



## **Prospective Analysis of Economic and Social Development Through Special Economic Zones (SEZs): Pakistan a Case in Point**

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### **ABSTRACT**

This paper seeks to link the concept of SEZs with social developments in developing countries like Pakistan. In the larger context of human developments, social and general wellbeing of the people is closely linked with the infrastructural enhancement, overall employment of human resource and economic growth in a country. Creation of SEZs is one of the mechanisms to enhance human hands' engagement. SEZs create those environments which are growth centric in the most comprehensive manner. In the recent history of human developments, it has worked very well in China which raised living standards of the people in record times. The concept of SEZs is based on business facilitation at one place with minimum cost; yet attaining optimum proficiency. The paper is based on secondary data from the official circles of Pakistan and China as well as the literature review. The study follows a qualitative analysis of secondary data as available in publications and official websites. Since Pakistan was already part of Chinese Belt and Road Initiative (BRI), the idea of establishing CPEC (China Pakistan Economic Corridor) prompted to develop SEZs in synchronicity for boosting the economic growth. The study also allows comparative views of SEZs especially in developing countries to draw relevance to those envisaged in Pakistan. In synch with the developments centered around CPEC; in Pakistan, the SEZs have started coming on grounds in a phased process. The study concludes with outcomes like creating similar conditions as those of Chinese to have compatible and comparable success standards in Pakistan.



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## **1. Introduction**

Special Economic Zones (SEZs) form part of the industrial growth strategies of the respective countries to stimulate community developments (Mahmood, 2019). Due to special pro-industry environment, SEZs attract national and foreign capital formation i.e., FDI (Foreign Direct Investment), continuity in growth of businesses and much needed diversification in all possible areas. According to World Investment Report of 2019, also highlighted in UNCTAD (2019), the same year, more than 5,400 Special Economic Zones exist in 147 countries which is substantial increase from the previous state (UNCTAD, 2019). It is 35% increase in numbers

of SEZs if you count from the earlier state of the year 2015. Apart from being a strategic policy tool, SEZs also prompt bringing in new knowledge, diverse experience and notion of mutual developments (Tang, 2021). Fundamental objectives of the SEZs are different amongst economies according to their capacities and potentials of doing businesses. According to UNCTAD, it is a development ladder for competitive economies to grow and progress (Tang, 2021). In the developed countries, one finds that majority of the SEZs are located in areas which are custom-free; this is basically to provide them relief from tariffs and other liabilities like customs etcetera. It makes the trades competitive in cross-border value chains. On the other hand, most of the developing countries establish their SEZs with the sole purpose of attracting FDI for building, diversifying and upgrading their industries.

China has emerged most successful in developing SEZs for long term economic and social transformations of its people. They started with four zones initially and after successful experiments, expanded the program to many other parts of China. In order to regulate SEZs efficiently; they undertook reforms in their system of taxes, provision of land, employment of working hands, raising finances, customs obligations and immigrations (Zeng, 2015). With the passage of time, in combination with many other economic pursuits, SEZs in China has made substantial addition to their economic growth by reducing unemployment, enhancing exports and getting more and more investment from international companies. These initiatives also facilitated bringing in new technical knowhow to China and adoption of contemporary more proficient management. With pragmatic and experimental approach, Chinese undertook reforms for efficient functioning of SEZs with commitment and active involvement of all stakeholders. The strategic initiatives enabled them to create comprehensive infrastructure, undertake compatible marketing and consequently improve their socio-economic landscape especially of the lagging behind regions. In this way, they were able to present to the world a successful concept and model of SEZs for economic and social growth of the people.

Pakistan's initiative of SEZs is comparatively a new venture of its kind which is Chinese inspired due to their wide spread success stories. The SEZs of Pakistan are expected to enhance its socio-economic growth as part of their strategic initiative in the shape of CPEC which is integral part of BRI. The CPEC initiative is part of well-planned collaboration with China in industrial cooperation and trade development. These SEZs are to pave ways towards industrialization and economic and social developments of Pakistan in line with other such successful initiatives in the world. Acquisition and employment of technology is prerequisite to modern day industrial development. The envisaged SEZs are going to initiate technology transfers in development projects and improvement of human skills for proficient employment of human resource, consequent economic growth and development.

Review studies of the SEZs reveal varying success rates and stories in different countries according to their operating conditions (Zeng, 2016). Probably, one fit solution to all kind of situations is not available / feasible. Chinese experience of SEZs is contemporary in nature and presents a model of compatible success. Therefore, the literature pertaining to SEZs of China, India, Pakistan and Bangladesh have varying perspectives of commonalities and divergences (Farole & Akinci, 2011). Accordingly, they have success stories as well as cases of deficient and partial successes. Pakistan's initiative of SEZs in its latest form is an inspiration of Chinese success stories. However, China and Pakistan operate in extremes of divergence in terms of governance mechanism, state rules, organizational regulations, management expertise and social structure of the society. In this scenario, probably, the Chinese fit solution may not work in Pakistan without corresponding modifications. Therefore, it necessitates a prospective study on Pakistan's initiative of SEZs in comparison with those of Chinese' and others' especially in the South Asian region. This study has been designed to bring out comparative outcome of varying scenario of SEZs and workable strategies for more chances of successes in countries like Pakistan. The recommendations would provide viable courses of action for policy makers especially in the developing countries.

In many emerging economies of the world including China, SEZs in many cases have succeeded in improving economies of the respective countries. However, as every success has a cost, these countries had to initially invest on infrastructure, marketing and human resource (Tang, 2021). China's Shenzhen SEZ is a classic case of success and fast paced economic and social development. In the light of these developments, this study signifies the following objectives: -

- To study SEZs of Pakistan in comparison with those of contemporary practices including China for attracting FDI, reducing unemployment, enhancing exports and improving economic growth.
- To identify the changes required in the rules and regulations of Pakistan to support successful functioning of the SEZs like those in other countries.
- To develop criteria for the risk assessment of Pakistan's SEZs and a model for monitoring and feedback so as to succeed in socio-economic development

The study in essence is centric to developing countries like Pakistan who are desirous of economic growth and social development like that of China. Accordingly, it has been planned to encapsulate only the following: -

- An overview of the Pakistan's planned SEZs in comparison with other such initiatives in South Asian perspective and progress made therein since their inception and steps taken for growth and development.
- Taking into account the factors prompting successes in Chinese model of SEZs and others in the contemporary world, especially in South Asia.
- Comparative analysis and workable strategies for the developing countries like Pakistan to succeed in their programs of SEZs.

## **2. Literature Review**

### **2.1. Evolution of SEZs**

The idea of free economic zones is not new; rather such zones have existed in the recent to medieval history. Its crude form was development of ports free of any charge. These ports were designed to facilitate mutual businesses. Initially, some countries established Free Trade Zones (FTZs) for trading activities; however, faster industrialization and consequent exports volumes prompted to develop product firms in the FTZs (Neveling, 2015). This resulted into the concept of establishing exclusive zones for facilitating exports, known as EPZs (Export Processing Zones). In order to shift to exports based economic development, in 1980s, Chinese planned four EPZs in two of its provinces. These four zones were further developed to form economic free zones with tax relaxations. After their successful trial, Chinese government further planned and converted its fourteen coastal towns into ETDZs (Economic and Technical Development Zones). They provided tax exemptions and other incentives to ETDZs which are almost similar to today's SEZs. The results of such efforts were that from 1979 to 1991, the provinces where these zones were located could attract around 70 percent of the total FDI coming to China (Yeung, Lee, & Kee, 2009). According to a report prepared under UNCTAD (2019), about 47% of the total SEZs of the world are located in China in one or the other form. In 1986, there were 176 SEZs established in 47 countries, in 2006, these numbers increased to 3,500 in 130 countries of the modern world. As mentioned in State Bank of Pakistan (SBP) report, in 2018, the numbers of SEZs have reached to 5400 and countries spread to 147 from the earlier figure of 130 (SBP, 2021).

### **2.2. Specific Characteristics of SEZs**

SEZs depict specific areas of business activities; those have been declared for enhancing investment in the concerned states (Robinson, 2022). Therefore, these zones

include; industrial parks for economic and social developments, FTZs, IDZs (Industrial Development Zones), FTZs and TPZs (Trade Processing Zones). Studies conducted on the successes of these zones reveal mixed results. Partial successes or failures occur due to deficiencies in the designed functional mechanisms for the operations of such zones. It has been found that one set of operating conditions bring success to one country or area; however may result into disastrous in another cases (Zeng, 2016). SEZs operate with different fiscal as well as regulatory regimes, which are different from other parts of the state and they are economically more liberal and efficient (Wolf, 2020). They have delegated governance mechanisms like customs, revenue, ports and shipping and security etc. Accordingly, they have elaborated and comprehensive infrastructure including roads, railways, ports, dry ports, logistic infrastructures and government offices. Similarly, they are more secure and peaceful having secure external links (Afzaal, 2020). The SEZs, wherever these are located, initiate developments in the economic and social spheres of the communities. However, the success is linked with their integration into the overall state's economic development strategies. They have export orientation; therefore, contribute more significantly in the trade developments in the country and consequently create multiple employment opportunities. Therefore, SEZs are characterized by expeditious establishment of businesses, having exemptions on taxes etcetera as facilitating base, holistic communication linking all supportive mechanisms, allied facilities and services to support the quality of work and life.

## **2.3. Chinese SEZs**

### **2.3.1.China's Social Transformation to Market Economy and SEZs**

In 1978, China undertook social transformation to market economy; earlier they had predominant traditional economy with uneven developments in its various regions. This change made the Chinese society to export even on smaller rates of return. In countries like Pakistan Chinese products used to be known as even cheaper than the raw materials used in their manufacturing. At the same time, they started working on SEZs as entry points for intensive exports through technological modernization and innovations (Tao & Lu, 2018). In 1980's, when they had just started the export centricity, Chinese businessmen under the direction of their government introduced new reforms for the operation of SEZs. Initially, they opened up for foreign investment and subsequently shifted to foreign trade as well. Through appropriate regulations, reforms and people's orientation, they aligned themselves to achieve true benefits of FDI in SEZs. At that point in time, opening up of Shenzhen as SEZ in close proximity of Hong Kong enabled them to accrue benefits of fast manufacturing and exports (Tao & Lu, 2018). They also ensured due benefits to the people who migrated from the rural areas into Shenzhen Economic Zone through the provision of capital, technical expertise and required wages. Free flow of technical experts, capital and investors from Hong Kong benefitted operations of the Shenzhen SEZ. Second beneficiary of the Shenzhen Economic Zone were local governments as they made rules that allowed the free access to capital and labor. Competitive spirit among local governments to perform efficiently reduced the 'institutional costs.

### **2.3.2.Leadng Characteristics of Chinese Model of SEZs**

There are seven pillars considered as the foundation of the Chinese model of SEZs; it includes government, leadership, policies, infrastructure, people, location, and integrated outlook (Robinson, 2022). Besides foundational considerations, there are certain protocols required for the planning and establishment of SEZs. The protocols include preferential regulations, phased approach, ease of doing business, environmental considerations, international cooperation, innovations, compatible service delivery mechanisms, favorable investment climate, social system, export orientation and diversification (Robinson, 2022). The Chinese model of special economic zone after putting in place the pillars and protocols presented the notion of sustained development. Consequently, Shenzhen SEZ made China as the fastest growing economy which changed the pattern of global economy. Therefore, one can

say that Chinese' SEZ of Shenzhen is the latest and most successful model of fast paced economic and social development (Wolf, 2020).

## **2.4. Bangladesh Model of SEZs**

### **2.4.1. Bangladesh Approach towards Development of SEZs**

Bangladesh was initially a jute exporting country; later on, however polymers replaced jute, thus closing most of their related factories (Farole & Akinci, 2011). In 1980, they created Bangladesh Export Processing Zone Authority (BEPZA) to look after the affairs of export processing. Initially, it was restricted to Dhaka and Chittagong; later on, expanded to many other cities. Under BEPZA, special incentives were offered to the local as well as foreign investors to benefit from the lower wages, availability of abundant workforce and quota restrictions on countries like Japan, Korea, Vietnam, Hong Kong and China. FDI increased substantially in 1990s and in 2009 it was approximately USD 1.5 billion, with 61 percent companies having foreign ownership. It also increased the exports substantially i.e., USD 2.5 billion in 2009 which is 17 percent of their GDP. Employment opportunities also increased, and 220000 new jobs were created by 2009. Majority of the jobs in textile sector were of women (64 percent) which created a positive impact on the workforce as well as society; overall 99.5 percent of all employees in EPZs were Bangladeshis (Farole & Akinci, 2011).

### **2.4.2. Success Factors of Bangladesh Model of SEZs**

Key success factor that influenced the exports of garment sector in Bangladesh included lower labor wages, 2.5 times lower than that of Vietnam the closest competitor and 3 times lower than that of African SEZ (Farole & Akinci, 2011). However, the investment climate has not been very conducive due to slow procedural systems and regulatory mechanisms. The ease of doing business index in Bangladesh has been quite low i.e., 119 out of 183 countries. Similarly, Bangladesh is ranked 176 out of 183 in registering properties. Other retarding factors include license formalities and cumbersome regulatory framework. Provision of services in EPZs including power availability has been quite difficult; however, its provision is conditional to 10 percent surcharge by BEPZA. Moreover, the factory owners can generate their own electricity through generators and power plants. BEPZA also ensures other supporting facilities like banking, customs, logistics, medical and sports / recreation facilities (Farole & Akinci, 2011).

### **2.4.3. Fiscal and Non-fiscal Incentives**

Bangladesh government introduced fiscal incentives to the investors which included full tax exemption for the initial 10 years. Then for the next 5 years, further relief was provided by reducing the tax to 50 percent. They also provided relief on import and export of raw materials and finished goods on varying scales. Other incentive on fiscal ground includes duty-free import of construction materials, equipment, office machinery, spare parts, relief from double taxation, exemption from dividend tax and duty-free import of two to three vehicles for the operations of EPZ. Furthermore, expatriates were exempted from income tax for the initial 3 years. The government also allowed accelerated depreciation allowance on machinery and remittance of royalty, technical, and consultancy fees. Similarly, on accounts of non-fiscal incentives, the government allowed 100% foreign ownership to the inland investment for infrastructures. In order to facilitate the operations of EPZs, investors were allowed to avail foreign currency loans directly from abroad. Similarly they could maintain nonresident foreign currency deposit account (Farole & Akinci, 2011).

### **2.4.4. Challenges and Opportunities**

Some of the future challenges for Bangladesh include sustained labor cost viz-a-viz competitive cost, sustainable regulations and working environment. Some legislation was done

in 2010 by government in labor laws to provide limited rights for establishment of unions but restricting their rights to strike and agitation (Farole & Akinci, 2011). After some unrests in EPZs, BEPZA enrolled 67 councilors for a Labor Counselor Program, creating a link between owners and working hands. The program was funded by World Bank and later adopted as Bangladesh Investment Climate Fund (BCIF). However, the ongoing incentives may not remain viable due to their government's agreements with World Trade organizational (WTO) on reducing / removing subsidies. It can be concluded that although impact of EPZs on Bangladesh's economy has been modest; the economic venture enabled them to attract FDIs, increase exports of garments and provided jobs especially to the women folk. Similarly, one can say that EPZs have not been able to diversify the industries in Bangladesh (Farole & Akinci, 2011). All these challenges provide equal opportunities to Bangladesh under the broader concept of Chinese' BRI.

## **2.5. Indian Model of SEZs**

### **2.5.1. Indian Concept of Special Economic Growth Zones**

In 2005, Government of India passed SEZs act to provide much awaited ownership to these economic zones which were created in its various regions. The first EPZ was created in 1965 at Kandala. Six more were created but most of them were failures due to the extraordinary control and lack of sufficient infrastructure. There has been substantial investments in SEZs due to the incentives offered in terms of tax exemptions and services provision through SEZ Act 2005 (TK & Arul, 2016). As a result of these investments, the exports from SEZs increased to 225.24% as against 46.18% in government sectors in other industrial areas from 2005/2006 to 2014/2015. The concentration of these SEZs has provided employment to semi-skilled and skilled labor in the states adjacent to SEZs. The developments due to the resultant infrastructure brought prosperity in the regions around SEZs. Seventeen SEZs were established prior to the SEZs Act 2005, and more than 491 has been given formal approval after the Act. The sectors which received investments and production in SEZs were IT, pharmaceutical and chemicals.

### **2.5.2. Investment and Outcome of Indian SEZs**

Huge investments have been made by Indian government in developing these SEZs by acquiring land, building infrastructure, and making conducive policies to attract FDIs. The land acquired has been mostly agricultural thus depriving many peasants, approximately one million, from their livelihood however the share of SEZs export in overall exports counts to more than 25% (TK & Arul, 2016). The SEZs had tax exemptions that led to their growth, however lately administration of taxes like MAT (Minimum Alternate Tax) and DDT (Dividend Distribution Tax) put a pause on their further growth. Many investors have started withdrawing licenses. 90% of the land acquired is still unutilized. The development and employment around SEZs have remained limited to their suburbs and has not proliferated to other areas. The exports only remained limited to IT, pharmaceutical and chemical sectors, engineering, and other heavy industries were never given due attention. Imposition of sunset clause and GST has further cautioned the potential investors (TK & Arul, 2016).

## **2.6. SEZs in Pakistan**

### **2.6.1. Pakistan's Socio-Economic Development and SEZs**

Pakistan's agriculture sector contributes around 21% to its GDP; however bulk (about 70%) of its population is attached to this sector (Durrani, Ullah, Khan, Irfan, & Raza, 2017). Depleting water aquifers and inefficient management are putting strain of the agriculture sector against rising demands of food for ever increasing population (Khosro, Wagan, Tunio, & Ansari, 2015). This necessitated shift to industrial sector for seeking employment in the post 1971 Pakistan. The situation led to creation of small to medium industrial setup all over the

country in public and private sectors. In the same backdrop, development ventures like FTZ, EPZ and Industrial Parks were created in different time frames. However now the all-encompassing term that is being used is SEZs (Khan, Khan, & Anwar, 2016). It is pertinent to clarify that each category of business and trade supporting initiatives like FTZs, EPZs, SEZs and Industrial Parks is essentially fulfilling the same objective with little variation i.e., promotion and growth of exports. SEZs besides above-mentioned functions also seek to create employment opportunities, encourage substitution for imports and enhance foreign exchange in countries that are suffering from acute balance of payment issues, Pakistan is one of those.

### **2.6.2. Pakistan's Industrial Estate Models for Economic Growth**

Pakistan has industrial estates in almost all the district headquarters; those have been developed over a period of time. Some of them have been successful and others suffered shortfalls due to their remoteness, lack of allied facilities, insufficient infrastructural development and deficient skilled workforce (MAJEED & KHAN). If one goes province wise, Punjab has twenty-six industrial zones also called industrial states, Sindh has thirty, Balochistan houses seven and KPK has twelve such business and trade centers in its folds. These EPZs are identified with the name of the city these are located in like Karachi EPZ, Sialkot EPZ, Gujranwala EPZ, Hathar EPZ, Risalpur EPZ, Rashakai SEZ, Gadoon SEZ and Khairpur SEZ etcetera. Under the category of Industrial Parks, it includes Rachna Industrial Park located at Lahore, Marble City at Lahore and Textile City at Port Qasim, Karachi. The recent additions in the category of industrial estates include the one at Shiekhpura-Faisalabad Expressway, M-3 Industrial City at Faisalabad, and Quaid-e-Azam Apparel Park M-2 at Lahore (MAJEED & KHAN).

### **2.6.3. Pakistan China Relations and Establishment of CPEC**

The history of relations between Pakistan and China goes back to 1950. Pakistan was amongst initial few countries who recognized China as an independent state under UN. They concluded first mutual trade agreement in early 1963. Thereafter, in late 1982, both the countries reached an agreement on establishing Pakistan China Joint Committee on Economic, Trade and Technology. With such successful mutual understandings, the two countries signed the Treaty of Friendship, Cooperation and Good Neighborly Relations in 2005. They also pledged to early 'Harvest Program' in 2006 which was later merged into BFTA (Bilateral Free Trade Agreement) in 2007. These developments facilitated latest strategic alliance in the shape of CPEC which came into reality in 2013 (Mahmood, 2019). According to mutual understanding on CPEC, the Government of Pakistan initially proposed 9 SEZs. The planned zones included those at Rashakai, Dhabeji, Quetta, Sheikhpura, Islamabad, Port Qasim, Bhimber, Mohmand, and Moqpondass uddin Ahmed, Ali, Kumar, Malik, and Memon (2019) and (Hussain & Rao, 2020).

### **2.6.4. SEZs Act 2016 and its Implications**

Government of Pakistan SEZs Act 2012 as amended by SEZs Act 2016 lays down the criteria, provisions, and rules for the establishment and development of SEZ in Pakistan (SEZ, 2016). Accordingly, Board of Approval (BOA) under the chairmanship of Prime Minister and members from various ministries, provincial chief ministers, Chairman Board of Investment (BOI) and technical experts have been constituted to head the apex body and execute the provisions of the act as enshrined in this SEZs Act (RSA, 2014). According to this act, any province as well as individual can establish SEZ; provided the land is at least 50 acres and the purpose of establishment of SEZ has been clearly defined. The developer shall be selected on open bidding who would be responsible for the development of the zone and provision of amenities to the industries within the zone. No more than 30% land can be used for amenities. Developer is responsible for provision of electricity, gas, water and other services for which he

can establish hydro power projects and infrastructure (RSA, 2014). The industrial parks, EPZs, hybrid export processing zones, extra territorial zones, multilateral zones, reconstruction opportunity zones, regional development zones and sector development zones which were established earlier, have been included in the provisions of SEZs Act. SEZs Authority for the province would also be established headed by Chief Ministers to include provincial ministers, technical members, and representatives of business community. Authority would act as apex body in the province for execution and approval of projects as per this act.

### **2.6.5. Incentives for Investing in SEZs**

SEZs incentive packages have been given by federal government, accordingly it includes tax exemption for ten years for developers and enterprises for import of machinery and plants for the first time required for the establishment of factories and enterprises and development of SEZs (RSA, 2014). It also includes onetime relief on accounts of custom duties and other allied taxes on imports of capital goods to those involved in the development of business venture connected with SEZ (Act, 1969). Economic Survey of Pakistan 2021/22 gives the historical timelines for the establishment of SEZs. After the enactment of the SEZs Act 2012, three SEZs were set up in 2015, and after incorporating few amendments through Presidential Ordinance, 4 more SEZs were established in 2016 and nine SEZs were agreed under CPEC Phase II. In 2019, six new SEZs were approved including Rashakai SEZ in CPEC. In 2022 framework agreement on industrial cooperation under CPEC was signed (SEZ, 2021-2022). Till FY 2018-19, there were only seven SEZs as planned put into development; out of those, 6 were taken from their earlier status of industrial estate or industrial parks. Thereafter, in view of the CPEC developments which prompted industrial cooperation with the Chinese government, SEZs started coming into planning process in greater numbers across the country. This tendency also encouraged investors' confidence in industrial planning and commitments. The numbers rose to twenty in the approved state while twenty-one more have been notified under the Board of Investment (BOI). It also includes a Science and Technology Park which is being established under National University of Science and Technology (NUST). In the national budget of 2021-2022, Government of Pakistan allocated over Rs. 27 billion from its Public Sector Development Program for the provision of infrastructure to the prioritized public sector SEZs in Pakistan. In relation with provision of land, over 91% of industrial area has been allotted. Total planned investment in these SEZs is Rs. 381.5 billion including 44% FDI. Exemptions on accounts of taxes has been enormous to the investors of SEZs; it is over Rs 68.69 billion. This is for setting up the basic infrastructures (SEZ, 2021-2022).

### **2.6.6. Progress on the Establishment of SEZs, Pakistan**

On accounts of establishing SEZs in Pakistan, it has made reasonable progress by allocating over 10,000 acres of land for the 21 notified such zones. Out of the allocated land, 5,357 acres which makes 53% of the total allocation have been given to investing parties so that they could set up planned industrial units. The planned investment is Rs. 823.42 billion. About 40% of the planned investment is in the shape of FDI. According SEZ Act 2012, an economic zone is to start constructional activities within six months after allocation of land. They are also supposed to get into commercial production within 24 months after the approval date. If an enterprise is unable to start with the committed activities, then its status of land allocation can be withdrawn (SEZ, 2021-2022). Similarly, under the act, the scope of SEZs has been enhanced through the inclusion of service sector to include IT, storage, communication, and allied infrastructure developments. Exemptions on accounts of custom duty which was available for the import of plants and machinery, has now been enhanced in scope to include wide variety of capital goods to be used in manufacturing and services. Similarly in order to accelerate the pace of development in public private partnerships, the specific exemptions available to developers have now been extended to co-developers as well. Income tax exemptions have enhanced from 5 to 10 years (SEZ, 2021-2022). In order to speed up the



development works, Rs. 25 billion has been allocated from PSDP. The release of funds has been made in a phased manner starting from 2019-20 to 2021-22.

### **3. Research Type and Methodology**

#### **3.1. Type of Research**

The research undertaken on SEZs Pakistan is descriptive in nature which is predominantly based on the literature review and information which keep coming on media and perceptions developed thereon. SEZs of selected countries like Bangladesh, India and China have been taken as cases to draw comparisons with those of envisaged in Pakistan. China has been taken as a lead success story based on its initiative of Shenzhen SEZ. Bangladesh and India represent countries with almost similar socio-political makeup and prevailing environments as that of Pakistan. Hence, it is a case study based on the analysis of three cases of similar and dissimilar outlooks with varying experience of success, partial success and failures in certain areas.

#### **3.2. Research Outlook and Philosophy**

The research has been perceived to follow the qualitative analysis i.e., mainly subjective dimensions highlighting growth in economic wellbeing of the countries as well as progress and developments in their socio-political outlooks. It has been taken so because development of SEZs in Pakistan is politically perceived as Chinese sponsored / inspired, connected with CPEC; strategic segment of Chinese Strategic BRI. One can find that the progress in Pakistan's SEZs is in synch with that of CPEC. It is assumed that CPEC is one of the main rather leading components of Chinese BRI.

#### **3.3. Research Methodology**

This prospective research is based on secondary data and prevailing perceptions about SEZs case in Pakistan and its socio-economic development initiatives. As SEZs are linked with CPEC, the developments have geostrategic dimensions which can be best understood through the study and analysis of narratives. Perceived success of Pakistan's SEZs is not envisaged to be based on material gains in terms of economic growth only; perceptions based on socio-political paradigms also play their role in either way. The question that who all are going to be main beneficiaries of these SEZs needs a convincing argument; otherwise, the developments shall face politico-security challenges. Pakistan does not have a very convincing historical record of trickle-down impacts of such developments on the local population. Growth across the regions has been taken as one of the leading success criteria. Starting from description, going through exploration; the research would terminate at determining prerequisites for the success of Pakistan's SEZs and prospects of their success under the socio-political peculiarities.

### **4. Discussion, Analysis and Conclusions**

#### **4.1. Critical Success Factors (CSF) for SEZs**

As opined by Zeng (2014) and others alike, there are five CSFs for SEZs. These CSF include clear objectives, bold policy innovations, good location, customized design and effective management (Cheong, 2018; Zeng, 2015). Each one of these factors is elaborated here: -

##### **4.1.1. Clear Objectives Linked with Policy Initiatives**

If the objective is job creation, then labor intensive industries have to be established and services sector gets preference. High-tech industries established by multinationals to produce high-tech equipment would be less labor intensive but they will have technologically advanced equipment. Though this would increase FDI as well as exports but would not be able

to provide employment. Similarly, development of a specific sector like tourism would have different objectives and requirements. Technology transfer would be another objective focusing on new technologies only. When Shenzhen SEZ in China was developed in 1980s, China was in the process of ideological shifting from central planning to a market economy. Thus Shenzhen acted as testing ground for executing new principals of market economy, like tax exemptions and liberal business policies (Cheong, 2018).

#### **4.1.2.Bold Policy Innovations**

There is a tendency of holding back to old policies and less liberalization which remained hindrance in reaping optimal advantages of SEZs. Policy innovations of liberal tax exemptions, tax holidays, custom free import of plants and machinery, liberal labor policies and developing human resource would need to be prioritized in the same way. It also includes free access to foreign exchange for import and export of equipment (Cheong, 2018).

#### **4.1.3.Location of the SEZ**

One of the most important aspects of establishing a SEZ is its location. If it is meant for exports, then it should be near to ports and airports. If a SEZ is meant for manufacturing purpose, then it should be closer to area where sufficient skilled manpower and labor is available. Similarly, if it is meant for boosting agricultural exports, then it should be closer to the farms and orchards. If SEZs are planned and located in remote areas then they are likely to fail due to absence of these important facilities (Wang, 2013).

#### **4.1.4.Customized Designs of the SEZs**

Customized design to cater for the industrial units, amenities, rail, road, and port infrastructure are important in the master plan for development of SEZs. Master plan caters for the need of industries and their future expansion. In Singapore for example, there is a requirement of going vertical due to space scarcity in logistic warehousing as well as industrial infrastructure (Cheong, 2018). Therefore, the designing has to be according to local conditions.

#### **4.1.5.Proficient and Effective Management**

Effective management is important to cater for the infrastructural development and dealing with day-to-day affairs for the successful operations of SEZs. They should also be able to cater for the future requirements of the SEZs and their integration in the overall industrial setup of the country. Harmony between management and regulatory bodies would speed up if setups are made friction free and mutually supportive (Cheong, 2018). Looking at the special provisions for SEZs, it is assumed that they should succeed; however despite those arrangements, there are fundamental factors assuring the successful operation of these zones which include supportive economic health of the country, governance stability and sustainability, investment support, availability of skilled human resource, cost of investment and suitable services (Pakdeenurit, Suthikarnnarunai, & Rattanawong, 2017).

### **4.2. SEZs-Regional Disparity in Economic Equality**

Regional disparity in economic growth has been observed with regions having SEZs as against those not having (Park, 2005). This is a common phenomenon being experienced in all the regions and countries having SEZs. In prosperous Eastern China, SEZs brought economic prosperity, which created economic inequality with other regions. Chinese government applied correction by revision of certain policies and delegation of authorities to the regions, however the spillover economic benefits were transferred to the central regions to some extent but were unable to bring prosperity in western regions, because the spillover effects decreased with the

increase in distances (Crane, Albrecht, Duffin, & Albrecht, 2018). Analysis of such regions in comparison with those having SEZs indicates that income gaps exist between urban and rural areas and at the same time, family size impacts on income inequality (SBP, 2021). Therefore, adoption of appropriate approaches becomes essential to address this disparity among regions. Supportive measures include investment in infrastructure, social development of underdeveloped regions, welfare network programs for poor and reforms in local government systems for the justified social developments (Crane et al., 2018). Social unrest emerges because of these disparities as is the case of Pakistan's different regions. If the fruits of economic developments are not shared equally then there is a divide between rich and poor which is widening. The Chinese government managed it to a large extent because of their strong centralized system of governance. It is, however, going to be a challenge in developing countries like Pakistan with regional disparities and diverse socio-political structure of the society and leadership vacuum at the national level.

### **4.3. Reindustrializing Pakistan through CPEC-SEZs**

Mahmood (2019) opines that de-industrialization in Pakistan has been phenomenal due to deep-rooted structural flaws which have been causing decline in exports. Whereas, ultimately it is due to deficient professional expertise, main factors contributory to such declines are incompatible competitiveness, and rise in the cost of doing business (MoF, 2022). More reliance on imports to meet the domestic needs has created a deficit which is creating strong imbalance in Pakistan's economy. Share of manufacturing industries in GDP is minimal (Mahmood, 2019). After carrying out incisive analysis of the economy and the de-industrialization indicators, it appears logical that SEZs provide an opportunity for re-industrialization. If it is taken seriously, approximately 1200 Chinese manufacturing companies are ready to come and relocate in SEZs under favorable conditions. More than 100 companies are already working directly or through collaborative arrangements here in Pakistan (Mahmood, 2019). Pakistan needs to develop a reindustrialization strategy through a carefully crafted and analyzed economic and social growth path. Establishing SEZ closer to labor intensive areas, presence of supporting domestic industry and availability of raw material is some of the points worth considering. Skill development and establishment of science and technology parks, policies encouraging exports, simplified tax laws, improved upward and downward coordination between local and federal government for ease of doing business need due attention at priority.

### **4.4. Discussion Outcomes**

#### **4.4.1. SEZs Prompt Industrialization**

Based on the literature review and case studies like those of China, Bangladesh and India, it can be safely concluded that SEZs are established to industrialize or reindustrialize the economy to increase national economic wealth, effective and fruitful utilization of local raw materials, increase FDIs to stimulate economic activity to build, diversify and upgrade infrastructure, carry out economic reforms and providing experimental ground for testing new policies and concepts. Underdeveloped economies in Africa, SEZs boost manufacturing, industrialization and generating exports. The transition economies on the other hand focus on technology transfers and advance economies like Shenzhen in China concentrate to promote industrial upgrading. SEZs create jobs and reduce unemployment; in case of Bangladesh, it has specifically provided jobs to women folks in textile sector. World Bank Report signifies four distinct areas of SEZs' advancement which include creation of jobs, reformation of economies, diversification exports and global exposures (Farole & Akinci, 2011).

#### **4.4.2.Special Provisions for Successful Operation of SEZs**

All over the world in the developed countries, SEZs are located in those areas which have exemptions from custom duties. In this way, they get relief from tariffs and procedural inconveniences causing delays in the operations of SEZs. It facilitates them in the smooth functioning and management of cross-border value chains in the best possible manner. In the developing world, most of the states have issues of their uneven internal developments. Therefore, they establish SEZs for their regional development and prosperity like Pakistan, where its focus is socio-economic growth of population caters in Balochistan. One of the essential peculiarities of SEZs is that they need intimate, continuous and comprehensive support from the government's departments. It stands true to all types of SEZs i.e., public, private or joint venture enterprises. Similarly, these SEZs need to have comprehensive infrastructural support including communication networks, ports, transition facilities and government offices. In order to have uninterrupted functioning, the SEZs need to be more secure and safe in conducive law and order situation.

#### **4.4.3.Integration of SEZs with Economy and People**

While the SEZs are essential for economic reforms and economic activities; they cannot remain isolated from the overall economic milieu of the country and the region. They are like multiple development programs in their own sphere and their successful operations are contingent upon comprehensive integration with the overall national economic landscape. Economic corridors become essential to establish links with international markets and MNCs. At times, SEZs are criticized being export oriented as they employ highly skilled human resource. They need to be integrated with the local economies and people for their sustained successful operations.

#### **4.4.4.Critical Success Factors of SEZs**

Analysis of the case studies of various models of SEZs in China, India, Bangladesh, Pakistan and others alike have given us a clear insight of the aims and objectives for establishment of SEZs, strengths and weaknesses coupled with challenges and opportunities. Based on those, broad policy parameters can be outlined, and critical success factors (CSFs) can be gleaned out. Accordingly, fundamental factors for the success of SEZs, institutional protocols, basic requirements and beneficiaries are given in succeeding paras.

#### **4.5. Foundational Success Factors of SEZs: It includes the following: -**

- Government's ownership, commitment and support at national and local levels is essential to sustained specialized operation of SEZs.
- Political consensus, social convergence, collective vision, comprehensive concept of growth and notion of national support is equally important.
- Integration of functional modalities with the local government policies, social structure and possible prosperous future provide hope and motivation to the people.
- SEZs are long-term projects which need to be based on comprehensive strategic plans and futuristic, elaborate and supportive infrastructures.
- Growth, security, safety and operation of SEZs depends upon people of the area, their commitment levels and motivation for provision of best possible human hands.
- Location of the SEZs is a strategic aspect which necessitates it being central having connections for services, transportation of goods and allied facilities.

#### **4.6. Institutional Protocols**

Institutional protocols as listed below are essential to lay long-lasting foundations: -

Preferential government policies for SEZs to make them operational in minimum time frame and sustain them over a long period time uninterruptedly.

- SEZs are long-term initiatives which require patience to bring about useful results, therefore; need to be phased to raise the essential capital and make its best possible use for suitable return on investment.
- In today's technologically dominant era, procedural protocols are to be shortened so as to ease the process of initiating business with suitable supportive policies.
- SEZs are sustainable only if supported by the environments; hence environmental protection considerations need to form the basis of planning and undertaking the projects.
- Since SEZs are export centric and seek markets therefore, they need to have international cooperation and support.
- SEZs cannot operate optimally with shortfalls in support infrastructures like medical facilities, water, sanitation, education and communication network; therefore, there is need to have suitable mechanisms to resolve such issues at priority.
- SEZs are inherently swift in establishment, production and expansions; therefore, modern and expeditious service delivery system need to align with them right at the outset.
- Favorable investment climate would provide much needed capital for the development and growth of SEZs; hence protocols need to cater for such agreements.
- Success of SEZs largely depends upon support from the society as well as public polices; therefore, these should be initiated only when conducive environments are created.
- Export policies of the state need to be coincidental with the objectives of the SEZs so that sufficient external markets are available for better margins of profit.
- Diversification of industries provides risk management of the SEZs; therefore, it would require to be institutionalized right at the start.

#### **4.7. Basic Requirements:**

Three basis and fundamental requirements for the success of SEZs are explained below: -

##### **4.7.1.Strong External Linkages for Commerce and Trade**

External linkage for regional and global cooperation through multimodal connectivity, foreign policies, quality exports and market developments provide a platform for SEZs to grow in social and economic developments. These linkages as well as multi-modal connectivity modes through road, rail, seaport, airports either directly or through trans-shipment hubs also boost the growth of SEZs. National and the government systems, therefore, need to remain aligned and integrated with the international networking for the attraction and optimum utilization of FDIs.

##### **4.7.2.Internal Connectivity and Integration**

Internal connectivity within the domestic economic growth components and among different SEZs in the same region and intra-regions through logistics and productivity nodes provide smooth supply chain management. It turns into comprehensive economic growth which is phenomenal and sustainable. Therefore, internal connectivity especially with other economic nodes in a geographic zone is essential through well laid out infrastructure in and intra economic corridors.

### **4.7.3. SEZs Immersion with National Vision and Aspirations**

SEZs are aligned with the national vision, objectives, policies, strategies, community development plans, economic growth and social developments. It converges to multiply the outcomes through immersion and perfect alignments.

### **4.8. Growth Equalities and Uniform Incentives**

In the successful operations of SEZs, it is not the governments only who benefit; the people who migrate from other regions to SEZs and are provided with technical expertise and required wages are also the beneficiaries. Rather, the benefits need to be evenly distributed including technical experts who migrate from other regions and should have free access to foreign investments and markets. Local governments benefit too as they make rules allowing free access to capital, labor, foreign companies and investments. Competition among local governments that are incubating SEZs reduces the institutional costs. The beneficiaries include industries, community as a whole, local governments working hands. Similarly, broad-based incentives include; tax holiday for certain periods and exemptions / relaxations on imports of constructional material, equipment, office machinery and spare parts. It also facilitates exports of finished goods which adds to foreign exchanges. The incentives like relief from double taxation, dividend taxes, duty-free import of vehicles, depreciation allowance on machinery, allowance on remittance of royalty, technical and consultancy fees, ownership and no ceiling on foreign or local investment add value to the overall successful functioning of SEZs.

### **4.9. Resolving Structural Flaws**

SEZs of Pakistan linked with CPEC have comprehensive support of China. These SEZs provide multiple opportunities for simultaneous developments through intimate cooperation and industrialization / re-industrialization in regional and national perspective. Under overwhelming support through CPEC, over 1200 Chinese manufacturing firms are ready to come to Pakistan and get aligned with the operations of SEZs. About 100 Chinese business entities are already here in Pakistan working directly or through collaboration in different projects of CPEC and others. Pakistan needs to develop reindustrialization strategy by establishing SEZs closer to labor intensive areas, presence of supporting domestic industry and availability of raw material. Its operational competitiveness necessitates skills development, global connectivity, engagement of diaspora, enforcing international standards, creation of B2B platforms and industrial linkages. This would entail suitable trade agreements with export destination countries, capacity enhancement of skilled labor, selection of correct industries, technological spillover, utilization of local industry, improved regulatory mechanism, establishment of science and technology parks, policies encouraging exports, simplified tax laws, improved upward and downward coordination between local and federal governments.

## **5. Conclusion**

### **5.1. SEZs as Economic and Social Development Hope**

Pakistan's SEZs present a hope for its long awaited economic self-dependence. Its loan dependent economy cannot guarantee the independence of vision and growth. With Chinese model of SEZ and their strategic interest driven policies can trigger socio-economic developments in Pakistan faster than those of regional economies. The requirement is national reorientation towards developments, clarity in SEZs' objectives and operationalization of plans for employments and regional benefits. The identification of SEZs' goals is crucial because they drive the overarching SEZ policy framework. In order to push forward the SEZs to the doors of success, Pakistan needs to enact separate laws for expeditious processing, effective governance and efficient administration of such economic nodes for compatible developments in social and political domains. Like SEZs of China, Pakistan requires regulations in the

operations of its economic zones through the decentralized structures and supportive policies. The case studies of China, Bangladesh and India present strong points in resolving interdepartmental delays and flow of FDI which Pakistan needs to learn and apply.

## 5.2. Dispute Resolution Mechanisms

Dispute resolution is essentially required to remove delaying features of the human resource management and organizational functioning. A resolving setup if put in place appropriately checks escalation of disagreements, litigation issues and accordingly provides solutions to disputes of the zones' enterprises. It is rather more useful to foreign investors. The resolution of disputed cases in the shortest possible time builds confidence of the parties and reduces time gap between production and delivery of goods and services. This mechanism shall also fill the gap during transition period of political governments and ensure continuity of work and progress.

### Author's Contribution:

Muhammad Zafar Iqbal: Manuscript preparation, introduction, literature review, methodology and simulations

Bashir Ahmad: Supervise and proofread.

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