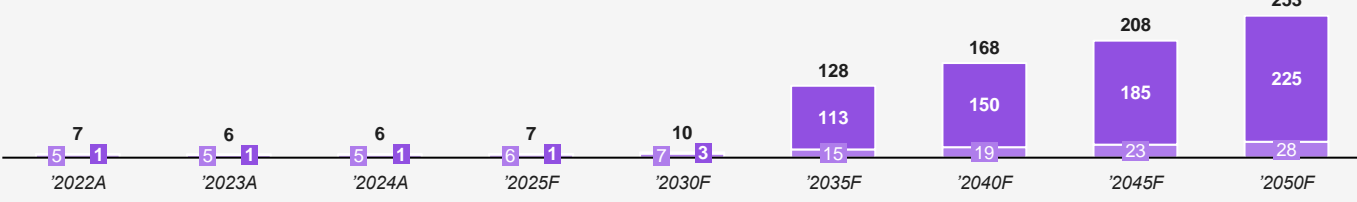
- Similarly, SEZ and EPZ exports can be **expected to grow significantly** as new planned zones are activated
- SEZ and EPZ exports expected to **grow to 12% of exports by 2030 and 26% by 2050**

SEZ & EPZ Employment Contribution (Thousands of Jobs, % of National Workforce)



- Employment contribution of SEZ and EPZ is **expected to grow significantly** up to ~716k workers by 2050
- Contribution of SEZ and EPZ to **employment plateaus at 0.51% of national workforce in 2040**

SEZ & EPZ Tax Revenues Contribution (Bn PKR)



- If all SEZs/EPZs are activated with no changes to fiscal regime, tax revenues expected to grow to **10B PKR by 2030, eventually achieving 253B PKR in 2050** as tax holidays expire

# Additionally, rolling-back incentives offered to SEZs will require repealing its legislation which would result in financial burden on the government and negative impact on the economy

## LEGAL IMPLICATION OF SEZ ROLLBACK

### Implications of Rollback

#### 1. Prospective Zones

##### Zones in Pipeline

*Only zones that have been notified are to be accepted*

##### New Zone Applications

*None would be accepted based on the EFF agreement*

#### 2. Existing Zones

##### Existing Zone Enterprises

*Their right to the incentives cannot be revoked based on the law of the land*

##### New Zone Enterprises

*Zones are custodians of enterprises' rights to the incentives can still provide incentives based on the law*

### Legal Implication

Only way of rolling back incentive is to **repeal the SEZ act**, which would require parliamentary review and approval and impact the Fund's timeline

Rollback **goes against the original objective of the SEZ Act**, it could be replaced with similar incentives so the originality of the act remains intact

### Repealing SEZA would...



**Open GoP for litigation** domestically and internationally, creating **significant financial burden through repayments** to zone firms



**Dramatically reduce investor confidence** and position Pakistan at a disadvantage with competitors **due to policy inconsistency**



**Grow the "dark economy"** as the SEZ regime is **built on the documented economy**, contributing to reducing tax revenues

# Considering limited market distortions, high future impact on industrialization and gov't revenues, roll-back of SEZ incentives should be delayed further, while EPZ duties exemption should be maintained

## RECOMMENDATIONS ON FISCAL INCENTIVES ROLLBACK

	Contribution to Industrialization	Fiscal Opportunity Cost	Scale of Market Distortions	Investment Environment Attractiveness	KEY RECOMMENDATIONS
SEZ	<ul style="list-style-type: none"> <li>Nascent contribution to the economy (GDP, Exports, BoP)</li> <li>High future potential for contributing to the industrialization agenda</li> </ul>	<ul style="list-style-type: none"> <li>Limited size of foregone government revenues from CIT tax holiday and 1-time customs duties exemption</li> </ul>	<ul style="list-style-type: none"> <li>Limited size of market distortions due to the nascency of SEZs</li> </ul>	<ul style="list-style-type: none"> <li>Nascent investment environment not conducive to attracting foreign investment</li> </ul>	<p><b>Roll-back of CIT tax holidays and 1-time customs duties exemption should be delayed further until SEZs achieve original mandate to contribute to the industrialization of Pakistan</b></p>
EPZ	<ul style="list-style-type: none"> <li>Nascent contribution to the economy (GDP, Exports, BoP)</li> <li>High future potential for contributing to the industrialization agenda</li> </ul>	<ul style="list-style-type: none"> <li>Low size of foregone government revenues from customs duties exemption</li> </ul>	<ul style="list-style-type: none"> <li>No market distortions effected by EPZs</li> </ul>		<p><b>Roll-back of customs duties exemption is not required as EPZs do not create market distortions and have no fiscal burden</b></p>

**However, to comply with recommendations, from the IMF, a rollback plan of fiscal incentives for SEZs was designed**











## **ADDRESSING IMF RECOMMENDATION**

To respond to the commitment made by the Government of Pakistan to the International Monetary Fund, a plan was developed alongside an implementation plan to facilitate planning in the event the decision is made to roll-back incentives








- 1 Roll-back risks and mitigation actions**
- 2 Roll-back principles and levers**
- 3 Roll-back Scenario planning and design**
- 4 Special Economic Zones economic and fiscal projections**
- 5 Scenario selection and incentive phase-out plan**

# Five categories of risks are identified for the rollback of SEZ incentives...

SEZ & EPZ INCENTIVES ROLLBACK RISKS		
Risks	Risk Details	Severity
 <p><b>Legal and Treaty-based Risks</b></p>	<ul style="list-style-type: none"> <li>• <b>Investor-State Disputes:</b> Altering or removing incentives may lead to claims of indirect expropriation or breaches of Bilateral Investment Treaties (BITs) specifically CPEC.</li> <li>• <b>Stabilization Clauses:</b> Existing contracts may contain clauses that guarantee certain tax treatments, limiting the government's ability to modify incentives</li> </ul>	
 <p><b>Economic and Investment Risks</b></p>	<ul style="list-style-type: none"> <li>• <b>Reduced Foreign Direct Investment (FDI):</b> The withdrawal of incentives may deter new investments or prompt existing investors to relocate.</li> <li>• <b>EZ Company Closures and Capital Flight:</b></li> <li>• <b>Reduced GDP / Exports Impact:</b></li> <li>• <b>Job Losses:</b> A decline in investment can lead to job reductions within SEZs.</li> </ul>	
 <p><b>Reputational and Political Risks</b></p>	<ul style="list-style-type: none"> <li>• <b>Investor Confidence:</b> Abrupt policy changes can damage the country's reputation as a stable investment destination.</li> <li>• <b>Domestic Pushback:</b> Stakeholders benefiting from current incentives may resist changes, leading to political challenges.</li> </ul>	
 <p><b>Operational and Administrative Risks</b></p>	<ul style="list-style-type: none"> <li>• <b>Compliance Challenges:</b> Businesses may struggle to adapt to new tax and customs procedures.</li> <li>• <b>Administrative Burden:</b> Tax authorities may face increased workloads, leading to potential inefficiencies.</li> </ul>	
 <p><b>Compliance and Enforcement Risks</b></p>	<ul style="list-style-type: none"> <li>• <b>Tax Evasion:</b> The transition period may see increased attempts to evade taxes.</li> <li>• <b>Regulatory Arbitrage:</b> Businesses might exploit differences between SEZs and other regions to their advantage.</li> </ul>	

# ...for each of which, mitigation actions have been identified to minimize impact on Pakistan’s economy

## SEZ & EPZ INCENTIVES ROLLBACK RISK MITIGATION ACTIONS

 <b>Legal and Treaty-based Risks</b>	 <b>Economic and Investment Risks</b>	 <b>Reputational and Political Risks</b>	 <b>Operational and Administrative Risks</b>	 <b>Compliance and Enforcement Risks</b>
<p><b>Legal Review:</b> Review Bilateral Investment treaties (BITs), contractual obligations to SEZ firms and investors, review investment laws, and contracts to identify specific legal obligations.</p>	<p><b>Alternative Incentives:</b> Offer non-fiscal incentives, such as deliver on promised <i>infrastructure access</i>, streamlined <i>regulatory processes</i>, and <i>cost-based incentives</i> during transition period</p>	<p><b>Transparent Communication:</b> Clearly articulate the reasons for policy changes and the expected benefits.</p>	<p><b>Capacity Building:</b> Invest in training for tax and customs officials to handle new responsibilities effectively.</p>	<p><b>Strengthened Oversight:</b> Enhance monitoring and enforcement mechanisms within SEZs</p>
<p><b>Grandfathering Provisions:</b> Allow <i>existing investors to retain benefits</i> for a defined period, while new enterprises operate under revised terms.</p>	<p><b>Phased Implementation:</b> Gradually introduce changes to allow businesses time to adjust; best practices from case studies indicate <i>&gt;5-year transition period</i></p>	<p><b>Inclusive Dialogue:</b> Engage with all stakeholders, including businesses and civil society, to build consensus.</p>	<p><b>Simplified Procedures:</b> Develop clear guidelines and streamlined processes to facilitate compliance.</p>	<p><b>Harmonization of Regulations:</b> Align SEZ regulations with national standards to prevent arbitrage.</p>
<p><b>Stakeholder Engagement:</b> Engage with investors to negotiate mutually acceptable transition arrangements.</p>	<p><b>Targeted Support:</b> Provide support to sectors most affected by the rollback to cushion the impact.</p>	<p><b>Monitoring and Feedback:</b> Establish mechanisms to monitor the impact of changes within SEZ through working with zone developers and enablers</p>	<p><b>Digitalization:</b> Implement digital systems to manage tax and customs operations efficiently.</p>	<p><b>Public Awareness:</b> Educate businesses about new compliance requirements and the consequences of non-compliance.</p>

# As a result, we define 6 guiding principles to shape the IMF policy response for SEZs, balancing fiscal balance, IMF requests and economic growth priorities

## SEZ INCENTIVES ROLLBACK GUIDING PRINCIPLES

### ZONE SETUP



**Shut down setup of new economic zones** beyond approved or in-process zones within 10-year mark

- **Stop applications for new Economic Zones** federally or provincially
- Evaluate **rollback of incentives** to **non-notified zones**

### FISCAL BENEFITS



**Harmonize all fiscal benefits** provided to SEZs with the rest of the tariff region

- **Remove all fiscal incentives** provided exclusively to SEZs
- Ensure **SEZs and have access to the same incentives** as domestic / tariff area firms by year 10

### BALANCED TRANSITION



**Provide gradual phase out of EZ fiscal incentives** by year 10 and support zone enterprises during transition

- Balance rollback of SEZ incentives with **cost-based incentives during transition** to year 10
- Provide tax credits **on CAPEX, R&D and human capital** to counterbalance the added burden of the phase out

### DRIVE INDUSTRIALIZATION



**Protect current and future economic contribution** of zone enterprises

- **Defend economic contribution** of zones with **high share of national economy**
- **Protect future income** expected from zones with expected

### PILOT ROLLBACK



**Prioritize SEZs for phaseout and pilot rollback of incentives before scaling**

- Adopt a **pilot-and-scale model** for the rollback of incentives and phase-in of tax requirements
- Prioritize smaller and newer zones with **limited economic contribution**

### ZONES SUPPORT



**Provide zones with improved support** and service quality to achieve their economic potential

- **Uplift delivery quality of services** for zone enterprises
- **Accelerate lead time for provisioning** of infrastructure (i.e. extend PSDP to all zones)

From IMF Recommendations

From Current State Assessment & Benchmarking

# To formulate recommendations, we will investigate the 4 levers outlined by the IMF, and assess their impact on key economic and fiscal outcomes

## ECONOMIC ZONES INCENTIVES SCENARIO ANALYSIS

### A. SCENARIO LEVERS

<b>EZ Setup</b>	<b>Prevent Opening of new SEZs</b>	Close Applications for <b>all new SEZs</b>
	<b>Shutdown Operational SEZs</b>	<b>Shut Down</b> Public SEZs and <b>Handover</b> to Private Developers
<b>EZ Incentives</b>	<b>Phase Out Fiscal Incentives</b>	<b>Gradually phase out</b> fiscal incentives (i.e. tax holidays, presumptive tax, duty exemptions, etc.) until deadline with <b>varying schedules</b>
	<b>Replace with Cost-based Incentives</b>	<b>Replace fiscal incentives with cost-based incentives</b> (i.e. tax deductions on CAPEX, R&D, Training, others)

### B. EZ CALCULATIONS & ANALYSES

- **Land Utilization** Growth and **Number Of Units** per EZ
- **Revenues and Profits** Per EZ
- **Profit Margins** Per EZ
- **Exports** per EZ
- **Imports** per EZ
- Rate of **Capital Flight / Company Closures**
- **Capital Expenditures** (machinery & equipment), **R&D Spend**, **Training Spend**, **FDI Spend**
- ...

### C. ECONOMIC & FISCAL OUTCOMES

#### Quantitative Outcomes

<b>Fiscal Contribution</b>	<i>CIT</i>
	<i>Customs Duty</i>
<b>Economic Contribution</b>	<i>GDP</i>
	<i>Exports</i>
	<i>Employment</i>

#### Qualitative Outcomes

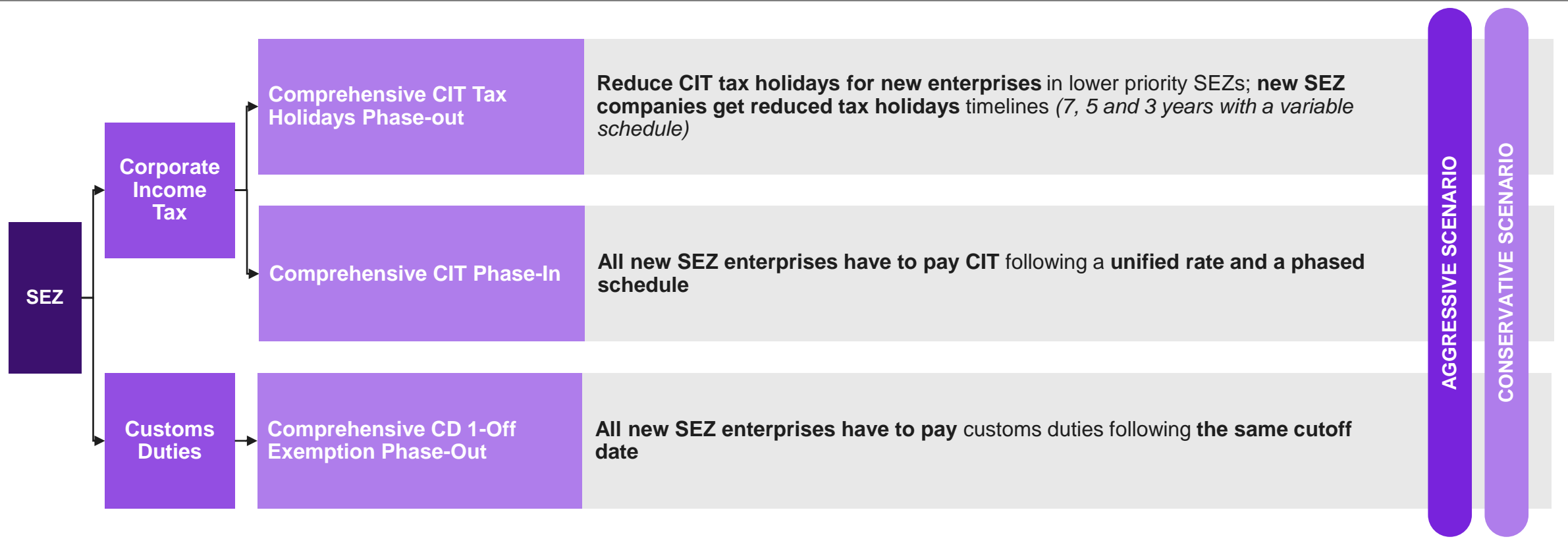
<i>Legal &amp; International Relations</i>
<i>Implementation and Execution</i>

# We define levers based for both CIT and customs duties for SEZs with two levels of severity reflected in value of tax levied or timeline for implementation

## A. SCENARIO LEVERS


### SCENARIO DEFINITION

#### SEZ Incentives Rollback Levers



# We followed a 5-step approach to estimate and project the future revenues from existing & new companies in operational, notified, and pre-feasibility SEZs

## B. EZ CALCULATIONS & ANALYSES

 Each step and corresponding assumptions detailed in appendix



**Existing companies' growth**

- Assumed **average revenue growth** and **employment growth** per year
- Assumed **average profit margin** to be reached through **linear growth from 2024 current margins** and years to reach steady state
- Assumed imports, exports, R&D, and L&D spend as % of revenues
- Assumed CAPEX as % of capital invested, and CAPEX to renew machinery as % of previously spent CAPEX based on average timespan of machinery

**New companies ramp-up & growth**

- Calculated average land per company, and assumed # of new companies added every year based on remaining land non allocated
- Defined ramp up of new companies' revenues and profits till reaching steady state
- Assumed CAPEX disbursement schedule
- Applied same assumptions of existing companies on revenue and employment growth, profit margin, imports, exports, and spend (CAPEX, R&D and L&D) for new companies once reached steady state

**Existing and new companies ramp-up & growth of EZs with missing historical financials**

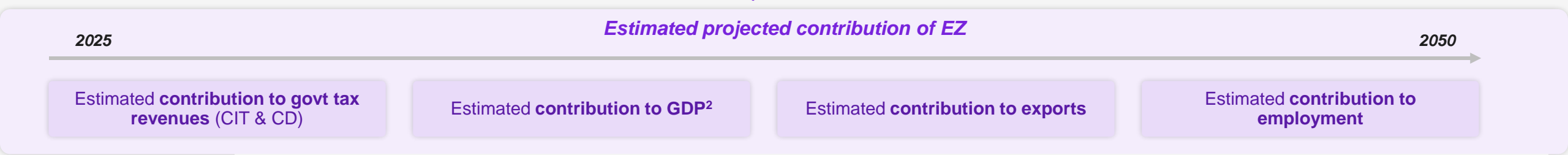
- Calculated revenue generated per acre based on available EZ historical financial data as well as average profit margin
- Calculated % of imports and exports over revenue based on existing averages
- Applied same assumptions on growth for existing and new companies

**Planned EZs operationalization<sup>1</sup>**

- Assumed average landmass for 19 SEZs in pre-feasibility as average landmass of 35 notified SEZs
- Assumed average landmass/company based on existing companies' data
- Assumed average employment and revenue generated per acre, as well as capital required per acre
- Calculated % of imports and exports over revenue based on existing averages
- Defined operationalization schedule for notified and pre-feasibility EZs (2026-2030)

**Projections on country's growth**

- Assumed average YoY growth rate for Pakistan's GDP, exports, and imports, based on historical data
- Assumed average growth rate of labor force employed, and average growth of real wage based on sector
- Projected Pakistan's GDP, exports, imports, and employment from 2025 till 2050 to have the basis to calculate the EZ contribution in future years



1. Assumptions have been tailored for EPZs based on sector focus (manufacturing vs. mining), while SEZs have been assumed to be all focusing on manufacturing; 2. Contribution of EZs to GDP has been estimated considering multiplier that takes into account also indirect effect, tailored to the specific sectors of focus (average manufacturing x1.77, average mining x1.22, average ICT x1.54)

# We formulated scenarios for SEZ enterprises covering different models for phasing-in CIT, and customs duties as requested by the IMF to test the tradeoff between fiscal and economic outcomes with different levers

Levers		Baseline Model <i>Reflects Current Policy Model</i>	A. Tax Holiday Phase-Out <i>Apply Phased Tax Holidays for SEZs</i>		B. Tax Rate Phase-In <i>Apply phased CIT for all SEZs</i>	
			SCENARIO A1	SCENARIO A2	SCENARIO B1	SCENARIO B2
		<b>'Base-Case'</b> No Changes to current EZ regime (incentives, opening of zones, etc.)	<b>'Comprehensive Tax Holiday Rollback - Conservative'</b> Phase-out tax holidays for SEZs for new EZ companies prioritizing cohorts, duties exemption maintained until Y10	<b>'Comprehensive Tax Holiday Rollback - Aggressive'</b> Phase-out tax holidays for SEZs, prioritizing cohorts, duties exemption maintained until Y5	<b>'Comprehensive CIT Phase-In - Conservative'</b> Phase-in of CIT for SEZs for new EZ companies, duties exemption maintained until Y10	<b>'Comprehensive CIT Phase-In - Aggressive'</b> Phase-in of CIT for SEZs for new EZ companies, duties exemption maintained until Y5
SEZ	CIT / Tax Holidays	- All companies benefit from <b>10-year tax holiday</b>	- New SEZ Enterprises get <b>7Y holiday until Year 3, 5Y until Year 5 and 3Y until Year 8</b>	- New SEZ enterprises get <b>5Y holiday until year 5, 3Y holiday until Y7, following which no holidays are provided</b>	- Phase-in <b>starts in 2030</b> - 2030 CIT <b>phased in at 5% and increase yearly by ~5%; 29% by 2035</b>	- Phase-in <b>starts in 2026</b> - 2026 CIT <b>phased in at 3% and increase yearly by ~3%; 29% by 2035</b>
	Duty Exemption	- All companies benefit from <b>1-time CAPEX exemption</b> during ramp-up period	- All SEZ companies benefit from the exemption <b>until Year 10</b>	- All SEZ companies benefit from the exemption <b>until Year 5</b>	- All SEZ companies benefit from the exemption until Year 10	- All SEZ companies benefit from the exemption <b>until Year 5</b>
	Deductions	- <b>No deductions</b> offered to SEZ companies	- <b>% of CAPEX, R&amp;D or L&amp;D Spending</b> - Rolled over for up to 2 years, expiring in Y10 ; only apply to CIT/CD	- <b>% of CAPEX, R&amp;D or L&amp;D Spending</b> - Rolled over for up to 2 years, expiring in Y10; only apply to CIT/CD	- <b>% of CAPEX, R&amp;D or L&amp;D Spending</b> - Rolled over for up to 2 years, expiring in Y10; only apply to CIT/CD	- <b>% of CAPEX, R&amp;D or L&amp;D Spending</b> - Rolled over for up to 2 years, expiring in 2035; only apply to CIT/CD

# SEZ SCENARIO ANALYSIS

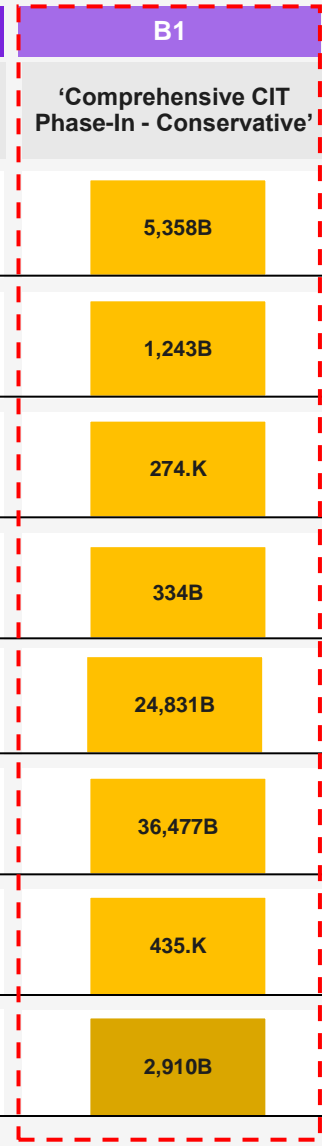
Scenarios B1 balances the tradeoff between economic growth and tax revenues collected over the mid-and-long term...

Key Indicators Projections <i>Cumulative Values (10 or 25 Years)</i>		Baseline Model <i>Reflects Current Policy Model</i>	A. Tax Holiday Phase-Out <i>Apply Phased Tax Holidays for SEZs</i>		B. Tax Rate Phase-In <i>Apply phased CIT for all SEZs</i>	
			A1	A2	B1	B2
			'Comprehensive Tax Holiday Rollback - Conservative'	'Comprehensive Tax Holiday Rollback - Aggressive'	'Comprehensive CIT Phase-In - Conservative'	'Comprehensive CIT Phase-In - Aggressive'
10Yr Term	GDP <i>(Bn PKR)</i>	5,595B	5,358B	5,300B	5,358B	5,300B
	Exports <i>(Bn PKR)</i>	1,300B	1,243B	1,229B	1,243B	1,229B
	Employment <i>('000s workers)</i>	286.K	274.K	271.K	274.K	271.K
	Taxes <i>(Bn PKR)</i>	227B	271B	306B	334B	365B
25Yr Term	GDP <i>(Bn PKR)</i>	25,682B	24,831B	24,620B	24,831B	24,620B
	Exports <i>(Bn PKR)</i>	38,061B	36,477B	36,078B	36,477B	36,078B
	Employment <i>('000s workers)</i>	446.K	435.K	432.K	435.K	432.K
	Taxes <i>(Bn PKR)</i>	2,970B	2,847B	2,860B	2,910B	2,919B

Significant Positive Contribution  
 Limited Positive Contribution  
 Low Positive Contribution

**DIRECTIONAL**

Analysis based on projected figures of SEZs and EPZs with available data with an assumed growth rate towards full land plot utilization. For non-operational zones, figures have been estimated with cross-zone average



...however when considering legal and execution risks, rolling out CIT for SEZs at same pace for all new zone enterprises is the more cohesive option

Analysis based on projected figures of SEZs and EPZs with available data with an assumed growth rate towards full land plot utilization. For non-operational zones, figures have been estimated with cross-zone average

**SEZ SCENARIO ANALYSIS**

Key Dimensions	A. Tax Holiday Phase-Out Apply Phased Tax Holidays for SEZs		B. Tax Rate Phase-In Apply phased CIT for all SEZs	
	SCENARIO A1	SCENARIO A2	SCENARIO B1	SCENARIO B2
	‘Comprehensive Tax Holiday Rollback - Conservative’	‘Comprehensive Tax Holiday Rollback - Aggressive’	‘Comprehensive CIT Phase-In - Conservative’	‘Comprehensive CIT Phase-In - Aggressive’
<b>Economic Contribution and Industrialization</b> (GDP, Exports, Employment)	<ul style="list-style-type: none"> <li>~5.4Tn PKR of GDP in 10 years, 24.8Tn in 25 years</li> <li>1.2Tn PKR in Exports over 10 years, 36.5Tn in 25</li> <li>434K new jobs in 25years</li> </ul>	<ul style="list-style-type: none"> <li>~5.3Tn PKR of GDP in 10 years, 24.6Tn in 25 years</li> <li>1.2Tn PKR in Exports in 10 years, 36Tn in 25 years</li> <li>431K new jobs in 25 years</li> </ul>	<ul style="list-style-type: none"> <li>~5.4Tn PKR of GDP in 10 years, 36.5Tn in 25 years</li> <li>1.2Tn PKR in Exports over 10 years, 36.5Tn in 25</li> <li>434K new jobs in 25years</li> </ul>	<ul style="list-style-type: none"> <li>~5.3Tn PKR of GDP in 10 years, 24.6Tn in 25 years</li> <li>1.2Tn PKR in Exports in 10 years, 36.1Tn in 25 years</li> <li>431K new jobs in 25 years</li> </ul>
<b>Fiscal Contribution</b> (CIT, CD)	<ul style="list-style-type: none"> <li>271B PKR collected within 10years and 2,847B PKR over 25 years</li> <li>Low value collected as holidays are phased out</li> </ul>	<ul style="list-style-type: none"> <li>306B PKR collected within 10years and 2,860B PKR over 25 years</li> <li>Low value collected as holidays are phased out</li> </ul>	<ul style="list-style-type: none"> <li>334B PKR collected within 10years and 2,910B PKR over 25 years</li> </ul>	<ul style="list-style-type: none"> <li>365B PKR collected within 10 years, 2,919B PKR over 25 years</li> </ul>
<b>Legal and International Relations</b>	<ul style="list-style-type: none"> <li>Risk of legal action as investors and zone enterprises are treated differently based on when they registered in zone</li> <li>Risk of disputes by strategic partners (CPEC)</li> </ul>	<ul style="list-style-type: none"> <li>Risk of legal action as investors and zone enterprises are treated differently based on when they registered in zone</li> <li>Risk of disputes by strategic partners (CPEC)</li> </ul>	<ul style="list-style-type: none"> <li>Reduced legal risk as all new zone enterprises are given the same tax treatment</li> </ul>	<ul style="list-style-type: none"> <li>Reduced legal risk as all new zone enterprises are given the same tax treatment</li> </ul>
<b>Implementation and Execution</b>	<ul style="list-style-type: none"> <li>Low complexity execution</li> <li>Aligned to current model</li> <li>Creates market distortion</li> </ul>	<ul style="list-style-type: none"> <li>Low complexity execution</li> <li>Creates market distortion</li> <li>Aligned to current model</li> </ul>	<ul style="list-style-type: none"> <li>Complex to implement</li> <li>Limited market distortions</li> <li>Equitable model treating all regions/zones equitably</li> </ul>	<ul style="list-style-type: none"> <li>Aggressive timeline</li> <li>Complex to implement</li> <li>Limited market distortions</li> <li>Equitable model treating all regions/zones equitably</li> </ul>

Significant Positive Contribution
Limited Positive Contribution
Low Positive Contribution
Risk-Minimizing Option

As such for SEZs, we recommend conservatively phasing in CIT at the same rate to ensure consistency

#### DIRECTIONAL

Analysis based on projected figures of SEZs and EPZs with available data with an assumed growth rate towards full land plot utilization. For non-operational zones, figures have been estimated with cross-zone average

1

**Roll-out CIT to SEZs following a phased schedule starting in Year 5,** giving all zone enterprises at least 5 years to prepare for the upcoming changes in tax rates

2

**Phase-in corporate income tax from Year 5 at 5% and grow ~5% each year until 2035** in which the standard rate of 29% is applied on all new zone enterprises established after start of the policy (Y0); **Existing SEZ enterprises are 'grandfathered' in** and benefit from their assigned tax holidays

3

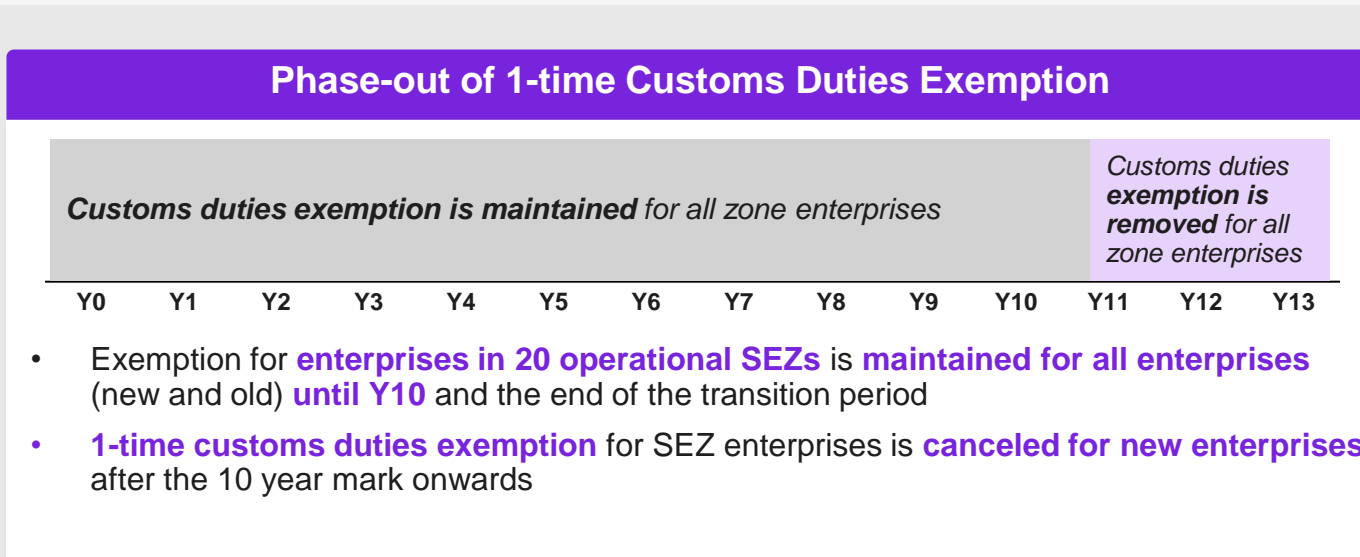
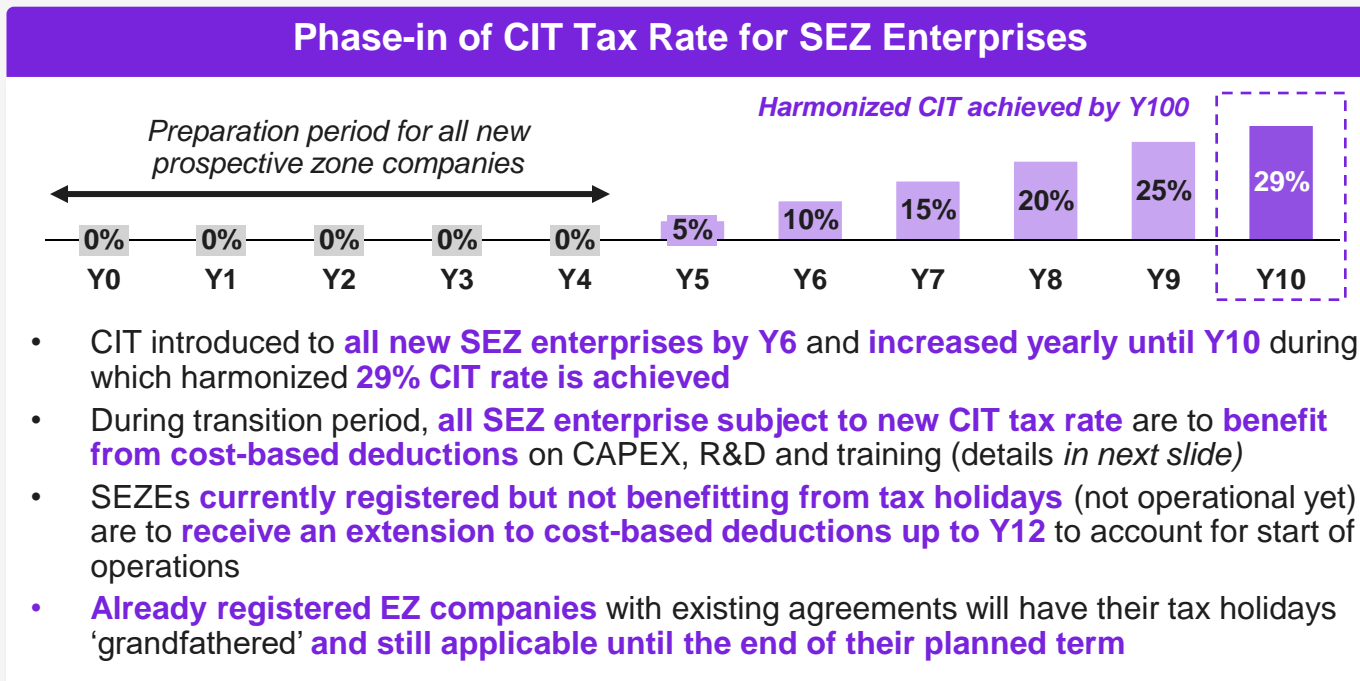
**1-time customs duty exemption** to be provided until the end of the transitory period to support their continuing growth; new zones will incur standard customs duty rates

4

**Provide CIT deductions for zone enterprises on capital expenditures (CAPEX), research and development (R&D) and training (Learning, Development and Apprenticeship)** to encourage zone companies to invest in productive business levers for the overall economy, and **support zone companies financially during the transition phase**



The selected scenario assumed a harmonized introduction of CIT to all new SEZEs, whereas duties exemption will be phased out after the 10-year mark



**Cost-based performance incentives are to be provided to zone enterprises if subject to the new tax rate; rewarding firms based on contributions to industrial buildup, R&D or training**



**SEZEs currently registered but not benefitting from tax holidays (not operational yet) are to receive an extension to cost-based deductions up to Y12 to account for their delayed start of operations**

**Cost-based Fiscal Incentives or Deductions**

A. CAPEX-based Deductions	B. R&D-based Deductions	C. Training-based Deductions
<ul style="list-style-type: none"> <li>Deductions for <b>capital expenditures like machinery, buildings, and equipment</b> in SEZs, usually via depreciation or tax credits.</li> <li>Encourages <b>long-term investment</b> in infrastructure and manufacturing capacity, reducing capital costs for firms.</li> </ul> <div style="display: flex; flex-direction: column; align-items: center;"> <div style="display: flex; align-items: center; margin-bottom: 5px;"> <b>120% Deduction</b></div> <div style="display: flex; align-items: center; margin-bottom: 5px;"> <b>10% Tax Credits</b></div> <div style="display: flex; align-items: center; margin-bottom: 5px;"> <b>100% Deduction</b></div> <div style="display: flex; align-items: center; margin-bottom: 5px;"> <b>150% Deduction</b></div> <div style="display: flex; align-items: center;"> <b>15% Tax Credit</b></div> </div>	<ul style="list-style-type: none"> <li><b>Deductions or credits for eligible research and development</b> activities, as a percentage of spend</li> <li>Boosts <b>innovation, increases technological advancement</b>, and supports business <b>competitiveness</b> in high productivity industries</li> <li>Must meet <b>criteria for eligible R&amp;D activities</b>, with additional <b>benefits for strategic sectors</b>.</li> </ul> <div style="display: flex; flex-direction: column; align-items: center;"> <div style="display: flex; align-items: center; margin-bottom: 5px;"> <b>200% Deduction</b></div> <div style="display: flex; align-items: center; margin-bottom: 5px;"> <b>200% Deduction</b></div> <div style="display: flex; align-items: center; margin-bottom: 5px;"> <b>150% Deduction</b></div> <div style="display: flex; align-items: center; margin-bottom: 5px;"> <b>100% Deduction</b></div> <div style="display: flex; align-items: center; margin-bottom: 5px;"> <b>15% Tax Credit</b></div> <div style="display: flex; align-items: center;"> <b>30-50% Tax Credit</b></div> </div>	<ul style="list-style-type: none"> <li>Deductions or credits for <b>employee training, such as professional development and skills enhancement</b></li> <li>Improves <b>workforce skills, supports productivity</b>, and aligns with industry standards or skill development goals</li> <li>Training programs to be <b>approved by gov't agencies or specific to high-demand sectors</b>.</li> </ul> <div style="display: flex; flex-direction: column; align-items: center;"> <div style="display: flex; align-items: center; margin-bottom: 5px;"> <b>200% Deduction</b></div> <div style="display: flex; align-items: center;"> <b>200% Deduction</b></div> </div>
<p><b>120%-150% of CAPEX spending as deductions</b></p>	<p><b>100%-200% of R&amp;D spending as deductions</b></p>	<p><b>~200% of training expenses as deductions</b></p>

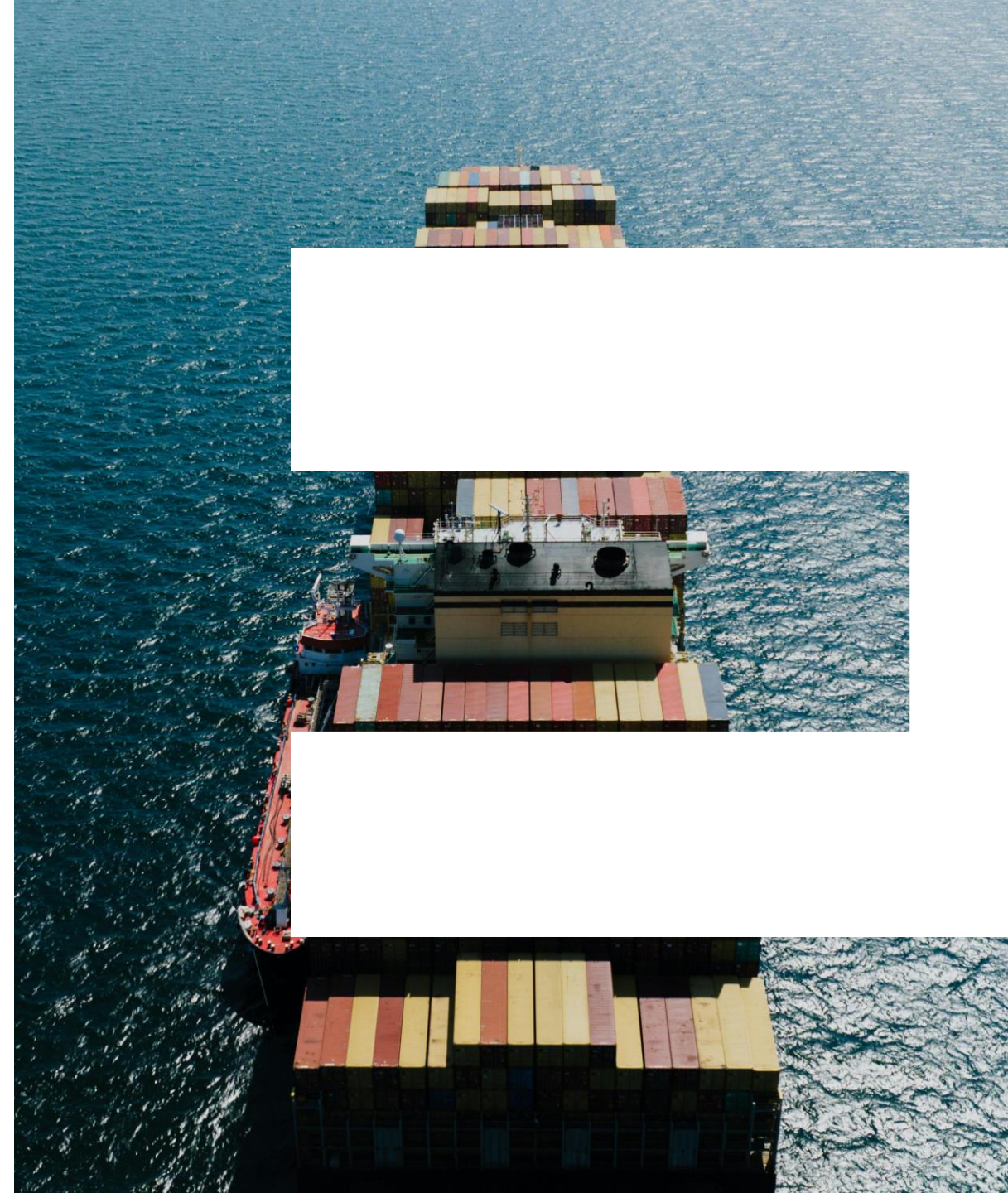
**Most reliable to start with considering the maturity of the collections process**

# Table of Contents

Executive Summary

A Strategic Options and Impact Assessment

**B Implementation Planning**



# We defined the implementation timeline into three key workstreams

Preliminary

**Policy and Legal Framework Approval**



**1**

- **Socialize proposal** with key stakeholders within government and capture feedback and inputs (i.e. PMO, FBR, MOF, others)
- **Conduct scan of all companies** under SEZs and the applied provisions for specific incentives
- **Conduct review of Bilateral Investment Treaties (BITs)** and identify clauses and flag investment projects affected by regulatory rollback of SEZ incentives.
- **Develop draft policy proposal** including transitional incentives offered to SEZ companies, and **elevate proposal through formal channels to obtain sign-off and approval** from legislative and executive authorities

**Communication and Stakeholder Management**



**2**

- **Develop the communication approach and plan**, identifying key stakeholders domestically (i.e. regulators, policy-makers, federal/local authorities, others) and internationally (i.e. investor groups)
- **Notify and engage strategic partners**, zone developers and current investors and operators of the rollback implementation plan, to socialize policy changes and gather feedback, leverage media channels to drive awareness about the phase-out plan.
- **Provide support to investors and representatives from affected bilateral trade agreements** during transition period through dedicated communication channel.

**Policy Roll-back Implementation and Enablers**



**3**

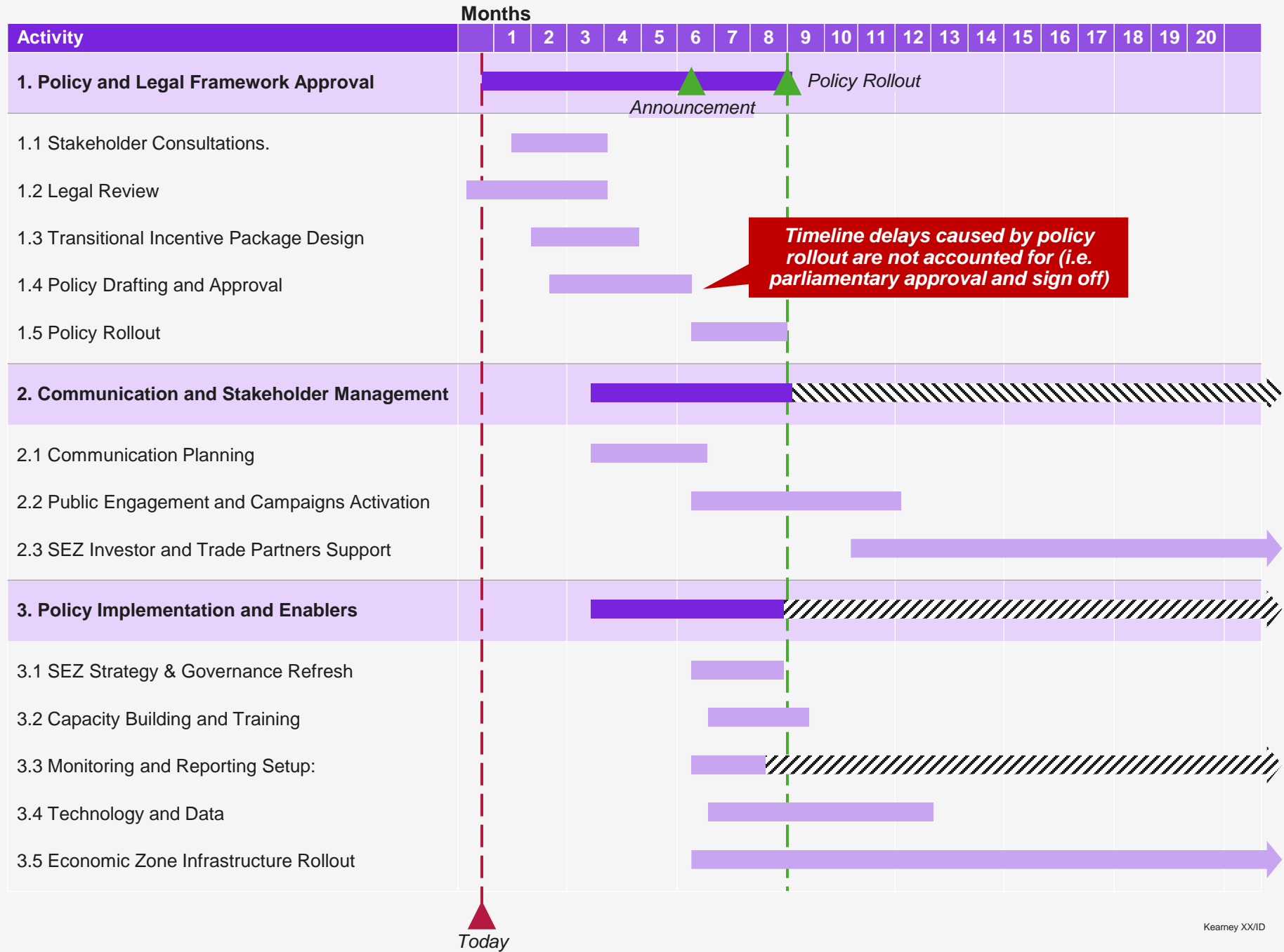
- **Set up a central working group** between regulators forming a dedicated team to oversee the rollback of SEZ incentives implementation process
- **Train relevant authorities** on the implementation of new incentives, clearly delineate tasks among federal, provincial, and local authorities.
- **Define key performance indicators**, and report on implementation progress
- **Integrate** with zone developers, government authorities to **develop a data pipeline** to support data-driven reporting
- **Accelerate delivery of committed infrastructure** to active economic zones by liaising and coordinating with other government entities

Which have been detailed into a set of activities, to deliver on the policy's activation

Preliminary



Execution of the implementation plan is subject to pre-existing contractual, legal and statutory obligations and further decisions by the Center of Government



# Activities have been detailed further to provide guidance on implementation (1/3)

Preliminary



Execution of the implementation plan is subject to pre-existing contractual, legal and statutory obligations and further decisions by the Center of Government

Workstream	#	Activity	Activity Overview
<b>1. Policy and Legal Framework Approval</b>	1.1	Stakeholder Consultations.	<ul style="list-style-type: none"> <li>Engage with federal/provincial ministries, SIFC, FBR, and SEZ authorities, as well as select Operators and Investors to gather feedback.</li> </ul>
	1.2	Legal Review	<ul style="list-style-type: none"> <li>Assess legal implications, reviewing all SEZ agreements to identify clauses related to incentives and termination, as well as Bilateral Investment Treaties (BITs) for stabilization clauses and potential disputes, and develop legal strategies to address potential arbitration or litigation risks.</li> </ul>
	1.3	Transitional Incentive Package Design	<ul style="list-style-type: none"> <li>Design deductions based on operational costs, such as capital expenditures and employment generation, ensuring new incentives comply with tax laws and international commitments</li> </ul>
	1.4	Policy Drafting and Approval	<ul style="list-style-type: none"> <li>Formulate a detailed policy outlining timelines, transitional measures, and alternative incentives, Present the policy to the Economic Coordination Committee (ECC) and the Federal Cabinet for endorsement</li> </ul>
	1.5	Policy Rollout	<ul style="list-style-type: none"> <li>Implementation of the policy directives and drive through directives formulated through Cabinet decision</li> </ul>

Activities have been detailed further to provide guidance on implementation (2/3)

Preliminary



Execution of the implementation plan is subject to pre-existing contractual, legal and statutory obligations and further decisions by the Center of Government

Workstream	#	Activity	Activity Overview
2. Communication and Stakeholder Management	2.1	Communication Planning	<ul style="list-style-type: none"> <li>Develop a comprehensive plan targeting investors, industry associations, and the public, following consultations with other government entities as well as select zone developers and companies</li> </ul>
	2.2	Public Engagement and Campaigns Activation	<ul style="list-style-type: none"> <li>Organize forums and workshops with developers, operators, investors and zone company managers to explain policy changes and gather feedback, leverage media channels to drive awareness about the phase-out plan.</li> </ul>
	2.3	EZ Investor and Trade Partners Support	<ul style="list-style-type: none"> <li>Provide guidance and support to investors and representatives from affected bilateral trade agreements during the transition period through a dedicated communication channel.</li> </ul>

Activities have been detailed further to provide guidance on implementation (3/3)

Preliminary

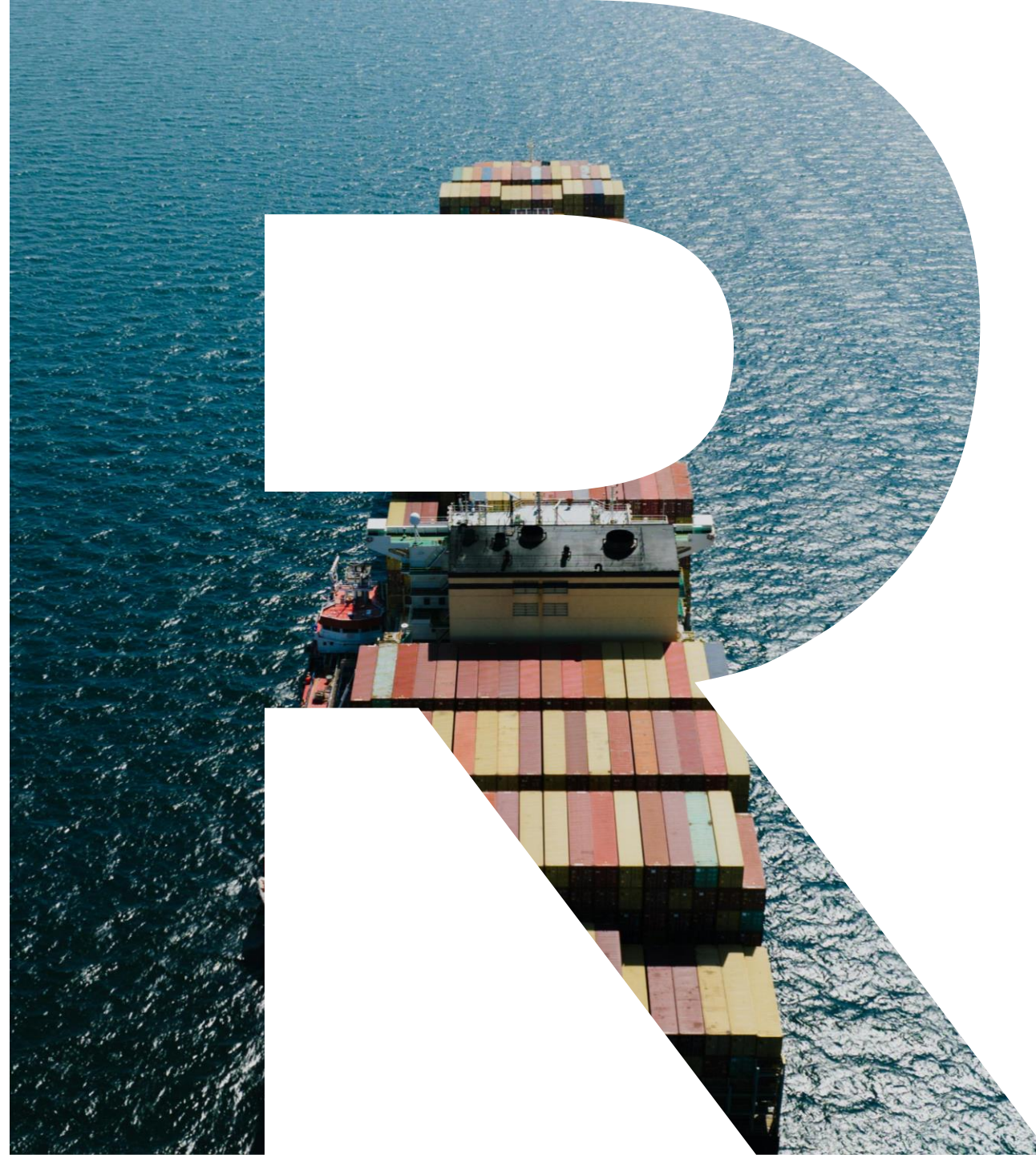


Execution of the implementation plan is subject to pre-existing contractual, legal and statutory obligations and further decisions by the Center of Government

Workstream	#	Activity	Activity Overview
2. Communication and Stakeholder Management	3.1	SEZ Strategy & Governance Refresh	<ul style="list-style-type: none"> <li>Set up a central working group forming a dedicated team, Refresh SEZ strategy including prioritizing sectors, geographies, revising incentive packages and schemes, and plan investor engagement</li> <li>Revise governance model for SEZs</li> </ul>
	3.2	Capacity Building and Training	<ul style="list-style-type: none"> <li>Train relevant authorities (i.e. FBR, SEZ Developers, Provincial Gov't teams, Utilities Providers, Municipal authorities, others) on the implementation of new incentives, clearly delineate tasks among federal, provincial, and local authorities.</li> </ul>
	3.3	Monitoring and Reporting Setup:	<ul style="list-style-type: none"> <li>Define key performance indicators (KPIs) aligned with policy objectives, conduct initial assessments to establish benchmarks, implement systems for continuous data gathering on implementation progress, set up dashboards to track KPIs in real-time.</li> </ul>
	3.4	Technology and Data	<ul style="list-style-type: none"> <li>Setup technology integration with zone developers, government authorities (i.e. FBR, others) to develop a data pipeline to support reporting, monitoring and review of zone enterprises' performance</li> </ul>
	3.5	Economic Zone Infrastructure Rollout	<ul style="list-style-type: none"> <li>Review existing infrastructure development programs (i.e. PSDP) to identify opportunities to accelerate and deliver provisioning of critical infrastructure to zone boundaries (i.e. electricity, road connectivity, others)</li> </ul>

# Appendix

- A** Case Studies of Rollback of EZ Incentives
- B** Special Economic Zones Interviews
- C** Economic Zones Contributions Table
- D** Projections Model and Calculation Methodology



# Despite some temporary disruptions in the short term, overall privatization of SEZs in the Philippines proved to generate very positive effects in the long term

↑ Increase   ~ Stable   ↓ Decrease   × Not impacted

B

## Privatization-Led SEZ Reform - Case Study: PHILIPPINES



### CONTEXT AND TRIGGER

In the early 1990s, the Philippines began to privatize its economic zones to:

- reduce fiscal burden:** instead of fully funding and managing SEZs, the government allowed private developers to handle infrastructure costs
- improve efficiency and competitiveness:** private sector management can lead to more streamlined operations, better infrastructure & modern facilities



### KEY MEASURES TAKEN

- Republic Act No. 7916 (**The Special Economic Zone Act of 1995**) passed and allowed for **SEZ privatization**
- Philippine Economic Zone Authority (**PEZA**) established to manage SEZs, allowing **private developers** to **establish, operate, and maintain economic zones** with government incentives; and **encouraged PPP** in industrial zones, freeports, & special investment areas



### IMPLEMENTATION PLAN

– **Gradual and policy-driven privatization:**

- Legal & Policy Framework Established (1995-2000):** government-owned SEZs were gradually opened to private investors for joint ventures; existing industrial parks shifted toward private sector management
  - Expansion of Privately Developed SEZs (2000-2010):** government shifted from direct zone management to regulatory oversight through PEZA, with more incentives for private developers, and international promotion of Philippine SEZs to attract foreign investors
  - Full Privatization & Modernization (2010-Present):** govt fully exited SEZ operations, more private developers emerged
- **Balanced Incentive Policies:** tax perks adjusted to prevent excessive revenue loss, and integration support between SEZ investors and local businesses



### KEY OUTCOMES

	Short term	Medium term	Long term
Govt' tax revenues	↓ Slight decline due to tax incentives granted to private SEZ developers	~ Stable	↑ Strong growth due to more tenant firms
GDP	↑ Modest growth	↑ Significant growth (SEZs contributed to around 10% of GDP)	↑ Major increase (30-40% of GDP)
Exports	↑ Moderate growth (especially in electronics and garments)	↑ High growth (60-70% of exports were from SEZs)	↑ Consistent high growth (over 70% of exports were from SEZs)
FDIs	~ Stable	↑ Major increase (especially in IT, Manuf. and BPO)	↑ Consistently increase due to more competitive zones

### KEY TAKEAWAYS

- **Privatization and government oversight:** SEZs privatization can lead to more **competitive and sustainable** zone programs, but the **government** needs to play a **strong regulatory and oversight role**
- **Gradual privatization:** **once the market develops, the government can exit**, generating a positive effect on financial burdens

# The rollback of SEZ-specific tax incentives in China in 2008 had short-term disruptions but resulted in long-term economic benefits

↑ Increase   ~ Stable   ↓ Decrease   × Not impacted



C

## High-Tech & Innovation-Led SEZ Transition- Case Study: CHINA



### CONTEXT AND TRIGGER

In 2008, China began phasing out SEZ incentives due to:

- Tax system unification:** 25% tax rate for all enterprises (before SEZ rate 15% vs. standard 33%)
- WTO compliance:** China joined WTO in 2001, committing to reducing preferential tax policies
- Industrial upgrading:** government began targeting high-tech industries & innovation-driven businesses
- Preventing tax avoidance & revenue loss**



### KEY MEASURES TAKEN

- China adopted the **Enterprise Income Tax (EIT) Law** which implemented the **same tax rate** for all the enterprises (both domestic and foreign)
- It also began to offer **special fiscal incentives** for **high-tech industries** and innovation-driven enterprises to promote industrial upgrading



### IMPLEMENTATION PLAN

- Transition period:** businesses in SEZs were given a **5-year transition** period to gradually adjust to the new tax rate
- Well-planned communication:**
  - the Law was **widely publicized** through government websites and international business forums
  - the State Administration of Taxation (SAT) issued **guidelines and official notices** explaining the transition
  - the government held **meetings** with **foreign business chambers** and **investors** to clarify the changes
  - SEZ administrators worked directly with affected businesses to **assist with tax planning and adjustments**
- Additional support:** increased spending on **transportation, digital infrastructure,** and **skilled labor development**



### KEY OUTCOMES

	Short term	Medium term	Long term
<b>Govt' tax revenues</b>	↑ Between 2007-2012, China's total tax revenue <b>increased</b> around <b>30%</b> , driven by corporate tax adjustments		
<b>CIT revenues</b>	↑ <b>Increased</b> from CNY <b>837 billion (2007)</b> to CNY <b>1.3 trillion (2012)</b>		
<b>GDP</b>	↓ Growth slowed down from <b>14% (2007)</b> to <b>9.6% (2008)</b> also due to financial crisis	~ Recovered to <b>10.3%</b> in 2010 and remained <b>stable</b> with <b>~7% growth</b>	↑ Growing <b>6-7%</b> annually
<b>Exports</b>	↓ 2009 exports <b>fell ~16%</b> due to the financial crisis & rising costs in China	~ By 2013, exports <b>recovered</b> and grew again by <b>8%</b> annually	↑ Strong growth, 2018 exports reached <b>\$2.5 trillion</b> , despite US-China trade tensions
<b>FDIs</b>	↓ Dropped from <b>\$138 billion (2008)</b> to <b>\$105 billion (2009)</b>	~ By 2013, FDI had rebounded to <b>\$123 billion</b>	↑ Increased, reaching a record <b>\$140 billion</b> in 2018

### KEY TAKEAWAYS

- Phased approach:** major policy changes need to be implemented with a **gradual approach to allow adjustments**
- Right timing based on companies' maturity:** it is important to create a **level-playing field** for all enterprises **once the SEZs are successful**
- Sector-based incentives:** **more effective** in promoting **high-tech and high value-added sectors** than blanket fiscal incentives.

# South Korea gradually phased out the tax incentives to SEZs and FEZs to focus on high-tech and innovation-driven, leading to long-term positive outcomes

↑ Increase   ~ Stable   ↓ Decrease  
e   × Not impacted



## High-Tech & Innovation-Led SEZ Transition- Case Study: SOUTH KOREA



### CONTEXT AND TRIGGER

In 2010s, South Korea began to scale down the SEZs/free zones programs, main reasons being:

- Declining relevance:** Korea's economic maturity made large tax incentives less necessary
- Budgetary constraints:** high cost of maintaining tax breaks for SEZ businesses
- Industrial shift:** new policies focused on industry-specific incentives (high-tech sectors)



### KEY MEASURES TAKEN

- Focus on **quality over quantity**, with **reduced tax incentives** and **tightened requirements** for companies
- In 2014, **phasing out** some tax benefits for **foreign companies in SEZs**, and by 2017, **closed or restructured underperforming zones**
- In the 2020s, **shifted focus toward high-tech** and **innovation-driven zones**



### IMPLEMENTATION PLAN

– **Phased approach:**

- evaluating effectiveness** (2010-2014) of SEZs and FEZs in attracting investment and boosting economic growth
  - major restructuring** (2015-2019): several underperforming FEZs were either merged or shut down and foreign companies faced a gradual reduction in tax breaks
  - new SEZ model** (2020 onwards): shift to high-tech & innovation-driven zones
- Stricter oversight** of SEZs and introduction of **performance-based evaluations**
  - Gradual communication** of the policy changes to minimize investor concerns and ensure a smooth transition, incl. broad **official announcements** and **policy white papers**, and **extensive consultations** with foreign investors and business associations



### KEY OUTCOMES

	Short term	Medium term	Long term
<b>Govt' tax revenues</b>	↑ Slightly up in the first 2 years	↑ More significantly up from the medium-term to long-term	
<b>CIT revenues</b>	↑ Increased by ~20-25% from 2014 to 2020, driven by the removal of SEZ tax exemptions		
<b>GDP</b>	~ Stable (around 3%)	~ Stable (2.7-3%)	↑ Increased to 3% annually
<b>Exports</b>	↓ Down slightly (~2-3% decline in SEZ-driven exports)	~ Recovered (5% annual growth)	↑ Up strongly (8% annual growth)
<b>FDIs</b>	↓ 5-10% drop in SEZ related FDI (\$14.5b in 2013 vs. \$12.8b in 2016)	~ Stable (\$13-15b Annual FDI Inflows)	↑ Up (\$15-20b Annual FDI Inflows)

### KEY TAKEAWAYS

- **Timing of phasing out:** SEZs need to be **phased out** or **scaled down** when the **economy becomes mature and competitive**
- **Gradual implementation:** major policy shifts need to be **implemented gradually** to allow **firms to adjust**
- **Change of incentive focus:** incentives need to be **shifted towards high-tech** and **high value-added** sectors to stimulate industrial upgrading

# Appendix

- A Case Studies of Rollback of EZ Incentives
- B Special Economic Zones Interviews**
- C Economic Zones Contributions Table
- D Projections Model and Calculation Methodology



# Interview Summary

## M3-IC SEZ

### Utilization

- 95% area is sold out
- 137 companies in production (54 plots); 97 companies (93 plots) under construction
- Infrastructure issue: lack of provision for utilities and infra specifically from local providers

### Challenges to attract local and foreign investment

- Energy cost
  - Skilled labor
  - No service or subsidy provided
- SEZs main incentive is the duty imports on machinery and tax holiday. For the construction support on infra, this comes from developer
- Textile sector particularly impacted by energy prices
- Other benefits: Utilities and infra provided by the developer, good connectivity with roads, transport
1. Are incentives enough compared to international benchmarks? *Subsidies in energy would be beneficial (not competitive now with other benchmarks)*
  2. Security concerns and issues, and costs? *The developer spends a lot on security (walls, security employees)*
  3. One stop service is working smoothly or are there issues encountered here? This was mentioned as one of the main issue as there is no software in place: *Gradually improving the system, at this moment not yet satisfied but it is improved*
  4. Is there any problem faced regarding banking transactions? *Cannot comment on this*

# Interview Summary

## BQIP SEZ (PIDC) (1/2)

### Main challenges to attract investment

- The industries have been starting 14 operational industries (16-20 under constructions), trajectory of development
- Biggest challenges historically was the availability of utilities, but now issue has been resolved with the support of federal govt (set up fund for the provision of utilities PSTP program). However, the developer is the one responsible for the development of the infra, and security. The provision of utilities is critical (so it was an issue but now it has improved). The support is mainly on power. The cost to develop the power infrastructure is significant so if it were to be passed on to industries it would have been significant, but now it's taken from the Federal government (plug and play model). The provision of electricity (the mode varies) but what is critical is the scale/magnitude of the power provided. (PTSP fund is for the provision of electricity at point 0, so it's not a concession from the government, the rest after it's the responsibility of the developer)
- Initially there were some challenges in getting the building plans approved by the respective authorities. In the SEZ law there is a provision that the SEZ can take over. Now it's in the context of the one-stop show which has helped the industrialization and facilitated the approvals for building (still manual process not digital).
- Besides building approvals are there any other challenges for investors (considering also other govt depts)? There are different types of entities that the SEZ has to interact with (tax authorities when it comes to availing fiscal benefits). Then the other entities are specific to the industry (e.g., pharma), But they have more visibility on the interaction with the tax authorities more than other government entities
- On the infrastructure and connectivity, the infrastructure outside the SEZ is not in a good shape and there is not clarity on ownership of who is responsible of those infra outside. Now the other stakeholders are more on a reactionary mode. There has to be a responsibility and accountability to those other entities so that SEZ can address those challenges

### Incentives and attractiveness to investors

- How beneficial is the current scheme to attract investors? It's one of the biggest driver of attracting investors. Investors are still able to overcome those infra challenges, but they know that at least they can benefit from the fiscal incentives and offset their costs
- Are these incentives the same between local and foreign investors? Yes they are industry agnostic and the same between local and foreign
- Are these incentives considered enough by investors inf compared to regional competitors? The incentives now offered in Pakistan are very limited (one time exemption on import of capital good). But once a company is established it should grow, so this limits a the growth (as they would need to replace machinery, new technology), so the one time CD is very limited, and should be progressive not restrictive like this to facilitate and incentivize growth (this is not as restrictive in other regions)
-

# Interview Summary

## BQIP SEZ (PIDC) (2/2)

### Main challenges to attract investment

- The industries have been starting 14 operational industries (16-20 under constructions), trajectory of development
- Biggest challenges historically was the availability of utilities, but now issue has been resolved with the support of federal govt (set up fund for the provision of utilities PSTP program). However, the developer is the one responsible for the development of the infra, and security. The provision of utilities is critical (so it was an issue but now it has improved). The support is mainly on power. The cost to develop the power infrastructure is significant so if it were to be passed on to industries it would have been significant, but now it's taken from the Federal government (plug and play model). The provision of electricity (the mode varies) but what is critical is the scale/magnitude of the power provided. (PTSP fund is for the provision of electricity at point 0, so it's not a concession from the government, the rest after it's the responsibility of the developer)
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-

# Interview Summary

## JW SEZ

### Challenges

- Electricity is an issue, infrastructure is ok

### Supply chain and infrastructure

- Not right now, but with time passing if it does not get extended in the future could become an issue. JW is very near to the other SEZs and also to airport
- They are the biggest JV with China so they need to provide the infra

### Cost pressure

- In electronics and automobile sector, they are very import driven, so they face pressure of the exchange. They have also invested in localization

### Land allotment

- They will allocate more lands on electronics

### Incentives

- JV partners come at a minimum cost, they gave long-term lease for the land to their Chinese partners so this was a success
- Second aspect is good supply chain
- In large volume industry like electronics and auto, profits come within 5 years timeline (they introduced fully hybrid car also thanks to support of China partner)
- Having custom duty after the first time would be beneficial
- Security cost for bullet-proof cars, security is privatized

### Access to banking

- Rely on local, they only take long-term loans

### Attract investors

- They focus on JV and foreign investors

### Exports

- Exports to African countries, ME, and Afghanistan (to allocated regions) because labor cost in Pakistan is better than China
- Freight was an issue but not local problem
- Technology can be a limit is not at par with best practices (multiple efforts and investment)

# Interview Summary

## Hattar SEZ

### Challenges and pressures faced

- 12 industries under production (out of the ~106 tenants), and they came under production very recently
- Before they had no electricity, gas, and road infra before, now they have it but the cost of the utilities is very high; political instability is also an concern for the investors
- There is no one-window operation, so everyone who wants to set operations has to deal and interact with different entities
- Now they have sufficient energy for the upcoming 2-3 years (after struggling at the beginning with transmission and grid), so main concern is electricity cost. How was the electricity power solved? From the external grid station it was funded by government, and then they had to engage external party to connect the lines from central grid station to the SEZs (and this took some time)

### Incentive schemes

- What has worked and what has not worked to attract investors? Incentives play an important role for industries in SEZ (they have given incentives to 4). Besides this also good location, well connected.
- The local investor prefer Hattar for medium enterprises instead of putting it in the industrial state (close by). They leased the land, in Hattar the cost of land is more affordable than other areas
- They have some FDI (KSA, UAE, US, Canada): feedback is that there are 2 main issues: 1) investors are concerned about economic outlook (security, political stability, electricity prices)
- Hattar is more secure area because is very close to Islamabad, while in other areas around can be more dangerous but for now this is not a major impediment

### Investor attraction

- Groundbreaking of Hattar was in 2016, so online promotion, marketing campaign, engaged some international magazines, roadshow, presentation mostly between 2016-20.
- The issue is more the growth of economy (slow GDP growth), and the demands for product is low (factories are shutting down in Pakistan)

# Interview Summary

## Ombre SESEZ

### Challenges

- Received approval in mid-2023 (2-years timeframe to get commercial) and they took one year to start the commercial production
- On a high-level there are no challenges in getting the benefits of the SEZ structure
- Challenges are more related to working environment in Pakistan (taxation, energy, other financial indicators, inflation)
- The FBR enacts the policy, but then the smaller things and day-today they have to deal with local authorities □ one window opportunity should be provided so that they can raise these daily challenges on a more efficient way
- The economy in Pakistan in general was facing issues (FX fluctuations), but most of their utilities is local so that didn't have a major impact, but they are looking to foreign plans.
- The exports regime is still extremely regulated in Pakistan, FX regulations are very stringent (and they are primarily focused on the exports market)
- The exports need to happen to a corporate structure (e.g., set-up subsidiary in the UK), this takes a long process, you have to first get state approval, then you have to go through the local requirement
- To fund those entities you also go through the second phase of approval for the fund transfers, so you need also an approval from the state bank for the amount they would allow, sometimes the amounts are very small, so export regimes and repatriation of fund in Pakistan is very long and complex, also the incorporation of the companies is very lengthy □ so overall challenges from the banking sector when it comes to exports regime

### Incentives

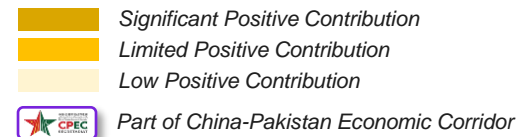
- 90% of raw materials of the manufacturing is locally produced so they do not need to import it, just minor values of imports so here they do not have any major challenges
- Utilities cost was a concern: they are structured towards green energy
- Since Ombre is servicing the internal need of the organization, the pressure of the retailers are cascaded to the manufacturing side
- Pakistani products are getting more attractive internationally

# Appendix

- A Case Studies of Rollback of EZ Incentives
- B Special Economic Zones Interviews
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- D Projections Model and Calculation Methodology



# We evaluated each SEZ based on its contribution to GDP, Exports, Trade Deficit (BoP), Employment; in addition to the GDP and Exports per Acre



## Operational SEZs Contribution Analysis

#	SEZ Name	City/Province	Type	Year of Notification	Land (Acres)	% Land Allotted	Economic Contribution					Foregone revenue	
							GDP % (2024)	Export % (2024)	BoP % (2024)	Workforce % (2024)	GDP /Acre (2024, Mn PKR)	Export /Acre (2024, Mn PKR)	Govt Revenue Forgone (Cum. 2022-2024, Mn PKR)
1	Quaid-e-Azam Business Park	Sheikhupura, Punjab	Public	2020	1860	27%	0.1532%	1.933%	-2.4445%	40,208	177.2	327.8	8,741
2	M3-IC	Faisalabad, Punjab	Public	2016	4356	70%	0.1746%	3.052%	-3.8545%	28,254	33.7	86.4	19,828
3	Allama Iqbal Industrial City [CPEC]	Faisalabad, Punjab	Public	2020	3388	36%	0.0235%	0.793%	-1.0008%	11,130	11.3	55.8	2,281
4	Ombre Industrial & Investment SESEZ	Lahore, Punjab	Sole Enterprises	2023	50	100%	n/a	n/a	n/a	10,000	n/a	n/a	n/a
5	Rahim Yar Khan Industrial Estate	Rahim Yar Khan, Punjab	Public	2019	456	44%	0.0120%	0.103%	-0.1273%	7,016	34.9	43.7	965
6	Korangi Creek Industrial Park	Karachi, Sindh	Public	2014	240	56%	0.0254%	0.122%	-0.1330%	6,171	111.8	78.6	38
7	Bhalwal Industrial Estate	Sargodha, Punjab	Public	2019	427	23%	0.0055%	0.001%	0.0004%	4,020	33.4	0.8	95
8	Sundar Green SEZ	Lahore, Punjab	Private	2023	77	30%	n/a	n/a	n/a	3,500	n/a	n/a	n/a
9	National Science & Technology Park	H-12, Islamabad	Public	2020	58	1%	n/a	n/a	n/a	3,322	n/a	n/a	n/a
10	Bin Qasim Industrial Park	Karachi, Sindh	Public	2014	930	48%	0.0261%	0.169%	-0.1936%	3,023	34.3	32.6	3,138
11	Value Addition City	Faisalabad, Punjab	Public	2016	225	67%	0.0018%	0.001%	-0.0010%	3,023	7.1	0.5	90
12	Vehari Industrial Estate	Vehari, Punjab	Public	2019	277	19%	0.0032%	0.000%	0.0002%	2,961	36.4	0.2	113
13	Rashakai SEZ [CPEC]	Nowshera, KP	PPP	2019	1000	7%	0.0061%	0.001%	0.0002%	2,692	53.3	0.7	775
14	Rachna Industrial Park	Sheikhupura, Punjab	Public	2019	178	28%	n/a	n/a	n/a	2,225	n/a	n/a	n/a
15	Service Long March SESEZ	Jamshoro, Sindh	Sole Enterprises	2021	50	100%	n/a	n/a	n/a	2,200	n/a	n/a	n/a
16	Bostan SEZ [CPEC]	Pishin, Balochistan	Public	2020	200	31%	0.0012%	0.000%	0.0001%	1,627	11.8	-	149
17	JW- SEZ China Pakistan SEZ	Lahore, Punjab	Private	2020	231	33%	0.0238%	0.007%	0.0222%	1,178	183.6	8.0	2,852
18	Khairpur SEZ	Khairpur, Sindh	Public	2014	140	50%	n/a	n/a	n/a	1,142	n/a	n/a	n/a
19	Hattar SEZ	Haripur, KP	Public	2016	424	75%	0.0054%	0.117%	-0.1439%	738	9.9	31.6	653
20	Oil Village SEZ	Rawalpindi, Punjab	Private	2019	100	30%	n/a	n/a	n/a	464	n/a	n/a	n/a

Calculated using utilized land, not total landmass

# We evaluated each EPZ based on its contribution to GDP, Exports, Trade Deficit (BoP), Employment

■ Significant Positive Contribution  
■ Limited Positive Contribution  
■ Low Positive Contribution

## Operational EPZs Contribution Analysis

#	SEZ Name	City/Province	Type	Year of Notification	Land (Acres)	% Land Allotted	Economic Contribution						Foregone revenue Govt Revenue Forgone (Cum. 2022-2024, Mn PKR)
							GDP % (2024)	Export % (2024)	BoP % (2024)	Workforce % (2024)	GDP /Acre (2024, Mn PKR)	Export / Acre (2024, Mn PKR)	
1	KEPZ	Karachi, Sindh	Public	1981	305	n/a	0.1175%	2.131%	-1.3737%	37,000	400.72	602.34	Presumptive tax has been provided at an aggregated level, and not for each of the 9 EPZ, hence the forgone revenue from EPZ has been estimated at an aggregate level
2	SEPZ	Sialkot, Punjab	Public	1998	238	n/a	0.0035%	0.041%	-0.0191%	3,500	39.05	38.52	
3	REPZ	Risalpur, KPK	Public	1996	92	n/a	0.0025%	0.031%	-0.0071%	170	10.72	11.23	
4	GEPZ	Gujranwala, Punjab	Public	2004	113	n/a	0.0035%	0.038%	-0.0060%	1,472	32.50	29.17	
5	Saindak	Saindak, Balochistan	Private	2001	1248	n/a	0.0424%	0.621%	-0.2410%	1,937	35.34	42.92	
6	Duddar	Duddar, Balochistan	Private	2004	1500	n/a	0.0094%	0.286%	-0.2674%	1,380	6.55	16.43	
7	National Steel Complex Limited	Karachi, Sindh	Private	2005	220	n/a	0.0004%	0.000%	0.0051%	230	1.84	0.00	
8	Reko Diq	District Chaghi, Balochistan	Private	2023	n/a	n/a	0.0000%	0.000%	0.0000%	137	n/a	n/a	
9	North Waziristan	North Waziristan District, KPK	Private	2023	n/a	n/a	0.0013%	0.007%	0.0094%	300	n/a	n/a	

Calculated using total landmass

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# To conduct the baseline assessment and extract the target state recommendations, we leveraged different sources of inputs received from key stakeholders, and followed a well-structured methodology

## IMF Recommendations

Staff-level agreement on economic policies with IMF – incipit of the entire assessment

## SEZ Act, Rules, & Regulations

SEZ regulatory set-up including:

- SEZ Act 2012
- SEZ Rules
- SESEZ Regulations
- SEZ Zone Enterprise Admission regulations 2021

## SEZ List & Key Data

Key aggregated data by SEZ including:

- List of 35 SEZs, their operational status, YoE, land, capital invested, etc..
- Partial financial data (revenues, profits, imports exports) from FBR
- SEZ Incentive Package
- SEZ infrastructure Survey

## SEZ Companies Data

Partial financial data by company, including:

- Sector focus
- Employment generated
- Capital invested
- Plot area allocated
- NTN Number

## IMF conditionalities on EPZs

- Letter brief on IMF Conditionalities on EPZs in Pakistan - Ministry of Industries and Production
- Impact of IMF conditionalities on EPZs in Pakistan

## EPZ Rules and previous study

Regulations impacting EPZs including

- Export Facilitation Scheme 2021

Previous study conducted on EPZs

- Prime Report on EPZA 2023

## EPZs List and Financial Data

EPZs Performance Data for 9-10 operational EPZs, including:

- List of EPZs, YoE, acres, employment generated
- Incentive package and taxes (presumptive, income tax of EPZA)
- Financial data by EPZ (incl. imports, exports, capital invested), with partial companies' data for 4 EPZs

## Uraan Pakistan Strategy

Uraan Pakistan, including:

- 5Es National Economic Transformation Plan (2024-2029)

## Additional data leveraged

Benchmark countries reports and secondary data

Pakistan fiscal budget from official govt sources

Experts' interviews and inputs

Selection of SEZs stakeholders interviewed

# In step 1, for existing companies' growth, we leveraged industry standards as well as country and EZ historical data to calculate revenues, profit, employment & spend projections

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## ASSUMPTIONS

### Revenues, Profits and Employment growth assumptions

Assumptions for projected growth of existing companies	Value	Notes
Average profit margin for manufacturing sector	<b>8.5%</b>	To be reached gradually (linear growth) from companies with currently negative margins
Ramp up years to reach steady state profit margin	<b>5</b>	
Revenue growth	<b>3%</b>	Assumed as GDP growth rate of Pakistan
Exports as % of EPZ revenues	<b>90%</b>	Target considering focus on exports of EPZs
Current average % of EPZs exports / total EPZs revenues	<b>82%</b>	Current average % split between international and domestic sales shared for 3 EPZs (KEPZ, GEPZ, SEPZs) is 82%
Ramp up years to reach steady state % of exports (EPZs)	<b>5</b>	
Employment growth till steady state	<b>3%</b>	Considering historical employed labor force growth rate in Pakistan
Years to reach employment steady state	<b>5</b>	

### Assumptions on Projected Spend

Assumptions for projected spend	Value	Notes
R&D spend (% of revenues) for manufacturing	<b>2%</b>	Industry average for manufacturing sector
CAPEX to renew machinery & equip. (as % of existing CAPEX on M&E)	<b>70%</b>	Industry average
Timespan for machinery and equipment renewal	<b>10</b>	Existing companies are assumed to be renewing the equipment 10 years after 2024
R&D spend (% of revenues) for mining	<b>0.5%</b>	Industry average for mining (R&D low as it's a technology- mature industry)
L&D Spend (% of revenues) for manufacturing	<b>1%</b>	Industry average for manufacturing sector adjusted for nascent geography (average manufacturing is ~2% across large operators globally; estimated at ~1% for markets still in the process of industrializing)
L&D Spend (% of revenues) for Mining	<b>2%</b>	Industry average for mining sector adjusted for nascent spend (average mining L&D spend is ~2-5% across large operators globally; estimated at ~2% for markets still in the process of industrializing)

Same assumptions are used also for new companies added / EZ once they reach steady state (5 years since their establishment)

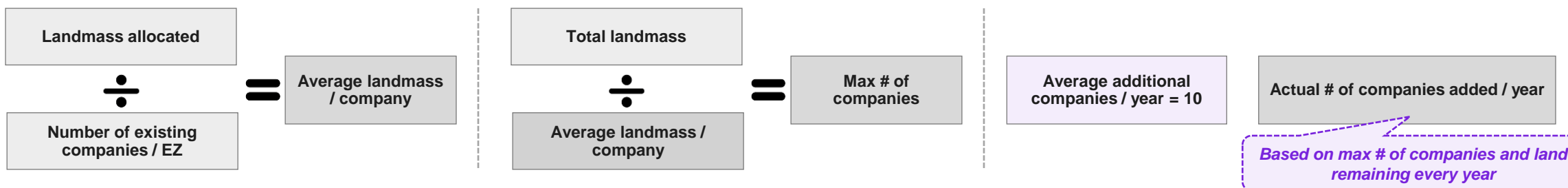
## In step 2, we estimated the ramp-up of new companies and calculated the growth of companies added every year based on the landmass remaining

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### RAMP-UP ASSUMPTIONS

Ramp-up	Year 1	Year 2	Year 3	Year 4	Year 5
Phase	Setup	Ramp	Ramp up	Ramp Up	Max Capacity
Revenues %	0%	25%	50%	75%	100%
Profit margin of new companies after reaching steady state	1%	Linear gradual growth			8.5%
Cost Phase	CAPEX Disbursement	OPEX	OPEX	OPEX	OPEX
CAPEX ramp-up	30%	40%	20%	10%	0%

### METHODOLOGY TO ESTIMATE NEW COMPANIES ADDED



## In step 3, we estimated the future projections for companies of EZs for which historical financial indicators were not available, taking as reference averages of the other EZs

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### EZs with missing/ partial financial historical data

SEZs	OV SEZ
	Sundar Green SEZ
	Rachna SEZ
	Khaipur
	Value Addition City
	Service Long March SESEZ
	Ombre Industrial & Investment SESEZ
EPZ	Reko Diq

### ASSUMPTIONS

#### SEZs

	Value	2022	2023	2024	Notes
Total landmass	500				Average landmass across 35 notified SEZs (531, adjusted to an average of 500)
Average revenue per acre (mn PKR/ acre)		215	230	278	Assumed average revenue per acres for SEZs with missing financial data (from 13 SEZs with available data)
Average profit margin		2.3%	1.4%	0.1%	Assumed average profit margin from the 13 SEZs with financial data
% of exports of revenues		16.4%	16.0%	16.2%	Average % of exports over revenues from 13 SEZs financial data
% of imports of revenues		0.9%	0.8%	0.6%	Average % of imports over revenues from 13 SEZs financial data
% of CAPEX on machinery over capital invested for 7 EPZs with missing financial data	20%				Assumption on average % of CAPEX based on manufacturing sub-sectors

#### EPZs

Average revenue per acre (mn PKR) - Mining				0.02	Based on data for North Waziristan (first year of operation as Reko Diq)
% of exports of revenues				82%	Average % of exports over revenues across EPZs
% of imports of revenues				205%	Based on data for North Waziristan for first year of operation
% of imports of revenues (steady state - mining average)				42%	Average Based on data for Saindak and Duddar data (steady state reached after 5 years of operations as previously assumed for the rest)

In step 4, we assumed a gradual schedule for the operationalization of the EZs in pre-feasibility stage and estimated their growth based on sector-specific assumptions

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## OPERATIONALIZATION SCHEDULE ASSUMPTIONS

% of EZ operational	2026	2027	2028	2029	2030
Notified SEZs (15)	50%	50%	-	-	-
Pre-feasibility SEZs (19)	-	-	33%	33%	33%
Notified EZs (1)	100%	-	-	-	-
Pre-feasibility EZs (7)	-	-	50%	50%	-

### SEZs (assumed all manufacturing-focused)

	Value	Notes
Average landmass / company	6.5	Assumption on the average landmass / company calculated based on 18/20 notified SEZs (excluding the 2 SESEZ)
Average employment generated per acre	20	
Average capital per acre (mn PKR)	76	
Average revenue per acre (mn PKR)	241	

### EPZs (focus on manufacturing sector)

	Value	Notes
Average landmass / company	1.8	Calculated considering 4 operational EPZs focused on manufacturing (excluding SE)
Average employment generated per acre	43.8	
Average capital per acre (mn PKR)	269.1	
Average revenue per acre (mn PKR)	197.3	

### EPZs (focus on mining sector)

	Value	Notes
Average landmass / company	9.8	Calculated considering 4 operational EPZs focused on mining
Average employment generated per acre	0.09	
Average capital per acre (mn PKR)	5.7	
Average revenue per acre (mn PKR)	2.01	

## Finally, in step 5 we estimated the growth of Pakistan's economic indicators by assuming average growth rate based on historical data

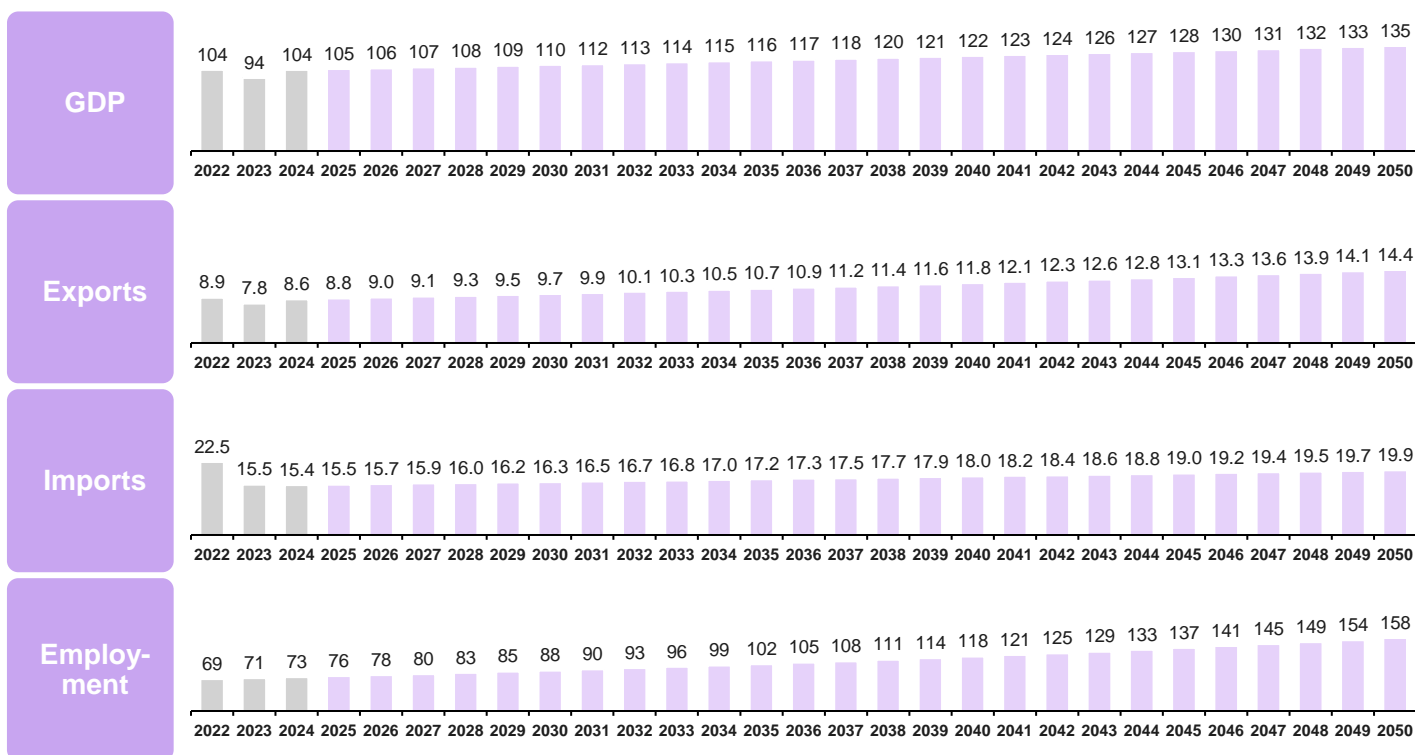
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### ASSUMPTIONS

	Value	Notes
GDP growth rate YoY	1%	Assumed to grow on an average of 1% YoY, maintaining growth trajectory observed post-currency crisis, assuming no major exogenous shocks; Conservative growth trajectory assumed
Exports growth rate YoY	2%	Assumed to trail GDP at a faster rate with an average of 2% YoY, maintaining growth trajectory observed, assuming no major exogenous shocks (including trade wars); Conservative scenario assumed
Imports growth rate YoY	1%	Assumed to trail GDP growth rates at 1% YoY; conservative scenario assumed
Average employment growth rate YoY	3%	Assumed based on historical employment growth rate in Pakistan

### PROJECTIONS



#### Projected values in trillion PKR (GDP, Exports, and Imports) and in mn (Employment)



Market reaction and EZ company closures were estimated based on case study benchmarks;

Estimates for capital flight are conservative considering the challenging investment environment in Pakistan

#### Case Studies of Fiscal Benefits / Incentives Rollbacks

Case Study	Existing Tax Regime	New Tax Regime	Change in CIT	Investment / Equity Outflow Outcome	Outflow Per Incremental CIT Basis points Introduced	Comment
India 	Tax Holiday ~0%	18-20%	20%	-5%	-0.25	5% of cumulative investment flowed out of SEZs as FDI; unless counterbalanced by local investment (net was 0.4%)
Puerto Rico 	Exemption from US federal Taxes	20-40%	35%	-20%	-0.57	18–28% reduction in the number of manufacturing firms
<b>Average</b>					-0.411	

#### Scenario Assumptions for Churn of SEZ/EPZ companies in first 2 years from Announcement of Rollback program (2026-2027)

Scenarios	Estimated Outflow per Basis CIT point	Estimated Outflows / Closures of Companies in SEZ/EPZ for 2026-2027	Notes
Base-Case	0.000	0.0%	No changes to the estimated companies being registered within EZs
Conservative	-0.250	7.3%	Slightly more severe reaction than the India scenario due to the higher change in CIT to 29%; Offset by Cost-based Deductions on CAPEX, R&D and Training
Aggressive	-0.300	8.7%	More aggressive scenarios push closer to the average outflows expected per CIT basis point; however we are still below the average as we are still offering deductions and time for companies to plan ahead their transition (i.e. existing companies' benefits are maintained, new ones have 5+ years to plan ahead)

## NEW EZ ACTIVATION SCHEDULE

For new economic zones, a schedule was assumed based on the stage of companies; Change can be made to the schedule based on changing assumptions

Type	Status	Zones	Launch Year	Estimated Avg. Companies Added Per year
SEZ	NOTIFIED	Hub SEZ	2026	10
		Naushahro Feroze Industrial Park	2026	10
		SITE Larkana SEZ	2026	10
		Challenge Fashion SEZ	2026	10
		IVI Junction SEZ	2026	10
		Smart SEZ	2026	10
		DWP Innovation Park SEZ	2026	10
		Siddiqsons Tin Plate SESEZ	2026	10
		Premier Cement Limited SESEZ	2027	1
		PFB (Pvt) Limited SESEZ	2027	1
		Fatima Cement Limited SESEZ	2027	1
		Roshan Sun Tao Paper Mill SESEZ	2027	1
		Sapphire Value Addition SESEZ	2027	1
		Armstrong ZE (Private) Ltd SESEZ	2027	1
Dhabeji SEZ [CPEC]	2027	10		
EPZs	OPERATIONAL	Siah Diq EPZ	2025	1
	PRE-FEASIBILITY	Pakistan Car and Machinery Zones Pvt Ltd	2028	10
		Pakistan Chemical Manufacturers Association	2028	10
		Spark Developers Pvt Ltd	2028	10
		M4 Corporation	2028	10
		Abid Danish Builders & Developers	2029	10
		Degan Exploration Works (DEW) - Dasht-e-Kain	2029	1
		Degan Exploration Works (DEW) - Dalbadin Baluchistan	2029	1

# Thank you

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