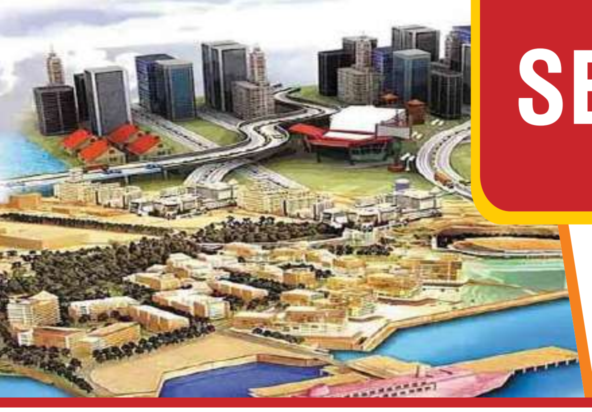


SECTOR BRIEF

Special Economic Zones (SEZs) in Pakistan

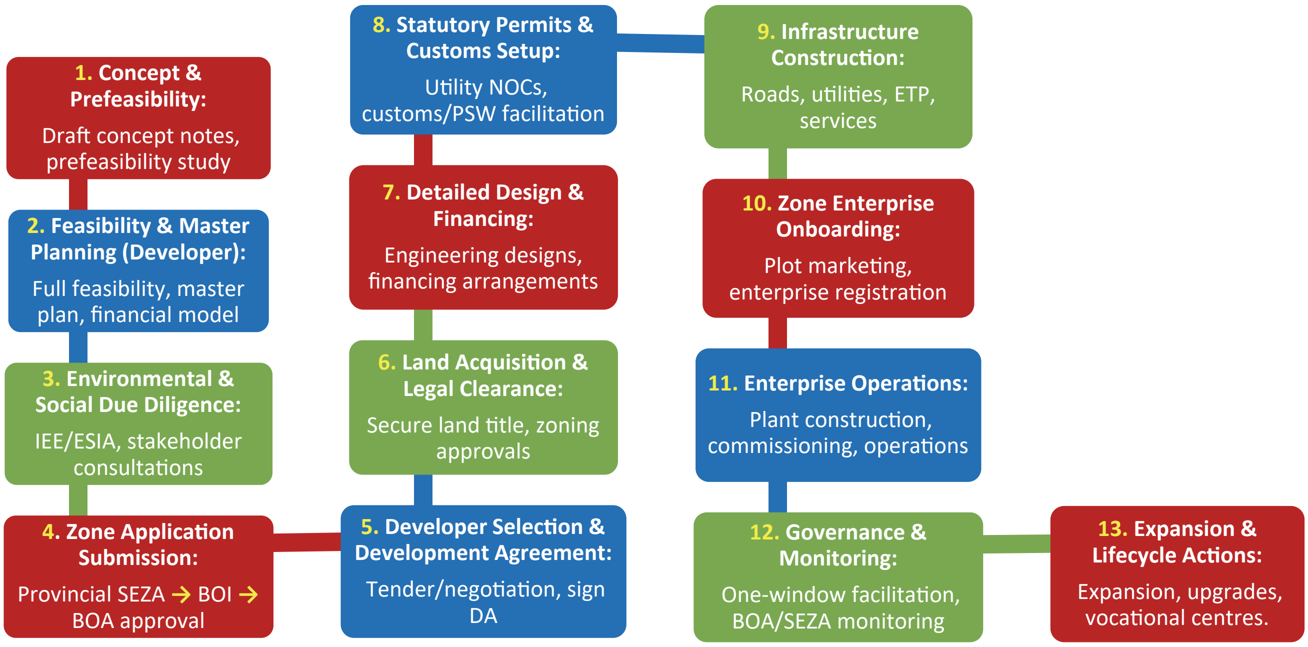
By ICMA Research and Publications Department

Pakistan's Special Economic Zones (SEZs) emerge as strategic gateways, connecting geopolitical advantages with global trade and investment avenues. Structured as industrial clusters, they offer one-time exemption from customs duties and taxes on capital goods for both developers and enterprises, as well as a ten-year income tax holiday. Beyond fiscal benefits, SEZs enable technology transfer, skill development, infrastructure expansion, and industry diversification across textiles, automobiles, electronics, and information technology. Positioned as drivers of export-led growth, industrial modernization, and improved living standards, SEZs are projected to create 0.7–0.8 million jobs by 2030.

HISTORICAL OVERVIEW

PERIOD	PHASE TITLE	KEY ACHIEVEMENTS IN EACH PHASE
1960s–1980	**Early Industrialization & Export-Processing Foundations**	• Establishment of Industrial Estates (IEs) to promote industrialization. • Shift toward export-oriented enclaves under the Export Processing Zone (EPZ) concept. • Promulgation of the Export Processing Zones Ordinance, providing a legal framework for exports and investment.
1981–1989	**Export-Processing Approach**	• Karachi EPZ established as the first export-oriented zone. • Attracted foreign and local investment to promote industrialization. • Financed by the government, marking a major policy shift toward export-led development.
1990s–1993	**Expansion & Global Integration**	• Expansion of EPZs and industrial estates in Sialkot, Gujranwala, and Risalpur. • EPZA became a founding member of the World Export Processing Zones Association (WEPZA).
2001–2010	**Institutional Development**	• Board of Investment (BoI) established as the federal SEZ approving authority. • Punjab Board of Investment & Trade (PBIT) created to facilitate SEZ operations in Punjab.
2012–2016	**SEZ Legal Framework & CPEC Integration**	• Special Economic Zones Act enacted, introducing federal and provincial SEZ authorities. • SEZ Rules issued and CPEC MoU signed, identifying 46 SEZ sites. • Sindh Economic Zones Management Company (SEZMC) incorporated. • Amendments to SEZ Act introduced to fix flaws and strengthen effectiveness. • CPEC Joint Working Group on Industrial Cooperation constituted to push SEZ development.
2015–2018	**Priority SEZs & Regional Projects**	• Nine priority SEZs identified under CPEC. • Special Economic Zone Authority (SEZA) Sindh constituted. • Balochistan Board of Investment & Trade (BBoIT) reorganized. • Gwadar Port Free Zone Phase-I inaugurated. • Approval of Bostan SEZ (Balochistan), Mirpur SEZ (AJK), and Mohmand Marble City (KP).
2019–2020	**Rollout of CPEC SEZs**	• Allama Iqbal Industrial City (Punjab) launched with capacity for **3,000** workers. • Port Qasim Industrial Park (Sindh) recognized as federal SEZ. • Prime Minister sanctioned **Rs. 5.6 billion** for SEZ utilities. • Rashakai SEZ (KP) development agreement signed. • ICT Model Industrial Zone (Islamabad) notified as a priority SEZ.
2023–2025	**Expansion & Trade Boost**	• Rashakai SEZ Phase-I inaugurated. • Dhabeji SEZ (Sindh) advanced with development agreements for **1,530** acres. • CPFTA-II expanded tariff coverage under upgraded FTA with China. • CPFTA-II approved during President's visit to China; **75%** of tariff lines liberalized. • China removed duties on **313** Pakistani exports (textiles, seafood, leather, chemicals, plastics, auto parts, engineering goods). • Pakistan's exports to China reached **USD 1.053 billion**; FDI rose **37%** to **USD 1.88 billion**

Development Procedure of Special Economic Zones (SEZs) in Pakistan



Source: Special Economic Zone Framework in Pakistan, BOI
https://www.invest.gov.pk/sez

Types of Economic and Industrial Zones in Pakistan

Types of Zones	Definition	Scope & Focus	Facilities & Incentives	Example in Pakistan	Governing Authority
Specialized Zone	Zone dedicated to a specific industry/sector.	Narrow sectoral focus.	Tailored infrastructure and policies for that sector.	Quaid-e-Azam Apparel Park (Sheikhupura, Punjab), National IT Park (Islamabad – planned)	Sector-specific Ministries/Authorities (e.g., Ministry of IT & Telecom for IT Parks, Textile Division for Apparel Parks)
Industrial Park	Cluster of industrial units with common infrastructure and services.	Mixed production (domestic & export).	Shared utilities, transport, industrial services; fewer fiscal incentives than SEZ/EPZ.	Sundar Industrial Estate (Lahore, Punjab), Bin Qasim Industrial Park (Karachi)	Provincial Industrial Development Authorities (e.g., PIEDMC in Punjab, SITE in Sindh)
Export Processing Zone (EPZ)	Industrial zone dedicated to producing goods for export only.	Export-oriented manufacturing.	Duty-free imports of raw materials/machinery, tax holidays, simplified procedures.	Karachi Export Processing Zone (Sindh), Sialkot EPZ (Punjab)	Export Processing Zones Authority (EPZA)
Free Trade Zone (FTZ)	Area where goods can be imported, stored, processed, or re-exported without customs duties.	Trade & logistics-focused.	Duty-free imports/exports, simplified customs, warehousing.	Gwadar Free Zone (Balochistan)	Federal Board of Revenue (FBR), Gwadar Port Authority, Customs
Special Economic Zone (SEZ)	Designated area with special policies to attract investment, boost industrialization, and exports.	Broad: manufacturing, trade, services, logistics.	Tax holidays, customs exemptions, simplified regulations, infrastructure support.	Rashakai SEZ (Khyber Pakhtunkhwa), Gwadar SEZ (Balochistan)	Board of Investment (BOI), SEZ Authorities, CPEC Secretariat

Sectoral Focus of Pakistan's SEZs

SECTOR	OVERVIEW
Textiles & Garments	Priority sector: garment and textile clusters (e.g. Rashakai SEZ, Allama Iqbal Industrial City (Faisalabad); strong export focus.
Electronics & IT	Electronics assembly and IT/ITES (Rashakai, Islamabad ICT zone); SEZs planned for technology enterprises.
Automotive & Engineering	Auto and machinery (Rashakai targets auto parts); industrial goods clusters in several zones.
Agro-processing & Food	Processing of local crops and food products (Khairpur SEZ focused on dates/agro; other zones may include food processing).
Steel, Metals & Petrochemicals	Heavy industry clusters (Dhabeji SEZ includes oil/Petrochem complexes; Bostan and Port Qasim SEZs target steel, cement, chemicals, etc.).
Mining & Minerals	Mineral-based industries: e.g. Mohmand Marble City (KP) for marble processing; other zones (e.g. proposed Balochistan SEZs) for mining.
Construction/Building Materials	Cement and construction materials (notably in Rashakai and other zones), leveraging local resources.
Renewables & Misc.	Emerging focus on renewables and services (UAE-Pakistan MoU mentions renewables, AI, but formal SEZ projects are still focused on industry).

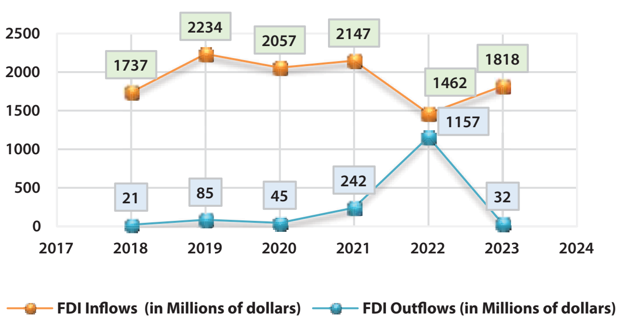
Revitalizing SEZs for Sustainable Growth

The Special Economic Zones (SEZs), established under the SEZ Act of 2012 and revised in 2016, offer tax breaks and duty-free imports under the oversight of the Board of Investment and the Board of Approvals. Under CPEC Phase II, SEZs target priority sectors such as textiles, information technology, and agriculture to raise GDP by 2–3% through investment and exports.

Pakistan's FDI trends remain volatile, reflecting investor sensitivity to economic and political conditions. However, no regular dataset reports actual FDI inflows for each SEZ, with available data limited to national aggregates or project commitments, hindering assessment of their role in investment, industrialization, and exports.

In December 2024, the government introduced reforms to accelerate progress toward a modern, export-oriented economy. Despite infrastructure and policy consistency challenges, SEZs are expected to attract USD 10–12 billion in investment and create 0.7–0.8 million jobs by 2030.

FDI Trends in Pakistan



Source: World Investment Report 2024: https://unctad.org/system/files/official-document/wir2024_en.pdf

SEZs in Pakistan: The Way Forward

The success of Pakistan's Special Economic Zones (SEZs) depends on transparency, good governance, and consistent policies. Public disclosure of foreign investment, debt, and guarantees, supported by audits and open contracting, is vital for accountability. Oversight of state-owned enterprises, integration of SEZ finances into national budgets, and parliamentary review can prevent hidden liabilities.

Reforms should simplify approvals through a one-stop services framework, strengthen the Board of Approvals, and ensure fair incentives for both local and foreign investors. To align with CPEC, Pakistan must operationalize the Exim Bank and Land Port Authority, improve regulation, and enhance inter-ministerial coordination.

Clear criteria for SEZ developers such as transparent standards, minimum land requirements, and federal participation are essential. Expansion should prioritize IT, tourism, and services, promote women entrepreneurship, and create independent tribunals for dispute resolution.

Industrial policy must drive exports, import substitution, technology transfer, and jobs while protecting local industries. Short-term tax reliefs and financing incentives will boost competitiveness, while better infrastructure, customs, and bonded warehousing will enhance trade efficiency. Learning from China's SEZ model, Pakistan can ensure policy stability, strong infrastructure, and sustainable partnerships to achieve a plug-and-play SEZ framework that drives industrial and economic growth.

Strategic SWOT Overview of SEZs in Pakistan

The following provides a brief overview of the SEZs using the SWOT framework and does not represent a detailed analysis

STRENGTHS

- SEZs offer tax holidays and duty-free import of machinery, unlike standard industrial zones which have limited fiscal incentives.
- Projects like Dhabeji SEZ have the potential to create 80,000 jobs, contributing significantly to employment.
- Pakistan leads the Digital Foreign Direct Investment (FDI) Initiative by the World Economic Forum (WEF) and the Digital Cooperation Organization (DCO), attracting cross-border investment in the digital economy, especially in emerging markets.
- SEZs increase exports and strengthen global market presence, unlike many conventional industrial estates focused on domestic markets.
- Strengthens vendor industries and supply chains, enhancing local ecosystems.
- SEZs are developed with enhanced transportation links, including the 184 km Bannu Economic Zone–M14 motorway road, improving access to regional and international markets.
- The Islamabad Model Special Economic Zone aims to foster the growth of low-carbon footprint industries, contributing to environmental sustainability in the region.
- Low-cost power supply for industrial units, with zones providing gas, electricity, and utilities at zero-point and allowing developers captive power generation.
- Low-cost access to international markets, with the Bin Qasim Industrial Zone in Karachi, Sindh, spanning over 25,000 acres and leveraging proximity to the port.

WEAKNESSES

- Weak governance and institutional capacity undermine management and accountability.
- Rent-seeking by interest groups leads to corruption and misuse of incentives.
- Ineffective dispute resolution and ongoing bilateral disagreements over projects create geopolitical risks, discouraging investors.
- Regulatory hurdles and unclear policies create uncertainty for investors.
- Structural bottlenecks from inadequate infrastructure and utilities hinder operations.
- Procedural complexities and bureaucratic red tape delay approvals and implementation.
- Weak legal and social protection for workers causes criticism and labor unrest.
- Misuse of allotted land for real estate speculation diverts focus from industrialization.
- Tax evasion and exploitation of fiscal incentives erode policy credibility.
- Limited local community inclusion and reliance on offshoring hinder ownership, sustainability, and local value chain development.

S W SWOT O T

OPPORTUNITIES

- Expanding SEZs to IT, tourism, services, and female entrepreneurship zones.
- Simplifying approvals and empower regulations to foster an investor-friendly environment.
- Publishing comprehensive SEZ FDI and debt data to build investor confidence.
- Disclosing contracts and conduct independent audits to enhance transparency.
- Strengthening governance and inter-ministerial collaboration for effective execution.
- Ensuring bonded warehousing and customs facilities for smooth trade.
- Offering five-year income tax relief to expatriates for technology transfer.
- Appling clear development standards and land thresholds for quality SEZs.
- Granting GST relief on utilities to support export-oriented industries.
- Establish concessional financing facilities to accelerate industrial unit setups.
- Government reforms (2024 Green Pakistan Investment) enhancing sustainability and investor confidence.
- Relocation of Chinese industries under CPEC SEZs facilitates technology transfer, skill development, and generates new job opportunities for the local workforce.

THREATS

- Geopolitical instability, such as regional tensions and insurgent activities in Balochistan and Khyber Pakhtunkhwa, threatens SEZ operations.
- Environmental concerns, including untreated industrial waste discharged in Hattar Industrial Estate, can harm local communities and ecosystems.
- Dependence on imported energy and raw materials makes SEZs vulnerable to global economic shocks and rising commodity prices.
- Tighter global financial conditions can limit access to credit for SEZ developers and foreign investors under CPEC projects.
- Bribery and unethical practices in SEZ administration can deter legitimate investment.
- Inefficient use of land and resources in SEZ planning can lead to suboptimal economic outcomes.
- Overcrowding of industries within SEZs can lead to competition for resources and market share.
- Rising costs of raw materials and labor can erode profit margins for SEZ-based industries.
- Earthquakes, floods, and climate change induced events can damage SEZ infrastructure and disrupt operations.
- Influx of external workers and businesses can marginalize local communities near SEZs.
- Trade restrictions and tariffs can hinder SEZ products from reaching international markets.
- Insufficient digital infrastructure hampers innovation and e-commerce activities in SEZs.

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