

Establishing Special Economic Zones in Pakistan: Learning from China's Experience

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Abstract

The objective of this Paper is to examine China's experience of establishing Special Economic Zones from the Chinese perspective and seek to learn useful best practices for Pakistan. Pakistan plans to establish 33 Special Economic Zones (SEZs) under China Pakistan Economic Corridor, which is worth US\$62 Billion (and still evolving). Almost 90% of planned investment under CPEC's Long Term Vision-2030, is projected to arrive under private investment. Nine of these SEZs have been prioritized while Feasibility Studies of three of these including Dhabeji (in Sindh), Faisalabad (in Punjab) and Rashakai (in KPK) are ready for launching. Due to high cost of production as a result of an estimated labour shortage of 85 million by 2030, China plans to relocate a large part of its labour-intensive industries to destinations such as Vietnam, Laos, Cambodia, Bangladesh, Sri Lanka, etc. Pakistan can attract at least five thousand of China's Small and Medium Enterprises, which are waiting to move in, provided Pakistan provides them with an 'enabling environment' soon in the SEZs. In view of the unfolding opportunities and to facilitate Pakistan's economic take off, it is important to build SEZs with the best practices of other nations, particularly China.

1. Introduction

The Story of China is that it found itself as the largest 'Underdeveloped Country' in the community of Nations, of what is known as 'Third World' in the decade of 1970s. Poverty was widespread affecting the four fifths of population. In 1980, China's Per Capita income was US\$230/, thirty percent less than US\$280 of Pakistan. China had no stock exchange, no foreign private investment. Essential Consumer items such as Cooking oil, sugar were rationed. Foreigners were few. Five star hotels and foreign airlines servicing China could be counted on fingers. Foreign imported items were a luxury reserved only for the beleaguered diplomatic community. China's new Reformist leaders who had not only seen the masses suffer but had themselves become victims of excesses in the Cultural Revolution, knew that they were trapped by their own Actions and Inactions. They felt helpless confronted with a vicious cycle of revolutionary ideology, mass poverty and global isolation.

The challenges were overwhelming and the masses even more skeptical if anyone by miracle could deliver salvation. Deng Xiaoping China's Reformist leader knew that China had chosen an 'erroneous path' of following 'Perpetual Revolution' to achieve a Communist egalitarian Utopia. He had himself narrowly escaped three 'Purges' from the Communist Party. His decision to put China on a path of 'Perpetual Reforms' combining the goals of building a socialist society with the help of 'market economy' and 'Chinese characteristics' were not convincing to many. But he stood his

ground. Deng believed that China could change and change for better if the ‘Comprehensive Policy Reforms’, were introduced. He proceeded ahead with simultaneous, holistic, gradual, cautious, complementary and innovative policy initiatives in every sector of life. Security paranoia was ended. Individual liberties, rule of law, merit and justice were restored. Deng’s policies also aimed at generating a ‘Soft Power Revolution’, which could unleash the potential of the economy to achieve the Four Point Modernization, i.e., agriculture, industry, science and technology and national defence (in that order). The prosperous Abodes of Overseas Chinese, such as Hong Kong and Singapore offered the closest templates for emulation, although not without risks. The other difficulty was that Hong Kong was still British ruled and Singapore was too heavily controlled by the Americans and infested with the wily Indians. Nonetheless, Deng Xiaoping took the bait!

2. Paradigm Change: How Did it Happen?

Vice Premier Deng Xiaoping visited Singapore in November 1978. Lee Kuan Yew recalls his meeting with Deng Xiaoping in his book ‘From Third World to First’ in words:

“I had told Deng over dinner that there is nothing that Singapore had done which China could not do, and do better,...“After Deng’s endorsement, several hundred delegations, most of them unofficial, came from China, armed with tape

recorders, video cameras and note books to learn from our experience. China under Deng was more open and willing to learn from the world, than it had been for centuries” [Yew (2000, p.718)].

That was enough for Deng Xiaoping who was a three time Survivor of the ‘Purges’ in the Communist Party, yet had remained keen to shape China, as per his Vision. On return, Deng was a transformed person. A month after, at the Third Session of the 11th Congress of the Communist Party in December 1978, the fundamental decision for transition from the ‘Security State to Economy State Paradigm’ was taken. This Policy shift would produce a hybrid combination of ‘Socialism, Market Economy and Chinese Characteristics (Values)’. Deng Xiaoping directed the People’s Liberation Army to undertake immediately the infrastructure development, civil works and provision of utility services in the first four Special Economic Zones (SEZs) which the Chinese government had identified to begin with its experiment of SEZs using the ‘Singapore template’.

From 1949 to 1979 China had an Economic System, which was based on the Model of the Soviet Socialist Centrally Planned Economy, with heavy bias for Heavy Industries, under State control and Ownership. The State was the ‘provider’ of jobs and livelihood. The State was also the Producer, Consumer and Distributor of the goods and services in the economy, all at the same time. The result was obvious. China had become the “biggest Orphanage in the world”. However, the guiding Ideology was ‘Self Reliance’.

“We never permit the use of foreign capital to develop our domestic resources...and also never accept foreign loans. China has neither domestic nor external debt” [Kleiberg (1990, P.1)].

China’s leaders increasingly felt unable to find solutions to economic problems such as foreign exchange constraints; backward industrial technologies; lack of managerial experience and underemployment. The realization was fast setting in that it could not be achieved with heavy emotional laden ideological slogans (as was and is indeed remains the case with many other underdeveloped countries). China has shed fortunately its heavy ‘ideological burden’, courtesy of the leadership of Visionary Deng Xiaoping. China’s new Reformist Leadership under his guidance undertook a real ‘soul searching’. They realized that China had no future in ‘staying the course’ with its archaic way of building Socialism. They did not fear the ‘loss of face’ in admitting mistakes by the Revolutionary Founding Fathers in chartering the path of nation building. The Reformist Leadership undertook a major ‘Course correction’, which was described by many as reversing the policies that China had adopted since 1949, during the first three decades.

“The Chinese people, including the ruling elites, had suffered enough and were in a sense profoundly ready for a new very different beginning” ... This transformation perspective is as much about economic numbers as it is about attitudes and expectations about the future. Deng

captured it best when he stated in an Interview to an American journalist that the 10 year long Cultural Revolution partly because of its disastrous impact actually created the conditions for a sharp break from the past [Malik (2012, p.16)].

3. Policy of Economic Reforms and Open Door to the Outside World

The Reformist Leadership realized that these Centrally Planned Policies were good enough for establishing a base for heavy industrial development, spreading literacy and ensuring a healthy population, but was not enough to ignite China's economic take-off in the 21st Century. In order to achieve these objectives, a system of 'Collective Leadership' for the Party, government and state was evolved. The atmosphere of security paranoid was ended. Rule of law, free enterprise and individual freedoms were restored. Integrity, Merit and hard work were rewarded. Home grown Comprehensive Policy Reforms were undertaken. Economic development was made the major preoccupation of the state.

In order to achieve the goal of economic revival, wide ranging policy reforms aimed at encouraging the role of the private sector (which was so far non-existent), attracting foreign investment (which was so far abhorred) and learning lessons and best practices from the Capitalist Western world (which had been so far adversaries) were promulgated. Even foreign relations were revamped with the normalization of relations with the United States, Western Europe and

Japan. Until then, China had only a few friends, but it utilized them to the full. These included Pakistan, Rumania, Albania, Egypt, Malaysia, etc. China gradually expanded its network of foreign friends, contacts and sources to borrow from the 'best practices' and advanced technology, to help its transition to market economy.

The Paradigm change was set in Communist Party's new ideological line from 'Reforming Intellectuals, to letting the intellectuals reform the society'. The value of intellectual capital for nation building was recognized and respected. China realized that modernization was courtesy of higher education, innovation and reforms, *not* political slogans and mega projects. The position of intellectuals was elevated from the '9th stinking category' of the past, to VIP category in the post 1978 era, as per China's rich culture and traditions. Investment in higher education was made a key plank of the Reforms and Open door Policy to the Outside world. The Greatest Ancient Teachers Confucius, Lao Tzu, Sun Tzu and Buddha were all rehabilitated.

“China's experience shows that rapid growth is possible, despite starting with inappropriate institution. Government was able to address the institutional obstacles to growth as they became apparent. The reform of Institutions loosened various binding constraints in growth and helped to unleash previously untapped market forces. Entrepreneurial expectation of rapid economic growth, were crucial for high investment. China became a 'developmental state'; incentives were

provided at all levels of government to generate economic growth, bureaucrats were rewarded for promoting investment, and businessmen could make investment decisions with confidence that policies for rapid growth would be pursued. The Chinese economy entered a virtuous circle with sustaining feedback effects. High investment produced rapid growth and rapid growth in turn produced buoyant expectations that elicited high investment” [Knight and Ding (2012, p.315)].

4. SEZs Provided the Test of China’s Economic Reforms

The Central Government appointed a Deputy Prime Minister as the leader of the group, and the SEZ/Industrial Development Zone office was set up in the State Council (Federal Cabinet) to: (i) investigate and research; (ii) formulate policy recommendations; (iii) supervise and inspect the work of attracting foreign investment, and to coordinate and deal with the major investment problems confronted by foreign investors; (iv) guide the local provinces, municipalities and development zones; to actively and effectively carry out the work of attracting investment; (v) promote the legislation and judicial framework of the State's opening to the outside world and attracting investment; (vi) set up institutions responsible for attracting investment in the provincial and municipal government departments; and (vii) set up Specific investment institutions (such as: China Merchants Bureau, Economic Development Bureau, Economic Cooperation Office), equipped with a number of experts in foreign languages, familiar with professional investment personnel in the Development

Zone Management Committee. In August 1980, the National People's Congress (NPC) passed "Regulations for The Special Economic Zone of Guangdong Province" and officially designated a portion of Shenzhen as the Shenzhen Special Economy Zone (SSEZ). In 1984, China further opened 14 coastal cities to overseas investment: Dalian, Qinhuangdao, Tianjin, Yantai, Qingdao, Lianyungang, Nantong, Shanghai, Ningbo, Wenzhou, Fuzhou, Guangzhou, Zhanjiang, and Beihai.

Figure 1. Journey from Ideology to Entrepreneurship: From raising Slogans to launching Start-ups



But the SEZs and China's Policy of Reforms took 12 years and a 'Mega disaster' to be crowned with success. Nobody knew that the Tian Anmen Incident of June 1989 would prove to be a 'blessing in disguise'. While most of the China Watchers in the Western world were voicing the opinion that China would surely give up its Open door Policy and reverse the Reforms, the opposite indeed happened!

“At every stage of China’s Reform Program commentators predicted that the growth shortly would run out of steam. Instead its economic boom continued almost uninterrupted right through to the mid-1990s [Nolan (1995, p.303)].

After coming out of the shock of the Tian Anmen Incident, leadership reshuffle and the criticisms within the Communist Party, Deng Xiaoping undertook a tour of the Southern Provinces in 1992 and reiterated his resolve to move ahead with the ‘Policy of Reforms and Open door’ with greater commitment. Deng’s speeches convinced the Overseas Chinese in particular and the foreign investors in general who were so far waiting on the fences, to ‘throw in their Towel’. Thus, foreign direct investment (FDI), which had remained as ‘rain droplets’ from 1980-1992, became a ‘Rain shower’ and subsequently into a ‘Flood/Deluge’. The amount of FDI worth US\$23 billion in 1992 was more than the cumulative total of US\$19 billion during the first 12 year period of Reforms and Open door from 1980-1992. The FDI in 1993 was even double of the 1992 figure at US\$45 billion. The trajectory of FDI thereafter followed a sustained path of high growth.

“The centerpiece of economic development has been the ability to maintain investment at a stunning 35-40 percent of GDP for twenty five years” [Hutton (2006, p.95)].

A network of Township Village Enterprises were launched to develop toys, textile, home appliances, consumer, electronic products

in line with natural resource endowments, availability of raw materials, proximity to the markets, etc. Thus, China became the ‘world’s factory workshop’ through the development of ‘proto industrialization’ following ‘bottom up’ approaches. In the beginning, there was great opposition/nervousness in the ruling Communist Party and the government as to how China will cope with the competition from the advanced level of technology and sophisticated corporate practices of the Foreign Companies. But the political leadership stood its firm ground.

The multinational companies were given all facilities to undertake production and export. The initiative succeeded beyond imagination. Western multinationals even outsourced their home operations to China, importing their products for home markets, utilizing China’s low cost labor and other competitive advantages in manufacturing. Foreign Investors were instead treated as Kings! The Chinese state owned enterprises (SOEs) also benefitted enormously from the ‘infusion’ of global best practices and transfer of high tech knowledge through these enterprises in the SEZs.

“Perhaps the most important global mega trend is the rise of China itself. No other country is poised to have as much impact on the global economy over the next two decades ... Even if China’s growth rate slows as projected, it would still replace the United States as the World’s largest economy by 2030, its share in world trade could be twice as high” [World Bank (2012, P.6)].

Figure 2. New Shanghai Skyline



Figure 3. China: Special Economic Zones



Source: www.chinaforeignrelations.net

5. Different Template of SEZs in China

- a) Export processing zone.
- b) Bonded zone.
- c) Border economic cooperation zone.
- d) Economic & technological development zone.
- e) High and new technology development zones.
- f) Industrial zones and science parks.
- g) Other types of zones and parks.

China had a total of 1558 kinds of SEZs, industrial parks, science and technology parks (until 2006): 219 state-level economic and technical development zones; 156 state-level high-tech industrial development zones; 129 special zones supervised by customs; 17 border economic cooperation zone. The methodology of setting up SEZs and industrial development zones in China have been as follows: from top to bottom, government agencies are formed; initial stage: special office of the State Council open offices in provinces—each SEZs/ industrial development zone; scientific site selection is done on the basis of natural environment, human resources, geography, location advantage, and existing economic base; Select suitable site for hosting the development zone, from East to West, gradually push multi phased construction, etc.

“The crossing of the River by feeling the Stones was the metaphor used by Deng Xiaoping to state that the crossing was gradual, exploratory,

pragmatic, path dependent and context specific. Transitional institutions were created and allowed to evolve as the economy changed and grew... In China, the transition promoted growth and the growth promoted transition” [Kniglet (2012, p. 24)].

The State Council formulated the development plan, targets; outline, social and economic zone studies and set some special policies, which were different from similar zones in other regions such as: (i) fiscal and tax support; (ii) administrative authority, favorable investment, beneficial to enhance the development of the vitality of the development zone; (iii) all projects required tackling soft and hard environment, land development, the availability of essential utilities services, communication and other facilities for setting up factories; and (iv) setting up of a streamlined and efficient management.

This process was conducive to the integration and utilization of multiple development resources (such as land, human resources, industry, and infrastructure) in the development zone. This helped reduce the cost of administrative management; the introduction and training of talents. Through external introduction and internal contact, relying on their own advantages; this helped to cultivate the industry, and gradually cultivate a pillar (cluster) industry with its own characteristics; set up investment agencies and adoption of various ways to attract investment; improvement in the provision of social life

supporting facilities; and forming of a good environment suitable for work and living.

The development of Industrial Parks needed the guidance and guarantee of national strategy. A Special Economic Zone Office of the State Council was established which opened up offices in each province in Governor's Office. The local government established the management body (the Management Committee) in the name of the dispatched agency. The Policy of —'Three Focuses' adhered to: (i) focus on improvement of absorption quality; (ii) development of modern manufacturing industry; and (iii) optimization of export structure.

China, thus, became the 'Industrial Powerhouse of the World' by learning its lessons hard way. The Chinese template has contributed in making its high rate of economic growth sustainable. Further, it has enabled it to lift the largest number of people out of poverty in the shortest period of time in human memory. Most developing countries have, however, failed to achieve Industrialization because they ignored what is called 'Proto Industrialization' and 'Rural industrialization'. Instead of following a 'bottom up' approach, they have followed a 'top down' approach.

“Do start industrialization in the rural areas. Do encourage humble, labor intensive, low value added but export oriented(or large market oriented) workshops and light industries....The opposite approach through a 'big push' or shock

therapy or a top down import substitution for heavy industrialization will only achieve unwanted consequences...unbearable debt, trade deficit that can ultimately bankrupt the nation” [Wen (2016, p.75)].

6. Phases of Development of China’s SEZs Phase-I: (1984-1991)

Take the first batch of 14 state-level economic and technological development zones as examples with development for 30 years. Development policies: “Three Focuses”: focus on industry, foreign capital investment and exports to earn foreign exchange: the zones should not be too large area (less than 10 km²). Their main tasks were: carry out infrastructure construction of “three supplies and one leveling”; introduce export-oriented foreign enterprises with small investment, fast earning and relatively low technology content. Achievements: (i) completed construction land of 30 km², building area of 5 million m²; (ii) foreign capital US\$2.5 billion and 1350 foreign companies; and (iii) industrial output reached RMB14 billion (1991) while the enterprise output before the construction of industrial park was merely RMB0.3 billion.

Phase II: (1992-1996)

Development policies: “Three Focuses”, “One Devotion” for the development of high and new technology industry Their main tasks were: perfect infrastructure construction and business environment in development zones and vigorously attract investment; Achievements: (i) the Foreign capital investment in 1996 reached

US\$5.8 billion; (ii) settlement of transnational corporations and emerging industries with relatively high technology content (such as electro communication, fine chemical engineering, biological medicine and modernized equipment manufacturer) started to aggregate; and (iii) the industrial output in 1996 reached RMB136 billion.

Phase III: (1997-2016)

Development policies followed the strategic direction of what was known as the “Three Focuses”: (i) focus on improvement of absorption quality, development of modern manufacturing industry and optimization of export structure; (ii) “Two Devotion”: devotion to development of new advanced technology and high value-added services; and (iii) “One Promotion”: promote the development of development zones toward multi-functional comprehensive city industrial zone. Main Tasks: improvement in level of development, quality and benefits; achievements: (i) increase of economic aggregation; (ii) popular destination for foreign capital investment; (iii) optimization of industry structure; and (iv) formation of modern cities with relatively complete functions.

7. SEZs: Learning Key Lessons from China’s Experience

Some experiences of China’s development of SEZs in the process of attracting investment are: Renewal of some old ideas, bring up new ideas and Innovation. There is no alternative to hard

work, efficiency and profit; time is money and efficiency is life; be fair, impartial, honest and trustworthy, act according to the contract, act according to the law, meanwhile let the investors trust you; it is details, which decide success or failure. Do your homework; service first, “service others is to develop yourself, provide one-stop service; remain committed to implementing the legal provisions and management system of reforms that are not suitable to foreign-invested enterprises; maintain a stable political and economic environment and maintain the stability and continuity of policies as far as possible; there should be continuity in monetary policy; foreign exchange revenue and expenditure (exchange rate change); labor policy (employment compensation level); tax regulations (tax rate adjustment); goods, personnel exit entry management (visas), etc.; do not let foreign businessmen feel confused and cheated. “The foreign investors take time to come one by one, but can leave quickly, like birds in droves”.

The officials dealing with the foreign investors, should be provided professional education to be knowledgeable, courteous and helpful; to favor the foreign investors, to comfort the foreign investors, to enrich the foreign investors, and to take practical measures to implement their wishes; regard the foreign investors as friends, communicate with each other, be enthusiastic, sincere and thoughtful; to comfort the foreign investors; create a safe, stable and good working environment for them; to enable the foreign investors to make profit; to adopt complementary policies; make a plan, and

develop it by stages, at the same time develop a piece, build a piece, benefit one piece; and pay attention to the construction of talent team, develop clusters of familiar businesses.

Figure 4. Shenzhen in the 1980s, Before Becoming SEZ



Figure 5. New Shenzhen Skyline after Becoming SEZ



8. Role of Overseas Chinese

China's spectacular success in economic development is credited to its success in mobilizing the Overseas Chinese who numbered in 1980 at more than fifty million, to invest in China. This special breed of Chinese had left their motherland, over the past two centuries due to protracted civil war, warlords and rampant poverty. Their new 'abodes' such as Hong Kong, Singapore, Malaysia, Taiwan, and Thailand had become 'success stories' in economic growth. In other places, the overseas Chinese were prosperous communities with frugality, discipline, hard work and strong family and networking, as their winning traits. The Overseas Chinese contributed almost two third of China's FDI and their role in China's economy became visible since 1992, when instead of closing the door to the outside world due to Tian Anmen incident in June 1989, the Chinese leadership decided to open up the country further. This proved the mainstream forecasts of the Western Sinologists and the media wrong by a wide margin, who had predicted China closing its doors. The centerpiece of economic development had been the ability to maintain investment at a stunning 35-40 percent of GDP for twenty five years.

Deng Xiaoping's tour of the Southern provinces in 1992 won over this community, to join China's bandwagon of reforms and prosperity. The Overseas Chinese were mobilized by an Act of Parliament in 1992, which gave full protection to them in matters of personal, social and civil life. Before 'the Reforms and Open door

Policy’ were launched, some of them were seen with suspicion as ‘Foreign Agents’. They were instead transformed into ‘Resource Persons’ for igniting China’s Development potential. The Chinese expatriates were the first to invest in what is known as ‘Township Village Enterprises’(TVEs), which sprung up in the first phase of reforms particularly in Guangdong, Fujian and Sichuan provinces in the early days of Economic Reforms and Open door Policy in the early 1980s.

9. Success of Shenzhen Special Economic Zone was Critical

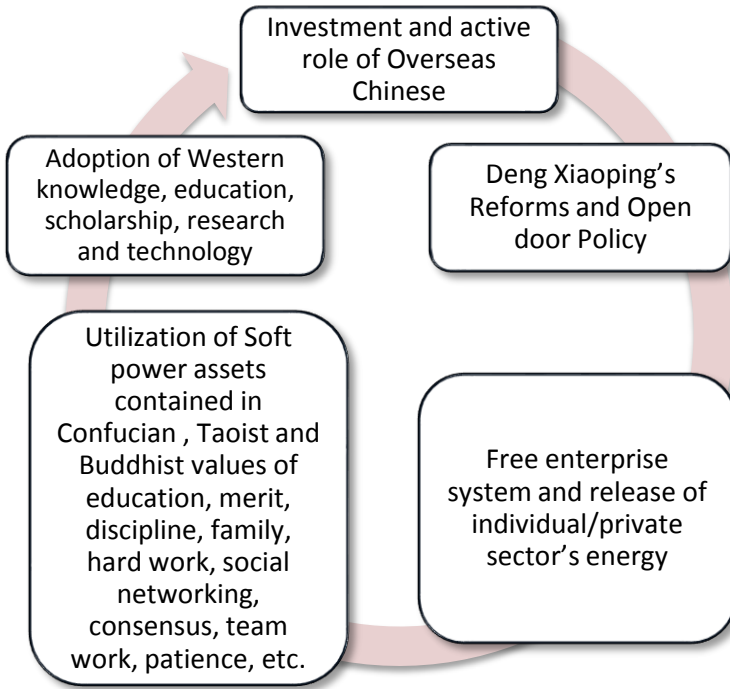
Leading American Urban Planner Paul Romer feels that in building of SEZs by China, the role of its first SEZ Shenzhen has been incredibly important. Shenzhen tried, tested and implemented bold ideas, experiments, policies and reforms before these were perfected as templates to be replicated all over China. In Shenzhen, China’s best minds were mobilized to generate innovative thoughts, free from any kind of ideological, political and institutional pressures. Shenzhen was used as a ‘bait’ to open up China by replicating the Singapore and Hong Kong templates. Shenzhen generated Incentives for overseas Chinese and foreign firms to bring their ideas, money, technology, corporate management and make best use of Chinese physical, natural endowments to make profits. China’s reformist leaders realized that reform was not a process that ends, nor does technological innovation.

Shenzhen was used by China’s reformist leadership as a ‘laboratory’ for trying out bold experiments in mating (Za Jiao) of

capitalist theories with Chinese characteristics for achieving a sustainable Model of Socialist Economy. The rest of China adopted the Shenzhen Model rather than the other way round. It is said that nothing succeeds like success. China's Ancient Military Strategist Sun Zu had said that 'when opportunities are grabbed, they only multiply' and indeed it happened. Shenzhen became a 'miracle story' achieving transformation in a generation's time from a Fishing Village into a SEZ, to a Start-up City, to a Charter City, to become a broader part of Pearl Delta Bay Area Development Zone that now contributes nearly One third of China's GDP and more than half of its exports.

"It changed the course of history. People in the West seem to forget that reform in China was extremely controversial; that there was lots of opposition, even violent opposition. So it was not a sure thing that reform was going to succeed there even after Deng took power. When reform was underway and Deng went on his Southern Tour in 1992, the visible success of Shenzhen protected reform from the reactionaries. Without Shenzhen, reform in China might have stalled before it had a chance to take hold. So even if Shenzhen is the last startup city we ever see, history will be different because it was possible to start a new city in China"[Romer (2015, P.6)].

Figure 6. Five Key Factors Contributing to the Chinese Miracle



10. Policy Innovation and Investment Promotion

Innovation is the driving force for the successful development of industrial Parks in China. The state legislature or the two-level legislature of the province stipulates the regulations (the regulations) in this regard. Simultaneous legislation is completed for compensated transfer of land, foreign capital access & registration and domestic labor utilization in industrial parks. There are a number of reforms that need to be undertaken. These include: (i) legal system innovation. A “Super-Ministry system” is implemented for internal management department inside Industrial parks, namely merge similar

management functions to streamline procedures and provide service efficiency; (ii) management innovation; and (iii) funding and financing innovation: business-loan development, progressive development, cooperation in development, social financing development.

“The development of Township Village Enterprises (TVES) breaks the dualist, social and economic structure that separated the Cities from the rural areas, and industry from agriculture. It establishes the modern economic model-allowing a TVE industrial sector to exist in the rural areas” [Yang and Bui (2003, P.133)].

Provide development zones with supporting policies that all the financial revenues shall be managed and controlled by itself and shall not be handed over to the Central People's Government for 10 years; supporting policies for construction loan with interest subsidy in industrial parks; tax incentives and interest rate policy for enterprises settled in industrial parks; capital goods of foreign investment projects are exempted from tariffs and import-related taxes; export of foreign-funded enterprises is duty-free; for foreign invested enterprises, income tax is levied at 45% of the income tax rate of domestic enterprises, which is exempted within two years and half levied within three years; in different phases of park development, timely adjust, revise and supplement policy contents so as to maintain its attractiveness.

Do not over protect the domestic market. Allow the foreign investors to use both international and domestic markets; Establish the development concept with **investment promotion as the life line**; investment sources: Hong Kong, Macau, Taiwan, Overseas Chinese, transnational corporations, domestic capital; “Processing on order, assembly manufacturing, sample order”—multinational companies with high technology compensation trade—absorb technology spillovers and develop domestic enterprises; ways of investment attraction; Investment attraction—preferential selection of Funds (investment attraction of industrial chain, green development).

Investment promotion strategy at the state & provincial level; undertake a variety of investment fair, festivals for attracting investors to negotiate projects in industrial parks; draw up attractive investment catalogues according to industrial development plan; organize all kinds of investment promotion meetings, in which the government provides platforms while enterprises show their attraction; travel abroad to attend overseas investment fairs and promotion fairs; make use of acquaintances, friends and partners to attract investment; attract investment through intermediaries; attract investment through the internet; attract investment through media; project database; mobilize high-level core talents engaged in investment promotion with foreign language, global vision and mastering of professional knowledge of subjects of law, trade, investment, industry, logistics, marketing and so on.

Why China succeeded while others are struggling?

Many developing countries despite attracting huge FDI inflows, high GDP growth rate, efficient manufacturing base and showcase development have failed to ‘detonate’ Industrial Revolution. India is such an example. In Asia, only Japan succeeded in completing the full cycle of Industrial Revolution by initiating ‘Proto Industrialization during the Meiji Era before moving into heavy Industrial growth trajectory. China went through three distinct phases of ‘Trial and Error’ in efforts to ignite Industrial Revolution, the Qing dynasty era 1860-1911, Republican era 1911-1949, Central Planning Era 1949-1978, before finally succeeding in the fourth attempt during Deng Xiaoping’s Post-1978 Economic Reforms and Open door Policy to the world.

China is currently going through its *fifth generation* of Industrial Revolution Post-WTO Era 2001-till present), with the progress in Artificial Intelligence (AI), Robotics, and Digital Revolution. Neither the 1997 Asian Financial Crisis nor the Global Financial Crisis during 2007-08 could stop China’s high growth trajectory, because it was based on ‘Proto Industrialization’. But Proto industrialization by itself is not enough. It is not just about competitive advantages, size of market, infrastructure, economies of scale, developing supply chains, division and supply of labour, enhanced total factor productivity, it is all of these and much more.

Detonating an Industrial Revolution also needs an enabling environment of mass marketing, financial intermediation, mercan-

tilist culture, supportive government, inclusiveness, market coordination, professional capacities and networks, etc. China in fact took three decades to completely master the cycle of Industrial Revolution, which the UK, USA, and Europe took three centuries. China succeeded in Proto Industrialization as the earliest Chief Executive Officers (CEOs) of Privately Owned Enterprises (POEs) were in fact the Heads of Village Councils and not those with foreign degrees, as in other Developing countries. Textiles were the flagship industry of China's proto industrialization followed by toys, souvenirs, home appliances, Traditional Chinese Medicine (TCM), agriculture machinery and electronics. China has essentially followed a bottom up approach in detonating Industrial Revolution, as against top down approaches in other developing countries.

11. Pakistan's Case

For seven decades, Pakistan's economic planning and development paradigm has followed a path of dependence, decadence and despondency being a hostage of International Financial Institutions (IFIs). They have ensured macroeconomic book keeping and economic impoverishment. Successive Pakistani regimes have been made to follow 'austerity measures' under flimsy pretexts/Clichés such as structural/stabilization programs aimed at thwarting Pakistan's economic take-off. The IFIs have been the financial arm for ensuring the geo-political domination of the Western

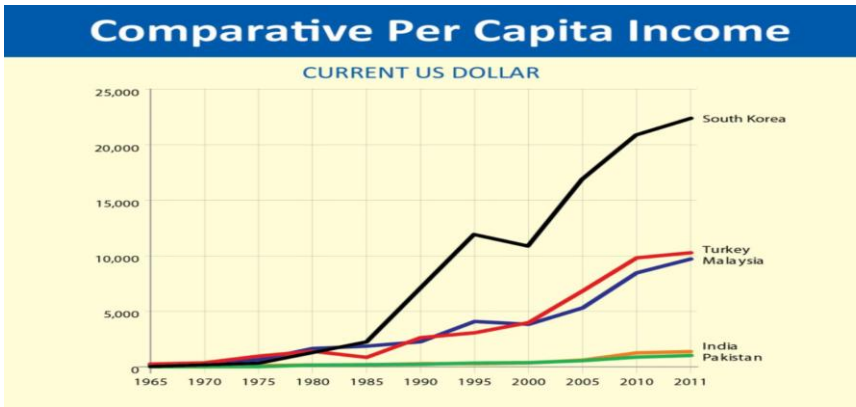
capitalism. The country's successive incompetent civilian and non-civilian leaderships under IFI tutelage have decimated all the national advantages, thus ensuring Pakistan's race for the bottom position. Every government faithfully served the interests of the leftovers of the East India Company, IFIs (Breton Woods's institutions and Washington Consensus).

“Despite being the sixth largest country in the world on the basis of population, Pakistan ranks 126 out of 140 in Manufacturing Competitiveness, 90th in Innovation and Technology sophistication, 150 out of 183 in Per Capita Income, 147th in Human Development Index, 123rd in Educational Facilities, a lowly 44th on GDP size and finds itself heavily in debt” [Monnoo (2017, P.18)].

The Western nations have promoted a system of so-called rules based international governance, which impoverishes the people of the developing countries, by strengthening the hold of One Percent Elite, who stash their wealth abroad and expect the foreign investors to make investment. The existing system of governance in Pakistan promotes the flight of capital, brain drain and does not allow change or policy reforms from within. The small Westernized elite operate as ‘Mafias’ of all shades and colors holding Pakistan, a hostage for the past seven decades. Pakistan has been treated as ‘a piece of real estate’. These elements pose the greatest obstacles in the way of Pakistan's economic take-off. The privileged aristocratic class living behind ‘Barbed Boundary Wall Housing Societies’, has a negative attitude to process of development for the rest of the population. This

appears to be the gift of the ‘Caste System and Colonial heritage’ in South Asia.

Figure 7. How Incompetent Leaderships and Indulgent Elite Fail Nations—A Case Study of Pakistan: Source Vision 2025



The governance machinery in Pakistan, like other developing countries has been shaped by the architects of the Post-colonial global order who inflicted the Financial Hit Men, Feudal Elitism, Media Imperialism. Under this strategy, Pakistan has been made to run on the runway for seven decades without ‘Economic take-off’. The political elite have been hooked to the colonial powers’ narrative. After every regime change, Pakistan has been dutifully escorted by its own IFI hit men and henchmen for seeking IMF program, under a so-called benign strategy, what is referred to broadly as the ‘Washington Consensus’. Pakistan’s failure has been essentially its inability to

‘detonate’ an Industrial Revolution in order to achieve a mutually reinforcing and complementary process of development. This is partly due to lack of clarity and understanding of the historic experiences of Industrial Revolution in other parts of the world and partly due to flawed policies and malicious intentions of the Financial Hit men on the payroll of the IFIs who have been serving in the focal Planning and Finance Ministries.

12. Conclusions

The regional GDP and fiscal revenue of 219 Special Economic and Technological Development Zones have become the locomotive for the development of China’s economy. In 2017, they accounted for attracting 60 percent of FDI and almost 50 percent of exports of China. Development zones have acted as powerful engines and an important mode of opening-up; experimental base for structural reform; exploration of entrepreneurial culture; and establishment of One-stop service center. China implemented a series of policies and regulations that are in line with international practices and greatly benefited from the global best practices. Over the past 30 years, the total utilization of foreign investment in the development zones of various kinds has approached US\$ One trillion, becoming the area with the largest and highest level of capital investment. China’s economic miracle demonstrates that it was the courtesy of wide ranging Economic reforms Not Mega Projects.

The question is whether Pakistan can benefit from China's experience in the development of SEZs given the stark differences in form of government, systemic organization, quality of leadership, cultural values, etc. Pakistan lacks the leadership that can take hard decisions beyond their individual, electoral, feudal, tribal, elitist and vested interests. Besides, the existing narrow industrial, business and feudal elites feel fearful to their entrenched privileged positions in an unfairly protected domestic market. Pakistan hence confronts an existential question now without structural reforms. Enough precious time has been lost. The only narrow time space available is 2018-2020 for undertaking Comprehensive policy reforms in order to ensure Pakistan's economic take off on the heels of the epic transformation courtesy to China Pakistan Economic Corridor (CPEC).

Pakistan has failed to create 'Proto Industrialization' that could have provided the basic foundation for Industrial Revolution. Coupled with the lack of export culture, an import addicted elite, incompetent monitoring machinery, and lack of foreign exchange to undertake modernization, Pakistan has retrogressed. Pakistan needs to create 'Rural Industrialization' and Proto Industrialization with market creation at home and abroad, using the resilient 'Textile Industry' as the Flagship Industry with Chinese collaboration becoming a part the Value Chain of the global Chinese Multinationals. This new 'export culture' will enable Pakistan to earn foreign exchange to help its modernization process for a sustainable era of industrialization. The process of 'Natural selection and Creative

destruction’ is not bad, as long as new players keep entering the market. The market cannot remain a hostage to inefficient monopolies and producers who refuse to change or are unable to compete. The world has always remained a place for the fittest. China’s Deng Xiaoping had told his countrymen four decades ago: “Either Reform or perish”. There is no third option. He had replaced the Maoist Cultural Revolution era slogan of “Permanent Revolutions” with “permanent reforms”. Look where China is to-day!

CPEC will remain ‘supply side economics’ without CPEC software, i.e., a combination of policy reforms, which could include innovative initiatives in agriculture, industry, energy, taxation, SEZ, SMEs, civil service, good governance, electoral, land, labour, administrative structure, higher education, foreign trade, maritime, water, irrigation, energy, health, environment, social sector community development, etc. New policies in these areas could be promulgated as Presidential Ordinances’ christened as Acts when the Parliament is in session. I feel making SEZs a reality, demands extraordinary measures. This is nothing less than a SOS message to all the stakeholders, in the future of Pakistan. Time is fast running out!

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