ECONOMIC AND SOCIAL DEVELOPMENT THROUGH SPECIAL ECONOMIC ZONES (SEZS): WORKABLE STRATEGIES FOR PAKISTAN

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Abstract

Special Economic Zones (SEZs) form part of the industrial growth strategies of the respective countries to stimulate economic growth and community development. China has emerged as the most prosperous country in developing SEZs for long-term economic and social transformations of its people. Bangladesh, treading its path, achieved long-term foreign direct investments and developed its SEZs. Indian development of SEZs faced problems but contributed to attracting FDIs and triggering exports. SEZs Act 2016 in Pakistan laid the outlines for developing and regulating SEZs in Pakistan[1]. China-Pakistan Economic Corridor (CPEC) with integrated SEZs can be a potential economic growth stimulus. Critical Success Factors (CSF) like bold policy initiatives, customised designs, correct location with proficient and effective management, and institutional protocols through internal connectivity and integration can be the recipe for the success of SEZs in Pakistan[2].

Keywords: Special Economic Zones (SEZs), CPEC, Social Development, Critical Success Factors (CSFs).

Introduction

Special Economic Zones (SEZs) are essential facets that form part of the industrial growth strategies of the respective countries to stimulate economic growth and community development. Due to an exceptional proindustry environment, SEZs attract national and foreign capital, i.e. FDI (Foreign Direct Investment), for continuity in the growth of businesses and much-needed diversification. According to the World Investment Report of 2019 and the United Nations Conference on Trade and Development - 2019 (UNCTAD-2019), more than 5,400 SEZs exist in 147 countries. It has recorded a substantial increase from the previous figures of 2015, an increase of 35%. Apart from being a strategic policy tool, SEZs also prompt bringing new knowledge, diverse experience, and the notion of mutual development. The fundamental objectives of the SEZs are numerous; however, they vary in economies according to their functions, capacities, and potential for doing business. It is fundamentally a development ladder for competitive economies to grow and progress.

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In the developed world, most SEZs are in custom-free areas to provide relief from tariffs and other liabilities like customs and other related duties, etcetera. It makes the trade competitive in cross-border value chains. On the other hand, most developing countries establish their SEZs to attract FDI to build, diversify, and upgrade their industries.

Chinese Perspective of SEZs

China has emerged as the most prosperous country in developing SEZs for the long-term economic and social transformation of its people[3]. They initially started with four zones. After a successful experiment, they expanded the programme to other parts of China. To regulate SEZs efficiently, they undertook reforms in their system of taxes, provision of land, employment of working hands, raising finances, customs obligations, and immigration. Over time, in collaboration with many other economic pursuits, SEZs in China have substantially expanded their financial growth by reducing unemployment, enhancing exports, and getting more investments from international companies. These initiatives also facilitated the introduction of new technical know-how to China and the adoption of contemporary management. With a pragmatic and experimental approach, the Chinese undertook reforms to efficiently function SEZs with all stakeholders' commitment and active involvement. The strategic initiatives enabled them to create comprehensive infrastructure, undertake compatible marketing, and consequently improve their socioeconomic landscape, primarily because of the lagging behind regions. Therefore, they could present a successful concept and model of SEZs for economic and social growth[4].

Pakistan's Initiative of SEZs

Pakistan's SEZ initiative is comparatively a new venture inspired by the Chinese model due to its overwhelming success[5]. The SEZs of Pakistan are expected to enhance its socio-economic growth as a strategic initiative, being part of the CPEC, which is integral to the Belt and Road Initiative (BRI). These SEZs are to pave the way for industrialisation and economic and social developments in Pakistan that align with such successful initiatives worldwide. The acquisition and employment of technology are prerequisites to future industrial development; thus, envisaged SEZs shall initiate technology transfer in development projects and improve human skills for economic growth and development.

Review studies of the SEZs reveal varying success rates in different countries according to their operating conditions [6]. One fit solution to all is not available/feasible. Chinese experience of SEZs is contemporary and presents a model of compatible success. The literature about SEZs of China, India, Pakistan, and Bangladesh presents varying perspectives of commonalities and divergences, comprising successes, failures or partial successes. Pakistan's latest SEZ initiative is China-inspired. However, they operate in extremes of divergence in governance mechanisms, state rules, organisational regulations, management expertise, work ethics, social structure and social culture. Thus, the Chinese solution may not work in Pakistan without corresponding modifications in various aspects. This necessitates a prospective study on Pakistan's SEZ initiative compared to China's and others in South Asia[7]. This study has been designed to bring out comparative outcomes of SEZ experiences and workable strategies for success in Pakistan.

SEZs have succeeded in improving the economies of many countries, including China, but only by paying the costs of investment in infrastructure, marketing, and human resources. China's Shenzhen SEZ is a classic case of fast-paced success and social development[8]. This study has attempted to study the SEZs of Pakistan and compare them with those of China for attracting FDI, reducing unemployment, enhancing exports, and improving economic growth[9]. In addition, the study has identified changes required in Pakistan's policies to support the successful functioning of SEZs and develop critical success factors (CSFs) for SEZs' success in achieving socio-economic development.

Evolution of SEZs

The idea of free economic zones is familiar; such zones have existed until recently in medieval history. Its crude form was the development of free ports designed to facilitate mutual businesses. Initially, some countries established Free Trade Zones (FTZs) for trading activities; however, faster industrialisation and consequent export volumes prompted the development of product firms in FTZs. This established exclusive zones for facilitating exports, known as Export Processing Zones (EPZs). To shift to export-based economic growth, the Chinese planned four EPZs in two of its provinces in the 1980s. These four zones were further developed to form economic free zones with tax relaxation. After their successful trial, the Chinese government further planned and converted its fourteen coastal towns into Economic and Technical Development Zones (ETDZs). They provided tax exemptions and other incentives to ETDZs, like today's SEZs. As a result of these efforts from 1979 to 1991, the SEZs' inhabited provinces could attract around 70 per cent of the total FDI coming to China. According to a report prepared under UNCTAD-2019, about 47% of the total SEZs in the world are in China. In 1986, 176 SEZs were established in 47 countries; in 2006, this number increased to 3,500 in 130 modern world countries. As mentioned in the SBP report, 2018 the number of SEZs reached 5,400, and countries spread to 147.

Specific Characteristics of SEZs

SEZs depict specific areas of business activities declared to enhance investment in the concerned states. Therefore, these zones include industrial parks for economic and social developments, FTZs, Industrial Development Zones (IDZs), Foreign Trade Zones (FTZs) and Trade Processing Zones (TDPs). Studies conducted on the success rate 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. One set of operating conditions has been found to bring success to one country or area, however disastrous in another. SEZs operate with different fiscal and regulatory regimes, distinct from other parts of the state, and are economically more liberal and efficient[10]. They have delegated governance mechanisms like customs, revenue, ports, shipping, security, etc. Accordingly, elaborated and comprehensive infrastructure exists, including roads, railways, ports, dry ports, logistic infrastructures, and government offices. Similarly, they are more secure and peaceful, having secure external links. The SEZs initiate development in the economic and social spheres of the communities[11]. However, success is linked to their integration into the state's economic development strategies. They have an export orientation, contributing more significantly to the country's social development and creating multiple employment opportunities. Thus, SEZs are characterised by the expeditious establishment of businesses, tax exemptions as facilitating bases, and holistic communication linkages with supportive mechanisms, allied facilities, and services to support the quality of work and life.

China's Social Transformation to Market Economy and SEZs

China undertook social transformation to a market economy in 1978; earlier, it had a predominantly traditional economy with uneven developments in its various regions. This change forced 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. Concurrently, they started working on SEZs as entry points for intensive exports through technological modernisation and innovations. In the 1980s, when they had just begun the export centricity, Chinese businesspeople, under the direction of their government, introduced new reforms for the operation of SEZs. Initially, they opened for foreign investment and shifted to foreign trade. They aligned themselves through appropriate regulations, reforms, and people's orientation to achieve the actual benefits of FDIs in SEZs. Then, opening Shenzhen as SEZ close to Hong Kong enabled them to accrue the benefits of fast manufacturing and exports. Due benefits were also ensured to those who migrated from rural areas into the Shenzhen Economic Zone by providing capital, technical expertise and required wages. The free flow of technical experts, capital and investors from Hong Kong benefitted the operations of the Shenzhen SEZ. The second beneficiary of the Shenzhen Economic Zone was the local government, which made rules that allowed free access to capital and labour. Competitive spirit among local governments to perform efficiently reduced institutional costs.

Characteristics of the Chinese Model of SEZs

The seven pillars are considered the foundation of the Chinese SEZ model: government, leadership, policies, infrastructure, people, location, and integrated outlook. Besides foundational considerations, specific protocols are required to plan and establish SEZs. The protocols include preferential regulations, a phased approach, ease of business, environmental concerns, international cooperation, innovations, compatible service delivery mechanisms, favourable investment climate, social system, export orientation and diversification. After putting the pillars and protocols in place, the Chinese model of SEZs presented the notion of sustained development. Consequently, Shenzhen SEZ made China the fastest-growing economy, which changed the pattern of the global economy. Therefore, one can say that Shenzhen SEZ is the latest and most successful model for fast-paced economic and social development.

Bangladesh's Approach towards Development of SEZs

Bangladesh was mainly a jute exporting country; however, once polymers replaced jute, it closed most jute factories. Bangladesh Export Processing Zone Authority (BEPZA) was created to look after export processing affairs in 1980. Initially, it was restricted to Dhaka and Chittagong; later, it expanded to many other cities. Under BEPZA, special incentives were offered to locals and foreign investors to benefit from lower wages, the availability of an abundant workforce, and quota restrictions in countries like Japan, Korea, Vietnam, Hong Kong, and China. FDI increased substantially in the 1990s and 2009. It was approximately US$1.5 billion, with 61 per cent of companies having foreign ownership. It also substantially increased exports, i.e. US$2.5 billion in 2009, 17 per cent of the GDP. Employment opportunities increased, and 220,000 new jobs were created. Most of the jobs were of women (64 per cent) in the textile sector, which positively impacted the workforce and society. 99.5 per cent of the employees in EPZs were Bangladeshis.

Success Factors of Bangladesh Model of SEZs

Critical success factors that influenced the exports of the garment sector in Bangladesh included lower labour wages, 2.5 times lower than that of Vietnam, the closest competitor and three times lower than that of African SEZ[12]. However, the investment climate could have been more conducive due to slow procedural systems and regulatory mechanisms. Bangladesh's ease of doing business index was relatively low, i.e., 119 out of 183 countries. Similarly, Bangladesh was ranked 176 out of 183 in registering properties. Other retarding factors included license formalities and cumbersome regulatory framework. The provision of services in EPZs, including power availability, was quite complicated; however, its provision was conditional to a 10 per cent surcharge by BEPZA. Moreover, factory owners could generate electricity through generators and power plants. BEPZA also ensured other supporting facilities like banking, customs, logistics, medical and sports/recreation facilities.

Fiscal and Non-fiscal Incentives

Bangladesh's government introduced fiscal incentives to investors, which included a total tax exemption for the initial ten years[13]. Then, further relief was provided for the next five years by reducing the tax to 50 per cent. They also provided relief on importing and exporting raw materials and finished goods on varying scales. Other incentives in fiscal terms included the duty-free import of construction material, equipment, office machinery, and spare parts, relief from double taxation, exemption from dividend tax, and duty-free import of two to three vehicles for EPZ operations. Furthermore, expatriates were exempted from income tax for the initial three years. The government also allowed accelerated depreciation allowance on machinery and remittance of royalty, technical, and consultancy fees. Similarly, due to non-fiscal incentives, the government permitted 100% foreign ownership of the inland infrastructure investment. To facilitate the operations of EPZs, investors were allowed to take out foreign currency loans directly from abroad. Similarly, they could maintain non-resident foreign currency deposit accounts as well.

Challenges and Opportunities

Some challenges faced included sustained labour cost viz-a-viz competitive cost, sustainable regulations and working environment. Some legislation was done in 2010 by the government in labour laws to provide limited rights for establishing unions but restrict their rights to strike and agitation. After some unrest in EPZs, BEPZA enrolled 67 councillors on a Labour Counsellor Programme, creating a link between owners and working hands. World Bank funded the programme and later adopted it as the Bangladesh Investment Climate Fund (BCIF). However, the ongoing incentives may not remain viable due to the government's agreements with the World Trade Organization (WTO) on reducing/removing subsidies. It can be concluded that although the impact of EPZs on Bangladesh's economy has been modest, the economic venture enabled them to attract FDIs, increase garment exports, and provide jobs, especially for women folk. However, one can say that EPZs have not been able to diversify the industries in Bangladesh.

Indian Concept of Special Economic Growth Zones

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

Investment and Outcome of Indian SEZs

The Indian government has made considerable investments in developing these SEZs by acquiring land, building infrastructure, and creating conducive policies to attract FDI[14]. The land acquired has been primarily agricultural, thus depriving many peasants, approximately one million, of their livelihood; however, the share of SEZs export in overall export counts to more than 25%. The SEZs had tax exemptions that led to their growth; however, lately, the administration of taxes like Minimum Alternate Tax (MAT) and Dividend Distribution Tax (DDT) paused their growth. Many investors have started withdrawing licenses. 90% of the land acquired still needs to be utilised. The development and employment around SEZs have remained limited to their suburbs and have stayed the same in other areas. The exports were limited to the IT, pharmaceutical and chemical sectors, engineering, and other heavy industries, which should have been given more attention. The imposition of the sunset clause and GST has further cautioned potential investors.

Pakistan's Socio-Economic Development and SEZs

Pakistan's agriculture sector contributes around 21% to its GDP; however, about 70% of its population is linked to this sector. It depletes water aquifers, and inefficient management strains the agriculture sector against rising food demands for the ever-increasing population. This necessitates a shift to the industrial sector to seek employment in post-1971 Pakistan. The situation has led to the creation of small to medium industrial setups nationwide in the public and private sectors. In the same backdrop, development ventures like FTZ (Free Trade Zones), EPZ, and Industrial Parks (IPs) were created in different time frames. However, now, the all-encompassing term that is being used is SEZs. It is pertinent to clarify that each category of business and trade supporting initiatives like FTZs, EPZs, SEZs and IPs essentially fulfil the same objective with slight variation, i.e. promotion and growth of exports. Besides the functions mentioned above, SEZs also seek to create employment opportunities, encourage substitution for imports and enhance foreign exchange in countries suffering from acute balance of payment issues.

Pakistan's Industrial Estate Models for Economic Growth

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

Pakistan-China Relations and Establishment of CPEC

The history of relations between Pakistan and China goes back to 1950. Pakistan was among the initial few countries to recognise China as an independent state under the UN. They concluded the first mutual trade agreement in early 1963. In late 1982, both countries agreed to establish the China Joint Committee on Economic, Trade and Technology. With such successful mutual understanding, the two countries signed the Treaty of Friendship, Cooperation and Good Neighbourly Relations in 2005. They also pledged to the 'Harvest Programme' in 2006, later merged into BFTA (Bilateral Free Trade Agreement) in 2007. These developments facilitated the latest strategic alliance in CPEC, which came into reality in 2013—according to mutual understanding of CPEC, the government of Pakistan initially proposed 9 SEZs. These zones included those at Rashakai, Dhabejji, Quetta, Sheikhupura, Islamabad, Port Qasim, Bhimber, Mohmand, and Moqpondass.

SEZs Act 2016 and its Implications

The Government of Pakistan SEZs Act 2012, as amended by SEZs Act 2016, lays down the criteria, provisions, and rules for establishing and developing SEZs in Pakistan. Accordingly, the Board of Approval (BOA), under the chairmanship of the 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. According to this act, any province or individual can establish SEZ, provided the land is at least 50 acres, and the purpose of establishing SEZ has been clearly defined. The developer shall be selected on open bidding and responsible for the zone's development and amenities to the industries within the zone. At most, 30% of land can be used for amenities. The developer is responsible for providing electricity, gas, water, and other services for which he can establish hydropower projects and infrastructure. The industrial parks, EPZs, hybrid export processing zones, extraterritorial zones, multilateral zones, reconstruction opportunity zones, regional development zones and sector development zones, which were established earlier, have been included in the provisions of the SEZs Act. SEZ authority for the province would also be established and headed by chief ministers, including provincial ministers, technical members, and business community representatives. Authority would act as the apex body in the province for the execution and approval of projects as per this act.

Incentives for Investing in SEZs

The federal government has given SEZs an incentive package. Accordingly, it includes tax exemption for ten years for developers and enterprises to import machinery and plants for the first time required to establish factories and enterprises and develop SEZs. It also includes one-time relief on accounts of custom duties and other allied taxes on imports of capital goods to those involved in developing business ventures connected with SEZ. Economic Survey of Pakistan 2021/22 gives the historical timelines for establishing SEZs. After the SEZs Act 2012 was enacted, three SEZs were set up in 2015, and after incorporating a few amendments through the Presidential Ordinance, four 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, a framework agreement on industrial cooperation under CPEC was signed. Till FY 2018-19, there were only seven SEZs as planned put into development; out of those, six were taken from their earlier status of industrial estate or industrial parks. After that, given the CPEC developments, which prompted industrial cooperation with the Chinese government, SEZs started coming into the planning process in more significant 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 established under the National University of Science and Technology (NUST). In the national budget 2021-2022, the Government of Pakistan allocated over Rs. 27 billion from its Public Sector Development Programme to provide infrastructure to the prioritised public sector SEZs in Pakistan. Over 91% of the SEZs have been allotted land. The total planned investment in these SEZs is Rs. 381.5 billion, including 44% FDI. Exemptions on accounts of taxes have been enormous to the investors of SEZs; it is over Rs. 68.69 billion. This is for setting up the basic infrastructures.

Progress on the Establishment of SEZs in Pakistan

Pakistan has made reasonable progress in establishing SEZs by allocating over 10,000 acres of land for the 21 notified zones. Out of the allocated land, 5,357 acres, which makes up 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 to the SEZ Act 2012, an economic zone should start construction activities within six months after land allocation. They should also get into commercial production within 24 months of approval. If an enterprise cannot begin with the committed activities, then its status of land allocation can be withdrawn. Similarly, under the act, the scope of SEZs has been enhanced by including the service sector in IT, storage, communication, and allied infrastructure developments. Exemptions on accounts of custom duty, which was available for importing plants and machinery, have now been expanded to include a wide variety of capital goods for manufacturing and services. Income tax exemptions have been enhanced from 5 to 10 years. Rs. 25 billion was allocated from PSDP to speed up the development works. The funds were released in phases starting from FY 2019-20.

Critical Success Factors (CSF) for SEZs

There are five CSFs for SEZs[15]. These include clear objectives, bold policy innovations, good location, customised design, and effective management[16]. The ensuing paragraphs elaborate on each factor.

- **Setting up Clear Objectives**: It is essential to set clear objectives for SEZs. Labour-intensive industries must be established if the purpose is job creation, and the services sector will be preferred. High-tech industries established by multinationals to produce high-tech equipment would be less labour-intensive, but they will have technologically advanced equipment and a workforce. Though this would increase FDI and exports, it could not provide employment. Similarly, developing 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 the 1980s, China ideologically shifted from central planning to a market economy. Thus, Shenzhen acted as a testing ground for executing new market economy principles, like tax exemptions and liberal business policies.
- **Bold Policy Innovations**: Having outlined the objective of SEZs, bold policy innovations are required. There is a tendency to hold back to old policies and less liberalisation, which hinders reaping the optimal advantages of SEZs. Policy innovations such as liberal tax exemptions, tax holidays, custom-free import of plants and machinery, liberal labour policies, and developing human resources would need to be prioritised similarly. This also includes free access to foreign exchange for the import and export of equipment.
- **Location of the SEZ**: The most critical aspect of establishing a SEZ is its location, as export-oriented SEZs should be closer to ports and airports. If an SEZ is meant to manufacture goods, it should be closer to areas with sufficient skilled labour. Similarly, if it is intended to boost agricultural exports, it should be closer to the farms and orchards. If SEZs are planned and located in remote areas, they will likely fail due to unnecessary support, logistic facilities, and cost-prohibitive costs.
- **Customised Designs of SEZs**: The master plan to develop SEZs must include customised designs for industrial units, amenities, rail, road, and port infrastructure. The master plan also addresses industries' needs and future expansion. In Singapore, for example, there is a requirement to go vertical due to space scarcity in logistic warehousing and industrial infrastructure. Therefore, the design must be according to local conditions and have its eco-cycle.
- **Proficient and Effective Management**: Effective management is essential to cater to infrastructural development and deal with day-

to-day affairs for successful SEZ operations. Management should be able to cater to future requirements and integrate SEZs into the country's overall industrial setup. Harmony between management and regulatory bodies would increase if setups were made friction-free and mutually supportive. Besides special provisions in the SEZs Act, other fundamental factors assuring success are supportive economic health of the country, governance stability and sustainability, investment support, availability of skilled human resources, cost of investment and suitable services.

- **SEZs-Regional Disparity in Economic Equality**: Regional disparity in economic equality has been observed with regions having SEZs as opposed to those not. This is a common phenomenon experienced in all areas and countries with SEZs. In prosperous Eastern China, SEZs brought economic prosperity, which created economic inequality in other regions. Chinese government applied corrections by revising specific policies and delegating authority to the areas. However, the spillover economic benefits were somewhat transferred to the central regions. Still, they could not bring prosperity to the western areas because the spillover effects decreased with increased distances. Analysis of such regions compared to those with SEZs indicates that income gaps exist between urban and rural areas. Thus, supportive measures were adopted, including infrastructure investment, underdeveloped regions' social development, welfare network programmes for low-income people, and reforms in local government systems for justified social development. As in different areas of Pakistan, social unrest emerges because of these disparities. If not shared equally, the fruit of economic growth would bring perpetual disparity. The Chinese government managed it mainly because of their centralised solid system of governance. However, it will be a challenge in developing countries like Pakistan, which have regional disparities, a diverse sociopolitical structure of society, and a leadership vacuum at the national and provincial levels.

Reindustrialising Pakistan through SEZs under CPEC

Deindustrialisation in Pakistan has been phenomenal due to deep-rooted structural flaws causing a decline in exports. Due to deficient professional expertise, the main factors contributing to such declines are incompatible competitiveness and a rise in business costs. More reliance on imports to meet domestic needs has created a deficit, creating a solid imbalance in Pakistan’s economy. The share of manufacturing industries in GDP is minimal. After an incisive analysis of the economy and the Deindustrialisation indicators, it appears logical that SEZs would provide an opportunity for reindustrialisation. If taken seriously, approximately 1200 Chinese manufacturing companies can relocate to SEZs under favourable conditions. More than 100 companies are already working directly or through collaborative arrangements here in Pakistan. Pakistan must develop a reindustrialisation strategy through a carefully crafted and analysed economic and social growth path [17]. Establishing SEZs closer to labour-intensive areas, supporting the domestic industry, and ensuring the availability of raw materials are worth considering. Skill development and establishment of science and technology parks, policies encouraging exports, simplified tax laws, and improved upward and downward coordination between local and federal government for ease of doing business need due attention as a priority.

Assessment of Extreme Environmental Impact

Although Pakistan ranked 156th out of 184 countries in 2022 on the list of least carbon-emitting countries, its emissions are equivalent to 0.83 tons per person. Pakistan contributes only 0.9% to global greenhouse gas (GHG) emissions. However, increasing industrialisation would further increase this, thus necessitating countermeasures for cleaner energy sources and usage.

Conclusions

SEZs Prompt Industrialization

Based on the literature review and case studies, it can be safely concluded that SEZs are established to industrialise or reindustrialise the economy, increase national wealth, ensure effective and fruitful utilisation of local raw materials, increase FDIs to stimulate economic activity to build, diversify and upgrade infrastructure, carry out economic reforms and provide experimental ground for testing new policies and concepts. SEZs in underdeveloped economies like Africa boost manufacturing and industrialisation and generate exports. On the other hand, the transition economies focus on technology transfers and advanced economies like Shenzhen in China concentrate on promoting industrial upgrading. SEZs create jobs and reduce unemployment; in the case of Bangladesh, it has expressly provided jobs to women in the textile sector.

Special Provisions for Successful Operation of SEZs

In developed countries worldwide, SEZs are in areas with exemptions from customs duties. In this way, they get relief from tariffs and procedural inconveniences causing delays in SEZ operations. It facilitates them in the smooth functioning and management of cross-border value chains in the best possible manner. In the developing world, most states have issues with their uneven internal development. Therefore, they establish SEZs for their regional development and prosperity, like Pakistan, whose focus is the socioeconomic growth of population centres in Balochistan. One of the essential peculiarities of SEZs is that they need intimate, continuous, and comprehensive support from the government's departments. It applies to all SEZ types, i.e., public-private or joint venture enterprises. Similarly, these

SEZs need comprehensive infrastructure support, including communication networks, ports, transition facilities and government offices. To have uninterrupted functioning, the SEZs need to be more secure and safe in a conducive law and order situation.

Integration of SEZs with Economy and People

While the SEZs are essential for economic reforms and activities, they must remain within the country's and region's overall economic milieu. They are like multiple development programmes in their sphere, and their successful operations are contingent upon comprehensive integration with the national economic landscape. Economic corridors have become essential for establishing links with international markets and MNCs. SEZs are sometimes criticised for being export oriented as they employ highly skilled human resources. They must be integrated with the local economies and people for successful operations.

Mitigation Strategy for Income Inequality

Enhanced employment opportunities in socially deprived regions by developing a skill-based workforce for these SEZs would mitigate poverty and socially uplift the people below or on the poverty line.

Critical Success Factors of SEZs

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

Foundational Success Factors of SEZs

These include the following: Government ownership, commitment, and support at national and local levels are essential for the sustained specialised operation of SEZs.

- Political consensus, social convergence, a collective vision, a comprehensive concept of growth, and national support are equally important.
- Integration of functional modalities with local government policies, social structure, and possible prosperous futures provides people with hope and motivation.
- SEZs are long-term projects that require comprehensive strategic plans and futuristic, elaborate, and supportive infrastructure.

- The growth, security, safety, and operation of SEZs depend upon the people of the area, their commitment levels, and their motivation for providing the best possible human hands.
- The location of the SEZs is a strategic aspect that necessitates their being central and having connections for services, transportation of goods, and allied facilities.

Institutional Protocols

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

- Preferential government policies for SEZs to make them operational in the short term and sustain them uninterruptedly in the long term.
- SEZs are long-term initiatives which require patience to bring about valuable results; therefore, they need to be phased in to raise the essential capital and make their best possible use for a suitable return on investment.
- In today's technologically dominant era, procedural protocols must be shortened to ease initiating businesses with suitable supportive policies.
- SEZs are sustainable only if supported by a clean environment; hence, environmental protection considerations must form the basis for project planning and undertaking[18].
- Since SEZs are export-centric and seek markets, they need international cooperation and support.
- SEZs cannot operate optimally with shortfalls in support infrastructures like medical facilities, water, sanitation, education, and communication networks; therefore, suitable mechanisms must be developed to resolve such issues as a priority.
- SEZs are inherently swift in establishment, production, and expansion; therefore, a modern and expeditious service delivery system must be aligned immediately.
- A favourable investment climate would provide much-needed capital for SEZ development and growth; hence, protocols must cater to such agreements.
- The success of SEZs largely depends on support from society and public policies; therefore, these should be initiated only when a conducive environment is created[19].
- The state's export policies need to coincide with the objectives of the SEZs so that sufficient external markets are available for better profit margins.
- Diversification of industries provides risk management of the SEZs; therefore, it would require institutionalisation right at the start.

Basic Requirements

These essential and fundamental requirements for the success of SEZs are explained below: -

- **Strong External Linkages for Commerce and Trade**: External linkages 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 development. These linkages and multimodal connectivity modes through road, rail, seaport, and airports, directly or through trans-shipment hubs, also boost SEZ growth. National and government systems, therefore, need to remain aligned and integrated with international networking for the attraction and optimum utilisation of FDIs.
- **Internal Connectivity and Integration**: Internal connectivity within the domestic economic growth components among different SEZs in the same region and intra-regions through logistics and productivity nodes provides 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 economic corridors.
- **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. This convergence multiplies the outcomes through immersion and perfect alignments.
- **Growth Equalities and Uniform Incentives**: In the successful operations of SEZs, not only the government benefits but also the people who migrate from other regions to SEZs and are provided with technical expertise and required wages are the beneficiaries. Instead, 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, labour, foreign companies, and assets. Competition among local governments that are incubating SEZs reduces institutional costs. The beneficiaries include industries, the community, local governments and working hands. Similarly, broad-based incentives include tax holidays for specific periods and exemptions/relaxations on imports of construction material, equipment, office machinery and spare parts. It also facilitates exports of finished goods, which adds to foreign exchange. 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.

- **Resolving Structural Flaws**: SEZs of Pakistan linked with CPEC have comprehensive support from China. These SEZs provide multiple opportunities for simultaneous developments through intimate cooperation and industrialisation/re-industrialization from regional and national perspectives. Pakistan needs to develop a reindustrialisation strategy by establishing SEZs closer to labour-intensive areas, the presence of supporting domestic industry and the availability of raw materials. Its operational competitiveness necessitates skills development, global connectivity, engagement of the diaspora, enforcing international standards, and creating B2B platforms and industrial linkages. This would entail suitable trade agreements with export destination countries, capacity enhancement of skilled labour, selection of correct industries, technological spillover, utilisation of local industry, improved regulatory mechanism, the establishment of science and technology parks, policies encouraging exports, simplified tax laws, improved upward and downward coordination between local and federal governments.

SEZs as Economic and Social Development Hope

Pakistan's SEZs present hope for its long-awaited economic self-reliance. Its loan-dependent economy cannot guarantee the independence of vision and growth[20]. The Chinese model of SEZs and their strategic interest-driven policies can trigger socioeconomic developments in Pakistan faster than those of regional economies. The requirement is national reorientation towards developments, clarity in SEZs' objectives, and operationalisation of employment and regional benefits plans. Identifying SEZs' goals is crucial because they drive the overarching SEZ policy framework. 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 decentralised structures and supportive policies. The case studies of China, Bangladesh, and India present strong points for resolving interdepartmental delays and the flow of FDI, which Pakistan needs to learn and apply.

Dispute Resolution Mechanisms

Dispute resolution is required to remove delaying features of human resource management and organisational functioning. If put in place, a resolution setup appropriately checks the escalation of disagreements and litigation issues and accordingly provides solutions to disputes of the zones' enterprises. It is somewhat more helpful to foreign investors. Resolving conflicts in the shortest possible time builds the parties' confidence and reduces the time gap between producing and delivering goods and services. This mechanism shall also fill the gap during the transition period of political governments and ensure continuity of work and progress.

Long-term Sustainability of SEZs

SEZs integration into the country's economic system as a sustainable model is already being discussed in many ways. Preferential incentives, laws, subsidies, facilities, and tariffs can only perpetually remain in place, affecting the economies of the rest of the country's industries outside SEZs. Thus, the specific purposes of the SEZs, as highlighted above in the preceding discussion, would have to be rationalised while considering the economic model being adopted in the country.

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