Policy Review

SEZs for Sustainable Development in Pakistan: Building on the Lessons from China

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1. **Rationale**

The role of Special Economic Zones (SEZs) remains instrumental in the structural transformation and promotion of industrialization across the world. However, research shows mixed results. Asian and Latin American countries have experienced great successes in this regard while Sub-Saharan Africa is still struggling to achieve similar results. The ongoing debate justifies the significant role SEZs play for growth and development. Given that Pakistan has yet to establish its SEZs under CPEC, China has almost 40 years’ worth of relatively successful experience in setting and operating SEZ’s. There is a need to understand the potential benefits of SEZs in Pakistan and lessons policymakers can learn from China.

In 1979, before China introduced economic reforms, its per capita income was US$184. It was relatively lower than Pakistan, which was US$260, at that time. Currently, China stands at US$ 8,000 while Pakistan is still hovering around US$ 1,500. Hence, Pakistan could learn from the Chinese experience in order to transform its economy. The World Bank (2015) notes that China’s SEZs make up to 22% of the country’s GDP, 45% of Foreign Direct Investment (FDI) and 60% of exports. As a result, approximately 30 million jobs were created along with 30% increase in farmers’ income. The main factors in the SEZs success can be summarized as good leadership that avoids coordination problems, presence of suitable incentives, and specific location of SEZs. The location near highly developed areas guarantee high investment, as well as opportunities to replicate the best practices of those areas.

Generally, the large-scale developments potentially pose serious implications for the environment and natural resources, therefore, China ensured that firms adopt green technologies to become more environment-friendly. Other countries should also be wary of the environmental costs imposed by the SEZs before engaging themselves in such an initiative (otherwise, the economic benefits brought about by the SEZs would be outweighed by the significant environmental costs.

Just as SEZs have effectively driven industrial development and growth in China, low-carbon SEZs could be a useful platform for the realization of a green development strategy and a shortcut for the achievement of low-carbon development in a concrete and realistic way (Mohiuddin et al. 2014). The Sourcebook of Pollution Management Policy Tools for Growth and Competitiveness (2012) states that there is an opportunity cost for reducing pollution as if a country aims to pollute less, then inevitably, it will have to cut back on current production. However, if it pollutes more, then it will face significant environmental degradation alongside higher growth rates. Until recently, China has followed the latter model, focusing on growth initially then resorting to cleaning up the mess it created once it had achieved a high growth rate for an extended period, thus aiming to make its growth more sustainable.

At present, Pakistan needs resources and technical assistance to support its growth and develop an eco-friendly production capacity. Based on the lessons learnt and experiences, this study attempts to discuss lessons and best practices from China for better policy recommendations to improve the planning and implementation of SEZs in Pakistan, particularly in the context of adopting eco-policies to ensure sustainable development in the country. SEZs, being relatively small geographic areas that are well-organized in terms of infrastructure and administrative services and new ways of environment-friendly production, can be developed as prototypes to address the above issues at a small-scale and then expand their best practices to the country as a whole, in the same way as the foreign investment capitalistic product model was first introduced in the SEZs and then to whole of China.

2. **China’s Economic growth model and SEZs**

The steps taken in Deng Xiaoping’s time propelled China to the pinnacle of economic growth. The foremost among them was the move towards a more export-oriented culture and the introduction of Special Economic Zones (SEZs) to aid that move to attract foreign investment. SEZs were established
in 1980 in areas that were ripe for attracting foreign investors, offering them incentives such as minimal or no taxation, low wages, less regulations/red tape, etc. Initially, four SEZs were set up in the East (Shenzhen, Shantou, Zhuhai, and Xiamen). Further SEZs were later set up in other parts of China. To attract capital, the early ones were established near Taiwan and Hong Kong. Although, in the beginning, foreign investors were hesitant to invest in China, however, the success of the initial ones led to a chain reaction where investments increased output, and generated profits; profits were reinvested, which increased the output further, and so on creating an effective investment to output loop. The success of this early industrialization brought about by the SEZs led to a spillover effect, with the Western regions of China joining in the development of export-oriented industries that had taken place in the East, thereby enabling the whole country to join in the prosperity.

The first four SEZs as mentioned above were set up as an experiment before introducing large-scale reforms that would affect every facet of China’s economic makeup. The early SEZs accounted for approximately 26% of China’s FDI (Wong 1987). In 2006, the five initial SEZs accounted for 5% of China’s total GDP, 22% of total merchandise exports, and 9% of total FDI flows (Zeng 2012). The success of these early ones prompted the Chinese government to expand the geographic reach of SEZs to other areas.

2.1. Critical factors that led to success of SEZs in China

**Leadership:**
Strong and pragmatic leadership on the part of the Chinese government introduced reforms that were gradually phased in. Instant shocks were avoided and the transition towards a more market-oriented culture was smoothly handled. In addition, the Chinese learned from other countries’ experiences while they avoided copying their exact approaches.

The SEZs were also granted greater economic and political autonomy. Local governments provided decent infrastructure, as well as efficient regulations and administration, and allowed the SEZs to function without any extra hindrances.

**Technological innovation:**
The availability of highly skilled low cost labour was another important factor in the success of SEZs. The workforce was able to innovate as well as assimilate the technologies that other countries were using with China’s own customized brand of the same technology, ensuring that, technologically at least, China did not get left behind as compared to more developed countries.

**Location advantages:**
The location of SEZs also acted as a vital factor contributing to its success. SEZs located close to Hong Kong, Macau, and Taiwan such as Shenzhen were better able to attract FDIs from the Chinese spread in these areas. Moreover, they replicated the best practices from these close by developed areas.

2.2. Challenges and limitations
While establishing SEZs, the Chinese faced a number of challenges, including poor site locations for some SEZs, uncompetitive policies (such as insufficient incentives for labour), problems with the design of facilities, inadequate control (or conversely, too much control), weak coordination between private and public sectors etc. (Madeleine M 2018).

Over competitiveness was a significant challenge, as the establishment of more SEZs led to decrease in marginal benefits for all (Zeng 2015). Furthermore, the great economic success achieved in the aftermath of the SEZs did not directly translate into social improvements in the lives of the majority of the people living in those zones, especially those located in far-flung areas. Thus, other countries
making use of SEZs should try to align social development alongside economic growth when planning to establish SEZs.

It was also noted that SEZs have not been an unequivocal success, citing threats to local industry, inflation and forex shortages due to a high degree of imports. Moreover, researchers believe that, except for Shenzhen, the other SEZs hardly attracted any FDI, and the success story that has been painted over the years glosses over the numerous shortcomings of the SEZs (such as the provision of a market for illegal goods, as well as the persistence of rampant corruption) (Gopalakrishnan, 2007). Shenzhen’s competitiveness results are mostly owed to the presence of a high percentage of temporary ‘Hukou’ population, of which there are approximately 12.3 million people. These workers were mostly unskilled, as 99.8% of them lacked academic qualification of any kind. These were merely floaters and did not enjoy the same rights or privileges as the rest of the SEZs’ (permanent) population. Therefore, critics term the SEZs’ story of successful development as farcical, and allege that the prevalence of human rights abuses, as well as disregard of social laws and morals is how the SEZs (or China, for that matter) came to develop so quickly (Maringanti et al. 2009).

2.3. What China is doing to make its SEZs more environment-friendly?

China has been recognized as the world’s largest contributor of carbon dioxide (CO2), thus deteriorating factors contributing to climate change. Global Green Growth Institute’s case study on China’s Green SEZ Policies highlights that rapid industrialization has proved to be detrimental to Chinese cities and its people (Kim, 2017). To counter the threats, the Chinese government has recently embarked on initiatives to make their cities, provinces, and areas more environment-friendly and sustainable. In recent years, the Chinese government has made considerable efforts to introduce green indicators, which have been highlighted in their five-year action plans for sustainable development. Since SEZs were proven to be successful model in industrialization, the Chinese government also proved their strong commitment to promote low carbon, circular economy and green growth in the country, including green infrastructure, sustainable production and consumption, maximizing the effectiveness of green development reforms and strategies for industries. Farole and Akinci (2011) say:

“Clustering of companies and industries in an SEZ could provide multiple advantages not only to apply different components of a climate-friendly policy and investment regime, but also to target existing zones or future zones”.

China has emerged as the key driver of rise in commodity prices, continuing to grow at an increasing rate (Institute, 2003), therefore, it is determined to develop an enforcement regime to move towards environment-friendly model in developing SEZs. The local governments around the SEZs are now more likely to study the potential ramifications of any proposed project before its execution (tools such as land use planning, lifecycle assessment, environmental impact assessment, etc. are widely used nowadays for this purpose). In fact, the State Environmental Protection Administration (SEPA) has made it mandatory to conduct an EIA before constructing new parks (Geng & Hengxin, 2009). Simultaneously, it is encouraging for the international community to introduce clean energy industries and green practices while trying to incorporate social and environmental costs for self-regulatory mechanisms and improvement.

In fact, Shenzhen was called the ‘eco-friendliest’ of all Chinese cities in 2016, employing sustainable practices that protect the needs of the current generation while ensuring that the needs of the future generations are not put under jeopardy (Phillis, Kouikoglou & Verdugo, 2017). Leading such an effort, Shenzhen’s local government seems to be working quite hard to ensure such environmental compatibility takes place (this is despite the fact that various SEZs set short-term growth targets that have to be met, failing to do so carrying political ramifications for the local leadership of those areas (Williams, 2017)). Thus, it can be seen that China is shifting its approach as now instead of only growth, its emphasis seems to be on sustainable growth.
Moreover, the government is also using a ‘carrot and stick’ approach by introducing penalties in the case of noncompliance, and rewards in the case of the presence of strong internal regulatory mechanisms. In addition, it is now focusing on cultural interventions trying to orient the culture in a way that would require less external regulation and would incorporate a values-based approach that is self-regulatory when it comes to pollution management and control. Such an approach focuses on yielding long-term benefits. The GGGI case study provides a number of examples as to how China is trying to hasten its transition towards sustainable practices by carrying out reforms over SEZs. Several initiatives include:

- The Eco-Industrial Park (EIP) demonstration programme and The Circular Economy Demonstration Industrial Parks (CEDIP) were launched in 2003 and 2005 respectively, with the aim of transforming conventional industrial zones into resource-efficient ones, and promoting the 3Rs (Reduce, Reuse and Recycle) principles. These efforts have usually been also accompanied by policies such as preferential credit systems.
- The Chinese government also launched the Low-Carbon Industrial Park (LCIP) demonstration programme in 2013 with a view to achieve China’s aim of becoming an ‘ecological civilization’. Carbon controls, the adoption of technologies such as “CCUS” (carbon control, use and storage), developing carbon friendly infrastructure in the SEZs etc. were incorporated as part of this programme. It mainly focuses on minimizing greenhouse gas (GHG) emissions by employing rigorous GHG accounting and reporting procedures.

Furthermore, along with the direct benefits of such programmes, they had the added benefit that greater competition due to larger number of SEZs forced the industries housed there to adopt more stringent measures to control pollution as they had to differentiate themselves given the homogeneity that was occurring with the green practices soon spilling over to all SEZs.

3. CPEC and Special Economic Zones (SEZs)

The China-Pakistan Economic Corridor (CPEC) is the flagship project of China’s ‘Belt and Road Initiative’ (BRI), designed to geographically link and connect 152 countries majorly relying on the Chinese investment to develop infrastructure in these countries. It will link Pakistan and China from Kashgar to Gwadar, consisting of a combination of investment in energy and infrastructure projects including 9 Special Economic Zones (SEZs)

Currently, SEZs have special attention from the government of Pakistan and the private investors. Some of the benefits of SEZs include increased foreign direct investment (FDI), higher employment opportunities, greater access and competitive edge in the global market, improving the skills of the local workforce and helping diversify exports etc. SEZs also include free-trade areas, export-processing zones, industrial parks etc. that incentivize innovation over a multitude of industries.

SEZs under CPEC include: (i) Karachi Export Processing Zone (ii) Risalpur Export Processing Zone (iii) Sialkot Export Processing Zone (iv) Gujranwala Export Processing Zone (v) Khairpur Special Economic Zone (vi) Rashakai Economic Zone (vii) Gadoon Economic Zone and (viii) Hathar Economic Zone (Mahmood, 2018). Further details about the 9 proposed SEZs under CPEC are given in Table 1.

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4 Ibid
5 SEZs can be explained as ‘geographically delimited areas administered by a single body, offering certain incentives (generally duty-free importing and streamlined customs procedures) to businesses which physically locate within the zone’ (Zones SE 2018). These are located within the boundaries of a country but usually function without the constraints imposed by the laws and institutions of the country or the area in which they operate, giving them numerous direct and indirect advantages for growth and development as compared to other areas.
Table 1: Special Economic Zones under CPEC (Source: CPEC official)

<table>
<thead>
<tr>
<th>SEZs</th>
<th>Location/Area</th>
<th>Status</th>
<th>Focused Sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Rashakai Economic Zone, M-1, Nowshera:</td>
<td>Located on 1000 acres of land, of which 702 acres are to be used for industrial development, at the junction of Karakoram Corridor and ML-1 development corridor, about an hour drive from either Islamabad or Peshawar.</td>
<td>Feasibility studies of SEZs is shared with Chinese side. The MoU and Engagement Agreement for the RSEZ project was signed in January 2018. Presently, the two parties are in end stages of finalizing and signing the Concession Agreement, following which the Ground Breaking of the project will take place.</td>
<td>Garments and textiles manufacturing, electronic appliances manufacturing etc.</td>
</tr>
<tr>
<td>2) China Special Economic Zone Dhabeji</td>
<td>Located in Dhabeji in Sindh province at a distance of around 55 km from Karachi covering 1000 acres of land.</td>
<td>Sindh Board of Investment and National Logistics Cell have signed a memorandum of understanding to set up a Logistics Park within the SEZ (source: <a href="https://www.dawn.com/news/1407981">https://www.dawn.com/news/1407981</a>)</td>
<td>Ideal for providing a link with Karachi’s airport and sea port etc. to increase local connectivity.</td>
</tr>
<tr>
<td>3) Bostan Industrial Zone</td>
<td>Located in Bostan, Balochistan Province on 1000 acres of land.</td>
<td>Feasibility studies of SEZs is shared with Chinese side.</td>
<td>Fruit processing, agricultural manufacturing, pharmaceutical</td>
</tr>
<tr>
<td>4) Allama Iqbal Industrial City (M3), Faisalabad</td>
<td>Covers 3000 acres of land in Faisalabad Punjab.</td>
<td>Feasibility studies of SEZs is shared with Chinese side.</td>
<td>Textiles, pharmaceuticals, steel and chemicals industries etc.</td>
</tr>
<tr>
<td>5) ICT Model Industrial Zone, Islamabad</td>
<td>Covering approximately 200-500 acres of land.</td>
<td>Feasibility studies of SEZs is shared with Chinese side.</td>
<td>Steel, food processing and textiles industries.</td>
</tr>
<tr>
<td>6) Development of Industrial Park</td>
<td>Situated at Port Qasim (Karachi) on 1500 acres of land.</td>
<td>Feasibility studies of SEZs is shared with Chinese side.</td>
<td>Steel, garments and automobile manufacturing industries.</td>
</tr>
<tr>
<td>7) Special Economic Zone at Mirpur, AJK</td>
<td>Covering 1078 acres of land connectivity with Sialkot being approximately 140 km from Sialkot and Jhelum.</td>
<td>Feasibility studies of SEZs is shared with Chinese side.</td>
<td>Will feature mixed industries.</td>
</tr>
<tr>
<td>8) Mohmand Marble City</td>
<td>It is situated in Federally Administered Tribal Areas (FATA). Land is yet to be allocated.</td>
<td>Feasibility studies of SEZs is shared with Chinese side.</td>
<td>The type of industries it will feature have yet to be decided.</td>
</tr>
<tr>
<td>9) Maqpoondas SEZ Gilgit-Baltistan</td>
<td>Covers 250 acres of land and will link Gilgit with Skardu.</td>
<td>Feasibility studies of SEZs is shared with Chinese side.</td>
<td>It will house marble/granite, leather, and iron ore industries.</td>
</tr>
</tbody>
</table>
3.1. Challenges in the way of developing SEZs

Historically, SEZs have been one of the main priorities of the government to kick-start Pakistan’s economy on to the path of sustainable growth and development. One option for the Pakistan government is to replicate the Chinese model of development. However, China faced many challenges while developing its SEZs, and Pakistan might face the same. Some of the challenges might hinder the smooth functioning of SEZs establishment.

- Previously, poor governance and weak institutions are major factors that have undermined the industrial base in Pakistan (Khan & Anwar 2017).
- The incentives offered by the government include five-year tax exemptions for zone developers, a one-time exemption from customs duty on all capital goods entering the SEZs, land leases at cheap rates for 30 years, and repatriation of profits inter alia to attract FDI. The government has also proposed additional incentives for industrial zones, such as a one-window operation by Special Economic Zone Authority (SEZA), purchases of basic utilities in bulk etc. (ibid). However, many incentives such as tax exemptions might just lead to a loss of revenue for the government, as foreigners are liable to pay income taxes in their own countries. (ibid). In addition, bureaucratic inefficiency might undermine the one-window operation by the SEZA. Replication of incentives and policies in other countries may not be appropriate for Pakistan given the different situations and factors at play. Thus, policies should be tailor made for Pakistan considering its unique factors.
- There has been a recent trend towards private zonal development (ibid). Without involving the private sector in the development of SEZs, the government will not be able to meet the higher costs, as well as entice investors who do not trust the government. On paper, the government seems to be following this template with i) SEZ being developed through the public sector, ii) being developed through the private sector, and iii) being developed via public-private partnerships. However, the government needs to demonstrate tangible commitment and build trust with the private sector. Private developers have to gain approval not from one but multiple government bodies despite the one-window operation by SEZAs. Such bureaucratic measures stifle initiative and need to be curtailed to encourage investment, and to allow the private sector to actively participate in developing the SEZs. ‘Pakistan’s economy ranked 136 out of 190 economies in 2018 in terms of the ease of doing business ranking prepared by the World Bank’. Moreover, confusion related to Pakistan’s SEZs also seems to stem from overlapping roles between the federal and provincial governments, and lack of clarity on responsibilities is causing unnecessary delays (Kiani 2019).

Although locations of the SEZs have already been selected; still, there is a room to learn from other countries especially China so as to ensure that Pakistan adopts all the best practices. China’s development of SEZs highlights the significance of generating new ideas to invigorate investment, building trust with foreign investors, maintaining stable political and economic environmental safeguards, and ensuring continuity of policies (monetary, tax, labour etc.) so as to attract and retain investors.

3.2. Conclusion and Recommendations:

In the past, Pakistan tried to establish SEZs but did not succeed. However, this time under the ambit of CPEC (Phase II), Pakistan has renewed commitment and learnt lessons from Chinese experience. SEZs in China proved to be a controlled social experiment to test the success of market-oriented economic reforms. There is a non-exhaustive list of opportunities and challenges that Pakistan needs to deal with actively before CPEC transforms into the game changer. For the success of the SEZs, it is imperative to combine political, social, business elements to follow a sustainable growth. Top decision-makers need to exhibit
strong commitment to reforms both at the institutional and policy level. There is a need for stable and conducive business environment.

3.2.1. Revised labour policy
Policies and practices on labour in connection with SEZs vary widely across countries. For example, Egypt has a clear policy to employ one foreign labour for every nine Egyptian. Similarly, Nigeria maintained a one to four ratio of Chinese to Nigerian labour. Given the high unemployment rate and a growing working population, Pakistan needs a clear-cut policy allowing Chinese companies to use a mix of local and Chinese labour.

In the context of employment and proper skill amelioration of the labour force, there is a need to absorb skills and technology from countries like China. In order to make it sustainable, a gradual shift is needed. Thus, in order to build capacity, policymakers need to introduce a network of technical training institutions to create skilled labour force domestically.

3.2.2. Incentive Schemes
After the passage of SEZs Act (Amendment) 2016, they are entitled to enjoy a 10-year exemption from customs duties and taxes for all capital goods imported into Pakistan. Similarly, all income from the development and operations in SEZs is exempted from taxes.

A clear incentive framework under CPEC should tie incentives directly to continued efficiency. The tax exemptions and subsidies design should not hurt the existing tax base and not encourage local existing businesses to move to economic zones for a short while only to avail these benefits.

Efficient public-private partnerships are necessary to develop large investments that require both the government backing but also the business acumen to avoid red-tape and corruption such as port services.

Improved commercial participation in SEZs can foster trust in both local and foreign investors. Research institutions and civil society organizations must also be involved in continuous monitoring, innovation and benchmarking. Research will improve data availability, analysis and dissemination of best practices and opportunities that support policymaking.

3.2.3. Institutional reforms and Coordination
An efficient regulatory and administrative system at local level needs to be backed by a sound infrastructure of communication and basic amenities. A working coordination between federal and provincial policymakers has an important role to play. Top leadership must demonstrate strong commitment to develop institutional autonomy and flexibility to support businesses in SEZs. The decisions should be taken considering all stakeholders and more autonomy should be provided to the administration of SEZs regardless of the provincial regulations.

3.2.4. Regional Connectivity
To fully exploit benefits from export opportunities through the SEZs, Pakistan needs to have workable relationships with the neighbouring countries, especially in Central Asia. This will allow for greater market access and open up new vistas for Pakistani products. The success of economic zones also depends on the security and socio-economic situation of the region; thus, it is essential to maintain peaceful relationship with the immediate neighbours, including India, Afghanistan, and Iran. In Pakistan’s case, Mohmand Marble City and Bostan Industrial Zone have great potential to build on this model. Moreover, the accumulation of capital, technology and skilled labour from developed and neighbouring countries tend to have spillover effect that helps build local industry that might not necessarily be a part of SEZ.
3.2.5. **Green policies/eco-policies in planning and development of SEZs**

Just as SEZs have effectively driven industrial development and growth in China, the development of green SEZs could serve as a guidepost for the realization of a green development strategy in Pakistan. The basic strategies can be:

a. Climate change mitigation priorities: The economic activities in the SEZ need to be low carbon, committing to mitigate the emissions of greenhouse gases with concrete plans for mitigation in industrial sectors. This may include shift to low carbon and renewable energy mix, as well as energy audits, GHG accountings to measure the potential of emissions and its impact in each sector.

b. Sustainable and resilient infrastructure: Efficient use of resources in the planning and constructing the infrastructure of SEZs include resource saving technologies such as recycling system, water reuse, as well as green buildings and energy efficient systems.

c. Climate-friendly investments and low-carbon policy incentives: The climate friendly investments may include technological tools and innovations to generate green materials and elements using green incentives, intellectual property protection, climate friendly products, laws and standards generation. Few best practices may include introducing a feed-in tariff system, Renewable Portfolio Standards (RPS) and energy-efficiency standards, tax reduction for green high-technology investment, and R&D support.

d. Carbon Finance: A green financing system has a potential to provide new channels to transit to low carbon and green SEZs, such as Clean Development Mechanisms (CDMs), which can provide new source of funding to develop these SEZs.

e. Capacity building for awareness raising: The realization to prioritize the economic development would require awareness raising workshops and dialogues through public-private partnerships to create consensus on trying to reduce the ecological consequences in SEZs in Pakistan. The arguments can be complemented using the examples of nations like China who have faced disastrous effects and became the largest hostage to pollution. The citizens need to have green consciousness to understand the significance of shifting to low carbon development for better health and wellbeing.

f. Challenges at political and institutional level: The challenges at political and institutional level can be addressed by using dialogues and discussions among the stakeholders and decision-makers, promoting the culture of green practices and green economy using cost-benefit analysis.

g. Steps to promote low-carbon production: The provincial governments can establish operational requirements and goals, tasks and measures to promote low-carbon production and consumption patterns. The need for an effective guidance from the development authority and economic incentive policies, to closely follow the latest advances in low-carbon technologies, and actively promote the introduction, absorption, and re-innovation of technologies or conduct joint research and development on new technologies with overseas companies.
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Annexures

BOX 1 Shenzhen SEZ – Success model

Shenzhen was among the initial four SEZs to be set up in China, and to date is the most successful of all. Before being designated as a Special Economic Zone, Shenzhen was a fishing village. The main reasons why it was chosen were because it had cheap land available in abundance, and because its proximity to Hong Kong guaranteed regional connectivity. Since initiation in 1980, Shenzhen has been witnessing exponential growth over the years. According to Yueng et al. (2009), from 1979 to 2007, Shenzhen’s GDP increased from RMB 0.196 billion in 1979 to RMB 680.157 billion by 2007. From 2007 to 2018, Shenzhen’s GDP grew from RMB 680.2 billion to RMB 2.42 trillion (approximately 3.5 times increase since 2007, and 3,470 times greater than what it was in 1979). In addition, GDP per capita increased from RMB 606 in 1979 to RMB 79,645 by 2007, and to RMB 189,568 (approximately 313 times increase over the whole time period) by 2018. Meanwhile, utilized FDI increased from $5.48 million in 1979 to over $3.6 billion by 2007. By 2017, it had increased to $7.4 billion (almost double of what it was in 2007 and approximately 1,350 times greater than 1979). Furthermore, Shenzhen now has the world’s fourth largest container port and one of the largest airports in China, showing the strides it has taken towards the path of development over the years.

Good leadership, and particularly the efficient coordination between the local and central governments, led to the formulation of policies that proved to be successful. In addition, Shenzhen was granted greater autonomy over the years. With that autonomy, Shenzhen carried out many institutional innovations. Reforms encompassing property rights/land ownership, contract enforcement, wages, hiring and firing practices etc. were all experimented on Shenzhen before they were enacted as part of the national legislature, while development led by the private-sector ensured that Shenzhen did not develop only via the government’s short-term incentives. As such, it did not lose its advantages once wide scale reform was implemented. In addition, Shenzhen also enjoyed the first mover advantage over the other SEZs (a key reason why the others only witnessed sporadic growth and were partially successful), thereby attracting the most FDI of all SEZs.

Box 2 Shantou SEZ- unsuccessful

Whereas Shenzhen was the most successful, Shantou was the least successful of the early SEZs. Yeung et al. (2009) highlight how the four initial SEZs experienced divergent growth paths after their formation. While Shenzhen grew rapidly, Shantou developed the slowest. Shantou’s GDP grew from RMB 1.079 billion in 1980 to RMB 85 billion by 2007 (an increase of almost 79 times). In addition, GDP per capita grew from RMB 366 in 1980 to over RMB 17,000 by 2007 (approximately 46 times increase), while utilized FDI increased from $1.61 million in 1980 to over $171 million by 2007 (approximately 106 times increase). By 2017, Shantou’s GDP had increased to over RMB 251 billion (an almost 3 times increase over 2007), and GDP per capita had increased to over RMB 44,670 (approximately 2.6 times increase since 2007). Yeung et al. (2009) note that from 1980-84, Shantou grew below the national average growth rate of 10% (it experienced 9% average growth over the four years), whereas, Shenzhen grew at approximately 58%, Zhuhai at 32%, and Xiamen at 13% by comparison. Unlike the other three initial SEZs, Shantou was situated at a midpoint between Hong Kong and Taiwan. By contrast, Shenzhen was closest to Hong Kong, Zhuhai was close to Macau, and Xiamen was next to Taiwan. Wong (1987) notes that most of the investment in the SEZs was from Macau and Hong Kong. The distance of Shantou from more developed surrounding areas led to the investment being diverted to one or the other of the SEZs that enjoyed greater proximity to the administrative regions. In fact, Shantou started off at a clear disadvantage due to its location, again emphasizing the fact that a strategic location is essential for the SEZ to be successful. Thus, location can be cited as the single most important factor for the lethargic growth Shantou experienced as compared to the rest of the SEZs in China.