CPEC, Taxes & IMF

Dr. Ikramul Haq

"The authorities plan to undertake a holistic assessment of Special Economic Zones and Export Processing Zones to gradually phase out the existing incentives subject to contractual obligations. Phasing out of the incentives coupled with the decision to grant no such incentives in the future will help reduce the associated fiscal costs and create a level playing field and a more predictable business environment." - IMF Country Report 24/310[1]

The International Monetary Fund (IMF), in its Pakistan's Country Report [24/310] of October 2024, has made it abundantly clear that Pakistani authorities will not extend any new tax exemptions under Special Economic Zones (SEZs) and Export Processing Zones (EPZs) and gradually withdraw the existing ones, subject to contractual obligations. This condition, not yet adequately debated in official quarters and media, will certainly affect the existing and new projects under China-Pakistan Economic Corridor (CPEC[2]), a flagship project[3] of Belt & Road (B&I[4]) initiative covering 152 countries "mainly relying on Chinese investment to develop infrastructure in these countries"[5].

The above confirms beyond any doubt that bilateral economic agreements between China and Pakistan, in general, and those under CPEC in particular, are now under a strict scrutiny and review of the lender of last resort. This testifies to Pakistan's dilemma of further losing its economic sovereignty in the wake of availing the twenty-fifth IMF program[6] (US$7 billion 37-month extended fund facility).

No one in the Parliament as well as in academic circles noticed and/or debated that unconditional income tax exemption available to Thar Coal Project[7] established under CPEC since its inception was modified to tax credit through Finance Act, 2021. It was further curtailed vide Finance Act 2024 through an Explanation applicable retrospectively that reads as under:

[1] https://www.finance.gov.pk/mefp/extended_Fund_Facility_October_2024.pdf, accessed at 10:30 am on February 23, 2024.
[2] https://www.cpec.gov.pk/, accessed at 10:35 am on February 23, 2024.
[3] Established in 2013 and operational from 2016, CPEC promises to bring unprecedented levels of Chinese investment to Pakistan—the primary aim of this multidimensional, multifaceted and multibillion dollar (USD 61 billion) program is to provide land route connectivity between the China and Arabian Seas.

[4] An ambitious £900 billion initiative under which China aims to connect with Africa, the Middle East, Central Asia, and Europe via sea route and overland corridors
[5] https://www.jstor.org/stable/pdf/resrep24394.5.pdf, accessed at 10:40 am on February 23, 2024.
[6] The Executive Board of IMF on 27 September 2024 concluded the 2024 Article IV consultation with Pakistan and approved a 37-month Extended Arrangement under the Extended Fund Facility (EFF) in the amount of SDR 5,320 million (or around US$7 billion). The Fund's immediate disbursement was SDR 760 million (or about US$1 billion)
[7] https://cpec.gov.pk/project-details/9, accessed at 11:15 am on February 23, 2024

"For the removal of doubt it is clarified that tax credit under clause (a) shall only be available to the income derived from the operations of coal mining projects in Sindh supplying coal to power generation projects".

The specifically inserted exemption clause in the Income Tax Ordinance, 2001 for Thar Coal Project, when changed unilaterally and retrospectively through a controversial Presidential Ordinance, came as a shock and highlighted/criticized in the following words:

"…..[Thar Coal] enjoying unconditional exemption that is now withdrawn retrospectively, is a matter of great concern as it is for "persons engaged in coal mining projects in Sindh supplying coal exclusively to power generation projects". On the other hand, unconditional income tax exemption available to the existing Independent Power Producers (IPPs) funded by International Finance Corporation (IFC) and other World Bank institutions would continue and not subjected to above conditions and tax will be levied only on new plants established after June 30, 2021.

The same should have been the case for successful China's projects under CPEC—as a matter of uniform policy for all. If emergent situation existed [for issuance of a Presidential Ordinance], was it only to damage local IT industry and Chinese projects under CPEC? This is a crucial question showing the real agenda of IMF of destroying our ability to earn billions of dollars through IT exports and hamper economic progress under CPEC to get rid of external loans"[8].

It is clear from above that even under the program availed by the coalition government of the Pakistan Tehreek-e-Insaf (PTI), IMF successfully forced the Federal Board of Revenue (FBR) to curtail an income tax exemption available to a coal mining project in Sindh and utilization of indigenous raw material for power generation. This was in contrast to blanket income tax exemption available to IFC funded IPPs running mainly on imported fossil fuel, forcing an already dollar-strapped country to incur monstrous foreign exchange out-flows.

FBR is now captive in the hands of IMF—most of the time its Chairman tell the elected Parliament of the day that no relief in taxes can be given to the poor and salaried class due to conditions imposed by IMF! Interestingly, exemptions available in income tax, sales tax and customs duties to the foreign-funded IPPs were zealously guarded by IMF and the World Bank but similar exemptions to the Chinese-funded IPPs were forced to be withdrawn or modified. The case in point of that of Thar Coal Project under CPEC. The following observations, remarks, comments and conclusions in this saga of subservience to IMF and other foreign lenders reported in a newspaper story [Income Tax Bill 2021: Several exemption under CPEC to withdraw] are worth reading:

"…..tax expert…..has said that the proposed Income Tax Amendment Bill 2021 submitted to the National Assembly has proposed to withdraw some existing and many futuristic exemptions under the China-Pakistan Economic Corridor (CPEC).

Speaking as a guest in "Paisa Bolta Hai" with Anjum Ibrahim on Aaj News, here on Sunday, Dr Haq explains that the exemption of Thar Coal project is proposed to be deleted under the said Bill. The proposed withdrawal of First Year Allowance in the Bill would hit many capital intensive industries, and many Chinese companies committed to come for many corporate-related benefits may reconsider their plans as initial depreciation on plant and machinery used for the first year has already curtailed to 50 percent. These actions will harm new industrial investment in Pakistan.

He stated that the government has retained exemption granted to the Chinese company operating in Gwadar, but the companies support to it will get no concession and pass the burden of the port operator. There was no need to bring a Bill effective from July 1, 2021 in March instead as part of the regular Annual Finance Bill along with the Budget for fiscal year 2021. The need for urgency is not understandable when the Bill has not to take effect immediately. No public debate and consultations are held with stakeholders likely to be affected by the proposed changes in the Bill.

This is undemocratic as well as against the spirit of the Constitution…….He stated that it is a matter of concern to withdraw exemptions granted to the successful Chinese projects. On the other hand, the income tax exemption available to the existing Independent Power Producers (IPPs) would continue and only new plants established after June 30, 2021 will be taxed.

He said that the government is continuing exemptions where they have their own interest, but some CPEC-related projects [considered as game changers] and also those to be executed on the basis of joint ventures between Chinese and local companies have been targeted. The sunrise industries with innovation, especially SMEs, are discouraged to earn billions of dollars through IT and IT-enabled exports due to cumbersome procedures.

He said that the government instead of giving relief to all industries and businesses, making them unviable to survive. Huge tax expenditure in income

[8] https://www.linkedin.com/pulse/imf-imposed-ordinance-exports-dr-ikram-ul-haq/, accessed at 13:05 on February 23, 2025

tax is due to enormous tax-free benefits to the big segments and not because of industries that are providing jobs even in difficult times.

International tax expert stated that it is a prior condition of the International Monetary Fund for release of US$500 million to withdraw tax exemptions and concessionary rates. The same could have been made part of regular budget exercise to determine their overall impact on the economy and challenges faced due to Covid-19 pandemic.[9]

The episode narrated above proves that the State of Pakistan has not only lost economic sovereignty, but has also miserably failed to fulfill its commitment to honor tax exemptions, promised to China, when IMF was not in the picture in 2013 at the time of establishing CPEC, till today labelled as "game changer" by our economic managers.

It is high time that elected members in Parliament take economy seriously and force the government of the day to devise a pragmatic plan and workable strategy through research and debate engaging local experts, think-tanks and institutes like Pakistan Institute of Development Economics (PIDE) to make the country self-reliant and to release itself from the clutches of IMF and others—their prescriptions are anti-growth and anti-people.

Dr. Ikram Ul Haq is a renowned writer, tax reform expert and an Advocate of the Supreme Court of Pakistan, currently serving as the Chief Partner of the law firm Huzaima and Ikram.

[9] https://www.brecorder.com/news/40073516/income-tax-amendment-bill-2021-several-exemptions-under-cpec-proposed-to-withdraw-expert, accessed at 13:30 on February 23, 2024.