PIVRA

Special Economic Zones in Pakistan: Incentives, Approvals and the Planned Phase-Out

SEZ incentives, approvals, notified zones, the 2035 phase-out and the due diligence before signing.

Pakistan Market Guide

October 2026

Pakistan Institute for Vision Research and Action

Contents

What this guide covers, in the order an importer meets it.

1. What a special economic zone is . . . 3

2. SEZ, STZ, EPZ and industrial estate . . . 3

3. What the law offers . . . 4

4. How a zone is approved . . . 4

5. The main notified zones . . . 4

6. The planned phase-out . . . 5

7. How an investor enters a zone . . . 5

8. Costs and timelines . . . 6

9. Due diligence before signing . . . 6

10. Common mistakes . . . 6

11. SEZ checklist . . . 6

12. How PIVRA can help . . . 7

Sources . . . 7

Questions and answers . . . 8

Special economic zones are one of the first things foreign manufacturers and exporters ask about when they look at Pakistan. They offer serviced land, a defined legal regime and, at present, tax incentives. They are also the part of the investment regime most likely to change: the government has committed to phase out zone incentives by 2035 and to stop granting new ones. A zone can still make sense, but the decision has to be based on logistics, utilities, labour and market access, not only a tax holiday with a fixed end date.

This guide explains the legal framework, the incentives developers and enterprises can receive, how a zone is approved and how an investor enters one, the main notified zones, the phase-out, and the due diligence that should precede a lease or development agreement. It is an orientation based on official sources, not legal or tax advice. Incentives depend on the zone, the agreement date and the contract terms; each case needs checking.

1. What a special economic zone is

An SEZ is a designated area, usually industrial, with a defined regulatory and fiscal regime, developed by a federal or provincial government, a public-private partnership or a private developer. The Special Economic Zones Act was promulgated on 13 September 2012 and the rules were notified later that year. The minimum land requirement is 50 acres, with no maximum. The Board of Investment (BOI) acts as the secretariat and publishes the list of notified zones (BOI, SEZ framework).

An SEZ is not the same as an industrial estate, an export processing zone (EPZ) or a special technology zone (STZ). Each has its own law, incentives and approving authority. A zone that is marketed as an SEZ but not notified under the Act does not carry the statutory benefits. The first check is the notification, not the brochure.

2. SEZ, STZ, EPZ and industrial estate

Vehicle	Legal basis	Typical focus	Key difference
Special economic zone	SEZ Act, 2012	Manufacturing, processing, logistics, services	Statutory incentives for developers and zone enterprises; BOI/Board of Approval
Special technology zone	STZ Act and rules	IT, software, technology services	Separate incentives and regulator; phase-out also committed
Export processing zone	EPZ legislation	Export-oriented manufacturing	Older regime, separate authority and incentives
Industrial estate	Provincial or private scheme	General industry	Land and utilities, but not necessarily SEZ tax benefits

Choosing between them is a legal and commercial question. A technology company may fit an STZ better than an SEZ; an exporter may find an EPZ or a customs-bonded scheme more suitable; a domestic-market manufacturer may not need a zone at all.

3. What the law offers

BOI describes the fiscal benefits under the SEZ law as a one-time exemption from customs duties and taxes on all capital goods imported into Pakistan for the development, operation and maintenance of a zone, for both the developer and the zone enterprise, and an exemption from all taxes on income for ten years (BOI, as above). PwC adds that income derived by a zone enterprise is exempt for ten years from the commencement of commercial operations or production, subject to conditions (PwC, tax credits and incentives).

Benefit	Who	Conditions and limits
One-time customs and tax exemption on capital goods	Zone developer and zone enterprise	Goods must be for development, operation or maintenance of the zone; one-time; documentation and end-use checks
Ten-year income tax exemption	Zone enterprise	Starts at commencement of commercial operations or production; conditions in the law and agreement
Serviced land and utilities	Zone enterprise	Depends on the developer; check the plot agreement and connection timelines
Streamlined approvals	Zone enterprise	Federal and provincial approvals still apply; the zone does not replace them

The income tax exemption is the benefit most often overstated. It does not cover every tax, does not necessarily extend to contractors or service providers in the zone, and does not remove sales tax, withholding or customs duties on non-capital goods. It also has a start date and a finite term. A financial model should show the tax after the holiday, not only during it.

4. How a zone is approved

Provincial SEZ authorities, which work under the Chief Ministers, send developers' applications to BOI. BOI acts as secretariat to two bodies: the Board of Approval, the highest approving forum, headed by the Prime Minister and including economic ministries, provincial governments and the public and private sectors; and an Approvals Committee chaired by the Chairman of BOI (BOI, as above). The Board of Approval can approve a zone, its developer and its incentives. An investor who wants to locate in a zone, rather than develop one, deals with the zone developer and the relevant provincial authority.

The approval is not a one-off event. The developer must meet development milestones, provide infrastructure and comply with the zone rules. An enterprise must sign a zone enterprise agreement, which sets out the plot, the permitted activity, the investment and the timeline. Read the agreement as a commercial contract, not a formality.

5. The main notified zones

BOI lists 44 notified special economic zones. The list includes Bin Qasim, Rashakai, Hattar, Allama Iqbal Industrial City in Faisalabad and Khairpur. Several are associated with the China-Pakistan Economic Corridor, including Rashakai in Khyber Pakhtunkhwa, Dhabeji in Sindh, Allama Iqbal in Punjab, M-3 in Punjab and Gwadar in Balochistan. The exact status, infrastructure and investor package differ by zone and change over time.

Do not choose a zone from a map alone. Visit it, or have someone visit, and check the roads, power, gas, water, drainage, telecommunications, security, labour availability and distance to the port or market. A zone with a tax holiday but no reliable power is not a cheaper location.

6. The planned phase-out

The incentives are being wound down. In its programme with the International Monetary Fund, the government committed to refrain from giving new fiscal incentives to any new or existing SEZ and not to renew existing ones, because zones are meant to be temporary solutions to constraints in the business environment. The phase-out is subject to pre-existing contractual obligations, and where contracts allow early termination or renegotiation the authorities will end incentives early to the extent those provisions permit (IMF Country Report No. 24/310).

The IMF's Third Review, considered by its Executive Board on 8 May 2026, describes the phase-out of fiscal incentives for special economic zones, special technology zones and export processing zones by 2035 (IMF Country Report No. 26/101). The programme also sets a target of amending the SEZ Act by June 2027, to move from profit-based incentives such as tax exemptions to cost-based incentives such as immediate expensing of tangible assets, and to remove the tax-incentive powers of the Board of Approval, BOI and existing SEZ authorities.

These are commitments, not all enacted law at the time of writing. For an investor, the practical questions are: what does my agreement say, when does the holiday start, what happens if the law changes, and what is the return without the incentive? A project that only works with a ten-year holiday is a bet on a policy that is already being withdrawn.

7. How an investor enters a zone

1. **Shortlist zones** by market, logistics, labour, utilities and sector fit.
2. **Check notification and land title** with BOI and the provincial authority.
3. **Meet the developer** and obtain the plot options, price, payment terms and infrastructure commitments.
4. **Confirm the permitted activity** and any sector-specific approval.
5. **Negotiate the zone enterprise agreement**, including tax representations, milestones, utilities and exit.
6. **Register the company** or branch, obtain tax and sales tax registration, and open the bank account.
7. **Apply for the incentives** with the agreement, import list and investment evidence.
8. **Build and commission**, keeping the customs and tax records that support the exemption.

The zone developer is a commercial counterparty, not a regulator. Its promises on power, gas, road access or approvals should be in the agreement with consequences for delay. The provincial authority and BOI remain the approving bodies.

8. Costs and timelines

Costs vary too widely for a single figure. Land prices differ by city and zone; development charges, connection fees, rent, service charges and minimum investment commitments are set by the developer or the provincial authority. The tax and customs exemptions reduce the capital cost of imported plant, but they do not remove the cost of land, buildings, utilities, labour or compliance.

Timelines depend on the zone's infrastructure, the enterprise's construction, the sector approvals and the connection of utilities. A ready-built shed can be occupied in months; a greenfield plot with new power and gas connections can take much longer. The zone agreement should set dates for delivery of the plot and utilities, and the investor should plan the commissioning around them.

9. Due diligence before signing

- **Notification and law.** Confirm the zone is notified under the SEZ Act and which rules apply.
- **Agreement date and terms.** Incentives tied to an agreement signed before a change are the ones most likely to be protected.
- **Tax clause.** Check whether the incentive is in the agreement or only in the statute, and what happens if the law changes.
- **Land title and lease.** Confirm ownership, lease term, transfer rights and encumbrances.
- **Utilities.** Confirm capacity, connection date, tariff and who pays for the last-mile connection.
- **Environmental and labour approvals.** An SEZ does not replace the environmental impact assessment, labour registrations or sector licences.
- **Logistics.** Distance to port, border, market and labour catchment; road and rail condition.
- **Exit.** Transfer rights, exit taxes, and what happens to the incentive if the enterprise is sold.

10. Common mistakes

1. **Assuming a zone is tax-free.** The holiday is limited in time and scope.
2. **Choosing on tax alone.** Power, water, logistics and labour decide viability.
3. **Not checking notification.** An industrial estate is not necessarily an SEZ.
4. **Signing the developer's standard agreement without reading it.** Utilities, milestones and exit terms matter.
5. **Missing the start date.** The ten years run from commercial operations, not from signing.
6. **Importing non-capital goods against the exemption.** The customs exemption is for capital goods for the zone.
7. **Ignoring the phase-out.** A project that needs the holiday for its whole payback is exposed.
8. **Assuming the zone handles all approvals.** Environmental, labour and sector licences still apply.

11. SEZ checklist

- Zone notified under the SEZ Act, with the current notification.
- Legal regime and incentives confirmed in writing.
- Zone enterprise agreement reviewed: plot, activity, investment, timeline, utilities, tax, exit.

- Land title and lease checked.
- Power, gas, water and telecom capacity confirmed.
- Environmental, labour and sector approvals mapped.
- Logistics and labour catchment assessed.
- Financial model with and without the incentive.
- Tax and customs treatment of capital and non-capital imports confirmed.
- Phase-out and change-of-law clause considered.
- Company, tax, sales tax and bank registrations planned.
- Exit and transfer rights understood.

12. How PIVRA can help

PIVRA compares locations, including zones, in its market entry roadmaps, and reviews the regulatory position behind a specific investment in investment due diligence. We work alongside your lawyers, tax advisers and the zone developer. Request a quote.

Sources

All sources accessed 24 October 2026. Zone lists, incentives and the phase-out are subject to change; confirm the current position with BOI, the provincial authority and your advisers.

Board of Investment, Special Economic Zone Framework in Pakistan.

PwC Worldwide Tax Summaries, Pakistan: tax credits and incentives, last reviewed 24 August 2026.

IMF, Pakistan: 2024 Article IV Consultation and Request for an Extended Arrangement (Country Report No. 24/310).

IMF, Pakistan: Third Review under the Extended Fund Facility (Country Report No. 26/101).

Special Economic Zones Act, 2012, and rules.

Special Technology Zones Act and rules; Export Processing Zones legislation.

Questions and answers

What incentives do special economic zones offer in Pakistan?

BOI describes a one-time exemption from customs duties and taxes on capital goods imported for the development, operation and maintenance of a zone, for the developer and the zone enterprise, and a ten-year exemption from income tax for the zone enterprise.

Are the tax incentives going to end?

The government has committed under its IMF programme to phase out fiscal incentives for SEZs, special technology zones and export processing zones by 2035, subject to existing contractual obligations, and to give no new incentives. These are commitments, not all enacted law.

How is an SEZ approved?

Provincial SEZ authorities send developers applications to BOI, which acts as secretariat to the Board of Approval, headed by the Prime Minister, and to an Approvals Committee chaired by the BOI Chairman.

How many SEZs does Pakistan have?

BOI lists 44 notified special economic zones. The minimum land requirement is 50 acres, with no maximum.

Can a foreign investor own 100 percent of a zone enterprise?

In most sectors, yes, subject to the sector rules and the zone enterprise agreement. Check the ownership limits for the activity before signing.

What is the difference between an SEZ, STZ, EPZ and industrial estate?

Each has its own law and incentives. An SEZ is under the SEZ Act, an STZ under the technology zone regime, an EPZ under export processing legislation, and an industrial estate may have no statutory SEZ benefits.

How does an investor enter a zone?

Shortlist zones, check notification and land title, meet the developer, confirm the permitted activity, negotiate the zone enterprise agreement, register the company and tax profile, apply for incentives, then build and commission.

When does the ten-year income tax exemption start?

For a zone enterprise, it starts at the commencement of commercial operations or production, subject to the law and the agreement. It does not start at the date of signing.

What conditions apply to the incentives?

The capital goods must be for the zone, the enterprise must be approved, the activity must be permitted, and customs and tax records must support the exemption. The holiday does not cover every tax or every person in the zone.

What costs and timelines should I expect?

Land, development charges, connections, rent, service charges and minimum investment vary by zone. Timelines depend on infrastructure and construction; a ready shed is faster than a greenfield plot with new utility connections.

What should I check before signing?

Notification, land title, agreement terms, tax clause, utilities, environmental and labour approvals, logistics, exit rights and the financial model without the incentive.

Does an SEZ replace environmental or labour approvals?

No. The zone does not replace the environmental impact assessment, labour registrations, sector licences or customs procedures. Those still apply.