

POLITICAL ECONOMY OF SPECIAL ECONOMIC ZONES UNDER CPEC IN PAKISTAN: PROSPECTS AND CHALLENGES

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ABSTRACT

The political economy of Special Economic Zones (SEZs) under the China-Pakistan Economic Corridor (CPEC) represents a significant component of Pakistan's economic strategy, aiming to stimulate industrial growth, enhance trade connectivity, and alleviate poverty (Samad, 2025). Established as part of China's One Belt and One Road initiative, the CPEC was launched in 2013 to improve bilateral economic relations between Pakistan and China, with SEZs playing a central role in attracting foreign direct investment (FDI) and creating job opportunities in various regions of the country, particularly in underdeveloped areas such as Khyber Pakhtunkhwa and Balochistan. (S. Khan et al., 2025), (Noor, 2025).

SEZs are designed to operate under favorable regulatory conditions, offering incentives such as tax holidays and streamlined processes to encourage both domestic and international businesses to invest. The initiative aims to enhance Pakistan's export capacity and facilitate the country's integration into global supply chains by leveraging its strategic geographic location, which connects western China to Gwadar port and broader international markets (M. S. Ahmad, 2023), (Wikipedia, 2025). However, the establishment of these zones is not without controversy, as various political, economic, and social challenges threaten their effectiveness, including governance issues, regulatory inefficiencies, and security concerns that undermine investor confidence and local support. (Shabbir et al., 2021), (Beg, 2020), (Nigar & Qayyum, 2021).

Critics argue that the ambitious framework for SEZs may lead to economic enclaves that do not effectively address the needs of local communities, risking increased inequality and social unrest. Moreover, questions regarding the equitable distribution of benefits and the potential displacement of local businesses have prompted concerns over the sustainability of these initiatives (Nigar & Qayyum, 2021), (Faisal et al., 2025), (Agha, 2020). As the political landscape continues to evolve, the long-term success of SEZs under CPEC will depend on the ability of policymakers to navigate these complex challenges while fostering a conducive environment for investment and sustainable development. (I. Ahmad & Taidong, 2020), (Zahoor et al., 2024).

Keywords: political economy, special economic zones, under cpec, prospects and challenges, pakistan

INTRODUCTION

Historical Context

Background of Special Economic Zones in Pakistan

Special Economic Zones (SEZs) have been instrumental in the economic development strategies of numerous countries, particularly in

the context of globalization and regional trade. In Pakistan, the establishment of SEZs has gained momentum since the introduction of the China-Pakistan Economic Corridor (CPEC) as part of China's One Belt and One Road (OBOR) initiative. The CPEC was launched to enhance

bilateral connectivity, stimulate economic growth, and foster regional integration between Pakistan and China (Samad, 2025). The historical context of SEZs in Pakistan can be traced back to the country's early economic policies, where government efforts aimed to boost industrial growth and attract foreign investment, albeit with varying degrees of success.

The Emergence of CPEC and SEZs

The formalization of CPEC in 2013 marked a turning point for Pakistan's economic landscape, highlighting the need for robust infrastructure and efficient trade logistics. Within this framework, the establishment of SEZs emerged as a pivotal strategy to facilitate industrial development and enhance economic productivity (S. Khan et al., 2025). By 2020, Pakistan had committed to establishing around 40 SEZs across the country, focusing on areas that are expected to benefit most from infrastructural advancements and foreign direct investment. These zones are intended to leverage Pakistan's geographical position, linking western China to Gwadar port and facilitating trade routes that significantly shorten transport times for goods (S. Khan et al., 2025).

Political and Economic Rationale

A dual focus on economic growth and strategic geopolitical interests characterizes the political economy of SEZs in Pakistan. Historically, the reliance on external aid and foreign investments has driven policymakers to adopt models that can foster self-sufficiency and sustainable growth. SEZs are viewed as vehicles for economic transformation, promising to create thousands of jobs and uplift underdeveloped regions within the country. This reflects a broader strategy to reduce poverty and enhance local livelihoods by providing opportunities for entrepreneurship and industrial employment (Noor, 2025), (M. S. Ahmad, 2023).

Furthermore, the political landscape surrounding the establishment of SEZs in Pakistan has been influenced by the shifting dynamics of international relations, particularly with respect to China's growing influence in South Asia. The Chinese government's engagement in CPEC has positioned these economic zones not only as economic opportunities but also as a means of reinforcing strategic partnerships that enhance Pakistan's geopolitical standing in a multipolar

world (Samad, 2025), (Wikipedia, 2025).

Challenges and Critiques

Despite the ambitious framework established for SEZs under CPEC, various challenges have emerged that impact their potential effectiveness. Historically, the implementation of economic policies in Pakistan has often been hampered by issues of governance, regulatory inefficiencies, and political instability (Wikipedia, 2025). Moreover, the uneven distribution of benefits from CPEC-related developments has raised concerns regarding social equity and community support. Understanding local perspectives and fostering community engagement has become crucial for ensuring the success of these projects (S. Khan et al., 2025), (Noor, 2025). Critics argue that without addressing these socio-political dimensions, the SEZs risk becoming isolated economic enclaves rather than engines of comprehensive regional development.

POLITICAL ECONOMY FRAMEWORK

The political economy framework for Special Economic Zones (SEZs) under the China-Pakistan Economic Corridor (CPEC) focuses on the intersection of policy-making, planning, regulatory schemes, and administrative practices that shape economic activities within these zones. This framework encompasses both the potential advantages of SEZs in promoting industrialization and the challenges posed by existing governance structures and socio-political dynamics in Pakistan.

Policy Making and Strategic Planning

Conscientious Political Economy

The design and implementation of SEZs require a conscientious approach to political economy that considers local and national contexts. A key component is the necessity for policy-making to be responsive to the specific needs of different provinces, empowering them to develop and manage their economic policies. Some scholars advocate for a bottom-up approach where local provinces gain authority to tailor their zones according to regional demands, thereby overcoming bureaucratic obstacles that currently hinder foreign investment (Shabbir et al., 2021), (Beg, 2020). This empowerment is essential, given the complex layers of government that foreign investors must navigate, which can deter investment and hinder the overall effectiveness of

SEZs.

Regulatory Schemes

The regulatory framework surrounding SEZs is crucial for their success. Host countries typically provide fiscal incentives to attract both domestic and foreign firms to these zones, including tax breaks and streamlined regulatory processes (Nigar & Qayyum, 2021). However, in Pakistan, regulatory unpredictability and bureaucratic inertia have created a challenging business environment. Many SEZs exist primarily on paper, leading to widespread disillusionment among the business community. This situation is exacerbated by infrastructural bottlenecks, which discourage serious investment and cause firms to refocus their efforts on local consumer markets rather than export platforms (Samad, 2025).

Economic and Political Stakes

Geostrategic Considerations

The establishment of SEZs under CPEC is not merely an economic endeavor but is deeply intertwined with geostrategic calculations that consider economic, political, and security stakes (Beg, 2020). The military's involvement in Pakistan's political landscape introduces additional complexities, as vested interests can impede the development of a welcoming investment climate. This intertwining of economic policies with political considerations often undermines the potential of SEZs to act as engines of growth and industrialization.

Investment Climate

The overall investment climate within SEZs is influenced by various factors, including the political environment and the presence of military interests. Investors often face significant bureaucratic hurdles, leading to an atmosphere of uncertainty that discourages long-term commitments. In many instances, political and personal interests have overshadowed economic rationales, leading to governance failures that compromise the developmental goals of CPEC (Samad, 2025), (Faisal et al., 2025).

Future Prospects

Economic Growth and Poverty Alleviation

Despite the challenges, the establishment of SEZs under CPEC is viewed as vital for Pakistan's economic strategy, particularly in terms of promoting export-led growth and alleviating

poverty (Agha, 2020). The government has positioned SEZs as essential components of a broader economic development strategy, intended to foster skilled employment and economic stability. With appropriate reforms and improved governance, these zones could significantly contribute to regional development, generating employment opportunities and enhancing local business prospects (I. Ahmad & Taidong, 2020), (Noor, 2025).

Strategic Development Goals

In order to maximize the potential of SEZs, it is essential for Pakistan to adopt a comprehensive development strategy that aligns with international best practices. This includes creating an enabling environment for investment through streamlined regulations, enhanced transparency, and accountability in governance. Additionally, fostering collaboration between the public and private sectors, as well as engaging local communities in the planning process, can help build a more conducive atmosphere for economic activity within SEZs (Shabbir et al., 2021), (Agha, 2020).

SEZs UNDER CPEC IN PAKISTAN

The establishment of Special Economic Zones (SEZs) under the China-Pakistan Economic Corridor (CPEC) is positioned as a key strategy for driving economic growth and industrial development in Pakistan. These SEZs aim to create a conducive environment for local and foreign investment, thereby promoting sustainable development and reducing economic disparities within the country, particularly in less-developed areas such as Khyber Pakhtunkhwa (KP) and Baluchistan (Zahoor et al., 2024), (Laiquat, 2025).

Objectives of SEZs

The primary objective of SEZs under CPEC is to foster rapid industrial growth and create job opportunities by attracting Foreign Direct Investment (FDI) (Batool & Al, 2021), (Shabbir et al., 2021). By offering attractive fiscal incentives such as tax holidays and exemptions from customs duties, these zones are designed to attract businesses from both domestic and international markets (Laiquat, 2025), (Samad, 2025). As part of a broader economic strategy, the establishment of approximately 40 SEZs across Pakistan seeks to enhance the country's export

capabilities, boost economic growth, and integrate less-developed regions into the national economy (Batool & Al, 2021), (Shabbir et al., 2021).

Economic Significance

Economic experts regard SEZs as critical vehicles for industrialization, particularly in developing countries (Batool & Al, 2021), (A. U. Khan, 2024). The zones are expected to serve as hubs of trade and business activity, operating under more favorable regulations compared to the rest of the country. This regulatory flexibility aims to stimulate investment and innovation, particularly in key sectors such as food processing, minerals, and textiles (Shabbir et al., 2021). Furthermore, the establishment of SEZs aligns with Pakistan's strategy to modernize its economy through infrastructure development, which is essential for improving connectivity and creating new business opportunities (Saleem, 2024), (Batool & Al, 2021).

Challenges in Implementation

Despite the potential benefits, the implementation of SEZs under CPEC faces significant challenges. One major concern is limited access to finance for local investors, which can hinder the establishment of industries within these zones (Laiquat, 2025), (Faisal et al., 2025). Additionally, the centralized nature of the SEZs 2012 Act has raised concerns about the monopolistic control of resource mobilization by the federal government, potentially stifling local entrepreneurship and investment initiatives (Faisal et al., 2025).

Political and Regulatory Landscape

The political and regulatory environment plays a crucial role in the success of SEZs. The varying outcomes of SEZs in different countries can often be attributed to their respective political, administrative, and regulatory frameworks (Batool & Al, 2021). In Pakistan, the government is tasked with introducing necessary reforms to ensure a business-friendly environment and mitigate security concerns that may deter foreign investment (Faisal et al., 2025), (Samad, 2025). The CPEC framework emphasizes not only economic growth but also social development and addressing regional disparities, indicating a multifaceted approach to the development of SEZs (Saleem, 2024), (Agha, 2020).

Community Involvement and Local Support

Local community involvement is essential for the success and sustainability of SEZs. Previous research suggests that the inclusion of local populations in development initiatives leads to better outcomes and greater acceptance of such projects (S. Khan et al., 2025).

Understanding community perceptions and ensuring that local stakeholders perceive economic, cultural, and social benefits from SEZs are critical for fostering long-term support (S. Khan et al., 2025), (Agha, 2020). Engaging local communities not only helps identify potential issues early on but also enhances the overall effectiveness of the economic zones.

Prospects of Sezs Under Cpec

The Special Economic Zones (SEZs) established under the China-Pakistan Economic Corridor (CPEC) are envisioned as key drivers for economic growth and industrialization in Pakistan. These zones are strategically located to enhance trade and investment opportunities, and they are expected to significantly contribute to alleviating poverty and unemployment in underdeveloped regions of both Pakistan and western China (Noor, 2025), (Zahoor et al., 2024), (Shah, 2020).

Economic Growth and Industrial Development

One of the primary prospects of the SEZs under CPEC is their potential to catalyze economic growth in Pakistan. By attracting foreign direct investment (FDI), particularly from China, these zones are designed to foster industrial development and enhance the manufacturing capabilities of the country (Hussain & Rao, 2020), (Nigar & Qayyum, 2021). The establishment of SEZs is expected to create thousands of jobs, thereby addressing unemployment issues and improving living standards. Estimates suggest that around 800,000 employment opportunities could emerge over the next two decades due to the expanding projects associated with CPEC (Haris, 2018), (Agha, 2020).

The SEZs are positioned to boost the production of local goods by providing cost-effective labor, land, and various tax exemptions (Noor, 2025). This would help Pakistan reduce its dependence on imported goods and aid in overcoming its trade deficit (Shah, 2020). Furthermore, the integration of renewable energy initiatives within these zones

aims to promote sustainable industrial practices, contributing to an environmentally friendly economic ecosystem (Noor, 2025), (Zahoor et al., 2024).

Regional Connectivity and Infrastructure Development

The SEZs under CPEC also hold the promise of improving regional connectivity and infrastructure development, which are vital for fostering economic cooperation between Pakistan and China. For instance, the Dhabeji SEZ benefits from its proximity to Port Qasim, enabling efficient import of raw materials and export of finished products without incurring significant transportation costs (Noor, 2025), (Shah, 2020).

Moreover, the development of essential infrastructure, such as the Karakoram Highway Phase 2, is expected to facilitate trade and logistics, thereby enhancing the operational efficiency of the SEZs (Haris, 2018). Improved infrastructure will not only aid businesses within the SEZs but also benefit the surrounding regions, contributing to overall economic development.

Technological Transfer and Skill Development

The SEZs are anticipated to serve as platforms for technological transfer and skill development, which are crucial for enhancing the competitiveness of Pakistan's workforce. The presence of foreign investors, particularly from China, is likely to introduce advanced technologies and business practices, thereby improving productivity and efficiency in local industries (Nigar & Qayyum, 2021).

Additionally, these zones are expected to provide training and development opportunities for the local workforce, equipping them with the necessary skills to meet the demands of evolving industries (Shah, 2020). This focus on skill development is critical for empowering the youth and fostering a culture of innovation and entrepreneurship within the region.

Challenges and Considerations

Despite the promising prospects, several challenges must be addressed to fully realize the potential of SEZs under CPEC. Political stability and economic policies will play crucial roles in attracting sustained investment and ensuring the successful implementation of projects within these zones (Faisal et al., 2025), (Laiquat, 2025).

Furthermore, it is essential to create a business-friendly environment that encourages both local and foreign investors to participate actively in the SEZs (Faisal et al., 2025).

Moreover, the socio-economic impact of SEZs must be carefully managed to avoid negative consequences such as increased inequality or displacement of local communities (S. Khan et al., 2025), (Faisal et al., 2025). Policymakers should prioritize inclusive development strategies that ensure the benefits of economic growth are equitably distributed among all segments of society.

CHALLENGES FACING SEZS UNDER CPEC

The establishment of Special Economic Zones (SEZs) under the China-Pakistan Economic Corridor (CPEC) aims to stimulate economic growth and industrial development in Pakistan. However, several challenges hinder their success, ranging from structural deficiencies to security issues. These challenges not only impede the operational capacity of SEZs but also affect investor confidence and regional development.

Structural Challenges

One of the primary structural challenges is the inadequate infrastructure that limits the potential of SEZs to attract foreign and domestic investment. Despite plans for significant developments, including roads and utilities, many zones remain underdeveloped and ill-equipped to support industrial activities. Issues such as poor connectivity and unreliable power supply have been reported, leading to skepticism among potential investors regarding the feasibility of operations within these zones (A. U. Khan, 2024), (Akhtar, 2024).

Political and Governance Issues

Political instability in Pakistan poses a significant challenge to the effective implementation of SEZs. The frequent changes in leadership and military involvement in civilian governance create an unpredictable commercial environment that undermines long-term investments. Agreements made by previous administrations often become targets for renegotiation or cancellation, further exacerbating uncertainty in business operations (Wikipedia, 2025), (S. Khan et al., 2025). Additionally, the fragmented nature of Pakistan's political landscape complicates coordination between federal and provincial governments,

particularly concerning revenue-sharing and regulatory frameworks related to SEZs (Hussain & Rao, 2020) ,(Samad, 2025).

Regulatory Challenges

The regulatory environment in Pakistan is marked by bureaucratic inefficiencies and unpredictability. Investors often face excessive red tape, including the requirement of multiple no-objection certificates from various agencies, which can delay project timelines significantly. Furthermore, the arbitrary revocation of approvals, such as those from the Federal Board of Revenue, creates a climate of uncertainty that discourages both local and foreign investments (Akhtar, 2024), (S. Khan et al., 2025). The lack of a streamlined, transparent legal framework hampers the attractiveness of SEZs, with many potential investors opting to focus on the domestic consumer market instead (Beg, 2020),(Wikipedia, 2025).

Security Concerns

Security challenges have been particularly pronounced in areas designated for SEZ development. Gwadar, one of the key locations for CPEC-related projects, has experienced numerous attacks targeting Chinese nationals, raising concerns over the safety of foreign workers and investments. Insurgent activities have not only caused casualties but also resulted in heightened security measures that restrict the movement of Chinese personnel and their interaction with local communities (Ashraf, 2025),(S. Khan et al., 2025). The Pakistani military's response, which includes deploying dedicated brigades to protect Chinese interests, has led to a militarized environment that stifles social integration and fosters local resentment towards foreign investments (Samad, 2025), (Ashraf, 2025).

Economic Displacement and Local Community Resistance

The economic activities associated with SEZs can result in the displacement of local businesses and labor, leading to community resistance against these developments. Many local firms perceive SEZs as a threat due to the competition posed by large-scale Chinese enterprises, which may outcompete local businesses due to their superior resources and market access (Akhtar, 2024), (Ashraf, 2025). Furthermore, if local

communities do not perceive substantial benefits from SEZ operations—such as job creation or infrastructure improvements—opposition can arise, complicating project implementation and sustainability (S. Khan et al., 2025).

Environmental Concerns

The environmental implications of establishing SEZs are also a point of contention. Concerns regarding land degradation, resource depletion, and pollution have been raised by local communities and environmental advocates. The lack of comprehensive environmental assessments before the development of these zones can lead to adverse impacts on local ecosystems and public health, further fueling discontent among residents (Akhtar, 2024),(S. Khan et al., 2025). This backlash against environmental degradation can hinder the perceived legitimacy and acceptance of SEZ initiatives among local populations.

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