



**CENTRE FOR REGIONAL
POLICY & DIALOGUE**

POLICY REVIEW

Foreign-Funded Industrial and Energy Projects in Khyber Pakhtunkhwa

An overview of major foreign-backed industrial and energy initiatives, investments, and their evolving impact on the province.

*Understanding Investments,
Assessing Impact,
Shaping a Sustainable Future
for Khyber Pakhtunkhwa*



Foreign-Funded Industrial and Energy Projects in Khyber Pakhtunkhwa

Policy Review

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Khyber Pakhtunkhwa possesses significant potential to drive industrial development through its strategic location, natural resources, and energy assets. However, the success of major industrial initiatives depends not only on infrastructure investment but also on effective governance, regulatory certainty, and access to reliable and affordable energy. This policy brief reviews two major projects; the Rashakai Special Economic Zone and the proposed Karak Oil Refinery. It attempts to assess their progress, identify key institutional and policy challenges, and highlight opportunities for strengthening sustainable industrial development in the province.

1. Rashakai Special Economic Zone

What it is and where it sits

The Rashakai Special Economic Zone is an industrial park developed under the China-Pakistan Economic Corridor (CPEC) framework, intended as the first of nine priority Special Economic Zones identified jointly by Pakistani and Chinese planners for establishment between 2017 and 2030.¹ It occupies roughly 1,000 acres in Rashakai, a locality in Nowshera district, sitting directly on the M-1 Motorway between Peshawar and Islamabad, with a junction onto the Swat Expressway that extends road access toward the Afghan border at Torkham and the Punjab market to the south.² Islamabad lies about 90 kilometers away and Peshawar around 60 kilometers, placing both within roughly one to two hours by road.

Of the 1,000 acres, around 702 acres are earmarked for industrial plots, with a further 76 acres is set aside for commercial use while the remainder absorbed by roads, utilities, and common infrastructure. The zone is developed by China Road and Bridge Corporation (CRBC) under a concession agreement with the Khyber Pakhtunkhwa Economic Zones Development and Management Company (KPEZDMC), the provincial entity that owns and administers the project.³ Development is organised in three phases.

¹ CPEC Secretariat, Ministry of Planning, Development & Special Initiatives, “Rashakai Special Economic Zone.” <https://cpec.gov.pk> ; and Khyber Pakhtunkhwa Board of Investment and Trade, “Special Economic Zones.” <https://kpboit.gov.pk/special-economic-zones-sezs/>

² Khyber Pakhtunkhwa Board of Investment and Trade (KP-BOIT), “Special Economic Zones (SEZs).” <https://kpboit.gov.pk/special-economic-zones-sezs/>

³ Michael Marray, “CRBC signs Pakistan SEZ concession agreement,” *The Asset*, 7 May 2019; and KPEZDMC corporate materials. <https://kpezdmc.com>

Commissioning and timeline

Construction of Phase I, covering 247 acres, ran from June 2021 to March 2023, finishing ahead of the original December 2023 target.⁴ Then-Prime Minister Shehbaz Sharif formally inaugurated Phase I on 21 July 2023, and Khyber Pakhtunkhwa's caretaker Chief Minister Muhammad Azam Khan held a separate provincial inauguration the following day.⁵ By then the zone already had more than a dozen completed buildings, roughly seven kilometers of internal roads, and working networks for water, drainage, power, and telecommunications.

Electricity and gas supply were built up incrementally. By late 2021 the zone had received a 160-megawatt feed with grid installation underway, and a pipeline capable of delivering 30 million cubic feet of gas per day had been completed.⁶ Phases II and III remain to be built out, and no firm completion date has been given for the zone in its entirety. The project is best understood as operating in Phase I while later phases progress more slowly.

Ownership, Investment, and Marketing problem

The zone is run through a special-purpose vehicle, the Rashakai Special Economic Zone Development and Operations Company (RSEZDOC), in which CRBC holds 91 percent against KPEZDMC's 9 percent.⁷ That structure gives the Chinese developer effective control over marketing and day-to-day operations, while the provincial company retains only a minority oversight role.

This 91/9 ownership split deserves more analytical weight than it usually receives in coverage of the zone. It concentrates marketing and operational authority entirely with a single Chinese state-owned contractor whose outreach, per a 2025 review published in the *Khyber Journal of Public Policy*, has been directed almost entirely toward the Chinese market rather than diversifying toward Gulf, European, or North

⁴ "CPEC's Rashakai SEZ nearing an advanced stage of development," cpecinfo.com (Pakistan-China Institute), 15 December 2021. <https://cpecinfo.com/cpecs-rashakai-sez-nearing-an-advanced-stage-of-development/>

⁵ APP Wires, July 2023, as reported in *Dawn* and *The Express Tribune*, 21–22 July 2023.

⁶ "CPEC's Rashakai SEZ nearing an advanced stage of development," cpecinfo.com, December 2021. <https://cpecinfo.com/cpecs-rashakai-sez-nearing-an-advanced-stage-of-development/>

⁷ "Evaluation of SEZs Policies, Implications, and Its Impact on Industrialization in Khyber Pakhtunkhwa Under CPEC," *Khyber Journal of Public Policy* 4, no. 1 (Spring 2025). <https://www.nipapeshawar.gov.pk/KJPPM/PDF/CIP/RG-2.pdf>

American investors.⁸ The consequence is that a zone explicitly designed to attract broad-based foreign direct investment is, in practice, wholly dependent on one company's networks and commercial incentives to determine who occupies its plots. This is a structural concentration risk that operates independently of the power-supply dispute.

More fundamentally, this structure effectively strips the Khyber Pakhtunkhwa government of most of the substantive benefits that provincial ownership of land and equity might otherwise deliver. Administrative authority, policy discretion over marketing, investor selection, and operational governance all sit with CRBC. What remains for the province, beyond a 9 percent stake in RSEZDOC, is the provision of serviced land, a degree of regulatory facilitation, and the downstream absorption of a workforce that is, by the terms of the investor agreements, predominantly drawn from the local lower-skilled labour pool. The immediate commercial beneficiaries of land appreciation are a narrow stratum of real-estate interests; the province's broader developmental return is limited to several thousand jobs at the lower end of the wage distribution. This outcome is not an accident of CRBC's behaviour; it is a predictable consequence of the ownership architecture agreed at the outset.

Headline investment figures shift depending on the source. Official Board of Investment material has put the zone's eventual investment potential at up to \$4 billion, while earlier CPEC-era estimates cited \$1 billion in investment and 50,000 jobs by 2030.⁹ On the ground the committed numbers are far smaller: an initial allotment of 42 acres to 11 firms in 2021 carried a combined investment of roughly Rs 11.8 billion (then about \$65–70 million) and an estimated 2,500 jobs; China Century Steel's \$50 million plant remains the single largest disclosed private commitment;¹⁰ and a solar-panel manufacturer, Steller, was approved for a Rs 470.78 million investment in 2024. The contrast with the multi-billion-dollar aspirational figures is stark.

By February 2026, provincial officials reported that the zone had allocated 102 acres to 26 enterprises, a meaningful increase in leased land and tenant count over the 2021 baseline, and a sign of accelerating, if

⁸ "Evaluation of SEZs Policies, Implications, and Its Impact on Industrialization in Khyber Pakhtunkhwa Under CPEC," *Khyber Journal of Public Policy* 4, no. 1 (Spring 2025), p. 11.

<https://www.nipapeshawar.gov.pk/KJPPM/PDF/CIP/RG-2.pdf>

⁹ Earlier CPEC-era projections cited up to 500,000 direct and indirect jobs at full colonisation; see cpecinfo.com, December 2021. <https://cpecinfo.com/cpecs-rashakai-sez-nearing-an-advanced-stage-of-development/>

¹⁰ Fawad Yousafzai, "Ahsan for giving land to China Century Steel Mills on discounted rate in Rashakai SEZ," *The Nation*, 24 December 2024; and CPEC Secretariat news, 23 December 2024.

<https://cpec.gov.pk/news/294>

still incremental, take-up.¹¹ Khyber Pakhtunkhwa's Industrial Policy frames the zone's appeal in cost terms, noting Chinese coastal and inland labour costs running roughly three times Pakistan's, and arguing that rising Chinese wages make relocation commercially logical. Whether that logic has converted into a sustained wave of relocations, rather than a handful of early movers, is one of the open questions addressed below.

The Power-supply Dispute: The Central Bottleneck

The single most consequential obstacle Rashakai has faced since Phase I's physical completion has not been construction, it has been getting electricity to the tenants already on site. Under the SEZ Act 2012, federal and provincial governments are obligated to deliver utilities to a zone's designated "zero point," while the developer handles distribution inside. A 132 kV grid station and transmission infrastructure rated for 160 megawatts were completed at Rashakai's zero point well before tenants could draw power, because RSEZDOC could not obtain a distribution-and-supply license from the federal regulator, the National Electric Power Regulatory Authority (NEPRA).¹²

RSEZDOC applied for that license in November 2022. A year on, NEPRA was still directing it to choose a wholesale source; either PESCO, the regional distribution utility, or the Central Power Purchasing Agency (Guarantee) Limited (CPPA-G); while the federal Power Division had not determined whether Special Economic Zones could buy at the cheaper pooled rate or the standard industrial tariff. In January 2024, the provincial caretaker industries minister, Aamer Abdullah, told Dawn that the high proposed tariff risked discouraging Chinese relocation altogether; at that point 18 units had been allotted plots, seven were near operational readiness, and all were still waiting on a connection more than six months after construction finished.¹³

The regulatory paralysis here is not an incidental bureaucratic failure. It reflects a deeper structural condition: the centralisation of power-sector authority in federal institutions; NEPRA, the Power Division, and CPPA-G; which were not designed with provincial Special Economic Zones in mind, and which have proved unable to resolve, among themselves, a question as specific as the applicable tariff category for a

¹¹ "Rashakai SEZ allocates 102 acres of land to 26 firms," Associated Press of Pakistan (APP), 9 February 2026. <https://www.app.com.pk/national/rashakai-sez-allocates-102-acres-of-land-to-26-firms/>

¹² "Red tape hinders power to Rashakai Economic Zone," *Dawn*, 10 January 2024. <https://www.dawn.com/news/1804620>

¹³ "Red tape hinders power to Rashakai Economic Zone," *Dawn*, 10 January 2024. <https://www.dawn.com/news/1804620>

single industrial park in Nowshera. This is the “age-old centralisation of power and energy paradigm” operating at the institutional level: a province that owns the land, hosts the zone, and absorbs its social and environmental consequences has no independent regulatory capacity to resolve the most basic utility question its own tenants face.

This dynamic has been further constrained by Pakistan’s International Monetary Fund programme, which carries an explicit prohibition on new Special Economic Zone tax or tariff concessions.¹⁴ By effectively foreclosing concessional energy pricing as an option, the IMF conditionality has tilted the balance of power further toward federal regulatory bodies, leaving the province without the fiscal instrument it would need to independently resolve the tariff question in a way that satisfies its tenants. The circle cannot be squared at the provincial level: the zone is provincial in ownership, but the pricing and regulatory machinery that governs its commercial viability is federal in jurisdiction and constrained by international conditionality.

In May 2024, the Cabinet Committee on Chinese Investment Projects recorded that Chinese investors were requesting a “pool price” rather than the industrial tariff, a price that would require a government subsidy and raise other consumers’ costs, and directed the Power Division to resolve the matter with NEPRA and the Board of Investment.¹⁵ By August 2024, the dispute was serious enough that RSEZDOC’s chief executive, Lyu Ming, warned the Secretary of the Power Division in writing that unresolved power issues threatened the broader China-Pakistan industrial relationship, and disclosed that at least one major Chinese tenant had withdrawn its investment because its power load could not be met.¹⁶

The federal government intervened repeatedly afterwards, and in December 2024 the planning minister directed officials to remove the obstacles holding up China Century Steel’s operations specifically.¹⁷ As late as April 2025, the Cabinet Committee on Chinese Investment Projects was still ordering the Power

¹⁴ “Rashakai SEZ yet to get power supply licence,” *The Express Tribune*, 12 May 2024, citing the IMF Extended Fund Facility’s explicit prohibition on new SEZ tax or tariff concessions.

<https://tribune.com.pk/story/2466189/rashakai-sez-yet-to-get-power-supply-licence>

¹⁵ “Rashakai SEZ yet to get power supply licence,” *The Express Tribune*, 12 May 2024.

<https://tribune.com.pk/story/2466189/rashakai-sez-yet-to-get-power-supply-licence>

¹⁶ Mushtaq Ghumman, “Fix issues or risk China co-operation, RSEZDOC warns govt,” *Business Recorder*, 29 August 2024. <https://www.brecorder.com/news/40319847>

¹⁷ “Minister Ahsan Iqbal Directs Immediate Resolution of Issues Hindering China Century Steel Mills Operations in Rashakai SEZ,” CPEC Secretariat, 23 December 2024. <https://cpec.gov.pk/news/294>

Division and NEPRA to “accelerate the implementation” of a cabinet decision on the supply mechanism and to report back at the next meeting.¹⁸ The underlying tariff-and-licensing question remains open.

The bottleneck in one line: Rashakai’s binding constraint since 2023 has not been engineering or logistics but an unresolved dispute among three federal bodies; NEPRA, the Power Division, and CPPA-G; over who may sell power to the zone’s tenants and at what tariff. The physical grid was finished first; the regulatory question is still open.

Core Sectors and Tenants

Rashakai’s planning documents group target industries into four clusters: garments and textiles; building materials; electronics and electrical appliances; and automobiles and mechanical equipment.¹⁹ In practice, the tenants that have broken ground lean toward steel, pharmaceuticals, chemicals, solar manufacturing, and light industry. As of late 2024, KPEZDMC described ten industries under construction, including pharmaceuticals, surgical supplies, sulfuric acid production, electric cables, and mobile-phone accessories, with more than 60 percent of available Phase I land leased, predominantly to Pakistani and Chinese firms.

Under the terms set for investors, 80 percent of jobs are reserved for local hires, and tenants receive a one-time exemption from customs duty on capital goods, a 10-year income-tax holiday from the start of commercial operations, and a 99-year land lease.²⁰ Estimates of eventual employment range from roughly 50,000 by 2030 to 200,000–500,000 direct and indirect jobs at full build-out, but these are projections, not counts, and should be read against the low-thousands job numbers tied to capital actually committed.

¹⁸ “Govt eyes Gwadar for China industry relocation,” *The Express Tribune*, 25 April 2025.

<https://tribune.com.pk/story/2542320/govt-eyes-gwadar-for-china-industry-relocation>

¹⁹ World Bank, *Assessment of Special Economic Zones in Pakistan: Suggesting Steps Towards Improved Performance* (2020).

<https://documents1.worldbank.org/curated/en/585181583852150750/pdf/Assessment-of-Special-Economic-Zones-in-Pakistan-Suggesting-Steps-Towards-Improved-Performance.pdf>

²⁰ “Rashakai SEZ allocates 102 acres of land to 26 firms,” APP, 9 February 2026.

<https://www.app.com.pk/national/rashakai-sez-allocates-102-acres-of-land-to-26-firms/>

2. Karak Oil Refinery

What it is and where it stands?

The proposed Karak refinery is a far less mature project than Rashakai, and a fair account must say so directly. It originates in Khyber Pakhtunkhwa's ambition to refine its own crude rather than truck it elsewhere for processing. The province already produces more than half of Pakistan's domestic crude, mostly from fields around Kohat, Karak, and Hangu; KPOGCL's own marketing material put Khyber Pakhtunkhwa output at roughly 135,000 barrels per day in 2025, alongside about 2,000 MMCFD of gas.²¹ The provincial government formally decided to pursue a Karak refinery in 2016, but more than nine years on, the project has not progressed to construction.

Location was itself a years-long point of contention. Lawmakers from Kohat and Karak each pushed to site the refinery in their own constituency, a dispute that officials said cost the project roughly two years on its own.²² The compromise settled on Krappa, a site inside Karak district but close to the Kohat boundary, chosen specifically to defuse the rivalry.

Sponsors and Proposed Scale

Khyber Pakhtunkhwa Oil and Gas Company Limited (KPOGCL), the provincial holding company established to manage Khyber Pakhtunkhwa's hydrocarbon assets, has been the lead public entity. It signed an agreement with the Frontier Works Organisation (FWO), the army-run construction and engineering body, to take the refinery forward after the government grew dissatisfied with progress under KPOGCL and the Pakhtunkhwa Energy Development Organisation alone.²³ The rationale was largely procedural: officials argued FWO involvement would let the project bypass a lengthy tender and avoid the cost of a separate project-management unit, with detailed engineering to be outsourced to an established international refinery contractor.

²¹ KPOGCL, *Investment Opportunities in Khyber Pakhtunkhwa Oil & Gas Sector* (marketing plan, 2025). <https://kpoicl.com.pk/wp-content/uploads/2019/02/KPOGCL-Marketing-Plan-China-V-5-0.pdf>

²² "Karak Oil Refinery to be set up in area near Kohat," *The Express Tribune*, 23 July 2016. <https://tribune.com.pk/story/1147325/karak-oil-refinery-set-area-near-kohat>

²³ "Karak Oil Refinery to be set up in area near Kohat," *The Express Tribune*, 23 July 2016. <https://tribune.com.pk/story/1147325/karak-oil-refinery-set-area-near-kohat>

Public estimates from 2016 put the cost at around Rs 62 billion, throughput at 40,000 barrels per day, and fuel quality above 92 octanes; KPOGCL is reported to hold a 10 percent share in the FWO arrangement.²⁴ Earlier figures floated a smaller first phase of around 20,000 bpd with capacity to double later. None of these numbers has been authoritatively updated in recent years; they should be read as planning-stage estimates, not figures attached to a financed, under-construction facility.

The FWO Question: Provincial Ownership in Name, Central Implementation in Practice.

The engagement of the Frontier Works Organisation as the lead implementing body for the Karak refinery raises a governance question that deserves more analytical attention than it typically receives. Whatever the practical arguments for involving FWO; procurement speed, engineering capacity, bypass of procedural delays; FWO is a federally constituted entity. Its engagement means that a provincial hydrocarbon asset, extracted from Khyber Pakhtunkhwa's own subsoil, would be processed through infrastructure built and potentially operated by a central body with no formal oversight by and accountability to the province.

This is the provincial dimension of a pattern that appears throughout Khyber Pakhtunkhwa's extractive sector: minerals and hydrocarbons are extracted from the province's territory, but the value-addition stage; refining, processing, manufacturing; migrates toward central or extra-provincial institutions, leaving the province with royalties and a portion of jobs rather than the industrial and fiscal depth that in-province processing would generate. The constitutional argument that minerals and hydrocarbons should be processed within the province or locality from which they are extracted; an argument that has a legitimate basis in the 18th Amendment's devolution framework and in equity reasoning about resource-rich but industrially underdeveloped provinces, has been effectively defeated in the Karak case by this arrangement, even before construction has commenced.

KPOGCL's 10 percent share in the FWO arrangement provides the province with a marginal financial stake, but no meaningful governance authority over what is likely to become the province's largest single industrial asset. The parallel with Rashakai's 9 percent KPEZDMC stakes in RSEZDOC is striking: in both cases, Khyber Pakhtunkhwa has accepted a minority position in the entity that actually governs the asset, while the substantive authority rests with an extra-provincial partner.

²⁴ "KP Oil and Gas Company Limited: High-paid professionals do little to complete mega project," *The News*, 2 January 2018. <https://www.thenews.com.pk/print/263340>

The case for a refinery

The argument rests on strategy rather than refinery economics in the abstract. Officials frame it as a national-security and strategic-storage measure: Pakistan’s refining and fuel storage are concentrated in Punjab and Sindh, with little in the north-west, so a Karak facility would cut dependence on long-distance haulage into Khyber Pakhtunkhwa. A subsidiary argument ties it to the province’s own Special Economic Zones: a 2019 chief minister’s meeting directed officials to examine using Karak gas and crude to supply cheaper, more reliable electricity to the Rashakai, Hattar, and Dera Ismail Khan zones.²⁵ KPOGCL has also stated it attracted interest in establishing as many as six refineries across the province, of which Karak is the most advanced on paper.²⁶

Current status

Unlike Rashakai, there is no public record of groundbreaking, a revised completion date, or a committed financing source for the Karak refinery as of mid-2026. Provincial energy reviews continue to list it as a planned addition to Khyber Pakhtunkhwa’s industrial base, including as a power source for nearby zones, but it does not appear in federal tallies of Pakistan’s operating refining capacity, which sits at roughly 450,000 barrels per day across existing plants. Anyone evaluating the project should treat it as a long-running proposal still awaiting financial close, not an asset nearing commissioning.

Karak in one line: Nine-plus years after the 2016 decision, the Karak refinery has an agreed site and a sponsor on paper but no disclosed financing, no groundbreaking, and cost and capacity figures that have gone unrevised for nearly a decade.

3. The CPEC 2.0 Context

Rashakai’s near-term prospects cannot be read in isolation from the September 2025 relaunch of CPEC under a “Phase II” framing. At the 14th Joint Cooperation Committee in Beijing on 26 September 2025, Pakistan and China formally entered Phase II, organised around five “corridors”: Growth, Innovation, Green Development, Livelihood, and Regional Connectivity; mapped onto Pakistan’s URAAN 5Es

²⁵ “Govt decides to set up oil refinery in Karak,” *Dawn*, 20 January 2019.

<https://www.dawn.com/news/1458552>

²⁶ SSGC, “KPOGCL discovers huge Oil & Gas in Kohat,” 5 January 2018.

<https://www.ssgc.com.pk/web/?p=5816>

framework.²⁷ The industrial substance was set out in an Industrial Cooperation Action Plan (2025–2029), signed in November 2025, which explicitly targets the relocation of segments of Chinese manufacturing in chemicals and pharmaceuticals, engineering goods, iron and steel, agro-processing, light manufacturing, home appliances, and construction materials.²⁸

Crucially for Khyber Pakhtunkhwa, the CPEC website and subsequent ministerial statements now highlight a smaller, more credible shortlist of priority zones, *Rashakai* (Khyber Pakhtunkhwa), Allama Iqbal Industrial City (Punjab), *Dhabeji* (Sindh), and *Bostan* (Balochistan), rather than the original nine.²⁹ *Rashakai*'s inclusion on that shortlist gives it more political priority and visibility than a year or two earlier, which could accelerate resolution of the power dispute.

That said, the same body of coverage that documents the renewed push is candid about why Phase II has been slow. Independent reviews attribute the lag to Pakistan's worsening power-sector liabilities, broader macroeconomic stress, investor-service gaps within the zones, and recurring attacks on Chinese personnel, the very conditions that stalled *Rashakai*'s tenants in 2023–2024.³⁰ The fact that the two governments felt the need to formally relaunch industrial cooperation in 2025, after the original 2018–2024 target window had already expired, is itself an admission that the first phase underdelivered.

²⁷ "Minister Ahsan Iqbal reaffirms Pakistan's commitment to Phase-II," CPEC Secretariat, 26 September 2025. <https://cpec.gov.pk/news/317>

²⁸ "CPEC 2.0 and Pakistan's Journey Toward Industrialization," *South Asia Times*, 30 January 2026. <https://southasiatimes.org/cpec-2-0-and-pakistans-journey-toward-industrialization-and-maritime-growth/>

²⁹ "CPEC Phase II and China-Linked Supply Chains in Pakistan," MP-IDSA Issue Brief, 9 April 2026. <https://idsa.in/publisher/issuebrief/cpec-phase-ii-and-china-linked-supply-chains-in-pakistan>

³⁰ "CPEC Phase II and China-Linked Supply Chains in Pakistan," MP-IDSA, 9 April 2026; "CPEC relaunch exposes China–Pakistan interdependence," *East Asia Forum*, 16 October 2025. <https://eastasiaforum.org/2025/10/16/cpec-relaunch-exposes-china-pakistan-interdependence/>

4. Side-by-Side Summary

| | Rashakai SEZ | Karak Oil Refinery |
|-----------------------|---|--|
| Location | Rashakai, Nowshera district, on the M-1 Motorway | Krapa area, Karak district, near the Kohat border |
| Lead developer | China Road & Bridge Corporation (91%), KPEZDMC (9%), via RSEZDOC | Frontier Works Organisation, with KPOGCL (~10% share) |
| Agreement / launch | Concession agreement 2019; Phase I built by March 2023; inaugurated July 2023 | FWO agreement reported from 2016 onward |
| Status (mid-2026) | Phase I operating; power/tariff licensing dispute unresolved as of latest reporting | Pre-construction; site agreed, financing not closed, no groundbreaking |
| Scale | 1,000 acres (702 industrial, 76 commercial); 160 MW, 33 MMCFD gas | Proposed 40,000 bpd; 92+ octane (2016 estimate) |
| Disclosed commitments | 102 acres to 26 firms (February 2026); China Century Steel \$50m; Steller solar Rs 471m | No disclosed committed capital; 2016 cost estimate ~Rs 62 billion |
| Aspirational target | \$1bn–\$4bn investment; 50,000–500,000 jobs depending on source and year | ~100,000 direct and indirect jobs (2016 estimate) |
| Core sectors / output | Steel, pharmaceuticals, chemicals, solar, light manufacturing | Refined petroleum products, 92+ octane fuel |
| Effective governance | CRBC (91% operator); Khyber Pakhtunkhwa retains 9% stake and land title | FWO (lead implementer); KPOGCL retains ~10% share |

Figures are drawn from public statements by KPEZDMC, RSEZDOC, KPOGCL, the CPEC Secretariat, and the Board of Investment, and from contemporaneous Pakistani financial press (Dawn, Business Recorder, The Express Tribune, Profit, APP). Several Karak figures date to 2016–2018 and have not been publicly revised since.

5. Analysis

Two categories of project, not two points on one timeline

It is tempting to read Rashakai and Karak as the same kind of projects at different stages of maturity, but the underlying mechanics are not comparable. Rashakai is an infrastructure-and-real-estate play: the developer builds roads, utilities, and serviced plots, then leases land to manufacturers who bring their own capital and operating risk. That model lets a relatively modest public-and-developer outlay generate

a large headline “investment” figure once tenant commitments are summed, which is why early progress; completed buildings, a paved network, a working grid station; can look impressive even while the project is, in revenue terms, near zero. Karak is a single capital-intensive industrial asset that needs one large sponsor to commit construction financing, offtake arrangements, and crude-feedstock contracts before a barrel is processed. There is no equivalent to leasing small plots to spread the risk; it is built as one project or not at all. That structural difference, more than any difference in government intent, explains why one project has visible tenants and the other does not.

The centralisation problem: structural, not incidental

Taken together, the two projects illuminate a structural condition that goes well beyond their individual implementation challenges. In both cases, Khyber Pakhtunkhwa’s formal provincial ownership; of the land at Rashakai, of the hydrocarbon sub-soil at Karak; has not translated into substantive provincial governance authority. At Rashakai, marketing, investor selection, and operational control sit with a 91-percent Chinese state-owned developer whose incentives are not aligned with Khyber Pakhtunkhwa’s industrial development objectives. At Karak, implementation authority has migrated to the Frontier Works Organisation, a federal body. In neither case has the province retained the administrative or policy levers through which ownership might normally translate into development benefit.

This pattern is reinforced, in Rashakai’s case, by the regulatory architecture of Pakistan’s energy sector. The dispute between NEPRA, the Power Division, and CPPA-G over Rashakai’s tariff category is not merely a bureaucratic inefficiency; it is an expression of a power-sector governance model that is inherently centralised, in which provinces have no independent regulatory standing to determine the terms on which electricity reaches their own industrial parks. This centralisation was present before the IMF programme; the programme’s prohibition on new SEZ tariff concessions has complicated it more binding, but it did not create it.

The gap between aspirational and disclosed figures is wide and has not closed

Comparing the investment actually attached to named tenants; roughly Rs 11.8 billion across 11 firms in 2021, China Century Steel’s \$50 million, a Rs 471 million solar approval in 2024; against the recurring \$1 billion to \$4 billion in official messaging shows a gap on the order of ten to one even under generous assumptions about undisclosed deals. CPEC’s own Phase I record across all nine-priority Special Economic Zones reinforces this: independent reviews put realised foreign direct investment well short of the original

target set for 2018–2024, with only a handful of zones reaching even partial implementation.³¹ Rashakai is, on that comparison, one of the stronger performers in the cohort, which says as much about how weak the rest of the programme has been as about Rashakai’s own achievements. The February 2026 figure of 102 acres leased to 26 firms is real progress, but it is progress measured in tens of acres, not the hundreds the headline targets imply.

CPEC 2.0 changes the framing, not yet the facts on the ground

The Phase II relaunch gives Rashakai more political priority, and that could accelerate a resolution of the power dispute. But the same coverage documenting the renewed push also flags persistent power-sector debt, security incidents affecting Chinese personnel, and investor-service gaps as ongoing constraints, and characterises the 23-page Action Plan as long on aspiration and short on firm commitments and timelines.³² For an investor, the practical reading is that the reset has not yet been tested against the kind of bottleneck that stalled the zone’s tenants two years ago. More visibility raises the cost to both governments of leaving the power question unresolved, but visibility is not the same as resolution.

Karak carries a different and more fundamental risk: it may never reach financial close

Unlike Rashakai, Karak’s risk is not regulatory friction on an otherwise-built asset; it is the absence of any committed financing at all. Nine-plus years between the 2016 decision and mid-2026 is long even by the standards of large energy infrastructure, and the project’s own history; a two-year delay caused purely by a siting dispute between neighbouring districts, followed by a shift to FWO partly because the original state entities could not attract investment; points to weak institutional ownership rather than external shocks as the primary cause of inaction. That the Rs 62 billion / 40,000 bpd figures have been repeated without revision for nearly a decade is itself a signal that no feasibility works serious enough to update them has been completed, or at least none has been made public. A prospective investor should treat Karak less as a project awaiting construction and more as a standing policy aspiration that has not yet found a sponsor willing to commit capital.

6. Policy Implications and Advocacy Priorities

³¹ World Bank, *Assessment of Special Economic Zones in Pakistan* (2020); and MP-IDSA, “CPEC Phase II and China-Linked Supply Chains in Pakistan,” 9 April 2026.

³² “CPEC relaunch exposes China–Pakistan interdependence,” *East Asia Forum*, 16 October 2025. <https://eastasiaforum.org/2025/10/16/cpec-relaunch-exposes-china-pakistan-interdependence/>

The analysis in the preceding sections points toward three overlapping policy conclusions that are relevant to civil-society advocacy in Khyber Pakhtunkhwa's energy and development space.

i. The case for decentralised energy generation

The failure of the federal regulatory architecture to deliver electricity to Rashakai's tenants at a commercially viable tariff, and the structural inability of the province to resolve this problem from within its own jurisdiction, makes the strongest available practical argument for decentralised energy generation in Khyber Pakhtunkhwa. A Special Economic Zone dependent on a pool-price tariff from CPPA-G is vulnerable to every failure mode of Pakistan's centralised power sector; circular debt, inter-governmental dispute, IMF conditionality; none of which is within provincial control.

By contrast, a Special Economic Zone supplied by captive or community solar generation within the zone boundary, or by off-grid solar or hybrid solar solutions, would substantially reduce this exposure. The CPEC framework's "Green Development" corridor in Phase II, and the presence of a solar-panel manufacturer (Steller) already within Rashakai, both provide institutional and commercial footholds for this argument. Advocacy for solarization as the primary energy supply model for Khyber Pakhtunkhwa's industrial zones and rural communities and for a strong provincial case for grid decentralization, is therefore not only an environmental position but an industrial and economic resilience argument grounded in the failures documented in this brief.

ii. Retaining provincial ownership and governance while attracting foreign direct investment

The 91/9 ownership split at Rashakai and the Frontier Works Organisation's implementation role at Karak both represent the same structural problem: provincial ownership of land and subsoil has not produced provincial governance authority. A more effective provincial negotiating position would distinguish between *financial ownership*, where minority or majority stakes may be legitimately offered to attract capital, and *administrative and marketing governance authority*, which the province has a direct developmental interest in retaining.

This is not an argument against foreign direct investment. It is an argument that the terms on which investment is attracted should preserve provincial capacity to pursue investor diversification; including Gulf, European, and North American investors; rather than concentrating that function in a single Chinese state-owned operator. The 2025 Khyber Journal of Public Policy's finding that CRBC's outreach has been almost entirely China-facing is precisely the risk that a more balanced governance structure would have

mitigated.³³ Future concession agreements should require an independently staffed investor-relations function, governed at minimum jointly with the provincial entity, and should set explicit targets for investor-source diversification as a performance condition.

More broadly, civil-society and policy advocacy in Khyber Pakhtunkhwa should press for provincial ownership structures that are designed from the outset to retain substantive governance authority, rather than accepting minority stakes in developer-controlled special-purpose vehicles as the price of attracting investment. This position does not require rejecting CPEC or Chinese capital, it requires negotiating more carefully for what provincial ownership actually delivers.

iii. Constitutional entitlement to net hydel profits

The analysis of Khyber Pakhtunkhwa's industrial and energy landscape cannot be concluded without noting the province's constitutionally guaranteed but chronically underpaid Net Hydel Profit entitlement under Article 161(2) of the Constitution of Pakistan. The Khyber Pakhtunkhwa Finance Department's Budget Speech for FY2026–27 records Net Hydel Profit arrears of Rs 78.45 billion as a projected receipt, an amount that represents resources the province is owed but has not received, and which dwarfs most individual energy or industrial line items in the provincial budget.³⁴

The structural argument is straightforward: Khyber Pakhtunkhwa contributes disproportionately to Pakistan's central power grid through its hydropower resources, hosts the environmental, social, and physical risks of dam construction and operation, and receives in return a tariff-constrained electricity supply, a chronically delayed Net Hydel Profit payment, and a power-sector regulatory architecture that treats it as a consumer of federally priced electricity rather than a producer of significant generation capacity. This is a constitutional grievance with a clear remedy: timely payment of Net Hydel Profit, resolution of arrears through the Council of Common Interests, and the development of provincial transmission and regulatory capacity consistent with the 18th Amendment's devolution framework. Strong support for Khyber Pakhtunkhwa's claim to its constitutionally guaranteed Net Hydel Profit is therefore not a parochial position, it is an argument about the implementation of the federal compact.

³³ "Evaluation of SEZs Policies, Implications, and Its Impact on Industrialization in Khyber Pakhtunkhwa Under CPEC," *Khyber Journal of Public Policy* 4, no. 1 (Spring 2025), p. 11.

<https://www.nipapeshawar.gov.pk/KJPPM/PDF/CIP/RG-2.pdf>

³⁴ Government of Khyber Pakhtunkhwa, Finance Department, *Budget Speech 2026–27*, p. 15.

<https://www.finance.gkp.pk/article/budget-speech-2026-27>

7. Bottom Line

Rashakai is real, occupied, and increasingly central to Pakistan's CPEC 2.0 messaging, with leased land and tenant counts rising into early 2026. But its binding constraint today is intergovernmental, specifically the unresolved question of who sells power to the zone and at what price, rather than a lack of physical readiness, and the gap between its headline multi-billion-dollar targets and the capital actually disclosed by named tenants remains large. Karak has never moved past the agreement-in-principle stage; its repeatedly cited cost and capacity figures are nearly a decade old and unconfirmed, and there is no public evidence of financing, construction, or a revised timeline.

Beneath the project-specific findings lies a structural conclusion: Khyber Pakhtunkhwa's formal ownership of land and subsoil has, in both cases, been converted into minority stake-holding in vehicles governed by extra-provincial actors; a Chinese state-owned developer in one case, a federal military engineering body in the other. The province's developmental return from both projects has been correspondingly thin: some land-value appreciation, a number of lower-skilled jobs, and a Net Hydrel Profit entitlement that has been systematically underpaid. The appropriate response is not to reject foreign capital or federal partnership, but to negotiate future arrangements with a clear-eyed understanding of where governance authority actually matters and to insist on retaining it.

Anyone using these two projects to argue that Khyber Pakhtunkhwa is on the cusp of a broad industrial and energy build-out should treat them as two very different kinds of evidence: one a qualified but real success story still working through its growing structural pains, the other a long-running proposal that has yet to clear its first hurdle. **The honest summary: resolve Rashakai's power question and negotiate better governance terms for the next round; watch Karak for a financial close that has not yet come.**
